



City e-Solutions Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code:557)

2010

**Interim financial report
for the six months ended 30 June 2010**

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RESULTS

The Directors of City e-Solutions Limited (the “Company”) announce the following interim unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2010 – unaudited

| | | Six months ended 30 June | |
|---|-------------|---------------------------------|-------------------------|
| | <i>Note</i> | 2010 | 2009 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Continuing operations | | | |
| Turnover | 3 | 47,881 | 35,266 |
| Cost of sales | | (3,231) | (14,484) |
| | | <hr/> | <hr/> |
| Gross profit | | 44,650 | 20,782 |
| Other net (losses)/income | 4 | (25,778) | 28,291 |
| Administrative expenses | | (24,415) | (19,706) |
| | | <hr/> | <hr/> |
| (Loss)/Profit from operations | | (5,543) | 29,367 |
| Share of losses of an associate | | — | (258) |
| | | <hr/> | <hr/> |
| (Loss)/Profit before taxation | | (5,543) | 29,109 |
| Income tax | 5 | 2,858 | (1,177) |
| | | <hr/> | <hr/> |
| (Loss)/Profit from continuing operations | | (2,685) | 27,932 |
| Discontinued operations | | | |
| Profit from discontinued operations, net of tax | 6 | 2,334 | 3,922 |
| | | <hr/> | <hr/> |
| (Loss)/Profit for the period | 8 | (351) | 31,854 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Attributable to: | | | |
| Equity shareholders of the Company | | 199 | 31,552 |
| Non-controlling interests | | (550) | 302 |
| | | <hr/> | <hr/> |
| (Loss)/Profit for the period | | (351) | 31,854 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Earnings per share | | | |
| Basic earnings per share | 9 | HK cents 0.05 | HK cents 8.25 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Continuing operations | | | |
| Basic (losses)/earnings per share | 9 | HK cents (0.56) | HK cents 7.22 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The notes on pages 7 to 19 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2010 – unaudited

| | Six months ended 30 June | |
|---|--------------------------|----------------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| (Loss)/Profit for the period | (351) | 31,854 |
| Other comprehensive income for the period (after taxation and reclassification adjustments): | | |
| Exchange differences on translation of: | | |
| - financial statements of foreign operations | 1,122 | 147 |
| - monetary items forming part of net investment in a foreign operation | — | 64 |
| Exchange differences realised on disposal of a jointly controlled entity | — | (273) |
| | <u>1,122</u> | <u>(62)</u> |
| Total comprehensive income for the period | <u><u>771</u></u> | <u><u>31,792</u></u> |
| Attributable to: | | |
| Equity shareholders of the Company | 1,174 | 31,421 |
| Non-controlling interests | (403) | 371 |
| Total comprehensive income for the period | <u><u>771</u></u> | <u><u>31,792</u></u> |

The notes on pages 7 to 19 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2010 - UNAUDITED

| | <i>Note</i> | At 30 June 2010 HK\$'000 | At 31 December 2009 HK\$'000 |
|--|-------------|---|---|
| Non-current assets | | | |
| Plant and equipment | | 1,607 | 2,472 |
| Intangible assets | | 68 | 103 |
| Deferred tax assets | | 15,832 | 12,814 |
| Total non-current assets | | 17,507 | 15,389 |
| Current assets | | | |
| Trading securities | | 105,859 | 95,340 |
| Trade and other receivables | 10 | 14,245 | 22,745 |
| Current tax recoverable | | 383 | 395 |
| Cash and cash equivalents | 11 | 481,432 | 489,219 |
| | | 601,919 | 607,699 |
| Current liabilities | | | |
| Trade and other payables | 12 | (16,472) | (20,127) |
| Provision for taxation | | (102) | (880) |
| | | (16,574) | (21,007) |
| Net current assets | | 585,345 | 586,692 |
| Total assets less current liabilities | | 602,852 | 602,081 |
| NET ASSETS | | 602,852 | 602,081 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 382,450 | 382,450 |
| Reserves | | 184,542 | 183,368 |
| Total equity attributable to equity shareholders of the Company | | 566,992 | 565,818 |
| Non-controlling interests | | 35,860 | 36,263 |
| TOTAL EQUITY | | 602,852 | 602,081 |

