



## **City e-Solutions Limited**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code:557)**

**2008**

**Interim financial report  
for the six months ended 30 June 2008**

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## RESULTS

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

### CONSOLIDATED INCOME STATEMENT

*for the six months ended 30 June 2008 – unaudited*

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

The notes on pages 6 to 14 form part of this interim financial report.

# CONSOLIDATED BALANCE SHEET

at 30 June 2008 – unaudited

	Note	The Group	
		At 30 June	At 31 December
		2008	2007
		HK\$'000	HK\$'000
<b>Non-current assets</b>			
Plant and equipment		8,189	7,626
Intangible assets		41,321	39,032
Interest in associate		31,189	10,045
Deferred tax assets		15,405	17,906
<b>Total non-current assets</b>		<b>96,104</b>	<b>74,609</b>
<b>Current assets</b>			
Properties held for resale		12,336	17,473
Trading securities		99,670	114,226
Trade and other receivables	8	26,550	28,254
Current tax recoverable		187	328
Cash and cash equivalents	9	494,889	513,833
		<u>633,632</u>	<u>674,114</u>
<b>Current liabilities</b>			
Trade and other payables	10	(43,545)	(50,509)
Provision for taxation		(519)	—
		<u>(44,064)</u>	<u>(50,509)</u>
<b>Net current assets</b>		<b>589,568</b>	<b>623,605</b>
<b>Total assets less current liabilities</b>		<b>685,672</b>	<b>698,214</b>
<b>NET ASSETS</b>		<b>685,672</b>	<b>698,214</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	11	382,544	383,126
Reserves	12	267,060	279,428
<b>Total equity attributable to equity shareholders of the Company</b>		<b>649,604</b>	<b>662,554</b>
<b>Minority interests</b>		<b>36,068</b>	<b>35,660</b>
<b>TOTAL EQUITY</b>		<b>685,672</b>	<b>698,214</b>

The notes on pages 6 to 15 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2008 – unaudited

	Note	Six months ended 30 June			
		2008		2007	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Total equity at 1 January</b>					
Attributable to:					
Equity shareholders of the Company			662,554		668,920
Minority interests			35,660		33,430
			<u>698,214</u>		<u>702,350</u>
<b>Net income recognised directly in equity:</b>					
- Exchange differences on translation of financial statements of overseas subsidiaries		2,330		1,439	
- Exchange differences on monetary items forming part of net investment in a foreign operation		<u>8</u>		<u>—</u>	
Net income for the period recognised directly in equity			2,338		1,439
<b>Net (loss)/profit for the period</b>			<u>(2,794)</u>		<u>25,862</u>
<b>Total recognised income and expense for the period</b>			<u>(456)</u>		<u>27,301</u>
Attributable to:					
Equity shareholders of the Company		(864)		26,172	
Minority interests		<u>408</u>		<u>1,129</u>	
			<u>(456)</u>		<u>27,301</u>
Dividends declared or approved during the period	6		(11,494)		(22,988)
<b>Movement in shareholders' equity arising from capital transactions with equity shareholders of the Company</b>					
Shares repurchased			<u>(592)</u>		<u>—</u>
<b>Total equity at 30 June</b>			<u><u>685,672</u></u>		<u><u>706,663</u></u>

The notes on pages 6 to 14 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2008 - unaudited

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net cash generated from operating activities</b>		3,174	8,616
<b>Net cash used in investing activities</b>		<u>(25,494)</u>	<u>(77,239)</u>
<b>Net decrease in cash and cash equivalents</b>		(22,320)	(68,623)
<b>Cash and cash equivalents at 1 January</b>		513,833	487,249
<b>Effect of foreign exchange rate changes</b>		<u>3,376</u>	<u>4,196</u>
<b>Cash and cash equivalents at 30 June</b>	9	<u><u>494,889</u></u>	<u><u>422,822</u></u>

The notes on pages 6 to 14 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 5 August 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements. The HKICPA has issued some new and revised HKFRSs that are first effective or available for early adoption for the 2008 annual financial statements. The adoption of these accounting standards have no impact on the Group's results of operations.

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 2007 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 15. 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 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 February 2008.

## 2. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

### Business segments

The Group comprises the following main business segments:

- Investment holding: The activities of investing.
- Hospitality related services: The provision of hotel management services, hotel reservation, and revenue management services, risk management services and procurement services.
- Education related services: The provision of education and learning related services.
- Property investment: Property investment activities

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

### Geographical segments

The Group's investing activities are mainly carried out in Hong Kong and Singapore. The hospitality related services are carried out by the subsidiaries based in the United States and Singapore. The education related services are carried out by jointly controlled entity ("MindChamps") in Singapore and Hong Kong.

