



City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

2008 INTERIM RESULTS — ANNOUNCEMENT UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

RESULTS

The Directors of City e-Solutions Limited (the “Company”) announce the following interim unaudited consolidated results of the Company, its subsidiaries and its jointly controlled entity (the “Group”) and the Group’s interest in an associate for the six months ended 30 June 2008 together with comparative figures.

Consolidated Income Statement

	<i>Note</i>	Six months ended 30 June	
		2008	2007
		<i>HK\$’000</i>	<i>HK\$’000</i>
Turnover	2	73,129	46,042
Cost of sales		<u>(24,154)</u>	<u>(6,547)</u>
Gross profit		48,975	39,495
Other net (losses)/income	3	(13,606)	13,053
Administrative expenses		<u>(34,359)</u>	<u>(26,289)</u>
Profit from operations		1,010	26,259
Share of losses of associate		<u>(688)</u>	<u>—</u>
Profit before taxation	4	322	26,259
Income tax	5	<u>(3,116)</u>	<u>(397)</u>
(Loss)/Profit for the period		<u>(2,794)</u>	<u>25,862</u>
Attributable to:			
Equity shareholders of the Company		(3,254)	24,948
Minority interests		<u>460</u>	<u>914</u>
(Loss)/Profit for the period		<u>(2,794)</u>	<u>25,862</u>
(Loss)/Earnings per share			
Basic	7	HK cents <u>(0.85)</u>	HK cents <u>6.51</u>

Consolidated Balance Sheet at 30 June 2008 - unaudited

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Non-current assets		
Plant and equipment	8,189	7,626
Intangible assets	41,321	39,032
Interest in associate	31,189	10,045
Deferred tax assets	15,405	17,906
Total non-current assets	96,104	74,609
Current assets		
Properties held for resale	12,336	17,473
Trading securities	99,670	114,226
Trade and other receivables	26,550	28,254
Current tax recoverable	187	328
Cash and cash equivalents	494,889	513,833
	<u>633,632</u>	<u>674,114</u>
Current liabilities		
Trade and other payables	(43,545)	(50,509)
Provision for taxation	(519)	—
	<u>(44,064)</u>	<u>(50,509)</u>
Net current assets	<u>589,568</u>	<u>623,605</u>
Total assets less current liabilities	<u>685,672</u>	<u>698,214</u>
NET ASSETS	<u>685,672</u>	<u>698,214</u>
CAPITAL AND RESERVES		
Share capital	8	383,126
Reserves	382,544	279,428
	<u>267,060</u>	<u>279,428</u>
Total equity attributable to equity shareholders of the Company	<u>649,604</u>	<u>662,554</u>
Minority interests	<u>36,068</u>	<u>35,660</u>
TOTAL EQUITY	<u>685,672</u>	<u>698,214</u>

Notes:-

1. 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 5 August 2008.
2. Included in turnover are dividends and interest income amounting to HK\$10.5 million (2007: HK\$17.0 million). The analysis of the business and geographical segments of the operations of the Company, its subsidiaries and its jointly controlled entity (“MindChamps”) during the financial period are as follows:

a) *Business segments*

	Investment Holding		Hospitality Related Services		Education Related Services		Property Investment		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	10,466	17,013	26,179	25,869	26,456	3,160	10,028	—	73,129	46,042
(Loss)/Profit from operations	(9,897)	21,738	5,084	4,309	2,171	212	3,652	—	1,010	26,259
Share of losses of associate	—	—	(688)	—	—	—	—	—	(688)	—
Profit before taxation									322	26,259
Income tax									(3,116)	(397)
(Loss)/Profit after taxation									(2,794)	25,862
Depreciation and amortisation for the period	555	554	312	281	614	41	—	—	1,481	876

b) *Geographical segments*

	Revenue from external customers		(Loss)/Profit before tax	
	Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	7,655	11,860	(11,542)	19,804
Singapore	39,367	5,784	7,114	(933)
United States	26,107	28,398	5,438	7,388
Others	—	—	(688)	—
	<u>73,129</u>	<u>46,042</u>	<u>322</u>	<u>26,259</u>

3. **Other net (losses) / income**

	Six months ended	
	30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Membership fees from education advisors	1,126	—
Net realised and unrealised foreign exchange gains	2,205	7,920
Net realised and unrealised (losses)/gains on trading securities	(16,882)	4,909
Others	<u>(55)</u>	<u>224</u>
	<u>(13,606)</u>	<u>13,053</u>

