THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chevalier International Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

CHEVALIER

CHEVALIER INTERNATIONAL HOLDINGS LIMITED
其 士 國 際 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock code: 025)

DISCLOSEABLE TRANSACTION
INVOLVING ACQUISITION OF FOOD & BEVERAGE OPERATIONS

IGOR'S
GROUP

Financial adviser to Chevalier International Holdings Limited

SOMERLEY LIMITED

Financial advisor to Sinochina Enterprises Limited

Quam
Financial Services Group

Quam Capital Limited

* *For identification only*

7 February 2007

CONTENTS

In this circular, the following expressions have the meanings as set out below unless the context requires otherwise:

"Acquisition"	the proposed acquisition of the entire issued share capital of SEL
"Additional Borrowing"	an amount up to HK$11.5 million which may be borrowed by SEL Group from third parties or CiTL (if CiTL offers more favourable terms of finance) solely for the capital expenditure of new outlets subject to the terms of the Agreement
"Audited Accounts"	the audited consolidated balance sheet of CL Holdings and the audited consolidated profit and loss account of each company in SEL Group for the relevant financial year and all notes thereto and the auditors' and the directors' reports relating to such accounts
"Agreement"	the share purchase agreement regarding all the issued shares of SEL dated 25 November 2006 entered into between CiTL and the Vendor
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or Sunday) on which banks are generally open for banking business in Hong Kong
"BVI"	the British Virgin Islands
"CiTL"	Chevalier iTech Holdings Limited, an exempted company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange, and an indirectly 56.7%-owned subsidiary of the Company
"CiTL Board"	the board of directors of CiTL
"CiTL Group"	CiTL and its subsidiaries
"CL Holdings"	CL Holdings Limited, a company incorporated in Hong Kong with limited liability, the holding company of all the issued share capital in each of the companies in SEL Group (except SEL and Orchid International Limited)

"Company"	Chevalier International Holdings Limited, an exempted company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
"Consideration"	the consideration for the sale and purchase of the Sale Shares
"Director(s)"	director(s) of the Company
"EBITDA"	the earnings (excluding non-cash and extraordinary earnings and losses) before interest, tax, depreciation and amortization
"Enlarged Group"	the Group together with SEL Group
"Escrow Agent"	Deacons, the legal adviser to CiTL in respect of the Acquisition
"Escrow Account"	the interest-bearing account to be opened by the Escrow Agent with a licensed bank in Hong Kong for the purposes of the Escrow Agreement
"Escrow Agreement"	the escrow agreement dated 31 January 2007 entered into among CiTL, the Vendor and the Escrow Agent
"Escrow Amount"	the escrow amount(s) from time to time to be deposited into the Escrow Account in accordance with the terms of the Agreement
"First Closing"	completion of the sale and purchase of Tranche I of the Sale Shares pursuant to the terms of the Agreement
"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards, include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	6 February 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Management Bonuses"	remuneration payments accruing to the management of SEL Group in respect of their performance attributable to periods prior to 1 January 2006, comprising of (i) management bonuses paid between the period from 1 January 2006 to 31 October 2006 in the amount of HK$1,389,000 (the "2006 Management Bonuses"); and (ii) unpaid management bonuses in the amount of HK$2,514,535.06 as at 31 October 2006 (the "Outstanding Management Bonuses")
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"Mr. Lenz"	Mr. Christopher James Lenz, the majority shareholder of the Vendor holding 51.76% of the Vendor's issued share capital
"Normalized 2006 EBITDA"	EBITDA for 2006 before deduction of payments made or accrued in respect of the 2006 Management Bonuses and without taking into consideration (i) the accounts of the outlet "Peel" at UG/F, 21 Elgin Street, Central, Hong Kong, (ii) gain from the sale of the warehouse located at Kwai Chung, New Territories and (iii) gain from the sale of the Office
"Office"	the head office premises of SEL Group at 5/F New India House, 52 Wyndham Street, Hong Kong
"Pacific Coffee"	Pacific Coffee (Holdings) Limited, a company incorporated in the BVI with limited liability on 25 July 1995
"Purchaser's Loan"	the loan up to HK$3.5 million to be advanced by CiTL to SEL Group at any time after First Closing for the capital expenditure of SEL Group
"Resolved Claim"	a claim by CiTL for the breach of any warranties (including representation, warranty and undertaking contained in the Agreement) which (a) has been agreed by the Vendor and CiTL or (b) in respect of which final judgment is awarded in favour of CiTL by the courts of any competent jurisdiction (for these purposes, a final judgment shall be a judgment in respect of which all applicable rights of appeal have been exhausted); and a claim being "Resolved" shall be construed accordingly

"Sale Shares"	100 ordinary shares in SEL, being the entire issued share capital of SEL
"Second Closing"	completion of the sale and purchase of Tranche II of the Sale Shares pursuant to the terms of the Agreement
"Service Agreement"	the service agreement dated 31 January 2007 entered into between SEL and Mr. Lenz
"SEL"	Sinochina Enterprises Limited, a company incorporated in the BVI with limited liability
"SEL Group"	CL Holdings and each of its subsidiaries before First Closing and SEL and each of its subsidiaries after First Closing
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$1.25 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Agreement"	the shareholders' agreement dated 31 January 2007 entered into among CiTL, the Vendor and SEL
"Shareholders' Loan"	the amount of approximately HK$5.7 million owed by CL Holdings to Asset Finance Limited and GM Metal Packaging Limited as at 31 October 2006 plus any interest accrued on the principal amount of such loan from 1 November 2006 until the date of payment
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tranche I"	the sale and purchase of 49 ordinary shares in SEL constituting 49% of the entire issued share capital of SEL as at the date of First Closing
"Tranche II"	the sale and purchase of 51 ordinary shares in SEL constituting 51% of the entire issued share capital of SEL as at the date of Second Closing
"Vendor"	Sinochina Pacific Limited, a company incorporated in the BVI with limited liability
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"%"	per cent.

CHEVALIER INTERNATIONAL HOLDINGS LIMITED
其士國際集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock code: 025)

Executive Directors:
Chow Yei Ching *(Chairman and Managing Director)*
Kuok Hoi Sang *(Managing Director)*
Fung Pak Kwan
Chow Vee Tsung, Oscar
Tam Kwok Wing
Kan Ka Hon
Ho Chung Leung

Independent non-executive Directors:
Chow Ming Kuen, Joseph O.B.E., J.P.
Li Kwok Heem, John
Sun Kai Dah, George

Registered office:
Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

Head office and principal place of business:
22nd Floor
Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay
Hong Kong

7 February 2007

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION
INVOLVING ACQUISITION OF FOOD & BEVERAGE OPERATIONS

INTRODUCTION

On 1 December 2006, the Board and the CiTL Board jointly announced that CiTL had entered into the Agreement on 25 November 2006 with, among other parties, the Vendor in relation to the acquisition of, in two tranches, a total of 100 shares in SEL, representing the entire issued share capital of SEL.

The Acquisition constitutes a discloseable transaction for the Company under the Listing Rules. The purpose of this circular is to provide you with information on the Agreement, SEL Group and other information as required under the Listing Rules.

* *For identification only*

THE AGREEMENT DATED 25 NOVEMBER 2006

1. Parties to the Agreement

Purchaser:	CiTL, an indirectly 56.7%-owned subsidiary of the Company
Vendor:	Sinochina Pacific Limited, a company incorporated in the BVI with limited liability in which Mr. Lenz owns 51.76% of its issued share capital. Sinochina Pacific Limited is an investment holding company. To the best of the knowledge, information and belief of the Board after having made all reasonable enquiries, the Vendor and its beneficial shareholders (i) are independent of the Company and its connected persons, and are not connected persons of the Company; and (ii) are neither the same as nor associated with the parties to the agreement in respect of the acquisition of Pacific Coffee (as described below).

2. Asset to be acquired

The Sale Shares, being 100 ordinary shares of SEL, representing the entire issued share capital of SEL.

The Sale Shares will be acquired by CiTL in two tranches. Tranche I involves the acquisition of 49 ordinary shares of SEL and Tranche II involves the acquisition of 51 ordinary shares of SEL.

SEL and its subsidiaries are engaged in ownership and operation of restaurants and other food and beverage outlets. SEL Group currently operates 20 outlets in Hong Kong. Further information on SEL Group is set out in the section headed "Information on SEL Group" below.

3. Consideration and payment terms

The Consideration (subject to adjustment), including the considerations for Tranche I and Tranche II, shall be determined as follows and in any event not exceed HK$200 million in aggregate:

(a) Consideration for Tranche I

The purchase price for the first part of Tranche I which represents 25% of Sale Shares will be valued at:

(4.5 x actual Normalized 2006 EBITDA) x 25%

The purchase price for the second part of Tranche I which represents 24% of Sale Shares will be valued according to the following formula:

M x audited 2007 EBITDA x 24%, where M will be determined as follows:

If the audited 2007 EBITDA is:

(i)	less than or equal to HK$23.0 million,	M = 4.5
(ii)	greater than HK$23.0 million but less than HK$26.0 million,	M = 5.0
(iii)	equal to or greater than HK$26.0 million,	M = 5.5

(b) Consideration for Tranche II

The purchase price for Tranche II will be valued according to the following formula:

P x audited 2008 EBITDA x 51%, where P will be determined as follows:

If the audited 2008 EBITDA is:

(i)	less than or equal to HK$25.0 million,	P = 4.5
(ii)	greater than HK$25.0 million but less than HK$30.0 million,	P = 5.0
(iii)	equal to or greater than HK$30.0 million,	P = 5.5

If in any one year there is a loss incurred (resulting in negative audited EBITDA), the consideration calculated for that tranche of shares of SEL, which is determined by reference to the audited EBITDA for such year, shall instead be based on the audited net tangible asset value of SEL Group as reflected in the Audited Accounts for such year. Such revaluation method of the consideration applies to both tranches, to the extent relevant, and in the event of the significant disruption (as explained in sub-paragraph headed "Adjustment for a significant disruption" below) and Second Closing is accelerated pursuant to terms of the Agreement (as explained in sub-paragraph headed "Adjustment in the event that Second Closing is accelerated" below).

The Vendor and CiTL agreed on a two-part Consideration so that the purchase price for (i) the second part of Tranche I; and (ii) Tranche II, will be based on the future performance of SEL Group.

The Consideration, including the payment terms, was agreed between CiTL and the Vendor after arm's length negotiations. The Consideration represents 4.5 times of the actual Normalized 2006 EBITDA, and 4.5 to 5.5 times of the audited 2007 EBITDA and the audited 2008 EBITDA of SEL Group in aggregate. The consideration for Tranche I shall be paid at First Closing and the consideration for Tranche II shall be paid at Second Closing. The Consideration shall be satisfied in cash and will be financed by the internal resources and available banking facilities of CiTL Group. As at the Latest Practicable Date, CiTL Group had available banking facilities of approximately HK$293.5 million.

Both the Board and CiTL Board are of the view that the Consideration is fair and reasonable after taking into account the 254.4% growth in profit after taxation for the year ended 2005 from that for the year ended 2004 of SEL Group as well as the reputation of the outlets operated under SEL Group.

4. Conditions precedent to First Closing

First Closing is conditional on:

(i) completion of the restructuring of SEL Group including formation of SEL and re-organisation such that all the companies in SEL Group shall be beneficially wholly owned subsidiaries of SEL (except for Orchid International Limited);

(ii) CiTL having obtained, in terms satisfactory to it, all consents and approvals as may be required under the Listing Rules (including without limitation any approval by the shareholders of CiTL) in connection with the Agreement and the transactions contemplated thereunder, and CiTL having issued and despatched its shareholders' circular as required by the Listing Rules;

(iii) CiTL having obtained confirmation in writing from each shareholder and director of each company in SEL Group that it has no claim and is not aware of any circumstance which may give rise to a claim against any company in SEL Group;

(iv) provision to CiTL of a pro forma balance sheet of SEL Group as at the month end of the calendar month immediately prior to the month of First Closing and management accounts with profit and loss accounts and balance sheet as at 30 September 2006 and actual profit and loss accounts for the nine months from January to September 2006; and

(v) CiTL having undertaken a due diligence review of the restructuring of SEL Group as anticipated in paragraph (i) above and being satisfied with the review in all respects.

