City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

2016 FINAL RESULTS — ANNOUNCEMENT
AUDITED CONSOLIDATED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

RESULTS

The directors (the "Directors") of City e-Solutions Limited (the "Company") announce the following audited consolidated results of the Company and its subsidiaries, joint arrangements and associates (the "Group") for the year ended 31 December 2016 ("FY2016") together with comparative figures.

Consolidated Statement of Profit or Loss
for the year ended 31 December 2016

	Note	**2016** *HK$'000*	**2015** *HK$'000*
Revenue	2	100,654	92,207
Cost of sales		(19,498)	(18,175)
Gross profit		81,156	74,032
Other net losses	3	(30,712)	(25,316)
Administrative expenses	4	(119,847)	(96,720)
Loss from operating activities		(69,403)	(48,004)
Finance costs	5	(1,420)	(1,542)
Share of profit of a joint venture		19,560	1,008
Share of profits of associates		520	202
Loss before taxation		(50,743)	(48,336)
Income tax expense	6	(10,556)	(13,638)
Loss for the year	7	(61,299)	(61,974)
Attributable to:			
Equity shareholders of the Company		(57,550)	(55,067)
Non-controlling interests		(3,749)	(6,907)
Loss for the year		(61,299)	(61,974)
Earnings per share		*HK cents*	*HK cents*
Basic losses per share	8	(15.05)	(14.40)

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
Loss for the year	(61,299)	(61,974)
Other comprehensive income for the year (after taxation):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	96	(306)
Exchange differences on monetary item forming net investment in a foreign operation	26	(31)
Reclassification adjustment of exchange differences to profit or loss on striking-off of subsidiary	–	(2,779)
Total comprehensive income for the year	(61,177)	(65,090)
Attributable to:		
Equity shareholders of the Company	(57,448)	(58,131)
Non-controlling interests	(3,729)	(6,959)
Total comprehensive income for the year	(61,177)	(65,090)

Consolidated Statement of Financial Position
as at 31 December 2016

	Note	2016 *HK$'000*	2015 *HK$'000*
Non-current assets			
Property, plant and equipment		42,647	43,351
Intangible assets		5,475	8,167
Goodwill	10	8,941	8,934
Available-for-sale financial assets		18,179	32,985
Long term bank deposits		–	3,797
Interests in associates		8,491	8,322
Deferred tax assets		–	10,183
Total non-current assets		83,733	115,739
Current assets			
Trading securities		74,101	87,498
Trade and other receivables	11	29,854	32,507
Short term bank deposits		–	5,974
Current tax recoverable		2,536	2,681
Cash and cash equivalents		339,945	365,481
		446,436	494,141
Current liabilities			
Trade and other payables	12	(27,928)	(29,461)
Interest-bearing borrowings	13	(719)	(899)
Provision for taxation		(180)	(22)
		(28,827)	(30,382)
Net current assets		417,609	463,759
Total assets less current liabilities		501,342	579,498

	Note	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Dividends received in excess of earnings from equity-method accounted joint venture		(209)	(19,487)
Interest-bearing borrowings	13	(28,982)	(29,591)
Loan from non-controlling interests		(2,908)	–
		(32,099)	(49,078)
NET ASSETS		469,243	530,420
CAPITAL AND RESERVES			
Share capital		382,450	382,450
Reserves		52,205	109,653
Total equity attributable to equity shareholders of the Company		434,655	492,103
Non-controlling interests		34,588	38,317
TOTAL EQUITY		469,243	530,420

Notes: -

1. Accounting policies

The annual results for the year ended 31 December 2016 have been prepared in accordance with the same accounting policies adopted by the Group as disclosed in the annual report for the year ended 31 December 2015, except for the accounting policy changes that are effective for the year ended 31 December 2016. Details of these changes in accounting policies are set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKAS") that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*
- Amendments to HKAS 16 and HKAS 38, *Clarifications of acceptable methods of depreciation and amortisation*
- Amendments to HKAS 27, *Equity method in separate financial statements*
- Amendments to HKFRS 10, *Sale or contribution of assets between an investor and its associate or joint venture*
- Amendments to HKFRS 11, *Accounting for acquisition of interest in joint operations*
- *Annual Improvements to HKFRSs 2012-2014 Cycle*