4. **Profit before taxation is arrived at after charging/(crediting):**

	Six months ended	
	30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of plant and equipment	1,450	845
Amortisation of intangible assets	31	31
Dividends and interest income	<u>(10,466)</u>	<u>(17,013)</u>

5. **Income tax**

	Six months ended	
	30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax — Hong Kong		
Over-provision in respect of prior years	—	(1,025)
Current tax — Overseas		
Provision for the period	<u>577</u>	<u>47</u>
	<u>577</u>	<u>(978)</u>
Deferred tax		
Origination and reversal of temporary differences	<u>2,539</u>	<u>1,375</u>
	<u>3,116</u>	<u>397</u>

The provision for Hong Kong profits tax is calculated at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the period ended 30 June 2008. Overseas taxation has been provided on estimated assessable profits at the rates of taxation prevailing in the countries in which the Group operates.

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.

As at 30 June 2008, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$28.6 million (31 December 2007: HK\$26.7 million) as it is not probable that there will be sufficient future taxable profits against which the Group can utilise the benefits.

6. 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 2008 (2007: HK\$Nil).

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

	Six months ended	
	30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividends in respect of the previous financial year, approved and paid during the interim period of HK 3 cents (2007: HK 6 cents) per share	<u>11,494</u>	<u>22,988</u>

7. (Loss)/Earnings per share

a) *Basic earnings per share*

The calculation of basic earnings per share is based on loss attributable to equity shareholders of the Company of HK\$3.3 million (2007: Profit of HK\$24.9 million) and on the weighted average number of ordinary shares of 382,924,062 (2007: 383,125,524) in issue during the period.

b) *Diluted earnings per share*

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

8. Repurchase of own shares

During the interim period, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month of the repurchases	Total number of ordinary shares repurchased '000	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration HK\$'000
April 2008	440	1.02	1.01	446
May 2008	<u>142</u>	1.01	1.01	<u>143</u>
	<u>582</u>			<u>589</u>

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the nominal value of the cancelled shares of HK\$0.6 million was transferred to the capital redemption reserve. The premium paid on the repurchased shares and the transaction costs were deducted from the retained profits.

9. Commitment

As at 30 June 2008, the Group has outstanding capital contribution to an associate of approximately HK\$122.0 million (as at 31 Dec 2007: HK\$144.0 million) pursuant to the shareholders' agreement entered into on 25 June 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported an improvement in revenue to HK\$73.1 million, up 58.8% from HK\$46.0 million in the previous corresponding period. However, the Group recorded a net loss attributable to the equity shareholders of the Company of HK\$3.3 million as compared with a net profit attributable to the equity shareholders of the Company of HK\$24.9 million in the previous corresponding period. The loss is attributed mainly to the unrealised loss including lower translation exchange gain sustained as a result of remeasuring the Group's trading securities to fair value as at 30 June 2008 as well as lower dividend and interest income.

The Group's revenue was boosted by the Group's new business relating to the provision of education services by the 50% equity interest in MindChamps, which was acquired on 1 June 2007. During the period under review, MindChamps contributed revenue of HK\$26.5 million as compared with HK\$3.2 million for the 1-month trading period as reported in the previous corresponding period. Having established a strong presence and reputation in Singapore, MindChamps expanded overseas to Hong Kong. In addition, MindChamps also launched a pre-school in its existing premise in Singapore.

During the period under review, there was an additional revenue of HK\$10.0 million from the sale of one unit of its residential property held for resale.

The higher revenue from MindChamps and sale of residential property was partially offset by the Group's lower dividend and interest income of HK\$10.5 million, down by HK\$6.5 million, as compared with HK\$17.0 million in the previous corresponding period.

SWAN Holdings Limited Group ("SWAN"), the Group's US based hospitality related services recorded the same level of revenue of HK\$23.4 million. With lower payroll costs incurred for the period under review, SWAN contributed higher operating pre-tax profit of HK\$4.1 million, up 24.9% from HK\$3.3 million in the previous corresponding period. SWAN's business development focus on Richfield, the hotel management unit of SWAN, continues to bear fruit. For the first half of 2008, Richfield, has successfully added 2 multi-year management contracts, which will contribute to the turnover of SWAN in the second half of 2008. As at 30 June 2008, Richfield is managing 28 hotels representing more than 5,900 rooms.