As at the Latest Practicable Date, all of the above conditions precedent except for condition (ii) have been fulfilled. Condition (ii) was waived by CiTL by serving a written notice dated 30 January 2007 to the Vendor.

5. First Closing and Second Closing

First Closing took place on 31 January 2007 and an amount of approximately HK$42.8 million (subject to adjustments) was paid as purchase price for Tranche I (i.e. 49% of the Sale Shares) upon First Closing.

Second Closing shall take place within 21 days after the issue of the Audited Accounts for the year ending 31 December 2008, or such other dates as the parties may agree.

If at any time after First Closing and before Second Closing, (a) the Vendor or Mr. Lenz has committed a deliberate and substantial breach of the Agreement or the Shareholders' Agreement which breach (i) remains uncured for a period of 30 days after notice from CiTL to the Vendor, and (ii) deprives CiTL of a fundamental benefit of any of the agreements or is fundamentally inconsistent with the relationship of trust contemplated by the agreements, or (b) Mr. Lenz has knowingly committed a deliberate and material breach of a restrictive covenant or confidentiality obligation in the Service Agreement or the agreement between Mr. Lenz and CiTL, which breach remains uncured for a period of 30 days after notice from CiTL to the Vendor, and has or will have a material adverse effect on CiTL or SEL Group, CiTL may at its option by notice to the Vendor elect to (i) proceed to First Closing or Second Closing, as the case may be, in so far as reasonably practicable; (ii) postpone First Closing or Second Closing as the case may be, to a date (being a Business Day) falling not more than 10 Business Days after the date set for First Closing or Second Closing; (iii) terminate the Agreement; or (iv) by written notice accelerate Second Closing to a date no earlier than 10 Business Days after the date of breach.

After First Closing and before Second Closing, SEL Group will be equity accounted for as an associated company of CiTL in accordance with HKFRS. After Second Closing, SEL Group will become a wholly-owned subsidiary of CiTL and its results will be consolidated into CiTL Group.

6. Adjustments

(a) Adjustment for a significant disruption

In the event that there is a significant disruption to the economic situation in Hong Kong leading to a significant market downturn for restaurant businesses during the financial year 2008 and the audited 2008 EBITDA of SEL Group is less than 70% of the budgeted 2008 EBITDA (as provided by the Vendor at the beginning of 2008) but positive (i.e. above zero) (if negative, the method of valuation based on net tangible asset value as described above and the payment adjustment as described below shall still apply), the sale and purchase of Tranche II of the Sale Shares shall be completed and paid within 21 days of the issue of the Audited Accounts for the year ending 31 December 2008, but an adjustment payment shall be made within 21 days after the issue of the Audited Accounts for the year ending 31 December 2009. The adjustment payment would be based on the following calculation:

(51% x R x average of audited 2008 and 2009 EBITDA) less consideration for Tranche II, where R will be determined as follows:

If the average audited EBITDA for 2008 and 2009 is:

(i)	less than or equal to HK$25.0 million,	R = 4.5
(ii)	greater than HK$25.0 million but less than HK$30.0 million,	R = 5.0
(iii)	equal to or greater than HK$30.0 million,	R = 5.5

(b) Adjustment in the event that Second Closing is accelerated

In the event that Second Closing is accelerated (under the circumstances described above) to a date prior to the issue of the Audited Accounts for the year ending 31 December 2008, the sale and purchase of Tranche II of the Sale Shares shall be completed and paid in accordance with the following:

Valuation will be based on the most recent set of Audited Accounts that have been issued. Therefore, if at the time of a breach, the Audited Accounts for the year ending 31 December 2007 have been issued, the valuation of Tranche II of the Sale Shares shall be based on the following formula:

T x audited 2007 EBITDA x 51%, where T will be determined as follows:

If the audited 2007 EBITDA is:

(i)	less than or equal to HK$23.0 million,	T = 4.5
(ii)	greater than HK$23.0 million but less than HK$26.0 million,	T = 5.0
(iii)	equal to or greater than HK$26.0 million,	T = 5.5

If the Audited Accounts for the year ending 31 December 2007 have not been issued, the valuation of Tranche II of the Sale Shares shall be based on the following formula:

4.5 x audited Normalized 2006 EBITDA x 51%

If the Audited Accounts for the year ending 31 December 2006 have not been issued, the valuation of Tranche II of the Sale Shares shall be based on the following formula:

4.5 x audited 2005 EBITDA x 51%

Payment shall be made at Second Closing.

7. The Purchaser's Loan

Pursuant to the Agreement, CiTL will lend to SEL Group upon request at any time after First Closing the Purchaser's Loan of up to HK$3.5 million for the capital expenditure of SEL Group. The Purchaser's Loan will bear interest, payable semi-annually, at the Hong Kong prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited plus 100 basis points, and will be repaid by SEL Group in six equal semi-annual instalments commencing on the first anniversary of drawdown. The Purchaser's Loan will be secured by assets of SEL Group with a net realisable value of not less than the amount of the Purchaser's Loan. The Purchaser's Loan is expected to be financed by internal resources of CiTL.

8. Additional Borrowing

Subject to the terms of the Agreement, SEL Group may borrow at any time after First Closing the Additional Borrowing of up to HK$11.5 million from third parties or CiTL (if CiTL offers more favourable terms of finance) for the capital expenditure of new outlets provided that, among others, SEL Group must obtain CiTL's prior written approval of the opening or development of new outlets (save for new outlets agreed with CiTL prior to the date of the Agreement). The Additional Borrowing, if provided, is expected to be financed by internal resources of CiTL Group or external financing sources to be arranged by CiTL depending on the then cash flow position of CiTL Group.

9. Other terms

The Vendor also undertakes to CiTL that:

(a) on or before 31 December 2006 or First Closing, whichever is earlier, it shall procure that SEL Group:

(i) sells and completes the sale of the Office for a sum of not less than HK$6.0 million;

(ii) uses the proceeds of sale of the Office to pay the Outstanding Management Bonuses;

(iii) uses the balance of the proceeds of sale of the Office after payment of the Outstanding Management Bonuses, to repay a corresponding portion of the Shareholders' Loan; and

(iv) provides evidence satisfactory to CiTL that the above provisions have been fully complied with; and

Upon First Closing, all of the above items except for item (iii) have been fulfilled. Item (iii) was waived by CiTL by serving a written notice dated 29 December 2006 to the Vendor.

(b) after First Closing, it shall procure that SEL Group:

(i) repays the Shareholders' Loan and any interest accrued on the principal amount of such loan from 1 November 2006 until the date of payment;

(ii) pays the dividends declared by CL Holdings prior to the date of the Agreement in the amount of HK$5,556,016 to the extent that it remains outstanding and unpaid as at First Closing; and

(iii) repays the various tax loans in full (including all interest and fees) granted by Shanghai Commercial Bank Ltd under facility letters dated 2 November 2006 in the total principal sum of approximately HK$2.2 million, out of the operating cash flow of SEL Group. If there is insufficient operating cash flow to pay such sums immediately, such sums shall be repaid as soon as possible thereafter and in any event before 31 December 2007.

ANCILLARY AGREEMENTS

1. The Shareholders' Agreement dated 31 January 2007

Parties: CiTL;
the Vendor; and
SEL.

Principal terms of the Shareholders' Agreement

(a) Board composition

The maximum number of directors of SEL shall be seven. For so long as each of CiTL and the Vendor is a shareholder of SEL, CiTL and the Vendor shall have the right to appoint and remove up to three directors and four directors respectively.

The chairman of the board of SEL shall be appointed by such board and shall not be entitled to a second or casting vote.

(b) Dividend policy

Shareholders of SEL will procure that immediately prior to Second Closing, SEL Group will distribute all available cash generated from the normal operation of the business of SEL Group that is legally available for distribution, provided that no such distribution shall be made to the extent that it would cause the net current operating assets of SEL Group as of Second Closing to be less than zero. To the extent that at Second Closing there is cash generated from the normal operation of the business of SEL Group that would have been distributed to the shareholders of SEL pursuant to the immediately preceding sentence but for the fact that such cash was not legally available for distribution, the Consideration for Tranche II shall be increased by an amount equal to 51% of the amount of such cash.

(c) Transfer of shares

No shareholder of SEL shall have the right to transfer any of its shares in SEL except in accordance with the provisions of the Shareholders' Agreement.

The Vendor may not transfer any of its shares in SEL except to CiTL at Second Closing in accordance with the Agreement.

CiTL may not transfer any of its shares in SEL to other parties unless it fails to complete Second Closing in which case, it may transfer its shares in SEL to the Vendor in accordance with the Agreement. However, CiTL may at any time transfer any or all of its shares in SEL to a company within CiTL Group provided that the transferee shall execute an instrument satisfactory to the Vendor and agree to be bound by the Shareholders' Agreement, and CiTL shall remain bound to ensure that the transferee performs its obligations under the Shareholders' Agreement.

There is no present intention to appoint Mr. Lenz as a director of CiTL.

2. The agreement between Mr. Lenz and CiTL dated 31 January 2007

Pursuant to the Agreement, in consideration of CiTL agreeing to enter into the Agreement, the Shareholders' Agreement and the Escrow Agreement, Mr. Lenz, as the majority shareholder of the Vendor, undertakes to, among other things, procure due and punctual performance and compliance by the Vendor of its obligations and the giving of undertakings by the minority shareholders of the Vendor in connection with the Acquisition. In particular, Mr. Lenz undertakes that he holds and will continue to hold for the period from First Closing until Second Closing no less than 51% of the issued share capital of the Vendor.

3. The Escrow Agreement dated 31 January 2007

Pursuant to the Agreement, the Escrow Agreement was entered into among CiTL, the Vendor and the Escrow Agent upon First Closing on 31 January 2007. On Second Closing, a proportion of the consideration for Tranche II equal to the maximum aggregate liability of the Vendor under the warranties of the Agreement (i.e. HK$10 million) less any Resolved Claim, shall be placed into escrow until the expiry of the one year period following Second Closing. The Escrow Amount shall be held by the Escrow Agent to be used by way of set-off against any Resolved Claim after Second Closing. Consideration for Tranche II shall be reduced by the amount of any Resolved Claim as of Second Closing. The Escrow Agreement shall continue in full force and effect until the Escrow Agreement is terminated or all monies in the Escrow Account have been released in accordance with the Escrow Agreement.

4. The Service Agreement dated 31 January 2007

Pursuant to the Agreement, Mr. Lenz and SEL entered into the Service Agreement upon First Closing on 31 January 2007 to employ Mr. Lenz as the chief executive officer of SEL for the purpose of facilitating a smooth transition of SEL Group after the Acquisition.

Pursuant to the terms of the Service Agreement, the employment of Mr. Lenz as the chief executive officer of SEL shall be for a term of two and a half years commencing from First Closing.

INFORMATION ON SEL GROUP

SEL was incorporated in the BVI on 6 September 2006. Pursuant to a restructuring exercise, SEL has become the holding company of the companies now comprising SEL Group (also known under the trade name "Igor's"). The first restaurant was established in 1998 and now there are 20 outlets in operation including, among others, "Wildfire", "The Boathouse", "Stormies Crabshack" and "Café de Paris" in various prime dining destinations such as Lan Kwai Fong, Soho, Stanley and Knutsford Terrace in Hong Kong. Igor's restaurants offer a wide variety of international cuisines, ranging from traditional French to casual fast food. In addition, Igor's also operates bars and restaurants in the premier entertainment districts of Lan Kwai Fong and Wanchai, namely "Stormies", "The Cavern", "Swindlers", and "Typhoon", where their resident bands offer a repertoire of live music entertainment.