The adoption of the above amendments did not have any significant effect on the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. **Segment reporting**

Included in reportable segment revenue are dividend and interest income amounting to HK$3.9 million (2015: HK$5.2 million). Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 are set out below:

	Investment Holding		**Hospitality**		**Total**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	1,719	1,860	96,718	87,034	98,437	88,894
Interest income	2,126	3,127	91	186	2,217	3,313
Reportable segment revenue	3,845	4,987	96,809	87,220	100,654	92,207
Reportable segment loss	(54,231)	(31,178)	3,488	(17,158)	(50,743)	(48,336)
Depreciation and amortisation	(48)	(1)	(6,784)	(6,223)	(6,832)	(6,224)
Impairment loss on available-for-sale financial assets	(14,832)	–	–	–	(14,832)	–
Net realised and unrealised valuation loss on trading securities	(1,179)	(19,831)	–	(71)	(1,179)	(19,902)
Net realised and unrealised foreign exchange loss	(14,623)	(8,798)	(78)	(16)	(14,701)	(8,814)
Additions to non- current assets	1,525	27	1,861	5,069	3,386	5,096
Reportable segment assets	329,167	418,542	198,466	178,474	527,633	597,016
Reportable segment liabilities	5,002	6,278	55,744	73,160	60,746	79,438

Reconciliation of reportable segmental assets and liabilities

	2016	**2015**
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	527,633	597,016
Deferred tax assets	–	10,183
Current tax recoverable	2,536	2,681
Consolidated total assets	530,169	609,880
Liabilities		
Reportable segment liabilities	60,746	79,438
Provision for taxation	180	22
Consolidated total liabilities	60,926	79,460

3. Other net losses

	2016	2015
	HK$'000	*HK$'000*
Impairment loss on available-for-sale financial assets	14,832	–
Net realised and unrealised foreign exchange loss	14,701	8,814
Net realised and unrealised valuation loss on trading securities	1,179	19,902
Gain on striking-off a dormant subsidiary	–	(2,779)
Loss on disposal of property, plant and equipment	–	100
Miscellaneous income	–	(721)
	30,712	25,316

4. Administrative expenses

Administrative expenses comprise mainly expenses incurred by the Group's Hospitality segment which includes expenses incurred by Sheraton Chapel Hill Hotel, North Carolina, U.S., a hotel jointly operated by the Group's subsidiary.

5. Finance costs

	2016	2015
	HK$'000	*HK$'000*
Amortisation of capitalised transaction costs	93	124
Interest expenses on borrowings	1,327	1,418
	1,420	1,542

6. Income tax expense

	2016	2015
	HK$'000	*HK$'000*
Current tax - Overseas		
Provision for the year	287	(876)
Under-provision in respect of prior years	80	85
	367	(791)
Deferred tax		
Origination and reversal of temporary differences	10,189	13,964
Under-provision in respect of prior years	—	465
	10,189	14,429
Income tax expense	10,556	13,638

The provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year ended 31 December 2016. No provision has been made for Hong Kong Profits Tax, as the Group did not earn any income subject to Hong Kong Profits Tax during the year. Taxation for overseas subsidiaries has been provided on estimated assessable profits at the rates of taxation ruling in the relevant countries.

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands. The tax concession was renewed for a further period of twenty years from 2 June 2009.

As at 31 December 2016, the Group has not recognised deferred tax assets in respect of tax losses and other temporary differences of approximately HK$73.3 million (2015: HK$55.6 million) as it is not probable that there will be sufficient future taxable profits against which the Group can utilise the benefits.