The notes on pages 7 to 19 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2010 – unaudited

| | Attributable to equity shareholders of the Company | | | | | | |
|---|--|--|------------------------------|------------------------------|-------------------|--------------------------------|--------------------------|
| | Share Capital HK\$'000 | Capital Redemption Reserve HK\$'000 | Exchange Reserve HK\$'000 | Revenue Reserves HK\$'000 | Total HK\$'000 | Minority Interests HK\$'000 | Total Equity HK\$'000 |
| Balance at 1 January 2009 | 382,450 | 676 | 614 | 125,754 | 509,494 | 35,728 | 545,222 |
| Changes in equity for the six months ended 30 June 2009: | | | | | | | |
| Total comprehensive income for the period | — | — | (131) | 31,552 | 31,421 | 371 | 31,792 |
| Balance at 30 June 2009 | <u>382,450</u> | <u>676</u> | <u>483</u> | <u>157,306</u> | <u>540,915</u> | <u>36,099</u> | <u>577,014</u> |
| Balance at 1 January 2010 | 382,450 | 676 | 1,073 | 181,619 | 565,818 | 36,263 | 602,081 |
| Changes in equity for the six month ended 30 June 2010: | | | | | | | |
| Total comprehensive income for the period | — | — | 975 | 199 | 1,174 | (403) | 771 |
| Balance at 30 June 2010 | <u>382,450</u> | <u>676</u> | <u>2,048</u> | <u>181,818</u> | <u>566,992</u> | <u>35,860</u> | <u>602,852</u> |

The notes on pages 7 to 19 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2010 - unaudited

| | | Six months ended 30 June | |
|--|------|--------------------------|-----------------------|
| | Note | 2010 | 2009 |
| | | HK\$'000 | HK\$'000 |
| Net cash (used in)/generated from operating activities | | (6,758) | 5,745 |
| Net cash generated from/(used in) investing activities | | <u>2,766</u> | <u>(823)</u> |
| Net (decrease)/increase in cash and cash equivalents | | (3,992) | 4,922 |
| Cash and cash equivalents at 1 January | | 489,219 | 438,954 |
| Effect of foreign exchange rate changes | | <u>(3,795)</u> | <u>13,144</u> |
| Cash and cash equivalents at 30 June | 11 | <u><u>481,432</u></u> | <u><u>457,020</u></u> |

The notes on pages 7 to 19 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 10 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 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 2009 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 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's independent review report to the Board of Directors is included on page 20. 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 2009 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 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 February 2010.

2. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants (HKICPA) has issued two revised Hong Kong Financial Reporting Standards (“HKFRS”), a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendments to HKAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*

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 four 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 investments 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 United States and Hong Kong.
- Hospitality related services: 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. Currently, the Group's activities in this regard are carried out in the United States.
- Property investment: This segment relates to investments in properties which are held with the intention of sale in the ordinary course of business. The Group no longer holds investment property following the sale of the remaining two residential properties in the previous year.
- Education related services: This segment drives revenue from the provision of education, childcare and learning related services. The activities were carried out mainly in Singapore and Hong Kong through a jointly controlled entity which was disposed off by the Group in March 2009.

(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 basis:

Segment assets include all tangible, intangible assets, current assets with the exception of interest in an associate, deferred tax assets and current tax recoverable. Segments liabilities include trade and other payables.

Revenue and expenses are allocated to the reportable segments with reference to sales 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 entity.