The Group reported other net losses of HK\$13.6 million as compared to other net income of HK\$13.1 million in the previous corresponding period due mainly to the unrealised loss including lower translation exchange gain sustained as a result of remeasuring the Group's trading securities to fair value as at 30 June 2008.

During the period under review, the Group's 40% associate, Tune Hospitality Investments FZCO ("Tune Hospitality") which was established on 12 July 2007, focused mainly on the development and planning work on several of the secured sites in Malaysia. The Group's share of loss amounted to HK\$0.7 million is mainly for the administrative and operating expenses.

Financial Position, Cash Flow and Borrowings

As at 30 June 2008, the Group's total assets stood at HK\$729.7 million, decrease from HK\$748.7 million as at 31 December 2007. The group's net tangible assets per share was HK\$1.59 as at 30 June 2008, down 2.5% from HK\$1.63 as at 31 December 2007.

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, net operating cash inflow included dividend paid of HK\$11.5 million. The cash outflow from investing activities amounted to HK\$25.5 million was mainly due to the loan extended to its associated company of HK\$21.8 million. Consequently, the Group reported cash and cash equivalents of HK\$494.9 million as at 30 June 2008, down from HK\$513.8 million as at 31 December 2007.

The Group has no borrowings for the period under review.

Treasury Activities

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

Employees

As at 30 June 2008, the Group had 50 employees excluding employees from MindChamps, up from 48 as at the end of the last financial year ended 31 December 2007. There were 134 employees from MindChamps as at 30 June 2008. The total payroll costs which include the Group's 50% share of MindChamps for the period under review were HK\$25.4 million as compared with HK\$16.4 million in the previous corresponding period.

Prospects

The US hospitality industry is expected to face many challenges in the second half of 2008. The United States economy is expected to be weak due to the ongoing problems of the credit crunch and the housing market as well as the high oil prices. Both corporate travellers and leisure customers have been cutting back on their travel plans. Consequently, hotels in the US have been grappling with lower occupancy rates since the beginning of the year. The trading conditions are expected to remain difficult for the second half of 2008. SWAN's business units will adopt a prudent approach in managing the businesses by ensuring costs are kept in line with the level of business activities. Notwithstanding the challenging economic environment, the SWAN Group continues to focus on business development opportunities

In the second half of 2008, MindChamps will focus on growing its recently established Hong Kong unit. The pre-school market has been identified as a key growth area for MindChamps. Hence, following the successful launch of its own Pre-School, MindChamps will leverage off its brand awareness to aggressively expand by franchising its pre-school programme.

With the general slow down in the global economy also affecting Asia, Tune Hospitality will take a more cautious approach in securing suitable and cost effective development sites in the ASEAN region particularly in Malaysia, Indonesia, Thailand and the Philippines. To date, a total of 9 sites have been secured. It is envisaged that good development sites at reasonable costs may become more readily available during this period of economic uncertainty. The earliest completed projects are expected in late 2009.

With the retention of our significant cash resources, the Group is well-poised to capitalise any good investment opportunities that may arise in second half of 2008. We intend to continue seeking out investment opportunities that offer strong growth potential.

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 2008.

CORPORATE GOVERNANCE

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices, as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited (“Appendix 14”) throughout the period.

Under the code provision E.1.2, the chairman of the board should attend the annual general meeting. However, in the annual general meeting held on 18 April 2008, our chairman was unable to attend the meeting as he had to attend to an urgent matter. He appointed Mr Gan Khai Choon to chair the meeting on his behalf.

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 of The Stock Exchange of Hong Kong Limited (“Model Code”). All directors have confirmed that they have complied with the Model Code throughout the period under review.

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

During the six months ended 30 June 2008, the Company repurchased 582,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$588,820. The repurchases were effected with a view to enhancing the net asset value of the Company and earnings per share. The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares amounted to HK\$582,000. An equivalent amount of the nominal value of the cancelled shares was transferred to capital redemption reserve and the aggregate consideration was paid out from the Company's retained profits. Details of the repurchase are as follows:

Month of the repurchases	Total number of ordinary shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
April 2008	440,000	1.02	1.01	445,400
May 2008	<u>142,000</u>	1.01	1.01	<u>143,420</u>
	<u>582,000</u>			<u>588,820</u>

Save as disclosed above, 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 2008.

By Order of the Board
Kwek Leng Beng
Chairman

Hong Kong, 5 August 2008