Set out below is the audited consolidated financial information of SEL Group (excluding SEL) for the two years ended 31 December 2004 and 2005 and eleven months ended 30 November 2006 prepared in accordance with HKFRS:

	For the year ended 31 December		**For the eleven months ended 30 November**
	2004	**2005**	**2006**
	HK$ million	*HK$ million*	*HK$ million*
Turnover	81.4	105.8	107.0
Profit before taxation	3.5	9.4	7.6
Profit after taxation	2.4	8.3	6.6

	As at		**As at 30 November**
	31 December 2004	**31 December 2005**	**2006**
	HK$ million	*HK$ million*	*HK$ million*
Total assets	30.3	39.1	50.1
Net assets	10.3	20.2	19.6

The accountants' report on SEL Group is set out in Appendix I to this circular.

After First Closing and before Second Closing, SEL Group will be equity accounted for as an associated company of CiTL in accordance with HKFRS. After Second Closing, SEL Group will become a wholly-owned subsidiary of CiTL and its results will be consolidated into CiTL Group.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Agreement, SEL would become a direct wholly-owned subsidiary of CiTL and its results, assets and liabilities would be consolidated into the accounts of CiTL, which in turn would be consolidated into the accounts of the Group.

BACKGROUND TO AND REASONS FOR THE ACQUISITION

The CiTL Board was approached by Quam Capital Limited, the financial adviser to the Vendor in February 2006 regarding an investment opportunity in SEL. After carrying out preliminary financial and legal due diligence on the businesses of SEL Group, CiTL commenced negotiations with the Vendor in acquiring the entire issued share capital of SEL. The Agreement was reached between the parties to the Agreement on 25 November 2006.

CiTL completed the acquisition of Pacific Coffee in May 2005. Apart from selling coffees and cold beverages, pastries and coffee-related hardware and supplies at its outlets, Pacific Coffee also sells its branded products to wholesale accounts and provides coffee services to corporate customers including hotels, restaurants, clubs and large corporations. For the year ended 31 March 2006, Pacific Coffee contributed a 10-month turnover of approximately HK$180 million to CiTL Group. In light of the success of Pacific Coffee in capturing the fast growing and lucrative specialty coffee business in Hong Kong, it is disclosed in CiTL's 2005/2006 annual report that CiTL Board intends to further develop CiTL Group's food and beverage business to obtain economies of scale and broaden the income stream. CiTL will continue to develop its existing businesses and will further explore investment opportunities in the food and beverage business in Hong Kong and neighbouring regions. The Board considers that the Acquisition is in line with CiTL Group's business strategy.

The Acquisition represents an attractive opportunity to CiTL Group as it enables CiTL Group to fortify its food and beverage business. In particular, the Board believes that the outlets operated under SEL Group will enable CiTL Group to capture the fast growing and lucrative western lifestyle food and beverage market in Asia. Furthermore, after the Acquisition, CiTL may leverage on its market knowledge and experience in the food and beverage business and enjoy operational economies of scale.

In view of the above, the Board (including the independent non-executive Directors) considers the terms of the Acquisition, including the Consideration and its payment terms, are on normal commercial terms and are fair and reasonable and the Acquisition is in the interest of the Company and its shareholders as a whole.

OTHER INFORMATION

The Company is an investment holding company which, through its subsidiaries, is principally engaged in the business of construction and engineering, insurance and investment, property investment, hotel investment, information technology and food & beverage.

GENERAL

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Chevalier International Holdings Limited
Chow Yei Ching
Chairman and Managing Director

(A) ACCOUNTANTS' REPORT ON SEL GROUP

The following is the reproduction of the text of the accountants' report on SEL Group contained in the circular of CiTL dated 7th February 2007 for Shareholders' information purpose only.

李湯陳會計師事務所
LI, TANG, CHEN & CO.
Certified Public Accountants (Practising)

7th February 2007

The Directors,
Chevalier iTech Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Sinochina Enterprises Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for the period from 15th January, 2003 (date of incorporation of CL Holdings Limited) to 31st December, 2003 for each of the two years ended 31st December, 2004 and 2005 and the eleven months ended 30th November, 2006 (the "Relevant Periods") and the eleven months ended 30th November, 2005 (the "30th November, 2005 Financial Information"), prepared on the basis set out in note 1 of Section B below for inclusion in the circular of Chevalier iTech Holdings Limited (the "Company") dated 7th February, 2007 in connection with the proposed acquisition of the entire equity interest in the Target Company by the Company (the "Circular").

The Target Company was incorporated in the British Virgin Islands with limited liability under the International Business Companies Act of the British Virgin Islands on 6th September, 2006. The principal activity of the Target Company is investment holding. During the Relevant Periods, the Target Group is principally engaged in restaurant operations. The Target Company has not carried on any business, save for the acquisition of the entire equity interests in CL Holdings Limited as defined below on 23rd November, 2006, since its incorporation.

All companies now comprising the Target Group have adopted 31st December as their financial year end date.

Pursuant to the restructuring of the Target Group on 23rd November, 2006, the shareholders of CL Holdings Limited transferred their interests in CL Holdings Limited to the Target Company for the purpose of acting as the holding company of the subsidiaries and associate as set out below.

As at the date of this report, the Target Company had direct and indirect interests in the following subsidiaries and associate:

Name	Place and date of incorporation	Nominal value of issued and paid-up share	Percentage of equity interest attributable to the Target Company		Principal activities	*Note*
			Direct	Indirect		
Subsidiaries:						
CL Holdings Limited	Hong Kong 15/01/2003	Ordinary HK$200,000	100%	–	Investment holding	
Capital World (H.K.) Limited	Hong Kong 14/08/2000	Ordinary HK$5,000	–	100%	Restaurant	*(1)*
Info Dragon Limited	Hong Kong 6/8/2003	Ordinary HK$10,000	–	100%	Trading of food and beverage	*(2)*
New Global (H.K.) Limited	Hong Kong 30/08/2000	Ordinary HK$10,000	–	100%	Restaurant	*(3)*
Orient Talent (Hong Kong) Limited	Hong Kong 05/07/2002	Ordinary HK$2	–	100%	Restaurant	*(4)*
Grand Concept (Hong Kong) Limited	Hong Kong 06/12/2002	Ordinary HK$2	–	100%	Restaurant	*(5)*
Giant Ocean (H.K.) Limited	Hong Kong 20/11/1998	86 class "A" ordinary shares HK$86 90 class "B" ordinary shares HK$90	–	100%	Restaurant	*(6)*
Pacific York (H.K.) Limited	Hong Kong 24/04/2001	Ordinary HK$2	–	100%	Restaurant	*(7)*
Champ Success (Hong Kong) Limited	Hong Kong 24/03/2003	Ordinary HK$2	–	100%	Restaurant	*(8)*
Igor's Group Management Limited	Hong Kong 25/10/1999	Ordinary HK$2	–	100%	Restaurant	*(9)*
Giant Dragon (Hong Kong) Limited	Hong Kong 06/01/2003	Ordinary HK$10,000	–	100%	Restaurant	*(10)*
Super Target (Hong Kong) Limited	Hong Kong 15/12/2003	Ordinary HK$100	–	100%	Restaurant	*(11)*
Success Well (HK) Limited	Hong Kong 14/03/2006	Ordinary HK$10,000	–	100%	Restaurant	*(12)*
Eastech Limited	Hong Kong 13/06/1991	Ordinary HK$6,080,832	–	100%	Restaurant	*(13)*
Marson Consultants Limited	Hong Kong 10/03/1994	Ordinary HK$10	–	100%	Restaurant	*(14)*
Associate:						
Orchid International Limited	Hong Kong 19/09/2001	Ordinary HK$760,000	–	50%	Restaurant	*(15)*

Note

1. Capital World (H.K.) Limited became a subsidiary of the Target Group on 2nd April, 2003.

2. Info Dragon Limited became a subsidiary of the Target Group on 22nd August, 2003.

3. New Global (H.K.) Limited became a subsidiary of the Target Group on 2nd April, 2003.

4. Orient Talent (Hong Kong) Limited became a subsidiary of the Target Group on 2nd April, 2003.

5. Grand Concept (Hong Kong) Limited became a subsidiary of the Target Group on 2nd April, 2003.

6. Giant Ocean (H.K.) Limited became a subsidiary of the Target Group on 2nd April, 2003.

7. Pacific York (H.K.) Limited became a subsidiary of the Target Group on 2nd April, 2003.

8. Champ Success (Hong Kong) Limited became a subsidiary of the Target Group on 3rd May, 2003.

9. Igor's Group Management Limited became a subsidiary of the Target Group on 25th July, 2003.

10. Giant Dragon (Hong Kong) Limited became a subsidiary of the Target Group on 8th September, 2003.

11. Super Target (Hong Kong) Limited became a subsidiary of the Target Group on 16th January, 2004.

12. Success Well (HK) Limited became a subsidiary of the Target Group on 10th July, 2006.

13. The Target Group acquired 17.48% of issued ordinary shares of Eastech Limited on 20th October, 2003 and further acquired remaining 31.75% and 50.77% of issued ordinary shares on 23rd December, 2004 and 31st October, 2006 respectively.

14. The Target Group acquired 40% of issued ordinary shares of Marson Consultants Limited on 2nd July, 2003 and further acquired remaining 60% of the issued ordinary shares on 31st October, 2006.

15. The Target Group acquired 50% of issued ordinary shares of Orchid International Limited on 1st November, 2005.

The Financial Information has been prepared by sole director of Target Company based on the audited financial statements or, where appropriate, the unaudited management financial statements of Target Group, after making such adjustments as are appropriate. Adjustments have been made for the purpose of this report to restate these financial statements to conform with accounting policies as referred to Section B below, which are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations.

For the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, unaudited management financial statements of Target Group for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, we have performed a review of the 30th November, 2005 Financial Information, which includes the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Target Group for the eleven months ended 30th November, 2005, for which the sole director of the Target Company is responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the 30th November, 2005 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities than an audit or examination procedures described in the preceding paragraph, and accordingly, we do not express an audit opinion on the 30th November, 2005 Financial Information.

The Financial Information, which includes the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Target Group for the Relevant Periods and the 30th November, 2005 Financial Information, the consolidated balance sheets of the Target Group as at 31st December, 2003, 2004 and 2005 and 30th November, 2006, together with the notes thereto as set out in this report, have been prepared and presented on the basis set out in note 1 of Section B below.

The directors of the respective companies of the Target Group are responsible for the preparation of the financial statements of the relevant companies which give a true and fair view. The sole director of the Target Company is responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

In forming our opinion, we have considered the adequacy of the disclosures made in the Financial Information concerning the adoption of the going concern basis for the preparation of the Financial Information. As explained in note 1 of Section B below, the Financial Information has been prepared on a going concern basis, the validity of which is based on the ability of the Target Group to generate positive cash flow from its operation. We have evaluated the sole director's assessment of the ability to continue as a going concern by analysing cash flow forecast from 1st January, 2007 to 28th February, 2008 prepared by the sole director and have also reviewed and discussed with the sole director regarding the Target Group's future investment and business plans. The Financial Information has been prepared on a going concern basis on the assumption that the Target Group can generate positive cash flow from its operation and future investments.

