



City e-Solutions Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 557)

2012

**Interim financial report
for the six months ended 30 June 2012**

CONTENTS

Consolidated income statement	2
Consolidated statement of comprehensive income	3
Consolidated statement of financial position	4
Consolidated statement of changes in equity	5
Condensed consolidated cash flow statement	6
Notes on the unaudited interim financial report	7
Independent review report.....	18
Management discussion and analysis.....	19
Audit committee	22
Corporate Governance	22
Compliance with the model code for securities transactions by Directors.....	22
Changes in director's information	23
Purchase, sale or redemption of the Company's listed securities	23
Directors' interests in shares	23
Substantial shareholders	25

CITY E-SOLUTIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

RESULTS

The Directors of City e-Solutions Limited (the “Company”) announce the following unaudited consolidated results of the Company and its subsidiaries and its jointly-controlled entities (the “Group”) for the six months ended 30 June 2012 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2012 – unaudited

		Six months ended 30 June	
	<i>Note</i>	2012	2011
		<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations			
Turnover	3	65,947	49,490
Cost of sales		<u>(17,547)</u>	<u>(15,309)</u>
Gross profit		48,400	34,181
Other net income	4	5,991	132
Administrative expenses	5	(57,635)	(44,777)
Finance costs		<u>(1,434)</u>	<u>(1,032)</u>
Loss from operations before taxation		(4,678)	(11,496)
Income tax	6	<u>1,388</u>	<u>789</u>
Loss from continuing operations		(3,290)	(10,707)
Discontinued operations			
Profit from discontinued operations, net of tax	7	<u>-</u>	<u>9,002</u>
Loss for the period	9	<u>(3,290)</u>	<u>(1,705)</u>
Attributable to:			
Equity shareholders of the Company		8	(1,429)
Non-controlling interests		<u>(3,298)</u>	<u>(276)</u>
Loss for the period		<u>(3,290)</u>	<u>(1,705)</u>
Earnings per share		HK cents	HK cents
Basic earnings/(losses) per share	10	<u>0.002</u>	<u>(0.37)</u>
Continuing operations		HK cents	HK cents
Basic earnings/(losses) per share	10	<u>0.002</u>	<u>(2.73)</u>

The notes on pages 7 to 17 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2012 – unaudited

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Loss for the period	(3,290)	(1,705)
Other comprehensive income for the period (after taxation and reclassification adjustments):		
Exchange differences on translation of financial statements of foreign operations	213	869
Total comprehensive income for the period	<u>(3,077)</u>	<u>(836)</u>
Attributable to:		
Equity shareholders of the Company	227	(564)
Non-controlling interests	<u>(3,304)</u>	<u>(272)</u>
Total comprehensive income for the period	<u>(3,077)</u>	<u>(836)</u>

The notes on pages 7 to 17 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2012 - unaudited

	Note	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
Non-current assets			
Property, plant and equipment		89,382	90,775
Intangible assets		19,314	2,564
Goodwill		9,484	2,232
Deferred tax assets		23,854	21,928
Total non-current assets		142,034	117,499
Current assets			
Trading securities		88,238	79,900
Trade and other receivables	11	52,314	53,547
Current tax recoverable		554	357
Cash and cash equivalents	12	380,336	399,681
		<u>521,442</u>	<u>533,485</u>
Current liabilities			
Trade and other payables	13	(33,050)	(33,788)
Interest-bearing loans		(561)	(562)
		<u>(33,611)</u>	<u>(34,350)</u>
Net current assets		<u>487,831</u>	<u>499,135</u>
Total assets less current liabilities		629,865	616,634
Non-current liabilities			
Deferred tax liabilities		(830)	-
Interest-bearing loans		(37,174)	(37,439)
		<u>(38,004)</u>	<u>(37,439)</u>
NET ASSETS		<u>591,861</u>	<u>579,195</u>
CAPITAL AND RESERVES			
Share capital		382,450	382,450
Reserves		162,291	162,064
Total equity attributable to equity shareholders of the Company		<u>544,741</u>	<u>544,514</u>
Non-controlling interests		47,120	34,681
TOTAL EQUITY		<u>591,861</u>	<u>579,195</u>

