



## City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

### 2007 INTERIM RESULTS — ANNOUNCEMENT UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

#### 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”) for the six months ended 30 June 2007 together with comparative figures.

		<b>Six months ended</b>	
		<b>30 June</b>	
	<i>Note</i>	<b>2007</b>	<b>2006</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	3	46,042	33,112
Cost of sales		<u>(6,547)</u>	<u>(4,157)</u>
<b>Gross profit</b>		39,495	28,955
Other net income		13,053	15,543
Administrative expenses		<u>(26,289)</u>	<u>(21,919)</u>
<b>Profit before taxation</b>	4	26,259	22,579
Income tax	5	<u>(397)</u>	<u>(54)</u>
<b>Profit for the period</b>		<u><u>25,862</u></u>	<u><u>22,525</u></u>
<b>Attributable to:</b>			
Equity shareholders of the Company		24,948	21,913
Minority interests		<u>914</u>	<u>612</u>
<b>Profit for the period</b>		<u><u>25,862</u></u>	<u><u>22,525</u></u>
<b>Earnings per share</b>	7	<i>HK cents</i>	<i>HK cents</i>
Basic		<u><u>6.51</u></u>	<u><u>5.72</u></u>

**Consolidated Balance Sheet at 30 June 2007 — unaudited**

	At <b>30 June</b> <b>2007</b> <i>HK\$'000</i>	At <b>31 December</b> <b>2006</b> <i>HK\$'000</i>
<b>Non-current assets</b>		
Plant and equipment	7,617	6,587
Intangible assets	36,990	302
Deferred tax assets	19,840	21,083
<b>Total non-current assets</b>	<b>64,447</b>	<b>27,972</b>
<b>Current assets</b>		
Properties held for resale	16,315	—
Trading securities	218,941	181,641
Trade and other receivables	28,872	25,759
Cash and cash equivalents	422,822	487,249
Current tax recoverable	<u>267</u>	<u>—</u>
	<b>687,217</b>	<b>694,649</b>
<b>Current liabilities</b>		
Trade and other payables	(45,001)	(19,512)
Provision for taxation	<u>—</u>	<u>(759)</u>
	<b>(45,001)</b>	<b>(20,271)</b>
<b>Net current assets</b>	<b><u>642,216</u></b>	<b><u>674,378</u></b>
<b>Total assets less current liabilities</b>	<b><u>706,663</u></b>	<b><u>702,350</u></b>
<b>NET ASSETS</b>	<b><u>706,663</u></b>	<b><u>702,350</u></b>
<b>CAPITAL AND RESERVES</b>		
Share capital	383,126	383,126
Reserves	<u>288,978</u>	<u>285,794</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>672,104</b>	<b>668,920</b>
<b>Minority interests</b>	<b><u>34,559</u></b>	<b><u>33,430</u></b>
<b>TOTAL EQUITY</b>	<b><u>706,663</u></b>	<b><u>702,350</u></b>

*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 30 July 2007.
2. On 1 June 2007, the Group subscribed for a 50% equity interest, amounting to S\$7.5 million (HK\$38.6 million), in MindChamps Holdings Pte. Ltd. (“MindChamps”).

The principal activities of MindChamps are the provision of education and learning related services.

The effect of acquisition of the jointly controlled entity, MindChamps, is set out below:

	<b>Carrying amounts and fair value</b>
	<i>HK\$'000</i>
Plant and equipment	1,465
Intangible assets	37,085
Trade and other receivables	12,876
Trade and other payables	<u>(12,876)</u>
Net identifiable assets and liabilities — Group 50% share	<u>38,550</u>
Consideration paid, satisfied in cash	<u>38,550</u>

The Group recognises its interests in MindChamps using proportionate consolidation by combining its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items on a line by line basis.

Intangible assets relate to trademarks acquired by MindChamps.

The Group's share of the financial results of the jointly controlled entity is as follows:

	<b>Period from 1 June 2007 to 30 June 2007</b>
	<i>HK\$'000</i>
Turnover	3,160
Cost of sales and other expenses	<u>(2,948)</u>
Profit for the period	<u>212</u>

MindChamps was dormant for the period from its incorporation date to 30 May 2007 when it acquired certain plant and equipment, intangible assets, trade and other receivables and trade and other payables. The Group acquired a 50% equity interest in MindChamps on 1 June 2007. Accordingly, had the Group's acquisition of MindChamps taken place at the beginning of the financial period, there would not be any significant impact on the Group's results for the current financial period.