In our opinion, on the basis of presentation set out in note 1 of Section B below, the Financial Information, for the purpose of this report, gives a true and fair view of the consolidated results and consolidated cash flows of the Target Group for the Relevant Periods and of the consolidated state of affairs of the Target Group as at 31st December, 2003, 2004 and 2005 and 30th November, 2006 and the state of affairs of the Target Company as at 30th November, 2006.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30th November, 2005 Financial Information.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Note	Period from 15th January, 2003 (date of incorporation of CL Holdings Limited) to 31st December, 2003	Year ended 31st December 2004	2005	Eleven months ended 30th November 2005	2006
		HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
TURNOVER	5	45,742	81,424	105,804	95,591	107,041
COST OF SALES		(9,373)	(15,348)	(20,210)	(18,209)	(21,176)
GROSS PROFIT		36,369	66,076	85,594	77,382	85,865
OTHER INCOME AND GAINS	5	4,794	1,925	3,622	1,431	7,006
ADMINISTRATIVE AND OTHER OPERATING EXPENSES		(38,422)	(64,251)	(79,949)	(73,169)	(85,862)
FINANCE COSTS	6	(67)	(238)	(140)	(99)	(231)
SHARE OF RESULTS OF ASSOCIATES		–	–	292	354	806
PROFIT BEFORE TAXATION	7	2,674	3,512	9,419	5,899	7,584
TAX EXPENSE	8	(721)	(1,160)	(1,084)	(907)	(999)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,953	2,352	8,335	4,992	6,585
DIVIDEND	9	–	–	7,200	–	–

		CONSOLIDATED BALANCE SHEETS				BALANCE SHEET
		As at 31st December			As at 30th November	As at 30th November
	Note	**2003**	**2004**	**2005**	**2006**	**2006**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS						
Property, plant and equipment	*10*	11,206	14,855	10,858	17,761	–
Prepaid land lease payments	*11*	498	497	496	950	–
Subsidiary	*12*	–	–	–	–	390
Associates	*13*	(133)	387	5,424	1,462	–
Investment securities	*14*	1,190	–	–	–	–
Goodwill	*15*	–	–	–	–	–
Negative goodwill	*16*	(2,083)	(1,562)	–	–	–
Deferred tax assets	*17*	76	99	257	336	–
Rental deposits		2,586	2,907	3,841	3,490	–
Circulatory inventories		476	687	718	1,113	–
		13,816	17,870	21,594	25,112	390
CURRENT ASSETS						
Inventories	*18*	1,516	1,913	2,586	3,103	–
Rental and other deposits		1,990	2,193	3,206	6,343	–
Accounts receivable	*19*	817	2,278	1,553	1,087	–
Amount due from related companies of SEL	*20*	–	–	–	268	–
Amount due from sole director of SEL	*21*	–	–	341	–	–
Prepaid land lease payments	*11*	1	1	1	21	–
Prepayments		249	433	567	931	–
Tax recoverable	*8(c)*	–	56	–	118	–
Cash and bank balances	*22*	2,739	5,544	9,285	13,134	–
		7,312	12,418	17,539	25,005	–
CURRENT LIABILITIES						
Amount due to ultimate holding company of SEL	*23*	(389)	(389)	(389)	(267)	(389)
Amount due to an associate of SEL	*23*	–	–	(216)	–	–
Amount due to related companies of SEL	*23*	(1,571)	(111)	–	–	–
Amount due to sole director of SEL	*23*	(1,629)	(2,279)	–	–	–
Amount due to shareholders of the ultimate holding company of SEL	*24*	(6,208)	(5,850)	(5,000)	(5,700)	–
Receipts in advance		–	(340)	(120)	–	–

	Note	CONSOLIDATED BALANCE SHEETS As at 31st December 2003 HK$'000	2004 HK$'000	2005 HK$'000	As at 30th November 2006 HK$'000	BALANCE SHEET As at 30th November 2006 HK$'000
Accounts payable	*25*	(3,179)	(4,960)	(4,265)	(7,340)	–
Accrued expenses		(3,351)	(3,824)	(5,149)	(5,728)	–
Dividend payable		–	–	–	(5,556)	–
Current portion of obligations under finance leases	*26*	(60)	(60)	(43)	(78)	–
Bank borrowings	*27*	(1,894)	(1,046)	(2,450)	(2,603)	–
Tax payable		(209)	(822)	(1,138)	(1,101)	–
		(18,490)	(19,681)	(18,770)	(28,373)	(389)
NET CURRENT LIABILITIES		(11,178)	(7,263)	(1,231)	(3,368)	(389)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,638	10,607	20,363	21,744	1
NON-CURRENT LIABILITIES						
Obligations under finance leases	*26*	(100)	(40)	–	(18)	–
Bank borrowings	*27*	(555)	(148)	(139)	(2,117)	–
Deferred tax liabilities	*17*	(319)	(92)	–	–	–
		(974)	(280)	(139)	(2,135)	–
NET ASSETS		1,664	10,327	20,224	19,609	1
CAPITAL AND RESERVES						
Share capital	*28*	1	1	1	1	1
Merger reserve	*29*	(290)	6,021	6,021	6,021	–
Unappropriated profits		1,953	4,305	7,002	13,587	–
Proposed final dividend		–	–	7,200	–	–
		1,664	10,327	20,224	19,609	1

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK$'000	Merger reserve HK$'000	Unappropriated profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
Balance at 15th January, 2003 (date of incorporation of CL Holdings Limited)	1	(290)	–	–	(289)
Profit for the period	–	–	1,953	–	1,953
Balance at 31st December, 2003	1	(290)	1,953	–	1,664
Issue of new shares by CL Holdings Limited	–	6,311	–	–	6,311
Profit for the year	–	–	2,352	–	2,352
Balance at 31st December, 2004 and 1st January, 2005	1	6,021	4,305	–	10,327
Opening balance adjustment arising on adoption of HKFRS 3 *(note 2(i))*	–	–	1,562	–	1,562
Balance at 1st January, 2005	1	6,021	5,867	–	11,889
Profit for the year	–	–	8,335	–	8,335
Proposed final dividend	–	–	(7,200)	7,200	–
Balance at 31st December, 2005	1	6,021	7,002	7,200	20,224
Profit for the period	–	–	6,585	–	6,585
Dividend paid	–	–	–	(7,200)	(7,200)
Balance at 30th November, 2006	1	6,021	13,587	–	19,609
(Unaudited)					
Balance at 1st January, 2005	1	6,021	5,867	–	11,889
Profit for the period	–	–	4,992	–	4,992
Balance at 30th November, 2005	1	6,021	10,859	–	16,881

CONSOLIDATED CASH FLOW STATEMENTS

	Period from 15th January, 2003 (date of incorporation of CL Holdings Limited) to 31st December,	Year ended 31st December		Eleven months ended 30th November	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	2,674	3,512	9,419	5,899	7,584
Adjustments for:					
Share of results of associates	–	–	(292)	(354)	(806)
Depreciation	2,890	4,939	5,615	5,115	4,845
Amortisation on prepaid land lease payments	1	1	1	1	21
Interest income	(1)	(1)	(68)	(40)	(157)
Amortisation of negative goodwill arising on acquisition of subsidiaries	(4,542)	(521)	–	–	–
Gain on disposal of property, plant, and equipment and prepaid land lease payments	–	–	–	–	(5,370)
Interest expenses	67	238	140	99	231
Bad debts written off	33	–	–	–	–
Property, plant and equipment written off	29	–	4	4	29
Provision against/(write-back of provision against) interest in associates	3,140	920	(2,242)	–	–
Write-off of interest in an associate	–	2,883	–	–	–
Provision against investment securities	596	–	–	–	–
Impairment loss on goodwill	–	–	–	–	1,933
Increase in circulatory inventories	(150)	(211)	(31)	(31)	(272)
Increase in inventories	(922)	(397)	(673)	(490)	(397)
Increase in rental and other deposits	(2,979)	(524)	(1,947)	(1,020)	(2,377)
(Increase)/decrease in accounts receivable	(323)	(1,461)	725	628	547
Increase in amount due from related companies of SEL	–	–	–	–	(268)
(Increase)/decrease in amount due from sole director of SEL	–	–	(341)	(341)	341
Increase in prepayments	(249)	(184)	(134)	(354)	(307)
Decrease in amount due to ultimate holding company of SEL	–	–	–	–	(122)
Increase/(decrease) in amount due to an associate of SEL	–	–	216	–	(216)
Increase/(decrease) in amount due to related companies of SEL	5,059	(1,460)	(111)	(111)	–
Increase/(decrease) in amount due to sole director of SEL	1,629	650	(2,279)	(2,279)	–
Increase/(decrease) in amount due to shareholders of the ultimate holding company of SEL	1,665	(358)	(850)	(850)	700
Increase/(decrease) in receipts in advance	–	340	(220)	(203)	(120)
Increase/(decrease) in accounts payable	597	1,781	(695)	(1,033)	(1,448)
Increase in accrued expenses	3,351	473	1,325	984	458
Cash generated from operations	12,565	10,620	7,562	5,624	4,829
Interest paid	(67)	(238)	(140)	(99)	(231)
Tax paid	(1,468)	(853)	(962)	(867)	(1,233)
NET CASH FROM OPERATING ACTIVITIES	11,030	9,529	6,460	4,658	3,365

	Note	Period from 15th January, 2003 (date of incorporation of CL Holdings Limited) to 31st December, 2003	Year ended 31st December 2004	Year ended 31st December 2005	Eleven months ended 30th November 2005	Eleven months ended 30th November 2006
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
INVESTING ACTIVITIES						
Interest received		1	1	68	40	157
Purchases of property, plant and equipment		(9,832)	(8,588)	(1,622)	(1,557)	(13,208)
Sale proceeds on property, plant and equipment and prepaid land lease payments		–	–	–	–	7,841
Acquisition of subsidiaries	*35*	2,135	–	–	–	540
Investment in associates		–	(310)	(501)	–	–
(Net advances to)/repayment from associates		(1,337)	(2,823)	(2,001)	(2,423)	4,768
Acquisition of investment securities		(1,786)	–	–	–	–
NET CASH (USED IN)/ FROM INVESTING ACTIVITIES		(10,819)	(11,720)	(4,056)	(3,940)	98
FINANCING ACTIVITIES						
Dividend paid		–	–	–	–	(1,644)
Proceeds on issue of new shares of CL Holdings Limited		100	6,311	–	–	–
Bank loans obtained		3,018	764	3,350	3,350	4,650
Repayment of bank loans		(570)	(2,019)	(1,955)	(1,567)	(2,518)
Capital element of finance leases rental payments		(20)	(60)	(58)	(4)	(102)
NET CASH FROM FINANCING ACTIVITIES		2,528	4,996	1,337	1,779	386
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,739	2,805	3,741	2,497	3,849
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		–	2,739	5,544	5,544	9,285
CASH AND CASH EQUIVALENTS AT END OF PERIOD		2,739	5,544	9,285	8,041	13,134
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		2,739	5,544	9,285	8,041	13,134

B. NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION

The Financial Information has been prepared based on the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the restructuring had been completed as at the beginning of the Relevant Periods because the Target Company's acquisitions of CL Holdings Limited should be regarded as business combinations under common control as the Target Company and CL Holdings Limited are ultimately controlled by the ultimate holding company of the Target Group, before and after restructuring.

The consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity of the Target Group for the Relevant Periods include the results and cash flows of all companies now comprising the Target Group as if the current structure had been in existence throughout the Relevant Periods, or since their respective date of acquisition, incorporation or establishment, where this is a shorter period. The consolidated balance sheets of the Target Group as at 31st December, 2003, 2004 and 2005 and as at 30th November, 2006 have been prepared to present the state of affairs of the Target Group as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the existing shareholders as at the respective dates.

The Financial Information has been prepared on the presumption that the Target Group will continue to operate as a going concern. This presumption is based on the opinion of the sole director that the Target Group can generate positive cash flow from its operation to meet any liabilities as they fall due within twelve months from 1st December, 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance:

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with all applicable HKFRSs (which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been consistently applied throughout the Relevant Periods.

The HKFRSs which are relevant to these Financial Information are set out below and the Financial Information for the Relevant Periods have been restated as required, in accordance with the relevant requirements.