Tax losses amounting to HK$60.1 million (2015: HK$43.0 million) have expiry dates of more than 5 years. The earliest expiry date is on 31 December 2022 and the latest expiry date is on 31 December 2035. The remaining tax losses amounting to HK$14.1 million (2015: HK$12.6 million) do not expire under the tax legislations of the respective jurisdiction.

7. Loss for the year

Loss for the year is arrived at after charging/(crediting):

	2016	**2015**
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	4,128	3,527
Amortisation of intangible assets	2,704	2,697
Operating lease charges – rental of properties	4,239	3,178
Recognition/(Reversal) of impairment loss on trade and other receivables	238	(380)
Dividend and interest income	(3,936)	(5,173)

8. Earnings per share

a) Basic losses per share

The calculation of basic losses per share is based on loss attributable to ordinary equity shareholders of the Company of HK$57.6 million (2015: HK$55.1 million) and the weighted average number of ordinary shares of 382,449,524 (2015: 382,449,524) in issue during the year.

b) Diluted losses per share

Diluted losses per share are not applicable as there are no dilutive potential ordinary shares during the year.

9. Dividends

The Directors of the Company have resolved not to propose any final dividend for the year ended 31 December 2016 (2015: nil).

No interim dividend was paid for the year ended 31 December 2016 (2015: nil).

10. Goodwill

	HK$'000
At 1 January 2015	8,942
Translation differences	(8)
As at 31 December 2015	8,934
Translation differences	7
As at 31 December 2016	8,941

11. Trade and other receivables

Included in trade and other receivables are third-party trade receivables (net of allowance for doubtful debts) and trade amount owing by previous fellow subsidiary with the following ageing analysis based on invoice date:

	2016	2015
	HK$'000	*HK$'000*
Less than 1 month	10,130	10,675
1 to 3 months	9,205	8,816
3 to 12 months	827	2,812
Total third-party trade receivables and trade amount owing by previous fellow subsidiary, net of impairment loss	20,162	22,303
Other receivables and deposits	3,230	3,648
Loans and receivables	23,392	25,951
Prepayments	6,462	6,556
	29,854	32,507

Trade receivables are due within 30 days from the date of invoice. Receivables with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers.

All trade and other receivables are expected to be recovered within one year. The amounts owing by previous fellow subsidiary are unsecured and interest-free, and are repayable upon demand.

12. Trade and other payables

	2016	2015
	HK$'000	*HK$'000*
Trade payables	4,986	7,516
Other payables and accrued charges	16,490	16,645
	21,476	24,161
Deferred income	6,452	5,300
	27,928	29,461

Trade and other payables, excluding deferred income, have the following ageing analysis based on due date:

	2016	2015
	HK$'000	*HK$'000*
Due within 1 month or on demand	16,438	18,358
Due 1 to 3 months	1,040	2,054
Due 3 to 12 months	3,998	3,749
	21,476	24,161

13. Interest-bearing borrowings

	2016	2015
	HK$'000	*HK$'000*
Term loan (secured)	29,701	30,428
Finance lease liabilities	–	62
	29,701	30,490
Repayable:		
– Within 1 year	719	899
– After 1 year but within 2 years	785	873
– After 2 years but within 5 years	2,609	2,846
– After 5 years	25,588	25,872
	28,982	29,591
	29,701	30,490

The Group's term loan is secured by:

- a first priority mortgage of Sheraton Chapel Hill Hotel, its improvements, equipment and fixtures with a carrying amount of HK$36.6 million (2015: HK$37.8 million) as at 31 December 2016;
- assignments of all rights and benefits to sale, lease, agreements, trademarks and insurance proceeds in respect of Sheraton Chapel Hill Hotel;
- pledge of monies held in specific bank accounts of HK$2.2 million (2015: HK$1.2 million) as at 31 December 2016; and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Covenant

The Group's banking facilities are subjected to the fulfillment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2016, none of the covenants relating to the drawn down facilities had been breached.