In presenting information on the basis of geographical segments, segment revenue in relation to investment holding is based on the geographical location of investments. Segment revenue in relation to hospitality related services is based on the geographical location of customers. Segment revenue in relation to education related services is based on the geographical location of courses being conducted.

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

### 3. OTHER NET (LOSSES)/INCOME

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

#### 4. PROFIT BEFORE TAXATION

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

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

#### 5. INCOME TAX

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

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

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands.

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

## 6. DIVIDENDS

- a) Dividends attributable to the interim period

The Directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2008 (2007: HK\$Nil).

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

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

## 7. (LOSS)/EARNINGS PER SHARE

- a) Basic earnings per share

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

- b) Diluted earnings per share

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

## 8. TRADE AND OTHER RECEIVABLES

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

	<b>At 30 June 2008</b>	<b>At 31 December 2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current or less than 1 month overdue	9,802	11,654
1 to 3 months overdue	2,321	1,873
More than 3 months overdue but less than 12 months overdue	3,215	3,045
Total trade receivables, less impairment losses	15,338	16,572
Other receivables, deposits and prepayments	9,613	10,145
Amounts owing by affiliated companies	616	652
Amounts owing by other shareholder of jointly controlled entity	983	885
	<u>26,550</u>	<u>28,254</u>

Debts 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.

## 9. CASH AND CASH EQUIVALENTS

	<b>At 30 June 2008</b>	<b>At 31 December 2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits with banks and other financial institutions	432,411	449,995
Cash at bank and in hand	62,478	63,838
Cash and cash equivalents in the consolidated cash flow statement	<u>494,889</u>	<u>513,833</u>

## 10. TRADE AND OTHER PAYABLES

	<b>At 30 June 2008</b>	<b>At 31 December 2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,832	6,218
Other payables and accrued charges	41,713	44,291
	<u>43,545</u>	<u>50,509</u>

All trade payables are due within 1 month or on demand.

## 11. SHARE CAPITAL

	<b>No. of shares</b>	
<b>Issued and fully paid</b>	<i>'000</i>	<i>HK\$'000</i>
At 30 June 2008	<u>382,544</u>	<u>382,544</u>

### Repurchase of own shares

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

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

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

At 30 June 2008, there were no outstanding share options.

## 12. RESERVES

The movements in reserves are set out in the Consolidated Statement of Changes in Equity.

## 13. COMMITMENTS

- a) The total future minimum lease payments under non-cancellable operating lease in respect of office space are payable as follows:

	<b>At 30 June 2008</b>	<b>At 31 December 2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	5,505	4,850
After 1 year but within 5 years	5,698	7,685
	<u>11,203</u>	<u>12,535</u>

The above lease expires in November 2010, and the Group has the option to renew the lease for an additional five-year term prior to the end of the lease term. The lease does not include contingent rental.

The minimum lease payments include Group's share of the jointly controlled entity operating lease rental for office space and premises which will expire in May 2010.

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

## 14. MATERIAL RELATED PARTY TRANSACTIONS

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Affiliated companies</b>		
Dividend income received from related company	1,708	1,663
Income received from provision of hospitality and other related services to related companies	1,952	1,940
	<u>1,952</u>	<u>1,940</u>

In addition to the transactions disclosed above, the Group's 50% jointly controlled entity, MindChamps deposited cash with a related financial institution amounting to HK\$8.5 million as at 30 June 2008 (as at 31 Dec 2007: HK\$2.6 million). During the period under review, interest income of HK\$0.05 million (2007: Nil) was received.

# 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 14 which comprise the consolidated balance sheet of City e-Solutions Limited as of 30 June 2008 and the consolidated income statement, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months 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 this interim financial report in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report 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 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 of 30 June 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

**KPMG**

*Certified Public Accountants*

Singapore, 5 August 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

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

The Group reports its results in Hong Kong dollars and it is the objective of the Group to preserve its value in terms of Hong Kong dollars.

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

The Group has no borrowings for the period under review.

#### *Treasury Activities*

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

#### *Employees*

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

## **Prospects**

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

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

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

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

## **AUDIT COMMITTEE**

The members of the Audit Committee of the Company comprise 2 independent non-executive directors and 1 non-executive director of the Company. It has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2008.

## **CORPORATE GOVERNANCE**

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

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

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 of the Listing Rules of The Stock Exchange of Hong Kong Limited (“Model Code”). All directors have confirmed that they have complied with the Model Code throughout the period under review.

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

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

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2008.