- HKAS 1 Presentation of financial statements;
- HKAS 2 Inventories;
- HKAS 7 Cash flow statements;
- HKAS 8 Accounting policies, changes in accounting estimates and errors;
- HKAS 10 Events after the balance sheet date;
- HKAS 12 Income taxes;
- HKAS 14 Segment reporting;
- HKAS 16 Property, plant and equipment;
- HKAS 17 Leases;
- HKAS 18 Revenue;
- HKAS 19 Employee benefits;
- HKAS 21 The effects of changes in foreign exchange rates;
- HKAS 23 Borrowing costs;
- HKAS 24 Related party disclosures;

●	HKAS 27	Consolidated and separate financial statements;
●	HKAS 28	Investment in associates;
●	HKAS 32	Financial instruments: Disclosure and presentation;
●	HKAS 36	Impairment of assets;
●	HKAS 37	Provisions, contingent liabilities and contingent assets;
●	HKAS 38	Intangible assets;
●	HKAS 39	Financial instruments: Recognition and measurement;
●	HKAS 39 Amendment	Transition and initial recognition of financial assets and financial liabilities;
●	HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts; and
●	HKFRS 3	Business combinations.

The adoption of the following HKFRSs has resulted in changes in the Target Group's accounting policies that have an effect on how the results for the Relevant Periods prepared and presented.

i) Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. From 1st January, 2005 onwards, the Target Group has applied HKAS 17 "Leases" ("HKAS 17"). Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

This new accounting policy relating to leases has resulted in the following effects:

i) a decrease in the Target Group's property, plant and equipment as at 31st December, 2004 and 2003 by HK$498,440 and HK$499,177 respectively.

ii) an increase in the Target Group's prepaid land lease payments as at 31st December, 2004 and 2003 by HK$498,440 and HK$499,177 respectively.

ii) HKFRS 3 – Business combinations

From 1st January, 2005 onwards, the Target Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the group are summarized below:

Excess of the Target Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Target Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising from acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provision in HKFRS 3, the Target Group derecognised all negative goodwill on 1st January, 2005. Accordingly, adjustments of HK$1,562,000 to the unappropriated profits as at 1st January, 2005 has been made.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

b) Basis of consolidation:

The Financial Information includes the financial statements of the Target Company and its subsidiaries for the Relevant Periods. The results of the companies comprising the Target Group were presented on a merger accounting basis as described in note (1) above.

All significant intercompany transactions and balances within the Target Group are eliminated on consolidation.

c) Basis of preparation of the Financial Information:

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

d) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation on property, plant and equipment is calculated on the straight-line basis to allocate cost to their residual value over their estimated useful lives as follows:

Buildings	4% per annum
Leasehold improvements	33 1/3 % per annum or terms of lease
Furniture and fixtures	20% per annum
Office equipment	20% per annum
Plant and equipment	20% per annum
Kitchen and bar equipment	20% per annum
Motor vehicles	30% per annum

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of the asset (calculated as the difference between the net sale proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

e) Subsidiaries:

A subsidiary is a company, in which the Target Company, directly or indirectly, controls more than half of its voting power or holds more than half of the issued share capital or controls the composition of its board of directors. Control exists when the Target Company has the power, directly or indirectly, to govern the financial and operating policies of the enterprises so as to obtain benefits from their activities.

f) Associates:

Associates are all entities over which the Target Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Target Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Target Group's share of losses of an associate equals or exceeds its interest in that associate, the Target Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where the Target Group transacts with an associate, profits and losses are eliminated to the extent of the Target Group's interest in the relevant associate.

g) Investment securities:

Prior to 1st January, 2005, the Target Group classified its investment in unlisted shares as investment securities.

Investment securities are unlisted shares which are stated at cost less any identified impairment loss.

The carrying amounts of individual investments are reviewed at the balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities would be reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

From 1st January, 2005 onwards, The Target Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluate this designation at every reporting date.

h) Goodwill:

Goodwill arising on an acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Target Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, the then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss which all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

i) Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions"):

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

In periods prior to 1st January, 2005, negative goodwill (excess of the Target Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost) arising from acquisitions was presented as deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provision in HKFRS 3, the Target Group derecognised all negative goodwill on 1st January, 2005. Accordingly, adjustments of HK$1,562,000 to the unappropriated profits had been made.

j) Circulatory inventories:

Circulatory inventories include assets such as glasses, crockery, kitchen utensils and staff uniforms which need frequent replacement and are necessary to operate the business at a satisfactory level. The initial purchase of such assets has been capitalised but their subsequent replacement will be written off to the income statement as incurred. Due to the continuous replacement of these assets, no depreciation is provided in accordance with standard restaurant accounting practice.

k) Inventories:

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of purchase computed using the first-in-first-out method. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions.

l) Impairment:

At each balance sheet date, the Target Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

m) Receivables:

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment unless the effect of discounting would be immaterial, in which case they are stated at cost, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

n) Cash and cash equivalents:

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally with three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

o) Payables:

Payables are initially measured at fair value and, after initial recognition, at amortised cost, except for short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount.

p) Revenue recognition:

i) Sales of food, beverage, cigarette and others are recognised upon the delivery of goods to customers.

ii) Service fee income is recognised when the services are provided.

iii) Delivery charges income is recognised at the time when the services are provided.

iv) Rental income under operating leases are credited to the income statement on a straight-line basis over the term of the lease.

v) Marketing service and management fee income is recognised at the time when the services are provided.

vi) Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

q) Borrowing costs:

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

r) Taxation:

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that are enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

s) Leases:

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease term and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessor, assets leased by the Target Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease term. Where the Target Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the relevant lease terms.

Prepaid land lease payments are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of properties as a finance lease.

t) Related parties:

For the purposes of these financial statements, parties are considered to be related to the Target Group if the Target Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or whether the Target Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Target Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Target Group or of any entity that is a related party of the Target Group.

u) Retirement benefits scheme:

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

v) Provisions and contingencies:

A provision is recognized when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes on the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

w) Segment reporting:

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Target Group's turnover and operating results are principally generated from the restaurant business. Accordingly, no business segment analysis is provided. In addition, the Target Group's assets and liabilities and geographical location of the operations are principally situated at Hong Kong and accordingly, no geographical segment analysis is presented.

x) Dividends:

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial assets and liabilities comprise rental and other deposits, accounts receivable, amounts due from related companies of SEL and sole director of SEL, prepaid land lease payments, prepayments, cash and bank balances, amounts due to ultimate holding company of SEL, an associate of SEL, related companies of SEL and sole director of SEL, interest-bearing loan from a shareholder of the ultimate holding company of SEL, receipts in advance, accounts payable, accrued expenses, dividend payable, obligations under finance leases and bank borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

a) Credit risk

The Target Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets. In order to minimize the credit risk, the Target Group has monitoring procedures to ensure that follow up action is taken to recover overdue debts. The credit risk of liquid funds is limited because the counterparties are banks with high credit-ratings.

b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. The Target Group aims to maintain flexibility in funding by keeping adequate liquid cash available.

c) Interest rate risk

The Target Group has no significant interest-earning assets.

In respect of interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the period in which they reprice or the maturity date, if earlier:

	As at 31st December									
	2003					2004				
	Effective interest rate	On demand or within a period not exceeding one year	Within a period of more than one year but not exceeding two years	Within a period of more than two years but not exceeding five years	Within a period of more than five years	Effective interest rate	On demand or within a period not exceeding one year	Within a period of more than one year but not exceeding two years	Within a period of more than two years but not exceeding five years	Within a period of more than five years
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Maturity dates for liabilities which do not reprice before maturity										
Loan from a shareholder of the ultimate holding company of SEL	–	–	–	–	–	5%	328	–	–	–
Repricing dates for liabilities which reprice before maturity										
Bank loans	2.75%-6%	1,894	408	147	–	4%-6.375%	1,046	148	–	–

	As at 31st December 2005					As at 30th November 2006				
	Effective interest rate	On demand or within a period not exceeding one year *HK$'000*	Within a period of more than one year but not exceeding two years *HK$'000*	Within a period of more than two years but not exceeding five years *HK$'000*	Within a period of more than five years *HK$'000*	Effective interest rate	On demand or within a period not exceeding one year *HK$'000*	Within a period of more than one year but not exceeding two years *HK$'000*	Within a period of more than two years but not exceeding five years *HK$'000*	Within a period of more than five years *HK$'000*
Maturity dates for liabilities which do not reprice before maturity										
Loan from a shareholder of the ultimate holding company of SEL	–	–	–	–	–	6.5%	700	–	–	–
Repricing dates for liabilities which reprice before maturity										
Bank loans	5.5%-8.75%	2,450	139	–	–	5.75%-9.00%	2,603	203	608	1,306

d) Foreign currency risk

The Target Group does not have any significant exposure to foreign exchange risk. All of the receivables and payables are denominated in Hong Kong dollars.

e) Fair values estimation

The sole director considers that the following financial assets and liabilities are carried at amounts not materially different from their fair values: rental and other deposits, accounts receivable, amounts due from related companies of SEL and sole director of SEL, prepaid land lease payments, prepayments, cash and bank balances, amounts due to ultimate holding company of SEL, an associate of SEL, related companies of SEL and sole director of SEL, interest-bearing loan from a shareholder of the ultimate holding company of SEL, receipts in advance, accounts payable, accrued expenses, dividend payable, obligations under finance leases and bank borrowings.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Target Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Target Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Target Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Target Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

5. TURNOVER AND OTHER INCOME AND GAINS

	Period from 15th January 2003 (date of incorporation of CL Holdings Limited) to 31st December	Year ended 31st December		Eleven months ended 30th November	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Turnover					
Sales of food, beverage, cigarette and others	41,897	74,936	98,001	88,430	98,592
Service charges	3,845	6,450	7,803	7,059	8,388
Delivery charges income	–	32	–	–	–
Gross rental income	–	6	–	102	61
	45,742	81,424	105,804	95,591	107,041
Other income and gains					
Marketing service income	–	120	–	–	–
Management fee income	–	52	381	381	635
Interest income	1	1	68	40	157
Sundry income	251	259	931	1,010	839
Loan waived by a director of SEL	–	972	–	–	–
Exchange gain	–	–	–	–	5
Amortisation of negative goodwill arising on acquisition of subsidiaries	4,542	521	–	–	–
Profit on disposal of property, plant and equipment and prepaid land lease payments	–	–	–	–	5,370
Write-back of provision against interest in associates	–	–	2,242	–	–
	4,794	1,925	3,622	1,431	7,006

6. FINANCE COSTS

	Period from 15th January 2003 (date of incorporation of CL Holdings Limited) to 31st December	Year ended 31st December		Eleven months ended 30th November	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Interest on bank overdraft	–	2	–	–	–
Interest on bank loans	54	81	132	92	214
Interest on other loan	–	150	–	–	–
Interest on loan from a shareholder of the ultimate holding company of SEL	11	–	–	–	16
Interest on obligations under finance leases	2	5	8	7	1
	67	238	140	99	231

7. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	Period from 15th January 2003 (date of incorporation of CL Holdings Limited) to 31st December	Year ended 31st December		Eleven months ended 30th November	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Staff salaries and allowances	15,150	29,120	36,796	33,730	42,653
Mandatory provident fund contribution	643	1,295	1,633	1,498	1,634
Depreciation					
– owned assets	2,842	4,891	5,567	5,071	4,801
– assets under finance leases	48	48	48	44	44
Amortisation on prepaid land lease payments	1	1	1	1	21
Auditors' remuneration	90	126	139	127	117
Donations	–	132	42	–	–
Inventory costs	9,373	15,348	20,210	18,209	21,176
Operating lease rental charges					
– rented premises	6,192	11,385	16,083	10,961	18,005
(including contingent rent)	1,988	2,189	772	772	47
– equipment	11	17	59	52	58
Bad debts written off	33	–	–	–	–
Property, plant and equipment written off	29	–	4	4	29
Provision against interest in associates of SEL	3,140	920	–	–	–
Write-off of interest in an associate of SEL	–	2,883	–	–	–
Provision against investment securities	596	–	–	–	–
Impairment loss on goodwill	–	–	–	–	1,933

8. TAX EXPENSE

a) Tax expense in the consolidated income statements represents:

	Period from 15th January 2003 (date of incorporation of CL Holdings Limited) to 31st December	Year ended 31st December		Eleven months ended 30th November	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Hong Kong profits tax	478	1,410	1,334	1,037	1,078
Deferred taxation *(note 17)*	243	(250)	(250)	(130)	(79)
	721	1,160	1,084	907	999

b) Provision for Hong Kong profits tax has been made at 17.5% on the estimated assessable profits for the relevant period.

c) Tax recoverable stated in the balance sheet represented the excess of provisional profits tax paid over the estimated tax liabilities.

d) Tax expense can be reconciled to the profit before taxation at the statutory income tax rate as follows:

	Period from 15th January 2003 (date of incorporation of CL Holdings Limited) to 31st December	**Year ended 31st December**		**Eleven months ended 30th November**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before Taxation	2,674	3,512	9,419	5,899	7,584
Tax at the statutory income tax rate of 17.5%	468	614	1,648	1,032	1,327
Tax effect of share of results of associates	–	–	(51)	(62)	(141)
Tax effect of non-taxable income	(795)	(589)	(404)	(9)	(992)
Tax effect of non-deductible expenses	997	1,036	5	6	515
Tax effect of temporary differences not recognised	(10)	104	389	340	196
Tax effect of utilisation of tax losses not recognised in previous years	–	(212)	(546)	(457)	(353)
Tax effect of unrecognised tax losses	268	191	44	58	422
Others	(207)	16	(1)	(1)	25
Tax expense	721	1,160	1,084	907	999

9. DIVIDEND

No dividend has been paid or declared by the Target Company since its incorporation.

