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City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

2008 FINAL RESULTS — ANNOUNCEMENT AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

RESULTS

The Directors of City e-Solutions Limited (the “Company”) announce the following final audited annual results of the Company, its subsidiaries and its jointly controlled entity (the “Group”) and the Group’s interest in an associate for the year ended 31 December 2008 together with comparative figures.

Consolidated Income Statement

	<i>Note</i>	2008 <i>HK\$’000</i>	2007 <i>HK\$’000</i>
Turnover	1	122,479	105,254
Cost of sales		<u>(34,647)</u>	<u>(22,189)</u>
Gross profit		87,832	83,065
Other net losses	2	(143,271)	(5,265)
Administrative expenses		<u>(74,664)</u>	<u>(56,627)</u>
(Loss)/Profit from operations		(130,103)	21,173
Share of losses of associate		<u>(1,065)</u>	<u>(2,478)</u>
(Loss)/Profit before taxation	3	(131,168)	18,695
Income tax	4	<u>(7,510)</u>	<u>(2,488)</u>
(Loss)/Profit for the year		<u><u>(138,678)</u></u>	<u><u>16,207</u></u>
Attributable to:			
Equity shareholders of the Company		(138,991)	14,091
Minority interests		<u>313</u>	<u>2,116</u>
(Loss)/Profit for the year		<u><u>(138,678)</u></u>	<u><u>16,207</u></u>
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date HK Nil cents per share (2007: HK3 cents per share)	5	<u>—</u>	<u>11,494</u>
(Loss)/Earnings per share			
Basic	6	<u><u>(36.32) cents</u></u>	<u><u>3.68 cents</u></u>

Balance Sheets

	<i>Note</i>	The Group		The Company	
		2008	2007	2008	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Plant and equipment		7,612	7,626	3,251	4,349
Intangible assets		3,651	39,032	—	—
Interests in subsidiaries		—	—	220,859	259,600
Interest in associate	7	30,039	10,045	—	—
Deferred tax assets		12,940	17,906	—	—
Total non-current assets		54,242	74,609	224,110	263,949
Current assets					
Properties held for resale		11,609	17,473	—	—
Trading securities		59,856	114,226	53,956	106,623
Trade and other receivables	8	27,622	28,254	46,029	34,770
Current tax recoverable		163	328	—	—
Cash and cash equivalents		438,954	513,833	216,276	283,318
		<u>538,204</u>	<u>674,114</u>	<u>316,261</u>	<u>424,711</u>
Current liabilities					
Trade and other payables	9	(44,785)	(50,509)	(8,077)	(7,321)
Provision for taxation		(2,439)	—	(1,584)	—
		<u>(47,224)</u>	<u>(50,509)</u>	<u>(9,661)</u>	<u>(7,321)</u>
Net current assets		490,980	623,605	306,600	417,390
Total assets less current liabilities		545,222	698,214	530,710	681,339
NET ASSETS		<u>545,222</u>	<u>698,214</u>	<u>530,710</u>	<u>681,339</u>
CAPITAL AND RESERVES					
Share capital		382,450	383,126	382,450	383,126
Reserves		<u>127,044</u>	<u>279,428</u>	<u>148,260</u>	<u>298,213</u>
Total equity attributable to equity shareholders of the Company		509,494	662,554	530,710	681,339
Minority interests		<u>35,728</u>	<u>35,660</u>	—	—
TOTAL EQUITY		<u>545,222</u>	<u>698,214</u>	<u>530,710</u>	<u>681,339</u>

1. Included in turnover are dividends and interest income amounting to HK\$16.4 million (2007: HK\$29.4 million). The analysis of the business and geographical segments of the operations of the Company, its subsidiaries and its jointly controlled entity during the financial year are as follows:

a) Business segments

	Investment Holding		Hospitality Related Services		Education Related Services		Property Investment		Consolidated	
	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	<u>16,434</u>	<u>29,423</u>	<u>49,364</u>	<u>53,166</u>	<u>46,830</u>	<u>22,665</u>	<u>9,851</u>	<u>—</u>	<u>122,479</u>	<u>105,254</u>
(Loss)/Profit from operations	(101,241)	7,960	9,154	12,573	(41,509)	1,225	3,493	(585)	(130,103)	21,173
Share of losses of associate	—	—	(1,065)	(2,478)	—	—	—	—	(1,065)	(2,478)
(Loss)/Profit before taxation									(131,168)	18,695
Income tax									<u>(7,510)</u>	<u>(2,488)</u>
(Loss)/Profit after taxation									<u>(138,678)</u>	<u>16,207</u>
Significant Non-Cash transactions										
Depreciation and amortisation for the year	1,118	1,108	615	585	1,762	577	—	—	3,495	2,270
Impairment losses on										
- plant and equipment	—	—	—	—	902	—	—	—	902	—
- intangible assets	—	—	—	—	37,302	—	—	—	37,302	—
Net unrealised losses/(gains) on trading securities	44,393	11,963	3,261	(819)	—	—	—	—	47,654	11,144
Net unrealised foreign exchange losses/(gains)	<u>59,421</u>	<u>(3,261)</u>	<u>—</u>	<u>—</u>	<u>(107)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>59,314</u>	<u>(3,261)</u>
Segment assets	437,714	561,824	78,663	75,458	21,131	64,672	11,796	18,490	549,304	720,444
Interest in associate	—	—	30,039	10,045	—	—	—	—	30,039	10,045
Unallocated assets									<u>13,103</u>	<u>18,234</u>
Total assets									<u>592,446</u>	<u>748,723</u>
Capital expenditure incurred during the year	<u>20</u>	<u>—</u>	<u>500</u>	<u>609</u>	<u>5,573</u>	<u>1,085</u>	<u>—</u>	<u>—</u>	<u>6,093</u>	<u>1,694</u>

b) Geographical segments

	Hong Kong		United States		Singapore		Others		Consolidated	
	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	<u>14,299</u>	<u>19,208</u>	<u>50,326</u>	<u>58,832</u>	<u>57,854</u>	<u>27,214</u>	<u>—</u>	<u>—</u>	<u>122,479</u>	<u>105,254</u>
Segment assets	271,708	389,939	241,314	240,255	35,392	90,250	890	—	549,304	720,444
Capital expenditure incurred during the year	<u>20</u>	<u>—</u>	<u>500</u>	<u>609</u>	<u>5,573</u>	<u>1,085</u>	<u>—</u>	<u>—</u>	<u>6,093</u>	<u>1,694</u>

2. Other net losses

	2008	2007
	HK\$'000	HK\$'000
Advisory fee	—	1,441
Membership fees from education advisors	1,802	862
Net loss on forward foreign exchange contracts	—	(404)
Net realised and unrealised losses on trading securities	(47,589)	(16,086)
Net realised and unrealised foreign exchange (losses)/gains	(58,852)	8,666
Impairment losses on		
— plant and equipment	(902)	—
— intangible assets	(37,302)	—
Others	<u>(428)</u>	<u>256</u>
	<u>(143,271)</u>	<u>(5,265)</u>

3. (Loss)/Profit before taxation

(Loss)/Profit before taxation is arrived at after charging:

	2008	2007
	HK\$'000	HK\$'000
Amortisation of intangible assets	62	62
Depreciation of plant and equipment	3,433	2,208
Dividends and interest income	<u>16,434</u>	<u>29,423</u>

4. Income tax

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current tax — Hong Kong		
Over-provision in respect of prior years	<u>—</u>	<u>(1,025)</u>
Current tax — Overseas		
Provision for the year	1,140	226
Under-provision in respect of prior years	<u>1,506</u>	<u>—</u>
	<u>2,646</u>	<u>226</u>
Deferred tax		
Origination and reversal of temporary differences	47	835
Reduction in tax rate	825	—
Utilisation of deferred tax assets previously recognised	2,895	3,511
Reversal/(Recognition) of deferred tax assets	<u>1,097</u>	<u>(1,059)</u>
	<u>4,864</u>	<u>3,287</u>
	<u>7,510</u>	<u>2,488</u>

The provision for Hong Kong Profit Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year ended 31 December 2008. There are no estimated assessable profits for the year ended 31 December 2008 and accordingly there is no provision for Hong Kong tax profit.

Taxation for overseas subsidiaries is charged at the appropriate current 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.

5. Dividends

a) *Dividends payable to equity shareholders of the Company attributable to the year*

The directors of the Company have resolved not to propose any final dividend for the year ended 31 December 2008 (2007: HK3 cents per share).

No interim dividend was paid for the year ended 31 December 2008 (2007: HK Nil cents).

