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

Financial adviser to Chevalier International Holdings Limited

SOMERLEY LIMITED

* *For identification only*

30th June, 2005

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Page

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

"Acquisition"	the acquisition of the entire issued share capital of Pacific Coffee
"Agreement"	a share purchase agreement dated 6th April, 2005 entered into between CIL, CiTL, the Vendors, the Associated Parties and the Warrantor
"associate"	has the meaning ascribed to it under the Listing Rules
"Associated Parties"	Mr. Roger King, as warrantor in respect of Albreda Investment Limited (a Vendor) under the Agreement, and Mr. Robert Naylor, the holder of options over shares in Pacific Coffee, all such options will be cancelled upon Completion as agreed under the Agreement
"Board"	board of Directors
"Business Day"	a day (other than a Saturday or Sunday) on which banks are open for ordinary banking business in Hong Kong
"Company"	Chevalier International Holdings Limited, an exempt company incorporated in Bermuda with limited liability, whose shares are listed on the main board of the Stock Exchange
"CIL"	Chevalier iTech Limited, a wholly-owned subsidiary of CiTL
"CiTL"	Chevalier iTech Holdings Limited, an exempt company incorporated in Bermuda with limited liability, whose shares are listed on the main board of the Stock Exchange
"CiTL Board"	board of directors of CiTL
"CiTL Group"	CiTL and its subsidiaries
"Completion"	completion of the Agreement, which took place on 20th May, 2005
"Director(s)"	director(s) of the Company
"EBITDA"	the earnings before interest, tax, depreciation and amortization
"Escrow Agent"	Messrs. Robertsons, the legal advisers to CIL on the Acquisition
"Enlarged Group"	the Group together with the Pacific Coffee Group on Completion
"Escrow Amount"	the amount of HK$41,000,000 deposited with the Escrow Agent on Completion
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Latest Practicable Date"	27th June, 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Companies
"Mr. Neir"	Mr. Thomas Neir, the founder, who is also one of the Vendors and a director of Pacific Coffee before Completion

"Pacific Coffee"	Pacific Coffee (Holdings) Limited, a company incorporated in the British Virgin Islands with limited liability on 25th July, 1995
"Pacific Coffee Group"	Pacific Coffee and its subsidiaries
"PRC"	The People's Republic of China which for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
"Sale Shares"	400,337 ordinary shares of Pacific Coffee, being the entire issued share capital of Pacific Coffee
"Share(s)"	ordinary share(s) of HK$1.25 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Vendors"	Corporations: Albreda Investment Limited, which is an investment holding company; Citicorp International Finance Corporation, which is a holding company engaging in international financing and merchant banking investment activities; Emperor Phoenix Limited, which is an investment holding company and its sole asset is its interest in Pacific Coffee; High Class Associates Limited, which is an investment holding company and its sole asset is its interest in Pacific Coffee Individuals: Michael and Patricia Berchtold; Katherine and Timothy Connor; Roy and Kipp Delbyck; Karen and David Handmaker; Mary Jenneskens; John and Lesley McKay; Carolyn and Brendan Miles; Christine Joanne Neir; David and Suzanne Neir; James and Catherine Neir; Paul Neir; Robert Louis Neir; Thomas Michael Neir; Thomas Michael Neir and Sally Otten; Philip Richard Oakden; James Brandon Schlueter and Laura Lee Wilbraham; Mark and Christine Silverstein; Laurie Smiley and George Bennett; Anthony and Anna Wilkinson; Daisy S. Yao and Denisa Y. Tong
"Warrantor"	Empress Dowager Limited, a company incorporated in the British Virgin Islands with limited liability on 3rd March, 2005, which has provided certain warranties to CIL in respect of the businesses of the Pacific Coffee Group pursuant to the Agreement
"HK$"	Hong Kong dollars, 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
Tam Kwok Wing
Kan Ka Hon
Chow Vee Tsung, Oscar
Ho Chung Leung

Independent non-executive Directors:
Wong Wang Fat, Andrew O.B.E., J.P.
Chow Ming Kuen, Joseph O.B.E., J.P.
Li Kwok Heem, John

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

30th June, 2005

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

On 11th April, 2005, the Board and CiTL Board jointly announced that, CIL, a wholly-owned subsidiary of CiTL had entered into the Agreement with, among other parties, the Vendors in relation to an acquisition of their respective interests in Pacific Coffee, which in aggregate represents the entire issued share capital of Pacific Coffee for a cash consideration of HK$205 million.