The dividend payable by CL Holdings Limited, the then holding company of the companies comprising the Target Group to its then shareholders during the Relevant Periods and for the eleven months ended 30th November, 2006 were as follows:

	Period from 15th January 2003 (date of incorporation of CL Holdings Limited) to 31st December	**Year ended 31st December**		**Eleven months ended 30th November**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
CL Holdings Limited	–	–	7,200	–	–

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings held in Hong Kong on long lease	Leasehold buildings held in Hong Kong on medium-term lease	Leasehold improvements	Furniture and fixtures	Office equipment	Plant and equipment	Kitchen and bar equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions	791	648	2,005	2,008	206	567	3,042	246	9,513
Acquisition of subsidiaries	–	–	874	1,180	279	874	1,275	130	4,612
Depreciation	(32)	(26)	(608)	(692)	(114)	(321)	(956)	(141)	(2,890)
Written-off	–	–	(29)	–	–	–	–	–	(29)
Net book value at 31.12.2003	759	622	2,242	2,496	371	1,120	3,361	235	11,206
At 31.12.2003									
Cost	791	648	2,540	3,188	485	1,441	4,317	376	13,786
Accumulated depreciation	(32)	(26)	(298)	(692)	(114)	(321)	(956)	(141)	(2,580)
Net book value	759	622	2,242	2,496	371	1,120	3,361	235	11,206
Net book value at 1.1.2004	759	622	2,242	2,496	371	1,120	3,361	235	11,206
Additions	–	–	3,245	1,217	278	1,584	2,261	3	8,588
Depreciation	(32)	(26)	(1,464)	(1,013)	(190)	(677)	(1,434)	(103)	(4,939)
Net book value at 31.12.2004	727	596	4,023	2,700	459	2,027	4,188	135	14,855
At 31.12.2004									
Cost	791	648	5,785	4,405	763	3,025	6,578	379	22,374
Accumulated depreciation	(64)	(52)	(1,762)	(1,705)	(304)	(998)	(2,390)	(244)	(7,519)
Net book value	727	596	4,023	2,700	459	2,027	4,188	135	14,855
Net book value at 1.1.2005	727	596	4,023	2,700	459	2,027	4,188	135	14,855
Additions	–	–	123	514	264	178	543	–	1,622
Depreciation	(31)	(26)	(1,937)	(1,075)	(226)	(712)	(1,515)	(93)	(5,615)
Written-off	–	–	–	–	–	–	–	(4)	(4)
Net book value at 31.12.2005	696	570	2,209	2,139	497	1,493	3,216	38	10,858
At 31.12.2005									
Cost	791	648	5,908	4,919	1,027	3,203	7,121	344	23,961
Accumulated depreciation	(95)	(78)	(3,699)	(2,780)	(530)	(1,710)	(3,905)	(306)	(13,103)
Net book value	696	570	2,209	2,139	497	1,493	3,216	38	10,858

	Leasehold buildings held in Hong Kong on long lease	Leasehold buildings held in Hong Kong on medium-term lease	Leasehold improvements	Furniture and fixtures	Office equipment	Plant and equipment	Kitchen and bar equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net book value at 1.1.2006	696	570	2,209	2,139	497	1,493	3,216	38	10,858
Acquisition of subsidiaries	–	–	381	378	231	133	257	–	1,380
Additions	–	2,630	2,687	2,840	967	1,226	1,979	41	12,370
Depreciation	–	(96)	(812)	(1,307)	(294)	(759)	(1,535)	(42)	(4,845)
Disposal/written-off	(696)	(570)	(30)	(108)	(15)	(44)	(539)	–	(2,002)
Net book value at 30.11.2006	–	2,534	4,435	3,942	1,386	2,049	3,378	37	17,761
At 30.11.2006									
Cost	–	2,630	8,987	8,260	2,292	4,588	8,452	385	35,594
Accumulated depreciation	–	(96)	(4,552)	(4,318)	(906)	(2,539)	(5,074)	(348)	(17,833)
Net book value	–	2,534	4,435	3,942	1,386	2,049	3,378	37	17,761
Net book value of assets held under finance leases included above:									
At 30.11.2006	–	–	–	–	–	–	127	–	127
At 31.12.2005	–	–	–	–	–	–	–	16	16
At 31.12.2004	–	–	–	–	–	–	–	64	64
At 31.12.2003	–	–	–	–	–	–	–	112	112

Note

i) At 30th November, 2006, the Target Group had pledged its leasehold buildings with aggregate net book value of HK$2,534,000 (2005: HK$1,266,000, 2004: HK$1,323,000, 2003: HK$1,381,000) and certain property, plant and equipment to secure the Target Group's general banking facilities.

ii) The total cost of property, plant and equipment written-off/disposal of during the period ended 30th November, 2006 was HK$3,338,000 (2005: HK$35,000, 2004: HK$Nil, 2003: HK$339,000).

11. PREPAID LAND LEASE PAYMENTS

	HK$'000
Addition	500
Amortisation	(1)
Net book value at 31.12.2003	499
At 31.12.2003	
Cost	500
Accumulated amortisation	(1)
Net book value	499
Net book value at 1.1.2004	499
Amortisation	(1)
Net book value at 31.12.2004	498
At 31.12.2004	
Cost	500
Accumulated amortisation	(2)
Net book value	498
Net book value at 1.1.2005	498
Amortisation	(1)
Net book value at 31.12.2005	497
At 31.12.2005	
Cost	500
Accumulated amortisation	(3)
Net book value	497
Net book value at 1.1.2006	497
Addition	992
Disposal	(497)
Amortisation	(21)
Net book value at 30.11.2006	971
At 30.11.2006	
Cost	992
Accumulated amortisation	(21)
Net book value	971

Note:

i)

	As at 31st December 2003 HK$'000	2004 HK$'000	2005 HK$'000	As at 30th November 2006 HK$'000
Leasehold land in Hong Kong				
Long lease	492	492	491	–
Medium-term lease	7	6	6	971
	499	498	497	971
Analysed for reporting purposes as				
Non-current portion	498	497	496	950
Current portion	1	1	1	21
	499	498	497	971

ii) At 30th November, 2006, the Target Group had pledged its leasehold land with aggregate net book value of HK$971,000 (2005: HK$497,000, 2004: HK$498,000, 2003: HK$499,000) to secure the Target Group's general banking facilities.

12. SUBSIDIARY

	As at 30th November 2006 HK$'000
Unlisted shares, at cost	390

Details of the subsidiaries of SEL are disclosed in Section A above.

13. ASSOCIATES

	As at 31st December 2003 HK$'000	2004 HK$'000	2005 HK$'000	As at 30th November 2006 HK$'000
Unlisted shares, at cost	–	965	1,467	501
Share of post- acquisition profits less losses	–	–	292	474
Provision for loss *(note)*	(133)	–	–	–
	(133)	965	1,759	975
Amounts due from associates	3,131	2,408	4,409	487
Less: Provision *(note)*	(3,131)	(2,986)	(744)	–
	–	(578)	3,665	487
	(133)	387	5,424	1,462

Amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

Note: In 2003 the Target Group agreed to provide continued financial support to an associate, Marson Consultants Limited and accordingly, the entire operating loss of HK$3,264,000 of this associate had been provided in the financial statements for the period ended 31st December, 2003.

Details of the associates are as follows:

		Percentage of issued ordinary shares held				
Name of associate	**Place of incorporation**	**As at 31st December**			**As at 30th November**	**Principal activity**
		2003	**2004**	**2005**	**2006**	
Stormy's Restaurant Pte. Limited	Singapore	20%	–	–	–	Restaurant
Eastech Limited	Hong Kong	#	49.23%	49.23%	*	Restaurant
Marson Consultants Limited	Hong Kong	40%	40%	40%	*	Restaurant
Orchid International Limited	Hong Kong	–	–	50%	50%	Restaurant

\# The Target Group held 17.48% of issued ordinary shares of Eastech Limited as at 31st December, 2003 and was classified under investment securities in the consolidated balance sheets.

* Eastech Limited and Marson Consultants Limited became subsidiaries of the Target Group on 31st October, 2006.

Summary financial information on associates

	Assets	**Liabilities**	**Equity**	**Revenues**	**Profit/(loss)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2003					
100 per cent	2,327	6,937	(4,610)	4,998	(780)
Target Group's effective interest	667	2,324	(1,657)	1,359	(249)
2004					
100 per cent	1,591	5,290	(3,699)	6,108	(2,696)
Target Group's effective interest	698	2,183	(1,485)	2,616	(1,330)
2005					
100 per cent	4,336	6,178	(1,842)	10,202	1,414
Target Group's effective interest	2,033	2,710	(678)	4,524	585
2006					
100 per cent	2,417	1,363	1,054	6,593	1,147
Target Group's effective interest	1,208	681	527	3,297	573

14. INVESTMENT SECURITIES

	HK$'000
Unlisted shares, at cost	966
Amount due from investee company	820
	1,786
Less: Provision	(596)
Balance at 31st December, 2003	1,190

Amount due from investee company was unsecured, non-interest bearing and had no fixed terms of repayment.

15. GOODWILL

	As at 31st December			As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Arising on acquisition of subsidiaries during the year	–	–	–	1,933
Impairment loss	–	–	–	(1,933)
	–	–	–	–

Due to the substantial operating losses sustained by the subsidiaries acquired by the Target Group during the period, the sole director considered that the carrying amount of goodwill attributable to those subsidiaries of HK$1,933,000 at 30th November, 2006 was fully impaired. According an impairment of goodwill of HK$1,933,000 was charged to the consolidated income statement.

16. NEGATIVE GOODWILL

	HK$'000
Arising on acquisition of subsidiaries	6,625
Credited to income statement during the period	(4,542)
Net book value at 31st December, 2003	2,083
Net book value at 1st January, 2004	2,083
Credited to income statement during the year	(521)
Net book value at 31st December, 2004	1,562
Net book value at 1st January, 2005 as originally stated	1,562
Derecognised upon the adoption of HKFRS 3	(1,562)
Net book value at 1st January 2005, as restated and 31st December, 2005	–

All negative goodwill arising on acquisition prior to 1st January, 2005 was derecognised as a result of the adoption of HKFRS 3 on 1st January, 2005.