Non-recourse Carveout Guarantees

As of 31 December 2016, RHI and SWAN USA, Inc (the "Guarantors"), both being indirect subsidiaries of the Group, are guarantors for certain indebtedness relating to the Group's joint operation, joint venture and associate, as set out below:

- RHI is a guarantor of indebtedness of the term loan entered into by SWAN Carolina Investor, LLC and SFI Carolina TIC SPE, LLC for Sheraton Chapel Hill Hotel. The term guarantee expires on 6 May 2023.
- RHI and SWAN USA, Inc are guarantors of indebtedness of the term loans entered into by RBH Mezz, LLC and Rich Burlington Hotel, LLC, which are underlying investments of S-R Burlington Partners, LLC. The term guarantees expire on 11 November 2017.
- RHI and SWAN USA, Inc were guarantors of indebtedness of the term loan entered into by the Group's joint venture, Richfield Syracuse Hotel Partners, LLC. The term guarantee was discharged on 16 May 2016 following the repayment of the loan by the joint venture.

The above indebtedness are non-recourse in nature and the Group's liabilities are limited to the collaterals on which the individual loans are secured. The guarantees entered by the Guarantors provide the lender with recourse for any losses and expenses arising from specific acts such as fraud, misappropriation of rents and intentional damages. The obligations of the Guarantors are to the extent which the collaterals are insufficient to meet the lender's losses and expenses. These guarantees do not impose liability on the Guarantors for any other event such as the non-payment of loan by the borrower. The maximum potential liability of the Group under the guarantees is HK$167.7 million as at 31 December 2016 (2015: HK$290.8 million).

The management is of the view that the possibility of violating the above covenants and triggering any cash outflow within the scope of the above guarantees is remote. In addition, the above indebtedness are non-recourse in nature and the carrying amount of the individual collateral is in excess of its respective outstanding loan amount.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a net loss attributable to the equity shareholders of the Company of HK$57.6 million for FY2016 as compared with a net loss attributable to the equity shareholders of the Company of HK$55.1 million in the previous corresponding year. The higher loss was due mainly to the impairment loss on available-for-sale financial assets and higher net realised and unrealised foreign exchange loss which was partially offset by a lower valuation loss on trading securities recognised in the current year and the Group's share of net gain arising from the disposal of a hotel by a jointly-controlled entity.

The Group's Investment Holding segment recorded impairment loss on available-for-sale financial assets of HK$14.8 million and net realised and unrealised valuation loss of HK$1.2 million from the Group's trading securities as at 31 December 2016. Net realised and unrealised foreign exchange loss of HK$14.7 million was also recorded, which mainly arose from the conversion of Sterling Pound denominated securities holdings and Renminbi denominated cash deposits into the functional currency of the company. Overall, the total other net loss of HK$30.7 million was recorded for FY2016 as compared with the total other net loss of HK$25.3 million in the previous corresponding year. During the previous corresponding period, one-off foreign exchange gain of HK$2.8 million was realised as a result of striking off a Group's dormant subsidiary. Consequently, the Group's Investment Holding segment reported a loss before tax of HK$54.2 million for FY2016 as compared with a loss before tax of HK$31.2 million in the previous corresponding year.

On the Group's Hospitality segment, the Group's U.S. hotel management arm, Richfield Hospitality, lnc. recorded lower management fee income of HK$9.0 million for FY2016, down by HK$1.3 million or 12.6% from HK$10.3 million in the previous corresponding year. The decrease in revenue was offset by lower administrative expenses and resulted in a loss before tax of HK$12.2 million for FY2016 as compared with a loss before tax of HK$15.3 million in the previous corresponding year.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK$24.4 million as compared with HK$24.9 million from the previous corresponding year. The decrease in revenue with higher administrative expenses and resulted in a lower profit contribution of HK$2.0 million as compared to HK$2.3 million in the previous corresponding year.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC ("SHR"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$61.8 million, up by HK$12.2 million or 24.6% from HK$49.6 million in the previous corresponding year. However, SHR incurred higher administrative expenses during FY2016 to support the revenue growth, resulting in an operating loss of HK$6.4 million as compared with an operating loss of HK$5.3 million in the previous corresponding year.