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, the Pacific Coffee Group and other information as required under the Listing Rules.

AGREEMENT DATED 6TH APRIL, 2005

Parties to the Agreement

Vendors and the Associated Parties: Various corporations and individuals.

To the best of the knowledge, information and belief of the CiTL Board and the Board and having made all reasonable enquiry, the Vendors (and in cases where the Vendor is a corporation, their ultimate beneficial owners) and the Associated Parties are independent of the Company and CiTL or any of their respective connected persons, and are not connected persons of the Company or CiTL.

* *For identification only*

Warrantor:	Empress Dowager Limited. To the best of the knowledge, information and belief of the CiTL Board and the Board and having made all reasonable enquiry, the Warrantor and its ultimate beneficial owner are independent of the Company and CiTL or any of their respective connected persons, and are not connected persons of the Company or CiTL.
Purchaser:	CIL, a wholly-owned subsidiary of CiTL
Guarantor:	CiTL, to guarantee the performance of the obligations of CIL under the Agreement

Asset to be acquired

400,337 ordinary shares of Pacific Coffee, being the entire issued share capital of Pacific Coffee.

Pacific Coffee's first outlet was established in 1993. Pacific Coffee now operates 39 retail outlets in Hong Kong and 6 in Singapore. Pacific Coffee sells high quality, premium roasted whole bean coffees, specialty coffees and cold beverages, baked goods and pastries along with coffee-related hardware and supplies. Pacific Coffee also sells its branded products to wholesale accounts and provides coffee services to corporate customers including hotels, restaurants, clubs and large corporations. In addition, Pacific Coffee Group is also engaged in the wholesale of selected coffee beans in Hong Kong, Macau, the PRC and Singapore.

For the year ended 31st March, 2003, Pacific Coffee recorded an audited consolidated profit before and after tax of approximately HK$6.2 million and HK$4.4 million respectively. For the year ended 31st March, 2004, Pacific Coffee recorded an audited consolidated profit before and after tax of approximately HK$11.9 million and HK$9.4 million respectively. The audited consolidated profit before and after tax of Pacific Coffee for the year ended 31st March, 2005 were approximately HK$25.8 million and HK$21.0 million respectively. EBITDA of Pacific Coffee for 2003, 2004 and 2005 was approximately HK$17.4 million, HK$23.9 million and HK$37.2 million respectively.

As at 31st March, 2005, the audited consolidated net asset value of Pacific Coffee was approximately HK$85.9 million.

Consideration

The consideration for the Acquisition was HK$205 million in cash, which was agreed between CIL and the Vendors after arm's length negotiations. The consideration represents approximately 9.8 times of the 2005 audited consolidated net profit of Pacific Coffee and 5.5 times of the 2005 EBITDA of Pacific Coffee. The Board and the CiTL Board are of the view that the consideration for the Acquisition is reasonable after taking into account the growth rate of Pacific Coffee in the past years, the growth potential in demand for specialty coffee in Hong Kong, the southeast Asia region and the PRC market, as well as the goodwill of Pacific Coffee.

The consideration for the Acquisition was financed by HK$145 million cash reserve of the CiTL Group and HK$60 million by bank borrowings. Given the current cashflow position, the cash and the cash equivalent securities of the CiTL Group and the level of borrowings, CiTL Board considers the Acquisition will not have a significant adverse impact on the CiTL Group's liquidity nor its gearing ratio.

