



City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

2007 FINAL RESULTS — ANNOUNCEMENT AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

RESULTS

The Directors of City e-Solutions Limited (the “Company”) are pleased to announce the following final audited annual results of the Company, its subsidiaries and its interest in a jointly controlled entity (the “Group”) and the Group’s interest in an associate for the year ended 31 December 2007 together with comparative figures.

Consolidated Income Statement

	<i>Note</i>	2007 <i>HK\$’000</i>	2006 <i>HK\$’000</i>
Turnover	2	105,254	79,010
Cost of sales		<u>(22,189)</u>	<u>(8,609)</u>
Gross profit		83,065	70,401
Other net (losses)/income	3	(5,265)	46,717
Administrative expenses		<u>(56,627)</u>	<u>(42,537)</u>
Profit from operations		21,173	74,581
Share of losses of associate		<u>(2,478)</u>	<u>—</u>
Profit before taxation	4	18,695	74,581
Income tax	5	<u>(2,488)</u>	<u>20,871</u>
Profit for the year		<u><u>16,207</u></u>	<u><u>95,452</u></u>
Attributable to:			
Equity shareholders of the Company		14,091	90,152
Minority interests		<u>2,116</u>	<u>5,300</u>
Profit for the year		<u><u>16,207</u></u>	<u><u>95,452</u></u>
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date HK3 cents per share (2006: HK6 cents per share)	6	<u>11,494</u>	<u>22,988</u>
Earnings per share			
Basic	7	<u>3.68 cents</u>	<u>23.53 cents</u>

Balance Sheets

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Plant and equipment	7,626	6,587	4,349	5,457
Intangible assets	39,032	302	—	—
Interests in subsidiaries	—	—	259,600	189,441
Interest in associate	10,045	—	—	—
Deferred tax assets	17,906	21,083	—	—
Total non-current assets	74,609	27,972	263,949	194,898
Current assets				
Properties held for resale	17,473	—	—	—
Trading securities	114,226	181,641	106,623	176,122
Trade and other receivables	28,254	25,759	34,770	12,449
Current tax recoverable	328	—	—	—
Cash and cash equivalents	513,833	487,249	283,318	294,014
	<u>674,114</u>	<u>694,649</u>	<u>424,711</u>	<u>482,585</u>
Current liabilities				
Trade and other payables	(50,509)	(19,512)	(7,321)	(6,957)
Provision for taxation	—	(759)	—	(1,025)
	<u>(50,509)</u>	<u>(20,271)</u>	<u>(7,321)</u>	<u>(7,982)</u>
Net current assets	<u>623,605</u>	<u>674,378</u>	<u>417,390</u>	<u>474,603</u>
Total assets less current liabilities	<u>698,214</u>	<u>702,350</u>	<u>681,339</u>	<u>669,501</u>
NET ASSETS	<u>698,214</u>	<u>702,350</u>	<u>681,339</u>	<u>669,501</u>
CAPITAL AND RESERVES				
Share capital	383,126	383,126	383,126	383,126
Reserves	<u>279,428</u>	<u>285,794</u>	<u>298,213</u>	<u>286,375</u>
Total equity attributable to equity shareholders of the Company	662,554	668,920	681,339	669,501
Minority interests	<u>35,660</u>	<u>33,430</u>	<u>—</u>	<u>—</u>
TOTAL EQUITY	<u>698,214</u>	<u>702,350</u>	<u>681,339</u>	<u>669,501</u>

1. On 1 June 2007, the Group acquired a 50% equity interest in MindChamps Holdings Pte. Ltd. (“MindChamps”).

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

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

	Fair value and carrying amounts <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's 50% share	<u>38,550</u>
Consideration paid, satisfied in cash	<u><u>38,550</u></u>

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

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

	<i>HK\$'000</i>
Turnover	22,693
Expenses	<u>(20,409)</u>
Profit for the year	<u><u>2,284</u></u>