17. DEFERRED TAXATION

The components of deferred tax liabilities and assets recognised by the Target Group and movements during the relevant period are as follows:

	Accelerated/ (decelerated) tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
Charged/(credited) to income statement and balance at 31st December, 2003	259	(16)	243
Charged/(credited) to income statement	(266)	16	(250)
Balance at 31st December, 2004	(7)	–	(7)
Credited to income statement	(250)	–	(250)
Balance at 31st December, 2005	(257)	–	(257)
Credited to income statement	(79)	–	(79)
Balance at 30th November, 2006	(336)	–	(336)

	As at 31st December 2003	2004	2005	As at 30th November 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities	319	92	–	–
Deferred tax assets	(76)	(99)	(257)	(336)
	243	(7)	(257)	(336)

At 30th November, 2006, the Target Group has unused tax losses of HK$8,502,000 (2005: HK$1,999,000, 2004: HK$4,668,000, 2003: HK$2,998,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$3,312,000 (2005: HK$584,000, 2004: HK$2,597,000, 2003: HK$1,469,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$5,190,000 (2005: HK$1,415,000, 2004: HK$2,071,000, 2003: HK$1,529,000) due to unpredictability of future profit streams.

The tax losses do not expire under the current tax legislation.

18. INVENTORIES

Inventories comprise:

	As at 31st December 2003	2004	2005	As at 30th November 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Food, beverage, cigarette and other merchandise stated at cost	1,516	1,913	2,586	3,103

19. ACCOUNTS RECEIVABLE

The Target Group adopts a flexible credit policy in line with prevailing marketing strategy. The credit periods granted to customers ranged from 30 days to 90 days on average. The following is an aged analysis of trade debtors:

	As at 31st December			As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors				
0-30 days	730	1,686	1,222	763
31-60 days	22	18	105	23
61-90 days	1	9	17	45
over 90 days	7	6	3	24
	760	1,719	1,347	855
Other receivables	57	559	206	232
	817	2,278	1,553	1,087

20. AMOUNT DUE FROM RELATED COMPANIES OF SEL

This account represents non-trade advances which are unsecured, interest free and have no fixed terms of repayment.

21. AMOUNT DUE FROM SOLE DIRECTOR OF SEL

Information disclosed pursuant to section 161B of the Companies Ordinance:

Name of borrower:	Mr. Christopher James Lenz
Position:	Director of Target Company
Lender:	CL Holdings Limited
Terms of advances:	
– Terms of repayment	Not specified
– Interest rate	None
– Security	None
Balances of advances:	
At 30.11.2006	HK$Nil
At 31.12.2005	HK$341,000
At 31.12.2004	HK$Nil
At 31.12.2003	HK$Nil
Maximum balance outstanding during the relevant period	HK$341,000

22. CASH AND BANK BALANCES

Cash at banks earns interest at floating rates based on daily bank deposit rates.

23. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY OF SEL/AN ASSOCIATE OF SEL/ RELATED COMPANIES OF SEL/SOLE DIRECTOR OF SEL

These represent interest-free advances which are unsecured and have no fixed terms of repayment.

24. AMOUNT DUE TO SHAREHOLDERS OF THE ULTIMATE HOLDING COMPANY OF SEL

These represent advances which are unsecured and have no fixed terms of repayment.

		As at 31st December		As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing portion	328	–	–	700
Non-interest bearing portion	5,880	5,850	5,000	5,000
	6,208	5,850	5,000	5,700

Interest-bearing portion carries interest at 5% to 6.5% per annum.

25. ACCOUNTS PAYABLE

The following is an aged analysis of trade creditors

		As at 31st December		As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade creditors				
0-30 days	3,177	4,910	4,236	7,216
31-60 days	–	15	6	61
61-90 days	–	23	12	14
over 90 days	2	12	11	49
	3,179	4,960	4,265	7,340

26. OBLIGATIONS UNDER FINANCE LEASES

	As at 31st December						As at 30th November	
	2003		2004		2005		2006	
	Minimum lease payment	Present value of minimum lease payments	Minimum lease payment	Present value of minimum lease payments	Minimum lease payment	Present value of minimum lease payments	Minimum lease payment	Present value of minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable within one year	65	60	65	60	44	43	78	78
Amounts payable in the second to fifth years, inclusive	109	100	44	40	–	–	18	18
Total minimum lease payments	174	160	109	100	44	43	96	96
Future finance charges	(14)		(9)		(1)		–	
Present value of minimum lease payment	160		100		43		96	
Current portion of obligations under finance leases		60		60		43		78
Non-current portion of obligations under finance leases		100		40		–		18

It is the Target Group's policy to lease coffee machines under finance leases. The lease term is two years. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

27. BANK BORROWINGS

	As at 31st December			As at 30th November
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings comprise:				
Bank loans				
– secured	2,449	555	1,081	2,520
– unsecured	–	639	1,508	2,200
	2,449	1,194	2,589	4,720

The maturity of the bank loans is as follows:

	As at 31st December			As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
On demand or within a period not exceeding one year	1,894	1,046	2,450	2,603
Within a period of more than one year but not exceeding two years	408	148	139	203
Within a period of more than two years but not exceeding five years	147	–	–	608
Within a period of more than five years	–	–	–	1,306
	555	148	139	2,117
	2,449	1,194	2,589	4,720

28. SHARE CAPITAL

	As at 31st December			As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised:				
50,000 shares of US$1 each	390	390	390	390
Issued and fully paid:				
100 shares of US$1 each	1	1	1	1

29. MERGER RESERVE

The Target Group's merger reserve represents the excess value of the shares acquired over the consideration paid by the Target Company under the group restructuring.

30. PLEDGE OF ASSETS

The Target Group's leasehold land and buildings together with plant and equipment have been pledged to banks to secure general banking facilities granted to the Target Group to the extent of HK$4,000,000 (2005: HK$3,870,000, 2004: HK$2,320,000, 2003: HK$2,820,000).

31. DIRECTORS' REMUNERATION

Details of the emoluments paid to the sole director, Mr. Christopher James Lenz, during the relevant period are as follows:

	Fees	Salaries, allowances and benefits in kinds	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the period from 15th January, 2003 to 31st December, 2003	–	1,293	–	46	1,339
Year ended 31st December, 2004	–	1,585	–	102	1,687
Year ended 31st December, 2005	–	1,757	–	108	1,865
Eleven months ended 30th November, 2005 (unaudited)	–	1,675	–	99	1,774
Eleven months ended 30th November, 2006	–	1,945	4,244	99	6,288

There were no amounts paid during the relevant period to the sole director in connection with his retirement from employment or compensation for loss of office with the Target Group, or inducement to join. There was no arrangement under which the sole director waived or agreed to waive any remuneration during the relevant period.

32. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, the emoluments of the sole director are disclosed in note 31. The aggregate of the emoluments of the remaining individuals are as follows:

	Period from 15th January, 2003 (date of incorporation of CL Holdings Limited) to 31st December, 2003	Year ended 31st December		Eleven months ended 30th November	
		2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Salaries, allowances and benefits in kind	2,099	2,663	2,632	2,403	3,190
Retirement scheme contributions	72	96	100	92	97
	2,171	2,759	2,732	2,495	3,287

The number of employees who were not directors during the relevant period and who were amongst the five highest paid employees of the Target Group fall within the following band, was set out below:

	Period from 15th January, 2003 (date of incorporation of CL Holdings Limited) to 31st December, 2003	Year ended 31st December		Eleven months ended 30th November	
		2004	2005	2005 (unaudited)	2006
HK$Nil to HK$1,000,000	4	4	4	4	4

No emoluments were paid or payable to these employees as an inducement to join or upon joining the Target Group or as compensation for loss of office during the relevant period.

33. RELATED PARTY TRANSACTIONS

a) The details of the balances with associates of SEL, related companies of SEL, sole director of SEL and shareholders of the ultimate holding company of SEL are as follows:

	As at 31st December			As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from associates of SEL				
– Marson Consultants Limited	1,337	1,845	3,727	–
– Stormy's Restaurant Pte.Limited	1,794	–	–	–
– Eastech Limited	–	563	114	–
– Orchid International Limited	–	–	568	487
Amounts due from related companies of SEL				
– Eastrend Corporation Limited	–	–	–	5
– Sarton Limited	–	–	–	263
Amount due from sole director of SEL				
– Mr. Christopher James Lenz	–	–	341	–
Amount due to ultimate holding company of SEL				
– Sinochina Pacific Limited	(389)	(389)	(389)	(267)
Amount due to an associate of SEL				
– Eastech Limited	–	–	(216)	–
Amounts due to related companies of SEL				
– Bradford Global Incorporation Limited	(1,222)	–	–	–
– Cardiff Enterprise Limited	(349)	(111)	–	–
Amount due to sole director of SEL				
– Mr. Christopher James Lenz	(1,629)	(2,279)	–	–
Amounts due to shareholders of the ultimate holding company of SEL				
– Mr. Ravi Mohandas	(1,348)	(850)	–	–
– Ms. Rosalind Blud	(1,020)	–	–	–
– Asset Finance Limited	(3,030)	(5,000)	(5,000)	(5,000)
– Mr. Sunil Gidumal	(510)	–	–	(700)
– Mr. Angelo Michael McDonnell	(300)	–	–	–

b) The Target Group's sole director, Mr. Christopher James Lenz, has executed a guarantee in favour of a bank to secure general banking facilities granted to the Target Group to the extent of HK$1,000,000 (2005: HK$1,000,000, 2004: HK$1,000,000, 2003: HK$1,000,000).

c) The Target Group received management fee income of HK$635,000 (2005: HK$381,000, 2004: HK$52,000, 2003: HK$Nil) from an associate, Orchid International Limited. The fee was determined on normal commercial terms.

d) A loan of HK$972,000 had been waived by the Target Group's sole director, Mr. Christopher James Lenz, during the year ended 31st December, 2004.

e) The Target Group paid finance consultancy fee of HK$389,000 (2005: HK$400,000, 2004: HK$198,000, 2003: HK$Nil) to a shareholder of the ultimate holding company of SEL, Asset Finance Limited. The fee was determined on normal commercial terms.

f) Interests on loan of HK$11,000 and HK$16,000 were payable by the Target Company to Mr. Ravi Mohandas and Mr. Sunil Gidumal respectively (shareholders of the ultimate holding company of SEL) during the periods ended 31st December, 2003 and 30th November, 2006 respectively.

g) The Target Group's interest in an associate, Stormy's Restaurant Pte. Limited, amounting to HK$2,883,000 had been written off during the year ended 31st December, 2004.

h) The Target Group's key management personnel only includes the sole director, the details of emoluments paid to this sole director is disclosed in note 31.

34. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Target Group had total future commitments for minimum lease rental payments under non-cancellable operating leases falling due as follows:

	As at 31st December			As at 30th November
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Rented premises:				
Within one year	6,132	8,192	11,958	19,740
In the second to fifth years, inclusive	10,640	11,602	14,322	28,330
	16,772	19,794	26,280	48,070
Equipment:				
Within one year	–	–	75	86
In the second to fifth years, inclusive	–	–	27	149
	–	–	102	235
	16,772	19,794	26,382	48,305

Leases are negotiated for terms ranging from two to six years. Most of the leases are fixed monthly rental. Monthly rental payments for certain leases are based on percentage of the monthly gross sales of the restaurants operated by the Target Group or fixed rental for that month, whichever is the greater. Monthly rental payment of one restaurant operated by the Target Group is based on percentage on gross sale of that restaurant.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

	Eleven months ended 30th November, 2006 *HK$'000*
Net liabilities acquired as at the date of acquisition and the goodwill arising were as follows:	
Property, plant and equipment	1,381
Circulatory inventories	123
Inventories	120
Accounts receivable	81
Deposits	409
Prepayments	57
Accounts payable	(4,523)
Accrued expenses	(121)
	(2,473)
Goodwill on acquisition	1,933
Satisfied by cash and the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(540)

The subsidiaries acquired on 31st October, 2006 contributed HK$1,457,000 to the Target Group's turnover and loss of HK$52,000 to the consolidated profit after tax for the eleven months ended 30th November, 2006.