- b) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Final dividends in respect of the previous financial year, approved and paid during the year, of HK3 cents per share (2007: HK6 cents per share)	<u>11,494</u>	<u>22,988</u>

6. **(Loss)/Earnings per share**

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

The calculation of basic (loss)/earnings per share is based on loss attributable to equity shareholders of the Company of HK\$139.0 million (2007: profit of HK\$14.1 million) and on the weighted average number of ordinary shares of 382,692,688 (2007: 383,125,524) in issue during the year.

b) **Diluted (loss)/earnings per share**

Diluted (loss)/earnings per share is not applicable as there are no dilutive potential ordinary shares during the financial year.

7. **Interest in associate**

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Unlisted shares, at cost	—*	—*
Share of net liabilities	(3,653)	(2,020)
Loan to associate	<u>33,692</u>	<u>12,065</u>
	<u>30,039</u>	<u>10,045</u>

* Less than HK\$1,000.

8. Trade and other receivables

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current or less than 1 month overdue	9,959	11,654
1 to 3 months overdue	5,111	1,873
More than 3 months overdue but less than 12 months overdue	<u>387</u>	<u>3,045</u>
Total trade receivables, less impairment losses	15,457	16,572
Other receivables, deposits and prepayments	10,713	10,145
Amounts owing by affiliated companies	782	652
Amounts owing by other shareholder of jointly controlled entity	<u>670</u>	<u>885</u>
	<u>27,622</u>	<u>28,254</u>

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 1 month from the date of billing. Debtors 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 customers.

9. Trade and other payables

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Due within 1 month or on demand	44,075	48,140
Due after 1 month but within 3 months	110	2,049
Due after 3 months but within 6 months	<u>600</u>	<u>320</u>
	<u>44,785</u>	<u>50,509</u>

10. Purchase of own shares

During the year, the Company purchased 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	142	1.01	1.01	143
July 2008	<u>94</u>	1.10	1.10	<u>103</u>
	<u>676</u>			<u>692</u>

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the par value of the cancelled shares of HK\$676,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchased shares and the transaction costs of HK\$16,000 and HK\$4,000, respectively, were deducted from the retained profits.

11. Commitment

As at 31 December 2008, the Group has outstanding capital contribution to an associate of approximately HK\$121.0 million (as at 31 Dec 2007: HK\$144.0 million) pursuant to the shareholders' agreement entered into on 25 June 2007.

12. Subsequent event

Subsequent to the balance sheet date, the Group sold one unit of its residential property held for resale for a consideration of HK\$6.4 million giving rise to a gain of approximately HK\$0.3 million (net of estimated disposal costs).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded an improvement in revenue to HK\$122.5 million, an increase of HK\$17.2 million or 16.4% from HK\$105.3 million in the previous year. However, the Group recorded a net loss attributable to equity shareholders of the Company of HK\$139.0 million as compared with a net profit attributable to equity shareholders of the Company of HK\$14.1 million recorded in the previous year.

The volatile securities and foreign currency markets had negatively impacted the Group's FY2008 result. The Group recorded a net realised and unrealised loss of HK\$47.6 million as a result of the revaluation of the Group's trading securities to fair value as at 31 December 2008 and a net realised and unrealised translation exchange

loss of HK\$58.9 million arising mainly from the Sterling Pound and Singapore Dollar denominated trading securities and cash deposits. For the year under review, the Group received lower dividend and interest income and also had to account for trading and impairment losses related to MindChamps Holdings Pte. Ltd. (“MindChamps”), a 50%-owned entity engaged in the provision of educational services.

MindChamps contributed HK\$46.9 million to the Group’s revenue in FY2008, representing a year-over-year increase of 106.8%, mainly due to the fact that the investment had only been acquired in June 2007 and FY2008 was its first full year with the Group. However, the Group’s net losses attributed to MindChamps amounted to HK\$43.0 million for the year in review as compared with a profit of HK\$2.3 million in the previous year. This was primarily caused by the operating loss in Hong Kong and impairment in the value of MindChamps’ intellectual property. The Hong Kong operations commenced classes in July 2008 but did not meet expectations as student enrollments were adversely affected by the challenging economic climate. In view of the losses in FY2008 and the anticipated difficult trading environment ahead, the Board of Directors has adopted a valuation of the intellectual property of MindChamps based on conservative assumptions, resulting in the Group recording a total impairment loss of HK\$37.3 million for the year under review.