The notes on pages 7 to 17 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2012 – unaudited

	Attributable to equity shareholders of the Company						Total Equity HK\$'000
	Share Capital HK\$'000	Capital Redemption Reserve HK\$'000	Exchange Reserve HK\$'000	Revenue Reserves HK\$'000	Total HK\$'000	Non- Controlling Interests HK\$'000	
Balance at 1 January 2011	382,450	676	2,144	190,613	575,883	34,803	610,686
Changes in equity for the six months ended 30 June 2011:							
Profit for the period	-	-	-	(1,429)	(1,429)	(276)	(1,705)
Other comprehensive income							
Foreign currency translation differences – foreign operations	-	-	865	-	865	4	869
Total comprehensive income for the period	-	-	865	(1,429)	(564)	(272)	(836)
Balance at 30 June 2011	<u>382,450</u>	<u>676</u>	<u>3,009</u>	<u>189,184</u>	<u>575,319</u>	<u>34,531</u>	<u>609,850</u>
Balance at 1 January 2012	382,450	676	2,006	159,382	544,514	34,681	579,195
Changes in equity for the six months ended 30 June 2012:							
Profit for the period	-	-	-	8	8	(3,298)	(3,290)
Other comprehensive income							
Foreign currency translation differences – foreign operations	-	-	219	-	219	(6)	213
Total comprehensive income for the period	-	-	219	8	227	(3,304)	(3,077)
Transactions with owners, recorded directly in equity							
Contribution by non-controlling interests	-	-	-	-	-	15,743	15,743
Total transactions with owners	-	-	-	-	-	15,743	15,743
Balance at 30 June 2012	<u>382,450</u>	<u>676</u>	<u>2,225</u>	<u>159,390</u>	<u>544,741</u>	<u>47,120</u>	<u>591,861</u>

The notes on pages 7 to 17 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2012 - unaudited

	<i>Note</i>	Six months ended 30 June	
		2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Net cash used in operating activities		(5,142)	(32,608)
Net cash used in investing activities		(10,695)	(39,094)
Net cash (used in)/generated from financing activities		<u>(1,700)</u>	<u>6,294</u>
Net decrease in cash and cash equivalents		(17,537)	(65,408)
Cash and cash equivalents at 1 January		399,681	460,438
Effect of foreign exchange rate changes		<u>(1,808)</u>	<u>8,270</u>
Cash and cash equivalents at 30 June	12	<u>380,336</u>	<u>403,300</u>

The notes on pages 7 to 17 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 7 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG LLP in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Federation of Accountants. KPMG LLP’s independent review report to the Board of Directors is included on page 18. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 February 2012.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

None of the above changes have a material impact on the current or comparative periods.

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

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by products and services. The Group has identified the following two reportable segments based on the information that is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment:

- Investment holding: This segment relates to investments in listed equity and unlisted marketable equity mutual funds held as trading securities. Currently, the Group’s equity investment portfolio includes equity securities listed on the London Stock Exchange, NASDAQ Stock Market and The Philippine Stock Exchange, Inc. and investment portfolio in the United States and Hong Kong.
- Hospitality: This segment primarily derives the revenue from the provision of hotel management, hotel reservation, and revenue management services, risk management services and procurement services to the hospitality industry as well as owning and managing hotels. Currently, the Group’s activities in this regard are carried out in the United States.

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets, goodwill and current assets with the exception of deferred tax assets and current tax recoverable. Segments liabilities include bank borrowings and trade and other payables.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by and expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expense arising from the activities of the Group's jointly-controlled entities.