Upon Completion, CIL paid to the Vendors HK$164 million in cash, representing 80% of the consideration. The remaining HK$41 million of the consideration, being the Escrow Amount, was deposited with the Escrow Agent. The release of such Escrow Amount is subject to the terms of an escrow agreement (as detailed in the paragraphs below) entered into among the Vendors, the Warrantor, the Purchaser and the Escrow Agent on Completion. In the event of any breach of warranties given by the Warrantor under the Agreement (which relate to various aspects of the Pacific Coffee Group, including but not limited to its assets and liabilities, investments, accounts and records), the liability of the Warrantor shall be an amount equal to the diminution in value of the Sale Shares thereby caused and such amount will be deducted from the Escrow Amount and refunded to CIL. In the event of any dispute between the Warrantor and CIL as to the amount of the diminution, it will be resolved by final judgment of the courts of the relevant jurisdiction.

It is further provided under the warranties that in the event the audited consolidated net profit before tax (excluding exceptional and extraordinary items) of Pacific Coffee for the eleven months ended 28th February, 2005 is three percent lower than that set out in the consolidated management accounts of Pacific Coffee provided to CIL, CIL will be compensated with an amount equal to eight times of the shortfall, which will be settled by the Warrantor by deducting the same amount from the Escrow Amount. The Company is informed by CiTL that no compensation has been claimed by CiTL under this provision as at the Latest Practicable Date.

50% of the Escrow Amount, together with interest accrued thereon, less any deduction or compensation as aforesaid will be released to the Warrantor on the later of (i) 28 days from the date of issuance of the audited consolidated financial statements of the Pacific Coffee Group for the eleven months ended 28th February, 2005 (and if such date is not a Business Day, then the following Business Day); and (ii) two months after the date of Completion, provided that such date is no later than 30th November, 2005. The remaining balance of the Escrow Amount will be released to the Warrantor on the earlier of (i) 31st July, 2006 and (ii) the date of issuance of the audited financial statement of Pacific Coffee and its then subsidiaries for the period commencing from 1st April, 2005 and ending 31st March, 2006 (and if such date is not a Business Day, then the following Business Day). The payment obligation of CIL shall be fulfilled upon releasing of the Escrow Amount to the Warrantor by the Escrow Agent in accordance with the escrow agreement. The Company is informed by CiTL that the Escrow Amount has not yet been released to the Vendors as at the Latest Practicable Date.

Claims under the warranties given by the Warrantor under the Agreement are limited to the Escrow Amount. The Warrantor shall have no liability in respect of any claim under the warranties if written notice of any claim is given by CIL to the Warrantor after the earlier of (i) 31st July, 2006 and (ii) the date of issuance of the audited financial statements of Pacific Coffee made up as at 31st March, 2006 (and if such date is not a Business Day, then the next following Business Day).

Completion

Completion took place on 20th May, 2005.

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 and information technology.

Prior to Completion the employment contracts of certain key employees of Pacific Coffee were amended to include a new provision requiring six months notice of termination. The CiTL Board believes that such provision mitigates any possible disruption to the operation of Pacific Coffee due to the change of control. In the event of any resignation of key employees, CiTL would have sufficient time to recruit appropriate and competent replacement.

BACKGROUND TO AND REASONS FOR THE ACQUISITION

The CiTL Board was approached by the financial adviser to the Vendors in January 2005 regarding an investment opportunity in Pacific Coffee. After carrying out financial and legal due diligence on the businesses of Pacific Coffee, the CiTL Group commenced negotiations with the Vendors in acquiring the entire issued share capital of Pacific Coffee. The Agreement was reached between the parties to the Agreement on 6th April, 2005.

The businesses of the CiTL Group have been deteriorating which is reflected in its diminishing turnover in the recent years. The Board and the CiTL Board consider the Acquisition not only enables the CiTL Group to capture the fast growing and lucrative specialty coffee business in Hong Kong, the PRC and neighbouring countries, it also enables the CiTL Group to diversify its businesses and broaden its income stream.