## DIRECTORS' INTERESTS IN SHARES

- (a) As at 30 June 2008, the interests of the Directors 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

<b>Name of Director</b>	<b>Nature of Interest</b>	<b>Number of Ordinary Shares of HK\$1.00 each</b>
Kwek Leng Beng	personal	3,286,980
Vincent Yeo Wee Eng	personal	718,000
Kwek Leng Joo	personal	1,436,000
Kwek Leng Peck	personal	2,082,200
Gan Khai Choon	personal	1,041,100
Lawrence Yip Wai Lam	personal	520,550
Wong Hong Ren	personal	1,513,112
Hon. Chan Bernard Charnwut	personal	53,850

### City Developments Limited

<b>Name of Director</b>	<b>Nature of Interest</b>	<b>Number of Ordinary Shares</b>
Kwek Leng Beng	personal	397,226
Kwek Leng Joo	personal	65,461
Kwek Leng Peck	personal	43,758
Gan Khai Choon	personal	100,000
	family	25,000
Wong Hong Ren	family	4,950

<b>Name of Director</b>	<b>Nature of Interest</b>	<b>Number of Preference Shares</b>
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
Kwek Leng Peck	personal	10,921
Gan Khai Choon	family	247

## Millennium & Copthorne Hotels New Zealand Limited

Name of Director	Nature of Interest	Number of Ordinary Shares
Kwek Leng Beng	personal	3,000,000
Vincent Yeo Wee Eng	personal	500,000
Wong Hong Ren	personal	2,000,000

*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 the Millennium & Copthorne Hotels Executive Share Option Scheme (the "1996 Scheme") operated by Millennium & Copthorne Hotels plc ("M&C"), certain Directors have outstanding options thereunder ("M&C Options") to subscribe for M&C Shares for cash as follows:

Name of Director	Part*	Date Granted	Number of M&C Options Outstanding	Exercise Price per M&C Share	Exercise Period
Wong Hong Ren	B	15/03/2002	83,720	£3.2250	15/03/2005 to 14/03/2009

- (c) Pursuant to the Millennium & Copthorne Hotels plc 2003 Executive Share Option Scheme (the “2003 Scheme”) approved by shareholders of M&C on 21 May 2002, certain Directors have outstanding options thereunder (“M&C Options”) to subscribe for M&C Shares for cash as follows:

Name of Director	Part*	Date Granted	Number of M&C Options Outstanding	Exercise Price per M&C Share	Exercise Period
Vincent Yeo Wee Eng	II	24/03/2005	10,581	£3.9842	24/03/2008 to 23/03/2015
Wong Hong Ren	II	10/03/2003	32,248	£1.9350	10/03/2007 to 09/03/2013
	II	10/03/2003	91,783	£1.9350	10/03/2008 to 09/03/2013
	II	16/03/2004	44,999	£2.9167	16/03/2007 to 15/03/2014
	II	24/03/2005	75,297	£3.9842	24/03/2008 to 23/03/2015

\*Note: The 1996 Scheme has two parts. Part A is designed for the approval by the UK Inland Revenue, of which approval was obtained under Schedule 9 of the Income and Corporation Taxes Act 1988 on 12 April 1996. Part B is an unapproved executive share option scheme designed for UK and non-UK executives. As with the 1996 Scheme, the 2003 Scheme provides for the grant of both approved and unapproved options.

- (d) Pursuant to Millennium & Copthorne Hotels Long Term Incentive Plan (the “LTIP”) approved by shareholders of 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
Wong Hong Ren	01/09/2006	67,834	01/09/2009
	27/03/2007	44,736	27/03/2010
	25/06/2008	86,455	25/06/2011
Lawrence Yip Wai Lam	01/09/2006	9,622	01/09/2009
	27/03/2007	5,698	27/03/2010
	25/06/2008	15,877	25/06/2011

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.

Save as disclosed herein, as at 30 June 2008, 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 2008, 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	<i>Notes</i>	Percentage Holding in the Company
eMpire Investments Limited	190,523,819		49.80%
City Developments Limited	200,854,743	(1)	52.51%
Hong Leong Holdings Limited	21,356,085		5.58%
Hong Leong Investment Holdings Pte. Ltd.	230,866,817	(2)	60.35%
Davos Investment Holdings Private Limited	230,866,817	(3)	60.35%
Kwek Leng Kee	230,866,817	(4)	60.35%
Arnhold and S Bleichroeder Advisors, LLC	38,022,000		9.94%
Farallon Capital Management, L.L.C.	35,232,850	(5)	9.21%
Farallon Capital Offshore Investors, Inc.	35,232,850	(6)	9.21%
Aberdeen Asset Management Plc and its Associates (together "The AAM Group") on Behalf of Accounts Managed by The AAM Group	23,052,000	(7)	6.03%

*Notes:*

1. Of the 200,854,743 shares beneficially owned by wholly-owned subsidiaries of City Developments Limited ("CDL") representing approximately 52.51% 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 60.35% 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 Management, L.L.C. is interested in these shares in its capacity as the investment manager.

6. Farallon Capital Offshore Investors, Inc. is interested in these shares in its capacity as the beneficial owner.
7. 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 2008.

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

Hong Kong, 5 August 2008