The measure used for reporting segment profit is "profit from operations". In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue, interest income, depreciation and amortisation, net realised and unrealised foreign exchange gain/loss, net realised and unrealised valuation gain/loss on trading securities and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments for the period is set out below:

	Investment Holding		Hospitality		Total	
	Six months		Six months		Six months	
	2012	2011	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	2,997	1,124	61,001	47,395	63,998	48,519
Interest income	890	422	1,059	549	1,949	971
Reportable segment revenue	<u>3,887</u>	<u>1,546</u>	<u>62,060</u>	<u>47,944</u>	<u>65,947</u>	<u>49,490</u>
Reportable segment profit/(loss)	<u>3,248</u>	<u>(8,775)</u>	<u>(7,926)</u>	<u>(2,721)</u>	<u>(4,678)</u>	<u>(11,496)</u>
Depreciation and amortisation	206	320	4,392	2,012	4,598	2,332
Net realised and unrealised valuation gains/(losses) on trading securities	9,561	(15,210)	(32)	1,288	9,529	(13,922)
Net realised and unrealised foreign exchange (losses)/gains	(3,476)	10,281	-	-	(3,476)	10,281
Additions to non-current assets segment	-	-	1,097	9,124	1,097	9,124
Reportable segment assets	461,045	459,496	178,023	169,203	639,068	628,699
Reportable segment liabilities	6,045	7,464	64,740	64,325	70,785	71,789

(b) Reconciliations of reportable segment assets and liabilities

	At 30 June 2012	At 31 December 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
Reportable segment assets	639,068	628,699
Deferred tax assets	23,854	21,928
Current tax recoverable	554	357
	<hr/>	<hr/>
Consolidated total assets	<u>663,476</u>	<u>650,984</u>
Liabilities		
Reportable segment liabilities	70,785	71,789
Deferred tax liabilities	830	-
	<hr/>	<hr/>
Consolidated total liabilities	<u>71,615</u>	<u>71,789</u>

4. OTHER NET INCOME

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net realised and unrealised foreign exchange (losses)/gains	(3,476)	10,281
Net realised and unrealised valuation gains/(losses) on trading securities	9,529	(13,922)
Gain arising from legal settlement	-	3,879
Others	(62)	(106)
	<hr/>	<hr/>
	<u>5,991</u>	<u>132</u>

5. ADMINISTRATIVE EXPENSES

Administrative expenses comprise mainly expenses incurred by the Group's Hospitality segment which include the acquisition-related costs and expenses incurred by the 2 hotels owned by the Group's jointly-controlled entities.

6. INCOME TAX

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Current tax - Overseas		
Provision for the period	186	248
(Over)/Under-provision in respect of prior years	(484)	2
	<u>(298)</u>	<u>250</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(1,090)</u>	<u>(1,039)</u>
Income tax credit from continuing operations	<u>(1,388)</u>	<u>(789)</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2011: 16.5%) of the estimated assessable profits for the period ended 30 June 2012. 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 30 June 2012, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$4.1 million (31 December 2011: HK\$4.1 million) as it is not probable that there will be sufficient future taxable profits against which the Group can utilise the benefits. The tax losses do not expire under the current tax legislations.

7. DISCONTINUED OPERATIONS

In March 2011, a gain of HK\$9.0 million (S\$1.46 million) was recorded by the Group following the receipt of the final installment payment of the deferred consideration arising from the disposal of the Group's 50% shareholding interest in MindChamps Holdings Pte. Ltd. on 23 March 2009.

8. DIVIDENDS

a) Dividends attributable to the interim period

The Directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2012 (2011: HK\$Nil).

b) Dividends attributable to the previous financial year, approved and paid during the interim period

There were no dividends attributable to the previous financial year, approved and paid during the interim period of 2012 and 2011.

9. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	3,123	1,474
Amortisation of intangible assets	1,475	858
Dividends and interest income	(4,946)	(2,095)
Gain on disposal of discontinued operations	-	(9,002)
	<u> </u>	<u> </u>

10. EARNINGS PER SHARE

a) *Basic earnings/(losses) per share*

The calculation of basic earnings/(losses) per share is based on profits attributable to ordinary equity shareholders of the Company of HK\$0.008 million (six months ended 30 June 2011: Loss of HK\$1.4 million) and the weighted average number of ordinary shares of 382,449,524 (2011: 382,449,524) in issue during the period.