The Group's jointly-controlled entity, Richfield Syracuse Hotel Partners, LLC ("Syracuse"), which owns the Crowne Plaza Syracuse Hotel ("Hotel"), reported a share of operating loss of HK$0.1 million for FY2016 as compared with a share of profit of HK$1.0 million in the previous corresponding year. Following the successful completion of the disposal of the Hotel on 16 May 2016, Syracuse contributed an additional share of profit net of tax arising from the disposal of the Hotel amounting to HK$19.6 million for the year.

The Group recognised share of profit from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of HK$0.5 million for FY2016, as compared to a share of profit of HK$0.2 million in the previous corresponding year.

Consequently, the Group's Hospitality segment reported a profit before tax of HK$3.5 million for FY2016 as compared with a loss before tax of HK$17.2 million in the previous corresponding year.

As at 31 December 2016, the Group assessed the availability of future taxable profit against which the tax losses can be utilised and recognised a reduction of the deferred tax assets by HK$10.2 million. This resulted in an income tax expense of HK$10.6 million in FY2016, as compared to an income tax expense of HK$13.6 million in the previous corresponding year.

Basic losses per share for FY2016 was HK15.05 cents, calculated on the weighted average number of ordinary shares of the Company in issue during the year of 382,449,524. The Group's net tangible assets per share decreased to HK$1.10 as at 31 December 2016, down from HK$1.24 as at 31 December 2015. The board did not propose a final dividend for FY2016.

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though in the U.S. real estate and hospitality markets have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will continue to grow the hospitality reservation business and to adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities.

Moreover, the Group is finding different opportunities to diversify its business in addition to the hospitality segment. On 15 December 2016, the Company entered into a non-legally binding memorandum of understanding with an independent third party in relation to the possible acquisition of a company which is engaged in the business of assisting human reproduction.

The Group will continue to hold some trading securities and explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value readjustments of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

AUDIT COMMITTEE

The members of the audit committee of the Company comprise 3 independent non-executive Directors. The annual results of the Group for FY2016 have been reviewed by the audit committee of the Company and agreed with the auditor of the Company, namely KPMG LLP.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, save as disclosed below, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout FY2016.

Under the CG Code provision E.1.2, the chairman of the board of Directors should attend the annual general meeting and invite the chairmen of audit, remuneration, nomination and any other committees (as appropriate) to attend. However, in the annual general meeting held on 18 April 2016 (the "2016 AGM"), Mr. Kwek Leng Beng, our former Chairman was unable to attend the meeting as he had to attend to other commitments. Mr. Gan Khai Choon, our former executive Director, chaired the 2016 AGM. Further, Mr. Chan Bernard Charnwut, a former non-executive Director and former members of the Audit Committee and Nomination Committee; and Mr. Lawrence Yip Wai Lam, an executive Director, attended the 2016 AGM to answer questions from the shareholders.

Under the CG Code provision D.1.4, the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. There is no formal letter of appointment to Mr. Lawrence Yip Wai Lam, an executive Director as it was the practice of the Company not to issue formal letters of appointment to Directors as the Company considers that Mr. Yip fully understands his responsibilities and delegation arrangement in place. The Company has entered into formal letters of appointment with newly appointed Directors since August 2016.

The Company reviews its corporate governance practices from time to time to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules (the "Model Code") as the Company's code of conduct regarding Directors' securities transactions. All Directors have confirmed that they have complied with the Model Code throughout FY2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during FY2016.

By Order of the Board
City e-Solutions Limited
Jiang Yulin
Chairman

Hong Kong, 29 March 2017

As at the date of this announcement, the Board comprised six directors of which Mr. Jiang Yulin, Ms. Zhang Xian and Mr. Lawrence Yip Wai Lam are the executive directors; and Mr. Hu Baihe , Mr. Yuen Kwok Kuen and Mr. Guo Jingbin are the independent non-executive directors.