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, impairment losses, unrealised foreign exchange gain/loss, unrealised gain/loss on trading securities and additions to non-current assets segment 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 Related Services | | Property Investment | | Total continuing operations | | Education Related Services (Discontinued) | | Total | |
|---|--------------------|----------------|------------------------------|---------------|---------------------|---------------|-----------------------------|----------------|---|--------------|----------------|----------------|
| | Six months | | Six months | | Six months | | Six months | | Six months | | Six months | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 32,120 | 560 | 15,222 | 20,476 | — | 12,282 | 47,342 | 33,318 | — | 7,837 | 47,342 | 41,155 |
| Interest income | 358 | 1,513 | 178 | 435 | 3 | — | 539 | 1,948 | — | 5 | 539 | 1,953 |
| Reportable segment revenue | <u>32,478</u> | <u>2,073</u> | <u>15,400</u> | <u>20,911</u> | <u>3</u> | <u>12,282</u> | <u>47,881</u> | <u>35,266</u> | <u>—</u> | <u>7,842</u> | <u>47,881</u> | <u>43,108</u> |
| Reportable segment (loss)/profit | <u>2,264</u> | <u>25,669</u> | <u>(7,787)</u> | <u>2,951</u> | <u>(20)</u> | <u>747</u> | <u>(5,543)</u> | <u>29,367</u> | <u>—</u> | <u>(558)</u> | <u>(5,543)</u> | <u>28,809</u> |
| Depreciation and amortisation | 459 | 548 | 233 | 303 | — | — | 692 | 851 | — | 604 | 692 | 1,455 |
| Unrealised (losses)/gains on trading securities | (18,051) | 10,812 | (282) | 559 | — | — | (18,333) | 11,371 | — | — | (18,333) | 11,371 |
| Unrealised foreign exchange (losses)/gains | (7,781) | 16,588 | — | — | — | — | (7,781) | 16,588 | — | — | (7,781) | 16,588 |
| Additions to non-current assets segment | — | 12 | 105 | 31 | — | — | 105 | 43 | — | 187 | 105 | 230 |
| Reportable segment assets | <u>535,447</u> | <u>529,570</u> | <u>64,627</u> | <u>77,205</u> | <u>3,137</u> | <u>3,104</u> | <u>603,211</u> | <u>609,879</u> | <u>—</u> | <u>—</u> | <u>603,211</u> | <u>609,879</u> |
| Reportable segment liabilities | <u>6,273</u> | <u>6,423</u> | <u>10,116</u> | <u>13,644</u> | <u>83</u> | <u>60</u> | <u>16,472</u> | <u>20,127</u> | <u>—</u> | <u>—</u> | <u>16,472</u> | <u>20,127</u> |

(b) Reconciliations of reportable segment profit or loss, assets and liabilities

| | | Six months ended 30 June | |
|---|-------------|---------------------------------|----------------------------|
| | <i>Note</i> | 2010 | 2009 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit | | | |
| Reportable segment (loss)/profit | | (5,543) | 28,809 |
| Share of losses of associate | | — | (258) |
| Elimination of discontinued operations | 6 | — | 558 |
| | | <hr/> | <hr/> |
| Consolidated (loss)/profit before taxation from continuing operations | | (5,543) | 29,109 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| | | At 30 June 2010 | At 31 December 2009 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Assets | | | |
| Reportable segment assets | | 603,211 | 609,879 |
| Deferred tax assets | | 15,832 | 12,814 |
| Current tax recoverable | | 383 | 395 |
| | | <hr/> | <hr/> |
| Consolidated total assets | | 619,426 | 623,088 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Liabilities | | | |
| Reportable segment liabilities | | 16,472 | 20,127 |
| Provision for taxation | | 102 | 880 |
| | | <hr/> | <hr/> |
| Consolidated total liabilities | | 16,574 | 21,007 |
| | | <hr/> <hr/> | <hr/> <hr/> |

4. OTHER NET (LOSSES)/INCOME

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Net realised and unrealised foreign exchange (losses)/gains | (7,781) | 16,569 |
| Net realised and unrealised (losses)/gains on trading securities | (18,333) | 11,428 |
| Others | 336 | 294 |
| | <u>(25,778)</u> | <u>28,291</u> |

5. INCOME TAX

| | Six months ended 30 June | |
|--|--------------------------|--------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Current tax - Overseas | | |
| Provision for the period | 70 | 153 |
| Under-provision in respect of prior years | 34 | — |
| | <u>104</u> | <u>153</u> |
| Deferred tax | | |
| Origination and reversal of temporary differences | (684) | (101) |
| Utilisation of deferred tax assets previously recognised | — | 1,125 |
| Recognition of deferred tax assets | (2,278) | — |
| | <u>(2,962)</u> | <u>1,024</u> |
| Income tax expense from continuing operations | (2,858) | 1,177 |
| Income tax expense from discontinued operations | — | — |
| | <u>(2,858)</u> | <u>1,177</u> |

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2009: 16.5%) of the estimated assessable profits for the period ended 30 June 2010. 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 2010, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$4.0 million (31 December 2009: HK\$4.0 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.