For the period ended 30 June 2012, earnings/(losses) per share for continuing and discontinued operations have been calculated using the profit relating to continuing operations of HK\$0.008 million (2011: Loss of HK\$10.4 million) and the profit relating to discontinued operations of HK\$Nil (2011: Profit of HK\$9.0 million).

b) *Diluted earnings per share*

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

11. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of impairment losses) with the following ageing analysis:

	At	At
	30 June	31 December
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current or less than 1 month overdue	8,738	9,735
1 to 3 months overdue	5,338	4,773
3 to 12 months overdue	168	488
Total trade receivables, less impairment losses	14,244	14,996
Other receivables and deposits	7,453	6,243
Amount owing by a jointly-controlled entity	23,265	23,261
Amounts owing by affiliated companies	929	478
Loans and receivables	45,891	44,978
Prepayments	6,423	8,569
	<u>52,314</u>	<u>53,547</u>

Trade receivables are due within 30 days from the date of billing. 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.

12. CASH AND CASH EQUIVALENTS

	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
Deposits with banks and other financial institutions	344,282	366,155
Cash at bank and in hand	36,054	33,526
	<u>380,336</u>	<u>399,681</u>

13. TRADE AND OTHER PAYABLES

	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
Trade payables	4,837	1,993
Other payables and accrued charges	22,954	22,377
Deferred income	5,044	9,265
Amounts owing to affiliated companies	215	153
	<u>33,050</u>	<u>33,788</u>

Trade payables have the following ageing analysis as of the reporting date:

	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
Due within 1 month or on demand	3,686	1,551
Due after 1 month but within 3 months	871	442
Due after 3 months but within 12 months	280	-
	<u>4,837</u>	<u>1,993</u>

14. ACQUISITION OF A NEW SUBSIDIARY, SCEPTRE HOSPITALITY RESOURCES, LLC, (“SHR”)

On 27 February 2012, the Group successfully acquired Whiteboard Labs, LLC (“WBL”) and merged it with the Group’s in-house reservations management and electronic distribution arm, Sceptre Hospitality, to create a new subsidiary, Sceptre Hospitality Resources (“SHR”), in which the Group holds a 51% equity interest.

For the period under review, the capital contribution included the cash contribution from SWAN of US\$1.3 million (approximately HK\$10.1 million) and substantially all of WBL’s assets.

The effect of the acquisition is set out below:

	<i>HK\$’000</i>
Property, plant and equipment	1,008
Intangible asset	18,201
Other receivables	465
Trade and other payables	<u>(1,101)</u>
Total identifiable net assets	<u>18,573</u>
Goodwill was recognised as a result of acquisitions as follows:	
Consideration paid, satisfied in cash	10,082
Non-controlling interest, that entitle the holders to proportionate share of the acquiree’s net assets on liquidation, based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquiree	15,743
Fair value of identifiable net assets	<u>(18,573)</u>
Goodwill	<u><u>7,252</u></u>

15. COMMITMENTS

At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 30 June 2012	At 31 December 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	2,835	2,791
After 1 year within 5 years	9,751	10,212
	<u>12,586</u>	<u>13,003</u>

The above leases run for an initial period between one to three years. One of the leases includes an option to renew the lease on expiry. The leases do not include contingent rental.

16. MATERIAL RELATED PARTY TRANSACTIONS

During the period, there were the following material related party transactions:

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income received from related company	2,097	1,214
Income received from provision of hospitality and other related services to related companies	2,250	1,908
Accounting fee paid to a related company	<u>(183)</u>	<u>(74)</u>

INDEPENDENT REVIEW REPORT

**To the Board of Directors of City e-Solutions Limited
(Incorporated in the Cayman Islands with limited liability)**

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 17 which comprises the consolidated statement of financial position of City e-Solutions Limited as of 30 June 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG LLP

Certified Public Accountants

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7 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported an improvement in revenue to HK\$65.9 million, an increase of HK\$16.4 million or 33.1% from HK\$49.5 million in the previous corresponding period, due mainly to additional revenue arising from acquisitions by the Group's Hospitality segment.