3. Included in total revenue are dividends and interest income amounting to HK\$17.0 million (2006: HK\$11.8 million). The analysis of the principal activities and geographical locations of the operations of the Company, its subsidiaries and its jointly controlled entity during the financial period are as follows:

a) **Principal Activities**

	<b>Investment Holding</b>		<b>Hospitality Related Services</b>		<b>Education Related Services</b>		<b>Consolidated</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<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	<u>17,013</u>	<u>11,250</u>	<u>25,869</u>	<u>21,862</u>	<u>3,160</u>	<u>—</u>	<u>46,042</u>	<u>33,112</u>
Profit before taxation	21,738	21,101	4,309	1,478	212	—	26,259	22,579
Income tax							<u>(397)</u>	<u>(54)</u>
Profit for the period							<u>25,862</u>	<u>22,525</u>
Depreciation and amortisation for the period	<u>554</u>	<u>398</u>	<u>281</u>	<u>248</u>	<u>41</u>	<u>—</u>	<u>876</u>	<u>646</u>

b) **Geographical Locations of Operations**

	<b>Group Turnover</b>		<b>Profit/(loss)</b>	
	<b>Six months</b>		<b>before tax</b>	
	<b>ended 30 June</b>		<b>Six months</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	11,860	7,890	19,804	17,820
Singapore	5,784	1,572	(933)	628
United States	<u>28,398</u>	<u>23,650</u>	<u>7,388</u>	<u>4,131</u>
	<u>46,042</u>	<u>33,112</u>	<u>26,259</u>	<u>22,579</u>

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of plant and equipment	845	615
Amortisation of intangible assets	31	31
Dividends and interest income	(17,013)	(11,811)
Net foreign exchange gain	(7,920)	(5,158)
Net profit on sale of plant and equipment	—	(16)
Net realised and unrealised gains on trading securities	<u>(4,909)</u>	<u>(10,189)</u>

## 5. Income tax

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
<b>Current tax — Hong Kong Profits Tax</b>		
Over-provision in respect of prior years	(1,025)	—
<b>Current tax - Overseas</b>		
Provision for the period	<u>47</u>	<u>54</u>
	<u>(978)</u>	<u>54</u>
<b>Deferred tax</b>		
Reversal of temporary differences	<u>1,375</u>	<u>—</u>
	<u>397</u>	<u>54</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the period ended 30 June 2007. 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 2007, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$24.4 million (31 December 2006: HK\$24.1 million) as it is not probable that there will be sufficient appropriate 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 2007 (2006: HK\$Nil).

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	<b>2006</b>
	<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 6 cents (2006: HK 3 cents) per share	<u>22,988</u>	<u>11,494</u>

## 7. Earnings per share

- a) *Basic earnings per share*

The calculation of basic earnings per share is based on profit attributable to equity shareholders of the Company HK\$24.9 million (2006: HK\$21.9 million) and on 383,125,524 (2006: 383,125,524) ordinary shares 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. Commitment

On 25 June 2007, the Group entered into a shareholders' agreement to subscribe for a 40% equity stake in Tune Hospitality Investments FZCO ("Tune Hospitality"). Pursuant to this shareholders' agreement, the Group has committed to contribute approximately HK\$156.0 million (US\$20.0 million) to Tune Hospitality to fund its operations and working capital.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported improvement in both revenue and net profit for the period under review. The Group's 85% subsidiary, SWAN Holdings Limited Group ("SWAN"), contributed higher revenue of HK\$24.2 million to the Group's revenue as compared with HK\$20.3 million in the previous corresponding period. The increase in SWAN's revenue is primarily due to higher management fee recorded by its hotel management unit, Richfield. The business development focus on Richfield has continued to bear fruit. For the first half of 2007, Richfield has successfully added 2 multi-year management contracts which will contribute to the further growth in revenue of SWAN in the second half of 2007. As at 30 June 2007, Richfield is managing a portfolio of 26 hotels representing more than 5,900 rooms.

The Group has always been seeking investment opportunities with strong growth potential. This strategy culminated in the following two investments:-

1. a 50% equity interest in MindChamps, a company providing education related services with effect from 1 June 2007, and
2. a 40% participation in Tune Hospitality established on 12 July 2007 to develop, own (in whole or in part) and operate a portfolio of limited service (or “no-frills”) “Tune” branded budget hotels across the countries in the ASEAN region.

For one month period ended 30 June 2007, MindChamps contributed revenue and net profit before tax of HK\$3.2 million and HK\$0.2 million respectively. During the period under review, Tune Hospitality had not commenced its operations.

## **Financial Commentary**

### *Group Performance*

The Group reported an improvement in net profit attributable to equity shareholders of the Company of HK\$24.9 million, as compared to HK\$21.9 million in the previous corresponding period. The improvement was due to higher revenue recorded by the Group of HK\$46.0 million, an increase of 39.0%, as compared to HK\$33.1 million in the previous corresponding period. The increase was mainly due to higher dividend and interest income from the trading securities, higher fee income from its US’s hotel management unit, Richfield and additional revenue contributed by the newly-acquired 50% equity interest in MindChamps with effect from 1 June 2007.

The trading securities and time deposits held by the Group returned total dividend and interest income amounting to HK\$17.0 million during the period under review as compared to HK\$11.8 million in the previous corresponding period. The improvement can be attributable to higher dividend income of HK\$5.1 million received from the bond and equity investments.