	Period from 15th January, 2003 to 31st December, 2003 *HK$'000*
Net assets acquired as at the date of acquisition and the negative goodwill arising were as follows:	
Property, plant and equipment	4,612
Associates	1,671
Circulatory inventories	327
Inventories	595
Deposits	1,596
Amount due from related companies	6,445
Accounts receivable and prepayments	1,753
Amount due to related companies	(2,957)
Accounts payable and accrued expenses	(8,352)
Provision for taxation	(1,200)
	4,490
Negative goodwill on acquisition	(6,625)
Satisfied by cash and the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(2,135)

The subsidiaries acquired on 2nd April, 2003 contributed HK$31,892,000 to the Target Group's turnover and profit HK$4,500,000 to the consolidated profit after tax for the period from 15th January, 2003 to 31st December, 2003.

36. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD ENDED 30TH NOVEMBER, 2006

HKFRSs that have been issued but are not yet effective for the period include the following HKFRSs which may be relevant to the Target Group's operations and financial statements.

	Effective for accounting periods beginning on or after
HKFRS 7 Financial instruments: disclosures	1st January, 2007
Amendments to HKAS 1 Presentation of financial statements: capital disclosures	1st January, 2007
HK(IFRIC) 8 Scope of HKFRS 2	1st May, 2006
HK(IFRIC) 10 Interim financial reporting and impairment	1st November, 2006

Initial assessment has indicated that the adoption of these HKFRSs would not have a significant impact on the Target Group's financial statements in the year of initial application. The Target Group will be continuing with the assessment of the impact of these HKFRSs and other significant changes may be identified as a result.

C. SUBSEQUENT EVENTS

There were no material subsequent events that occurred after 30th November, 2006 to the date of this report.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30th November, 2006.

Yours faithfully,
Li, Tang, Chen & Co.
Certified Public Accountants (Practising)
Hong Kong

(B) MANAGEMENT DISCUSSION AND ANALYSIS ON SEL GROUP

For the eleven months ended 30 November 2006

The SEL Group's capital structure as of 30 November 2006 consisted of shareholders' equity of approximately HK$19,609,000 and borrowings of approximately HK$4,816,000. The SEL Group has been financing its operations through shareholders' funds and internally generated cashflow.

The sales for the first eleven months of 2006 amounted to approximately HK$107,041,000, representing an increase of about 12% from the corresponding period of 2005. While the gross profit for the first eleven months of 2006 amounted to approximately HK$85,865,000, representing an increase of about 11% from the corresponding period of 2005. While the profit before tax and after tax for the first eleven months of 2006 amount to approximately HK$7,584,000 and HK$6,585,000, representing a rise of about 29% and 32% respectively from the corresponding period of 2005. The growth of turnover and gross profits are attributable to the success of business strategies of capturing market share and cost control. The SEL Group generated positive cash flow from operations of approximately HK$4,829,000 for the eleven months ended 30 November 2006. The SEL Group had about 306 employees as at the Latest Practicable Date.

For the year ended 31 December 2005

The SEL Group's capital structure as of 31 December 2005 consisted of shareholder's equity of approximately HK$20,224,000 and borrowings of approximately HK$2,632,000.

The SEL Group enjoyed sales growth of 30% during the year ended 31 December 2005 to approximately HK$105,804,000 as compared to the year ended 31 December 2004. Gross profits in 2005 improved by 30% to approximately HK$85,594,000. The profit before taxation in 2005 increased by 168% to approximately HK$9,419,000 and the profit after taxation increased by 254% to approximately HK$8,335,000 as compared to the year ended 31 December 2004.

Total staff costs for the year ended 31 December 2005 amounted to approximately HK$38,429,000, which represented an increase of approximately 26% as compared to the year ended 31 December 2004.

The SEL Group generated positive cash flow from operations of approximately HK$7,562,000 for the year ended 31 December 2005.

For the year ended 31 December 2004

The SEL Group's capital structure as of 31 December 2004 consisted of shareholder's equity of approximately HK$10,327,000 and borrowings of approximately HK$1,294,000.

The SEL Group enjoyed sales growth of 78% during the year ended 31 December 2004 to approximately HK$81,424,000 as compared to the year ended 31 December 2003. Gross profits in 2004 improved by 82% to approximately HK$66,076,000. The 2004 profit before taxation increased by 31% to approximately HK$3,512,000 while profit after taxation increased by 20% to approximately HK$2,352,000 as compared to the year ended 31 December 2003.

Staff costs for the year ended 31 December 2004 amounted to approximately HK$30,415,000.

The SEL Group generated positive cash flow from operations of approximately HK$10,620,000 for the year ended 31 December 2004.

For the period from 15 January 2003 (date of incorporation) to 31 December 2003

The SEL Group's capital structure as of 31 December 2003 consisted of shareholder's equity of approximately HK$1,664,000 and borrowings of approximately HK$2,609,000.

The SEL Group recorded sales of approximately HK$45,742,000, gross profits of approximately HK$36,369,000 for the period from 15 January 2003 (date of incorporation) to 31 December 2003. The profit before taxation and the profit after taxation for the same period amounted to approximately HK$2,674,000 and approximately HK$1,953,000 respectively.

Total staff costs for the period from 15 January 2003 (date of incorporation) to 31 December 2003 amounted to approximately HK$15,793,000.

The SEL Group generated positive cash flow from operations of approximately HK$12,565,000 for the period from 15 January 2003 (date of incorporation) to 31 December 2003.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries and that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

i. Directors' and chief executives' interests in securities

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to S352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Interests in the Company – Shares (long position)

		Number of Shares			Approximate
Name of Directors	Capacity	Personal interests	Family interests	Total	percentage of interest
					(%)
CHOW Yei Ching	Beneficial owner	150,356,359*	–	150,356,359	53.97
KUOK Hoi Sang	Beneficial owner	98,216	–	98,216	0.04
FUNG Pak Kwan	Beneficial owner	93,479	–	93,479	0.03
TAM Kwok Wing	Beneficial owner	169,015	32,473	201,488	0.07
KAN Ka Hon	Beneficial owner	29,040	–	29,040	0.01
HO Chung Leung	Beneficial owner	40,000	–	40,000	0.01

* *Dr. CHOW Yei Ching ("Dr. Chow") beneficially owned 150,356,359 Shares, representing approximately 53.97% of the issued share capital of the Company. These shares in the Company were same as those shares disclosed in the section "Substantial Shareholders' interests in securities" below.*

(b) Interests in associated corporation – shares (long position)

Name of directors	Associated corporation	Capacity	Number of ordinary shares: Personal interests	Corporate interests	Family interests	Total	Approximate percentage of interest (%)
CHOW Yei Ching	CiTL	Beneficial owner and interest of controlled corporation	6,815,854	107,822,933*	–	114,638,787	60.29
KUOK Hoi Sang	CiTL	Beneficial owner	2,400,000	–	–	2,400,000	1.26
FUNG Pak Kwan	CiTL	Beneficial owner	2,580,000	–	–	2,580,000	1.36
TAM Kwok Wing	CiTL	Beneficial owner	400,000	–	10,400	410,400	0.22
KAN Ka Hon	CiTL	Beneficial owner	451,200	–	–	451,200	0.24

* *Dr. Chow had notified CiTL that under the SFO, he was deemed to be interested in 107,822,933 shares in CiTL which were all held by the Company as Dr. Chow beneficially owned 150,356,359 Shares, representing approximately 53.97% of the issued share capital of the Company.*

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to S352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

ii. Substantial Shareholders' interests in securities

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under S336 of the SFO were as follows:

Substantial Shareholders	Capacity	Number of Shares held	Number of underlying Shares held (under equity derivatives of the Company)	Approximate percentage of interest *(%)*
CHOW Yei Ching	Beneficial owner	150,356,359(L)	–	53.97(L)
MIYAKAWA Michiko	Beneficial owner	150,356,359(L) *(Note 1)*	–	53.97(L)
The Goldman Sachs Group, Inc.	Interest of controlled corporation	–	30,685,081(L) 5,998,025(S) *(Note 2)*	11.01(L) 2.15(S)
Goldman Sachs (UK) L.L.C.	Interest of controlled corporation	–	27,683,193(L) 5,998,025(S) *(Note 3)*	9.94(L) 2.15(S)
Goldman Sachs Group Holdings (U.K.)	Interest of controlled corporation	–	27,683,193(L) 5,998,025(S) *(Note 3)*	9.94(L) 2.15(S)
Goldman Sachs Holdings (U.K.)	Interest of controlled corporation	–	27,683,193(L) 5,998,025(S) *(Note 3)*	9.94(L) 2.15(S)
Goldman Sachs International	Beneficial owner	–	27,683,193(L) 5,998,025(S) *(Note 3)*	9.94(L) 2.15(S)
The Goldman, Sachs & Co. L.L.C.	Interest of controlled corporation	3,001,888(L) *(Note 4)*	–-	1.08(L)
Goldman Sachs & Co	Beneficial owner	3,001,888(L) *(Note 4)*	–-	1.08(L)

Notes:

(1) Under Part XV of the SFO, Ms. Miyakawa Michiko, the spouse of Dr. Chow, is deemed to be interested in the same parcel of 150,356,359 Shares held by Dr. Chow.

(2) The Goldman Sachs Group, Inc. is taken to have an interest in the 3,001,888 Shares held by Goldman Sachs & Co and the 21,685,168 Shares that would be held by Goldman Sachs International upon full conversion of the Convertible Bonds (as defined below) held by

Goldman Sachs International. The Convertible Bonds are issued by the Company to Goldman Sachs International on 26th July, 2006. Goldman Sachs & Co and Goldman Sachs International are both wholly-owned subsidiaries of The Goldman Sachs Group, Inc.

(3) Goldman Sachs (UK) L.L.C., Goldman Sachs Group Holdings (U.K.) and Goldman Sachs Holdings (U.K.) are taken to be interested in the 21,685,168 Shares that would be held by Goldman Sachs International upon full conversion of the Convertible Bonds. Goldman Sachs International is 99% owned by Goldman Sachs Holdings (U.K.) and 100% held by Goldman Sachs Group Holdings (U.K.) and Goldman Sachs (UK) L.L.C.

(4) The Goldman, Sachs & Co. L.L.C. is taken to be interested in the 3,001,888 Shares held by Goldman Sachs & Co. Goldman Sachs & Co is owned as to 99.8% by The Goldman Sachs Group, Inc. and the remaining 0.2% by The Goldman, Sachs & Co. L.L.C. (which is a wholly-owned subsidiary of The Goldman Sachs Group, Inc.).

The letter "L" denotes a long position and the letter "S" denotes a short position.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or in any options in respect of such capital.

3. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, arbitration of material importance or claim of material importance pending or threatened against any member of the Enlarged Group.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors had an interest in any business constituting a competing business to the Group.

5. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered, or were proposing to enter, into any service contract with the Company or its subsidiaries which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

6. EXPERT AND CONSENT

Li, Tang, Chen & Co, a firm of certified public accountants, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Li, Tang, Chen & Co did not have any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31 March 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

7. MISCELLANEOUS

(a) The qualified accountant of the Company is Mr. Ho Chung Leung, *FCCA*. He is a fellow member of The Association of Chartered Certified Accountants in the U.K. and a member of the Hong Kong Institute of Certified Public Accountants.

(b) The secretary of the Company is Mr. Kan Ka Hon, *FCCA*. He is a fellow member of The Association of Chartered Certified Accountants in the U.K. and a member of the Hong Kong Institute of Certified Public Accountants.

(c) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda and its principal place of business is situated at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

(d) The Hong Kong branch share registrars and transfer office of the Company is Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.