For the period under review, the Group recorded a lower loss of HK\$3.3 million as compared with a loss of HK\$10.7 million (excluding results from discontinued operations) in the previous corresponding period, due mainly to the unrealised valuation gains from the Group's securities holding as at 30 June 2012. Overall, a net profit attributable to the equity shareholders of the Company of HK\$8,000/- was achieved as compared with a net loss attributable to the equity shareholders of the Company of HK\$1.4 million in the previous corresponding period.

The Group's Hospitality segment continued to report higher revenue of HK\$62.1 million, an increase of HK\$14.2 million or 29.6% from HK\$47.9 million in the previous corresponding period. Despite higher revenue recorded by the Group's Hospitality segment, a higher loss of HK\$7.9 million was incurred for the period under review, an increase of HK\$5.2 million as compared with the previous corresponding period. The losses can be attributed mainly to depreciation and amortisation, interest expenses, acquisition-related expenses as well as the consolidation of operating expenses for a new subsidiary, Sceptre Hospitality Resources ("SHR").

As announced on 27 February 2012, the Group successfully acquired Whiteboard Labs, LLC ("WBL") and merged it with the Group's in-house reservations management and electronic distribution arm, Sceptre Hospitality, to create a new subsidiary named SHR, in which the Group holds a 51% equity interest. WBL provides the Group with various important components of hotel reservation technology, including a proprietary, technologically-advanced Central Reservations System ("CRS") platform that is currently used by over 4,000 hotels. This CRS platform will become an integral component of the Group's Hospitality segment and paves the way for additional sources of income and growth opportunities. Following the completion of this acquisition, SHR contributed additional revenue of HK\$11.5 million to the Group's revenue. However, an operating loss of HK\$1.6 million was incurred due mainly to an amount of HK\$2.6 million incurred for acquisition-related expenses.

The Group's jointly-controlled entities ("JCE") which own the two hotels in the U.S. contributed a full six months revenue of HK\$29.9 million for the period under review, an increase of HK\$6.1 million or 25.6%, from HK\$23.8 million in the corresponding period due to the partial proportionate consolidation of the JCE which owns the Sheraton Chapel Hill Hotel as the acquisition was only completed on 22 March 2011. Consequently, the proportionate contribution from the JCE to the Group's results was a pre-tax profit of HK\$1.2 million for the period under review, as compared with a pre-tax loss of HK\$1.7 million in the previous corresponding period which had included acquisition-related expenses.

For the Investment Holding segment, the Group recorded a net realised and unrealised translation exchange loss of HK\$3.5 million, arising mainly from the Sterling Pound denominated trading security and cash deposits held in Sterling Pound and Chinese Renminbi currencies. In contrast, an unrealised valuation gain of HK\$9.6 million was recorded from the Group's securities holding as at 30 June 2012. Overall, a total net realised and unrealised gain of HK\$6.1 million was recorded for the period under review as compared with a total net realised and unrealised loss of HK\$4.9 million reported in the previous corresponding period. Also, during the period under review, the Group recorded higher dividend and interest income of HK\$4.9 million, up by HK\$2.8 million, as compared with HK\$2.1 million in the previous corresponding period.

Financial Position, Cash Flow and Borrowings

As at 30 June 2012, the Group's total assets stood at HK\$663.5 million, up from HK\$651.0 million as at 31 December 2011. The Group's net tangible assets per share decreased to HK\$1.35 as at 30 June 2012, down from HK\$1.41 as at 31 December 2011.

The Group reports its results in Hong Kong dollars and it is the objective of the Group to preserve its value in terms of Hong Kong dollars.

For the period under review, the net cash used for operating activities amounted to HK\$5.1 million. The cash outflow to investing activities amounted to HK\$10.7 million was mainly due to acquisition of the new subsidiary.

Overall, there was a decrease of HK\$17.6 million in net cash which together with an exchange translation loss of HK\$1.8 million resulted in the total Group's cash and cash equivalents of HK\$380.3 million as at 30 June 2012, down from HK\$399.7 million as at 31 December 2011. Taking into account of the Group's bank borrowings of HK\$37.7 million, the Group was in a net cash position amounting to HK\$342.6 million as at 30 June 2012.