The Group reported lower other net income of HK\$13.1 million, down 15.5% from HK\$15.5 million in the previous corresponding period due mainly to lower realised and unrealised gain arising from remeasuring the Group’s trading securities to fair value as at 30 June 2007.

During the period under review, the Group completed the purchase of 3 units of residential properties held for resale in Singapore with a total purchase consideration of HK\$16.3 million.



### *Financial Position, Cash Flow and Borrowings*

As at 30 June 2007, the Group's total assets stood at HK\$751.7 million, increase from HK\$722.6 million as at 31 December 2006 which can be attributed mainly to Group's share of intangible assets amounting to HK\$36.7 million for the "MindChamps" brand name in Singapore. However, excluding the Group's intangible asset, the Group's net tangible assets per share was HK\$1.66 as at 30 June 2007 drop by HK\$0.09 from HK\$1.75 as at 31 December 2006.

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 outflow included dividend paid of HK\$23.0 million. The cash outflow from investing activities amounted to HK\$77.2 million due mainly to purchase of trading securities, residential properties held for resale and investment in MindChamps. Consequently, the Group reported cash and cash equivalents of HK\$422.8 million as at 30 June 2007, down from HK\$487.2 million as at 31 December 2006.

The Group has no borrowings for the period under review.

### *Treasury Activities*

Majority of the Group's cash is held in United States dollar deposits, hence as long as the Hong Kong dollar trades within the existing United States dollar peg arrangement, currency risk will not be significant. The Group's view is that to maximise returns to shareholders we need a balanced portfolio and hence a portion of its portfolio would be held in other currencies. We will monitor closely the Group's exposure to currency movement and take the appropriate action when necessary.

### *Employees*

As at 30 June 2007, the Group had 48 employees excluding employees from MindChamps, up from 46 as at the end of the last financial year ended 31 December 2006. There were 47 employees from MindChamps as at 30 June 2007. The total payroll costs which include the Group's 50% share of MindChamps for the period under review were HK\$16.4 million as compared with HK\$13.9 million in the previous corresponding period.

## **Prospects**

The United States hospitality industry is expected to continue to grow steadily in the second half of 2007 and SWAN's business units should benefit accordingly. Richfield is working on several potential contracts and is optimistic of converting some of these into multi-year contracts in the second half of the year. We will continue to adopt a prudent approach in managing the SWAN businesses by ensuring costs are kept in line with the level of business activities.

In June, the Group made investments into two key new businesses in the high-growth sectors of education and limited service hotels. Going forward, these new investments are expected to augment the growth potential of the Group.

MindChamps is expected to make a greater contribution to the Group's revenue and net profit in the second half of 2007 as the Group consolidates proportionally MindChamps' financial results for the whole six month period. We are confident of the strong growth prospects of MindChamps' business in future years as it develops additional educational programmes to target all student age groups, commences new product lines and expands its operations to countries outside of Singapore. Geographical expansion is expected to take place in 2008.

Tune Hospitality is currently very active in identifying and seeking suitable sites in South-East Asia to develop Tune branded hotels. We envisage that several sites would be secured in the second half of 2007 with development work to commence shortly thereafter. The "Tune" branded limited service hotel concept brings a new business model to Asia. The Group's investment in Tune Hospitality presents a great opportunity to tap into the rapid growth of travel within Asia by owning a portfolio of limited service hotels in strategic locations.

The Group will continue to seek out suitable investment opportunities to deploy its cash resources. Barring unforeseen circumstances, the Group's operations should remain profitable in the second half of 2007.

## **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 2007.

## **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.

As disclosed in 2006 Annual Report, the Company does not fully comply with the code provision A.4.1 in Appendix 14. To satisfy the requirements under such code provision, all the non-executive directors retired in the annual general meeting held on 20 April 2007 (“2007 AGM”) and offered themselves for re-election. All the retiring non-executive directors were re-elected in the 2007 AGM for a specific term of three years. Under the code provision A.1.8, if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held. As it was impractical to hold a full board meeting on that day, after full explanation of the connected transaction was provided to the non-executive directors by the executive directors, a written resolution regarding the continued connected transaction for the provision of property management services had been approved by all directors, including independent non-executive directors. The said written resolution was passed on 8 January 2007. The details of the continuing connected transaction were fully disclosed in the press announcement dated 8 January 2007.

## **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**

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

By Order of the Board  
**Kwek Leng Beng**  
*Chairman*

Hong Kong, 30 July 2007

*As at the date of this announcement, the Board comprises 11 Directors, of which 6 are executive Directors, namely Mr. Kwek Leng Beng, Mr. Vincent Yeo Wee Eng, Mr. Kwek Leng Joo, Mr. Kwek Leng Peck, Mr. Gan Khai Choon and Mr. Lawrence Yip Wai Lam, 2 are non-executive Directors, namely Mr. Wong Hong Ren and Mr. Chan Bernard Charnwut and 3 are independent non-executive Directors, namely Dr. Lo Ka Shui, Mr. Lee Jackson a.k.a. Li Chik Sin and Mr. Teoh Teik Kee.*