6. DISCONTINUED OPERATIONS

On 13 March 2009, the Group entered into an agreement to dispose of its 50% shareholding interest in MindChamps Holdings Pte. Limited (“MindChamps”), a jointly controlled entity for a total consideration of S\$3.5 million (about HK\$19.0 million). The disposal was completed on 23 March 2009.

The total consideration of S\$3.5 million (about HK\$19.0 million) shall be settled by cash in the following manner:

- (a) S\$0.75 million (HK\$3.84 million) paid on 23 March 2009;
- (b) S\$0.25 million (HK\$1.33 million) by 5 equal monthly instalments of S\$0.05 million (HK\$0.27 million) each payable on or before the 4th business day of each month, with the first instalment paid in May 2009; and
- (c) The remaining S\$2.5 million (about HK\$13.8 million) in March 2011.

Pursuant to the agreement dated 13 March 2009, the Group had received a total of S\$1.0 million (HK\$5.17 million) during the year 2009.

Following a settlement arrangement in December 2009, the remaining balance of S\$2.5 million (HK\$13.8 million), was received/will be received by the Group in the following manner:

- (a) US\$0.05 million (HK\$0.39 million) was received in December 2009;
- (b) US\$1.05 million (HK\$8.14 million) payable by 14 December 2010; and
- (c) The remaining of about HK\$5.27 million payable by March 2011.

For the period under review, US\$0.3 million (HK\$2.33 million) was received.

The Group would record additional gains as and when the deferred consideration is received.

The results of the discontinued operations are set out below:

| | Note | Six months ended 30 June | |
|--|------|--------------------------|------------------|
| | | 2010 HK\$'000 | 2009 HK\$'000 |
| Turnover | | — | 7,842 |
| Expenses | | — | (8,400) |
| Loss before taxation | | — | (558) |
| Income tax | | — | — |
| Loss after taxation | | — | (558) |
| Gain on disposal of discontinued operations | | 2,334 | 4,480 |
| Profit from discontinued operations | | <u>2,334</u> | <u>3,922</u> |
| Basic earnings per share (cents) | 9 | <u>0.61</u> | <u>1.03</u> |

7. 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 2010 (2009: 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 2010 and 2009.

8. (LOSS)/PROFIT FOR THE PERIOD

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

| | Six months ended 30 June | |
|--|--------------------------|-------------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Depreciation of plant and equipment | 659 | 1,237 |
| Amortisation of intangible assets | 33 | 218 |
| Dividends and interest income | (32,659) | (2,513) |
| Gain on disposal of investment in a jointly controlled entity | (2,334) | (4,480) |
| | <u> </u> | <u> </u> |

Included in the dividend and interest income is stock distribution amounting to HK\$31.5 million from the Group's unlisted marketable equity mutual fund.

9. 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 of HK\$0.2 million (six months ended 30 June 2009: Profit of HK\$31.6 million) and on the weighted average number of ordinary shares of 382,449,524 (2009: 382,449,524) in issue during the period.

For the period ended 30 June 2010, (losses)/earnings per share for continuing and discontinued operations have been calculated using the loss relating to continuing operations of HK\$2.1 million (2009: Profit of HK\$27.7 million) and the profit relating to discontinued operations of HK\$2.3 million (2009: Profit of HK\$3.9 million).

b) *Diluted earnings per share*

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

10. TRADE AND OTHER RECEIVABLES

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

| | At 30 June 2010 | At 31 December 2009 |
|--|----------------------------|--------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current or less than 1 month overdue | 6,055 | 4,907 |
| 1 to 3 months overdue | 753 | 1,576 |
| 3 to 12 months overdue | 137 | 261 |
| | <hr/> | <hr/> |
| Total trade receivables, less impairment losses | 6,945 | 6,744 |
| Other receivables and deposits | 1,228 | 12,292 |
| Advance payment ⁽¹⁾ | 2,724 | — |
| Amounts owing by affiliated companies | 399 | 1,177 |
| | <hr/> | <hr/> |
| Loans and receivables | 11,296 | 20,213 |
| Prepayments | 2,949 | 2,532 |
| | <hr/> | <hr/> |
| | <u>14,245</u> | <u>22,745</u> |

Trade receivables are due within 30 days 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 its customers.