As at 30 June 2012, the Group's bank borrowings amounted to HK\$37.7 million (31 December 2011: HK\$38.0 million), of which HK\$0.6 million was current, as recorded in the portion of short-term borrowing repayable within a period of one year, and HK\$37.1 million was non-current and will be repayable within a period of more than one year but not exceeding five years. The bank loans of the Group are secured over the freehold land and building with a carrying amount of HK\$45.7 million. In addition, as at 30 June 2012, the Group has fully complied with the financial covenants agreed with the financial institutions.

Treasury Activities

Majority of the Group's cash is held in United States dollar, Sterling Pound, Chinese Renminbi and Singapore dollar cash deposits. It is the Group's view to maximise returns to shareholders and hence a portion of its portfolio is held in various currencies. We will closely monitor the Group's exposure to currency movement and take the appropriate action when necessary.

Directors and Employees

As at 30 June 2012, the Group had a total of 76 employees including Directors but excluding employees from the JCE which owned the two hotels ("the Hotels"), up from 56 as at the end of the last financial year ended 31 December 2011. There were 211 employees from the Hotels as at 30 June 2012.

The total payroll costs including the Hotels were HK\$34.1 million as compared with HK\$25.8 million in the previous corresponding period. The increase in payroll costs can be attributed mainly to the additional employees from the Group's new subsidiary.

PROSPECTS

The Group continues to hold some trading securities while its cash reserves are in a basket of 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 2 independent non-executive directors and 1 non-executive director of the Company. It has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2012.

CORPORATE GOVERNANCE

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (“CG Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the six months ended 30 June 2012.

Under the revised code provision E.1.2, the chairman of the board 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 20 April 2012 (“2012 AGM”), our chairman was unable to attend the meeting as he had to attend to other commitments. He appointed Mr. Gan Khai Choon to chair the meeting on his behalf. Further Mr. Chan Bernard Charnwut, a non-executive director and member of Audit Committee and Nomination Committee, was invited to attend the meeting to answer any question from the shareholders concerning the Company’s corporate governance. As provided for in the revised code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. The 3 independent non-executive directors were unable to attend the 2012 AGM.

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 (“Model Code”). All directors have confirmed that they have complied with the Model Code throughout the period under review.

CHANGE IN DIRECTOR'S INFORMATION

Mr Kwek Leng Joo was appointed President of Singapore Compact for Corporate Social Responsibility on 28 May 2012.

Mr. Chan Bernard Charnwut was appointed a member of the Executive Council of Hong Kong SAR in 2012.

Dr Lo Ka Shui was appointed a member of The Exchange Fund Advisory Committee of the Hong Kong Monetary Authority on 1 February 2012.

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 the six months ended 30 June 2012.

DIRECTORS' INTERESTS IN SHARES

- (a) As at 30 June 2012, the interests of the Directors and Chief Executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("The Stock Exchange") pursuant to the Model Code were as follows:-

Name of Director

	Nature of Interest	Number of Ordinary Shares of HK\$1.00 each
The Company		
Kwek Leng Beng	personal	3,286,980
Kwek Leng Joo	personal	1,436,000
Gan Khai Choon	personal	1,041,100
Lawrence Yip Wai Lam	personal	520,550
Chan Bernard Charnwut	personal	53,850
City Developments Limited	Nature of Interest	Number of Ordinary Shares
Kwek Leng Beng	personal	397,226
Kwek Leng Joo	personal	65,461
Gan Khai Choon	personal	100,000
	family	25,000

City Developments Limited	Nature of Interest	Number of Preference Shares
Kwek Leng Beng	personal	144,445
Kwek Leng Joo	personal	100,000
Gan Khai Choon	personal family	49,925 25,738

Hong Leong Investment Holdings Pte. Ltd.	Nature of Interest	Number of Ordinary Shares
Kwek Leng Beng	personal	2,320
Kwek Leng Joo	personal	1,290
Gan Khai Choon	family	247