2. Included in turnover are dividends and interest income amounting to HK\$29.4 million (2006: HK\$32.1 million). The analysis of the principal activities and geographical location of the operations of the Company, its subsidiaries and jointly controlled entity during the financial year are as follows:

a) *Principal Activities*

	Investment Holding		Hospitality Related Services		Education Related Services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>29,423</u>	<u>32,058</u>	<u>53,166</u>	<u>46,952</u>	<u>22,665</u>	<u>—</u>	<u>105,254</u>	<u>79,010</u>
Profit from operations	7,375	66,944	12,573	7,637	1,225	—	21,173	74,581
Share of losses of associate	—	—	(2,478)	—	—	—	(2,478)	—
Profit before taxation							18,695	74,581
Income tax							<u>(2,488)</u>	<u>20,871</u>
Profit after taxation							<u>16,207</u>	<u>95,452</u>
Depreciation and amortisation for the year	<u>1,108</u>	<u>950</u>	<u>585</u>	<u>498</u>	<u>577</u>	<u>—</u>	<u>2,270</u>	<u>1,448</u>

b) *Geographical Locations of Operations*

	Group Turnover		Profit from operations	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	19,208	23,491	3,209	62,284
Singapore	27,214	3,528	(703)	(2,169)
United States	<u>58,832</u>	<u>51,991</u>	<u>18,667</u>	<u>14,466</u>
	<u>105,254</u>	<u>79,010</u>	<u>21,173</u>	<u>74,581</u>

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Advisory fee	1,441	—
Membership fees from education advisors	862	—
Net loss on forward foreign exchange contracts	(404)	(1,006)
Net profit on sale of plant and equipment	—	16
Net realised and unrealised (losses)/gains on trading securities	(16,086)	27,882
Net realised and unrealised foreign exchange gains	8,666	19,460
Others	<u>256</u>	<u>365</u>
	<u>(5,265)</u>	<u>46,717</u>

4. **Profit before taxation**

Profit before taxation is arrived at after charging:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Amortisation of intangible assets	62	66
Depreciation of plant and equipment	<u>2,208</u>	<u>1,382</u>

5. **Income tax**

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current tax — Hong Kong		
Over-provision in respect of prior years	(1,025)	—
Current tax - Overseas		
Provision for the year	226	217
Over-provision in respect of prior years	<u>—</u>	<u>(39)</u>
	<u>226</u>	<u>178</u>
Deferred tax		
Origination and reversal of temporary differences	835	2,276
Utilisation of deferred tax assets previously recognised	3,511	—
Recognition of deferred tax assets	<u>(1,059)</u>	<u>(23,325)</u>
	<u>3,287</u>	<u>(21,049)</u>
	<u>2,488</u>	<u>(20,871)</u>

The provision for Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year ended 31 December 2007. Taxation for overseas subsidiaries is similarly 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.

6. Dividends

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

The directors of the Company have proposed a final dividend for the year ended 31 December 2007 of HK3 cents per share (2006: HK6 cents per share). The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

No interim dividend was paid for the year ended 31 December 2007 (2006: Nil cents).

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Final dividends in respect of the previous financial year, approved and paid during the year, of HK6 cents per share (2006: HK3 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\$14.1 million (2006: HK\$90.2 million) and on 383,125,524 (2006: 383,125,524) ordinary shares in issue during the year.

b) *Diluted earnings per share*

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

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.

As at 31 December 2007, the Group is committed to make a capital contribution to Tune Hospitality of approximately HK\$144.0 million (US\$18.5 million).

9. 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\$9.6 million giving rise to a gain of approximately HK\$3.8 million (net of estimated disposal costs).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported an improvement in revenue to HK\$105.3 million, up 33.2%, from HK\$79.0 million in the previous year. However, net profit attributable to the equity shareholders of the Company of HK\$14.1 million declined by 84.4% from HK\$90.1 million recorded in the previous year.

Whilst MindChamps and the Group's hospitality related services contributed additional revenues of HK\$22.7 million and HK\$6.2 million respectively to the Group, the Group's result was negatively impacted by valuation of the Group's trading securities to fair values as at 31 December 2007, which was marked down by HK\$44.0 million, and the absence of the one-off recognition of deferred tax benefits amounting to HK\$21.0 million as compared with the previous year.

The Group has always been seeking investment opportunities with strong growth potential. During the year under review, this strategy culminated in the following two investments:

1. A 50% equity interest in MindChamps on 1 June 2007, a company principally engaged in offering "How-to-Learn" programmes, being specialised accelerated learning and memorisation technique programmes, to children and young people, ranging from pre-school to tertiary level.