In the U.S., notwithstanding the challenges in the US hospitality industry, the Group, through its 85% subsidiary SWAN Holdings Limited Group (“SWAN”), traded profitably. The current recession in the US economy has caused most of Swan’s hotels under management to record lower revenues and operating profits compared to the prior year. The decline in the managed hotels’ operating results has in turn affected the management fees recorded by SWAN’s hotel management business unit, Richfield. Management had prudently operated the business throughout the year in review to mitigate against the lower level of revenue. As at 31 December 2008, Richfield managed a portfolio of 28 hotels representing more than 5,700 rooms.

In FY 2008, the Group’s 40% associate company, Tune Hospitality Investments FZCO (“Tune Hospitality”), established to develop and own a portfolio of “no frills” Tune branded hotels, acquired or committed to acquire a total of eight sites; five in Malaysia and three in Indonesia. Construction work has started on the two Bali sites in Indonesia with completion expected by the end of 2009. The management of Tune Hospitality believes that the room demand in Bali remains healthy and it is feasible to proceed with both projects. However, due to potential adverse impact on consumer demand caused by the current economic recession, Tune Hospitality has deemed it prudent to delay the development of the remaining sites. It has taken steps to minimize the holding costs while closely monitoring the economic impact on consumer demand.

Basic loss per share for the year under review was HK36.32 cents, calculated on the weighted average number of 382,692,688 ordinary shares in issue during the year. The Group's Net Tangible Assets per share decreased to HK\$1.32 as at 31 December 2008 from HK\$1.63 as at 31 December 2007. The Board is not proposing a final dividend for the year under review.

PROSPECTS

The global economy is experiencing the sharpest and longest recession in many decades. Amidst this difficult period, the Board of Directors is conducting a strategic review of its current portfolio of investments. Recognising business conditions will remain extremely challenging in 2009, the Board of Directors will adopt a very cautious business strategy and focus on its core competencies in hospitality related businesses and real estate investments.

With the U.S. economy continuing to weaken, business fundamentals in the hospitality industry are expected to remain poor in 2009. Management of SWAN will adopt a cost-conscious approach towards managing its current businesses.

The focus for Mindchamps in 2009 is to consolidate the operations of the core business which remains challenging due to widespread limitation on discretionary expenditure while growing the pre-school segment of the business. Two Pre-School franchises have recently opened, with more expected to open in the course of the year. The Board is undertaking a critical review of its investment in Mindchamps and is considering the various options available to the Group.

Given the acutely challenging economic environment, it is unlikely that Tune Hospitality would develop the remaining sites in the course of 2009. However, since the average period to develop a Tune Hotel is only around nine months, Tune Hospitality will be able to react quickly to any signs of economic recovery. As a further step of prudence, the management of Tune Hospitality is exploring various alternatives for these sites including possible divestment to reduce its overall capital investment.

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 exchanges gains or losses on revaluation of foreign currency cash deposits.

As the global recession continues and the credit environment remains tight, investment opportunities may become available at attractive valuations. The Group still has significant cash reserves to capitalise on any such price dislocation that may arise in the current environment.

DIVIDENDS

The directors of the Company have resolved not to propose any final dividend for the year ended 31 December 2008 (2007: HK3 cents). No interim dividend was paid for the year ended 31 December 2008 (2007: HK Nil cents).

AUDIT COMMITTEE

The members of the Audit Committee of the Company comprise 2 independent non-executive directors and one non-executive director of the Company. It has reviewed the annual results of the Group for the year ended 31 December 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 Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Appendix 14”), throughout the year under review.

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 year under review.

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

During the year ended 31 December 2008, the Company repurchased 676,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$692,220. 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\$676,000. 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 HK\$	Lowest price paid per share HK\$	Aggregate consideration HK\$
April 2008	440,000	1.02	1.01	445,400
May 2008	142,000	1.01	1.01	143,420
July 2008	<u>94,000</u>	1.10	1.10	<u>103,400</u>
	<u>676,000</u>			<u>692,220</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 year.

STATUTORY INFORMATION

The Annual General Meeting of the Company will be held on 22 April 2009.

In order to qualify for attending the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:00 p.m. on 17 April 2009, as the register of members of the Company will be closed from 20 April 2009 to 22 April 2009, both dates inclusive.

By Order of the Board
Kwek Leng Beng
Chairman

Hong Kong, 23 February 2009

As at the date of this announcement, the Board is comprised of 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.