Name of Chief Executive Officer

Hong Leong Investment Holdings Pte. Ltd.	Nature of Interest	Number of Ordinary Shares
Sherman Kwek Eik Tse	personal	1,174

Name of Director

Millennium & Copthorne plc	Nature of Interest	Number of Ordinary Shares of 30 pence each
Lawrence Yip Wai Lam	personal	52,081

Millennium & Copthorne Hotels New Zealand Limited	Nature of Interest	Number of Ordinary Shares
Kwek Leng Beng	personal	3,000,000

Note: Millennium & Copthorne Hotels New Zealand Limited is an indirect subsidiary of Millennium & Copthorne Hotels plc, a subsidiary of City Developments Limited. City Developments Limited is the holding company of the Company. The Directors of the Company consider Hong Leong Investment Holdings Pte. Ltd. to be the Company's ultimate holding company.

- (b) Pursuant to Millennium & Copthorne Hotels Long Term Incentive Plan (the “LTIP”) approved by shareholders of Millennium & Copthorne Hotels plc (“M&C”) on 4 May 2006, certain Directors were awarded Performance Share Award of ordinary shares of 30 pence each as follows:

Name of Director	Date Awarded	Number of Performance Shares		Vesting Date
Lawrence Yip Wai Lam	16/09/2010	13,933		16/09/2013
	28/11/2011	19,301		28/11/2014

Note: Under the terms of the LTIP, M&C is permitted to make both Performance Share Awards and Deferred Share Bonus Awards to an employee (including an executive director) of M&C or its subsidiaries.

- (c) Save as disclosed herein, as at 30 June 2012, none of the Directors and the chief executive of the Company or their associates were interested or had any short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the following corporations were interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Number of Shares Held	Notes	Percentage Holding in the Company
eMpire Investments Limited	190,523,819		49.82%
City Developments Limited	200,854,743	(1)	52.52%
Hong Leong Holdings Limited	21,356,085		5.58%
Hong Leong Investment Holdings Pte. Ltd.	230,866,817	(2)	60.37%
Davos Investment Holdings Private Limited	230,866,817	(3)	60.37%
Kwek Leng Kee	230,866,817	(4)	60.37%
Arnhold and S Bleichroeder Advisors, LLC	38,022,000		9.94%
Farallon Capital Offshore Investors, Inc.	35,232,850	(5)	9.21%
Aberdeen Asset Management Asia Ltd	23,052,000		6.03%
Aberdeen Asset Management plc and its Associates (together “The AAM Group”) on behalf of accounts managed by The AAM Group	23,052,000	(6)	6.03%
Noonday G.P.(U.S.), L.L.C.	22,321,306		5.84%

Notes:

1. Of the 200,854,743 shares beneficially owned by wholly-owned subsidiaries of City Developments Limited ("CDL") representing approximately 52.52% of the issued share capital of the Company, 190,523,819 shares are held by eMpire Investments Limited.
2. The interests of CDL and Hong Leong Holdings Limited in 200,854,743 shares and 21,356,085 shares respectively, are included in the aggregate number of shares disclosed.
3. The deemed interest of Hong Leong Investment Holdings Pte. Ltd. in 230,866,817 shares, representing approximately 60.37% of the issued share capital of the Company, is included in the aggregate number of shares disclosed.
4. Mr Kwek Leng Kee is deemed to have an interest in the 230,866,817 shares in which Davos Investment Holdings Private Limited ("Davos") is deemed to have an interest in, by virtue of his entitlement to exercise or control the exercise of one-third or more of the voting power at general meetings of Davos.
5. Farallon Capital Offshore Investors, Inc. is interested in these shares in its capacity as the beneficial owner.
6. Aberdeen Asset Management plc is interested in these shares in its capacity as the investment manager and includes shares in which wholly owned controlled corporations of Aberdeen Asset Management plc are interested.

Save as stated above, no person or corporation was interested in or had a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2012.

By Order of the Board
Kwek Leng Beng
Chairman

Hong Kong, 7 August 2012