During the year under review, MindChamps has recorded strong growth in student enrollment and recognised revenue. Although the programme fees are collected at the point of enrollment, MindChamps recognises revenue on a straight-line basis over the period of the course as the students complete each part of the programme. Since our investment in MindChamps on 1 June 2007, it successfully enrolled over 3,000 students in its programmes during the period under review.

2. A 40% participation in Tune Hospitality established on 12 July 2007 to develop and own (in whole or in part) a portfolio of limited service (or "no frills") "Tune" branded hotels across the countries in the ASEAN region.

Since the establishment of the HK\$390.3 million (US\$50 million) joint venture in July 2007, Tune Hospitality has already secured several locations for the “Tune” branded limited service hotels. As at 31 December 2007, the Board of Directors of Tune Hospitality has approved the development of six sites located in Malaysia and Indonesia, with a total equity commitment of approximately HK\$62.4million (US\$8 million). Of the approved sites, a total of four have been secured through executed sale and purchase agreements as at the year end.

In the United States, the Group, through its 85% subsidiary, SWAN Holdings Limited Group (“SWAN”), traded profitably as the hospitality industry in the US has recorded another year of healthy growth in 2007. Many of our client hotels had performed well with their 2007 revenues and operating profits exceeding prior year. This improvement in client hotels’ operating results has benefited SWAN’s hotel management business unit, Richfield, as its fee income is aligned to revenue and profits of its hotel customers. Richfield’s fee income was also boosted by the signing of 4 new multi-year hotel contracts during the year under review. As at 31 December 2007, Richfield managed a portfolio of 27 hotels representing more than 5,900 rooms.

Basic earnings per share for the year under review was HK3.68cents calculated on 383,125,524 ordinary shares in issue during the year. The Group’s Net Tangible Assets backing per share decreased to HK\$1.63 as at 31 December 2007 from HK\$1.75 as at 31 December 2006. The Board proposed a final dividend of HK3 cents per share for the year under review.

BUSINESS REVIEW AND OUTLOOK

The US economy is clearly expected to slow down in 2008, we will adopt a prudent approach in managing the SWAN businesses by ensuring costs are kept in line with the level of business activities. Richfield’s new contracts signed in 2007 will continue to generate steady fee income in 2008 and will positively impact the revenue stream of SWAN. Going forward, Richfield will be focusing on securing management contracts for larger hotels that generate higher fees and consequently better margins.

Having established a strong presence and reputation in Singapore, MindChamps is planning to offer its “How-to-Learn” Programmes in overseas markets including Hong Kong in 2008. In addition, MindChamps is expanding its product line by setting up a pre-school/kindergarten in their existing premises in Singapore.

Tune Hospitality continues to aggressively identify suitable and cost effective development sites in the ASEAN region particularly in Malaysia, Indonesia, Thailand and the Philippines. During the course of 2008, Tune Hospitality expects to secure an additional twenty to twenty five sites and have most, if not all of the entire

HK\$390.3 million (US\$50 million) of shareholders' capital committed (of which the Group will contribute 40%). Development and planning work have already commenced on several of the secured sites. The management team expects a few properties to open by the end of 2008. We expect that a significant number of sites will be operational by 2009.

Notwithstanding the two investments made in the course of the year, the Group still has significant cash resources to capitalise on any good investment opportunities that may arise in 2008 amidst a tight credit environment. We intend to continue seeking out investment opportunities that offer strong growth potential.

DIVIDENDS

The directors of the Company have proposed a final dividend for the year ended 31 December 2007 of HK3 cents per share (2006: HK6 cents). No interim dividend was paid for the year ended 31 December 2007 (2006: 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 2007.

CORPORATE GOVERNANCE

In the opinion of the Directors, save as disclosed below, the Company has complied with Appendix 14 throughout the year under review.

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 continuing 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 year 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.

STATUTORY INFORMATION

The Annual General Meeting of the Company will be held on 18 April 2008.

The register of members will be closed from 16 April 2008 to 18 April 2008, both dates inclusive, and the dividend cheques are expected to be despatched on or about 16 May 2008.

By Order of the Board
Kwek Leng Beng
Chairman

Hong Kong, 25 February 2008