⁽¹⁾ On 7 May 2010, the Group, through SWAN USA Inc (“SWAN”), a direct wholly owned subsidiary of SWAN Holdings Limited and Shelbourne Falcon Investors, LP (“Shelbourne”) entered into a Joint Venture agreement (“JV”) for the formation and operation of RSF Syracuse Partners, LLC (“RSFP”) with SWAN and Shelbourne each having a 50% participating interest in RSFP.

The principal activities of RSFP are acquiring and overseeing the operation of a hotel.

For the period under review, the Group has contributed a total of US\$0.3 million (HK\$2.7 million) capital contributions under the JV agreement.

11. CASH AND CASH EQUIVALENTS

| | At 30 June 2010 | At 31 December 2009 |
|---|----------------------------|--------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Deposits with banks and other financial institutions | 389,923 | 331,749 |
| Cash at bank and in hand | 91,509 | 157,470 |
| | <u>481,432</u> | <u>489,219</u> |

12. TRADE AND OTHER PAYABLES

| | At 30 June 2010 | At 31 December 2009 |
|---------------------------------------|----------------------------|--------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables | 9 | 189 |
| Other payables and accrued charges | 16,174 | 19,659 |
| Amounts owing to affiliated companies | 289 | 279 |
| | <u>16,472</u> | <u>20,127</u> |

13. SUBSEQUENT EVENT

Subsequent to the balance sheet, the Group, through its 50% jointly controlled entity, RSFP, has successfully closed the acquisition of the Renaissance Syracuse Hotel ("Hotel") located in Syracuse, New York, USA. The purchase price of the Hotel is US\$10 million (about HK\$78 million), financed partially with an external bank loan of US\$4.8 million (about HK\$38 million).

14. COMMITMENTS

- a) At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases payable as follows:

| | At 30 June 2010 | At 31 December 2009 |
|---------------------------------|----------------------------|--------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 1 year | 581 | 1,101 |
| After 1 year but within 5 years | 165 | 233 |
| | <u>746</u> | <u>1,334</u> |

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

- b) As at 30 June 2010, the Group has outstanding capital contribution to its 50% jointly controlled entity, RSFP, of approximately HK\$24 million pursuant to the JV agreement.

15. MATERIAL RELATED PARTY TRANSACTIONS

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

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Dividend income received from related company | 566 | 560 |
| Income received from provision of hospitality and other related services to related companies | 1,027 | 1,064 |
| Rental received from a related company | 140 | — |
| Accounting fee paid to a related company | (67) | (63) |
| | <u>1,666</u> | <u>1,561</u> |

INDEPENDENT REVIEW REPORT

To the Board of Directors of City e-Solutions Limited

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 19 which comprises the consolidated balance sheet of City e-Solutions Limited as of 30 June 2010 and the related consolidated income statement, statement of comprehensive income and 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 2010 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG LLP

Certified Public Accountants

16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581
10 August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a net profit attributable to the equity shareholders of the Company of HK\$0.2 million as compared with HK\$31.6 million in the previous corresponding period.

The decrease in profit is mainly due to a net unrealised loss of HK\$18.3 million as a result of the revaluation of the Group's trading securities to fair value as at 30 June 2010 as well as a net realised and unrealised translation exchange loss of HK\$7.8 million arising mainly from the Sterling Pound denominated trading security and cash deposit. Accordingly, a total net realised and unrealised loss of HK\$26.1 million was recorded for the period under review as compared with a total net realised and unrealised gain of HK\$28.0 million reported in the previous corresponding period. Nevertheless, the negative impact is reduced by higher dividend income of HK\$32.1 million for the period under review as compared with HK\$0.6 million in the previous corresponding period.

The higher dividend income has boosted the Group's revenue for the period under review which amounted to HK\$47.9 million, up by HK\$12.6 million or 35.8% as compared with HK\$35.3 million in the previous corresponding period. However, lower revenues were recorded by the Group's Property Investment and Hospitality Related Services business segments.

The Group no longer holds investment property following the sale of the remaining two residential properties in the previous corresponding period. Hence, for the period under review, no revenue was recorded from this business segment as compared with revenue of HK\$12.3 million from the sale of two residential properties reported in the previous corresponding period.

In addition, the Group's Hospitality Related Services business segment also recorded lower operating revenue of HK\$15.2 million, down by HK\$5.3 million or 25.6%, as compared with HK\$20.5 million in the previous corresponding period. The continuing challenging economic environment has resulted in a decline in the managed hotels' operating results as well as a reduction in the number of managed hotels in its portfolio which in turn have adversely affected the management fees recorded by the Group's U.S. hotel management arm, Richfield. The decrease in revenue and the higher operating expenses incurred mainly to acquire new hotel management contracts have led to a loss from operations of HK\$7.8 million for the period under review as compared with a profit of HK\$2.9 million in the previous corresponding period.

For the period under review, the Group's recorded profit from discontinued operations of HK\$2.3 million was a result of the deferred consideration received from the disposal of 50% equity interest in MindChamps on 23 March 2009.

The Group has always been seeking investment opportunities and on 7 May 2010, the Group, through SWAN, a direct wholly owned subsidiary of SWAN Holdings Limited acquired a 50% joint venture equity interest in RSFP which was formed to acquire a hotel in Syracuse, New York, USA.

The Group believes the current period provides an attractive environment for investing in the hotel industry in the U.S.. On 19 July 2010, RSFP, through its wholly owned subsidiary Richfield Syracuse Hotel Partners, LLC has successfully closed the acquisition of the Renaissance Syracuse Hotel, a 279-room full-service hotel located in Syracuse, New York, USA. The purchase price of the Hotel is US\$10 million (about HK\$78 million), which represents US\$35,842 per key and a 14% yield on 2009 net operating income.

Financial Position, Cash Flow and Borrowings

As at 30 June 2010, the Group's total assets stood at HK\$619.4 million, down from HK\$623.1 million as at 31 December 2009. The Group's net tangible assets per share remained the same at HK\$1.48 as at 30 June 2010 and 31 December 2009.

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\$6.8 million. The cash inflow from investing activities amounted to HK\$2.8 million was mainly due to the deferred consideration received from disposal of 50% equity interest in MindChamps.

Overall, there was a decrease of HK\$4 million in net cash which together with an unfavourable exchange translation loss of HK\$3.8 million resulted in the total Group's cash and cash equivalents of HK\$481.4 million as at 30 June 2010, down from HK\$489.2 million as at 31 December 2009.

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 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 2010, the Group had 44 employees, up from 41 as at the end of the last financial year ended 31 December 2009. The total payroll costs for the period under review was HK\$14.0 million as compared with HK\$13.8 million in the previous corresponding period.

PROSPECTS

Business conditions continue to remain challenging in the 2nd Half of 2010 and Management will adopt a cost-conscious approach towards managing its current business. 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.

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 such price dislocations that may arise in the current environment.

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 2010.

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 on The Stock Exchange of Hong Kong Limited ("Listing Rules") 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 21 April 2010, 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 (“Model Code”). All directors have confirmed that they have complied with the Model Code throughout the period under review.

CHANGE IN DIRECTOR’S INFORMATION

Dr. Lo Ka Shui retired as an Independent Non-Executive Director of Melco International Development Limited with effect from 22 June 2010.

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 2010.

DIRECTORS’ INTERESTS IN SHARES

- (a) As at 30 June 2010, 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:-

The Company

| Name of Director | Nature of Interest | Number of Ordinary Shares of HK\$1.00 each |
|-----------------------|--------------------|--|
| 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

| Name of Director | 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 |

| Name of Director | Nature of Interest | Number of Preference Shares |
|-------------------------|---------------------------|------------------------------------|
| Kwek Leng Beng | personal | 144,445 |
| Kwek Leng Joo | personal | 100,000 |
| Gan Khai Choon | personal | 49,925 |
| | family | 25,738 |

Hong Leong Investment Holdings Pte. Ltd.

| Name of Director | 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

| | | |
|----------------------|----------|-------|
| Sherman Kwek Eik Tse | personal | 1,174 |
|----------------------|----------|-------|

Millennium & Copthorne Hotels plc

| Name of Director | Nature of Interest | Number of Ordinary Shares |
|-------------------------|---------------------------|----------------------------------|
| Lawrence Yip Wai Lam | personal | 9,622 |

Millennium & Copthorne Hotels New Zealand Limited

| Name of Director | 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 | 25/06/2008 | 15,877 | 25/06/2011 |
| | 30/03/2009 | 42,322 | 30/03/2012 |

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 2010, 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 2010, 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 2010.

By Order of the Board
Kwek Leng Beng
Chairman

Hong Kong, 10 August 2010