The Board and the CiTL Board consider the terms of the Acquisition, including the consideration, are fair and reasonable and the Acquisition is beneficial to and in the interests of the Company and CiTL and their respective shareholders.

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 PACIFIC COFFEE GROUP

The following is the reproduction of text of the accountants' report on Pacific Coffee Group contained in the circular of Chevalier iTech Holdings Limited dated 30th June, 2005 for the Shareholders' information purpose only.

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

30th June, 2005

The Directors
Chevalier iTech Holdings Limited
22nd Floor Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs,

We set out below our report on the financial information set out in sections A to D ("Financial Information") below regarding Pacific Coffee (Holdings) Limited ("Pacific Coffee") and its subsidiaries (hereinafter collectively referred to as the "Pacific Coffee Group") for each of the three years ended 31st March, 2003, 2004 and 2005 (hereinafter collectively referred to as the "Relevant Periods") for inclusion in the circular dated 30th June, 2005 (the "Circular") issued by Chevalier iTech Holdings Limited (the "Company") in connection with the acquisition of the entire issued share capital of Pacific Coffee (the "Acquisition").

Pacific Coffee was incorporated in the British Virgin Islands as a limited liability company on 25th July, 1995 and its principal activity is investment holding. As at the date of this report, Pacific Coffee has 100% direct interests in the ordinary share capital of following subsidiaries:

Name of subsidiary	Place of incorporation	Date of incorporation	Issued and fully paid share capital	Principal activities
Pacific Coffee Company Limited	Hong Kong	21st July, 1992	HK$77,355	Trading of coffee products, operation of coffee shops and provision of maintenance services
PCC Investment Limited	Hong Kong	16th March, 2001	HK$2	Operation of coffee shops
PCC Investment (II) Limited	Hong Kong	10th December, 2003	HK$2	Operation of coffee shops
Pacific Coffee Company (S) Pte Ltd	Singapore	20th April, 1999	S$100,000	Trading of coffee products and books, operation of coffee shops
Pacific Coffee Company (Australia) Pty Limited	Australia	26th November, 1999	AUS$1	Investment holding

The financial statements of the Pacific Coffee Group for each of the three years ended 31st March, 2003, 2004 and 2005, which were prepared in accordance with the accounting principles generally accepted in Hong Kong, were audited by Philip Poon & Partners CPA Limited.

We have examined the audited financial statements of the Pacific Coffee Group for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information, which is expressed in United States dollars, has been prepared based on the audited financial statements for the Relevant Periods of the Pacific Coffee Group after making such adjustments as we consider appropriate, for the purpose of preparing our report for inclusion in the Circular.

The financial statements of the Pacific Coffee Group are the responsibility of the directors of Pacific Coffee who approve their issue. The Directors are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the financial statements of the Pacific Coffee Group, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Pacific Coffee Group and Pacific Coffee as at 31st March, 2003, 2004 and 2005 and of the profit and cash flows of the Pacific Coffee Group for each of the years then ended.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS OF THE PACIFIC COFFEE GROUP

		Year ended 31st March,		
		2003	**2004**	**2005**
	Notes	*US$'000*	*US$'000*	*US$'000*
Turnover	3	17,115	18,618	22,991
Cost of goods sold		(4,748)	(4,856)	(5,992)
Gross profit		12,367	13,762	16,999
Other revenue		454	343	565
Other operating expenses		(10,283)	(10,919)	(12,531)
Administrative expenses		(1,725)	(1,649)	(1,697)
Operating profit		813	1,537	3,336
Finance costs		(17)	(17)	(25)
Profit before taxation	4	796	1,520	3,311
Taxation	5	(225)	(315)	(617)
Profit after taxation		571	1,205	2,694
Dividends	6	1,000	777	602

CONSOLIDATED BALANCE SHEETS OF THE PACIFIC COFFEE GROUP

		As at 31st March,		
		2003	**2004**	**2005**
	Notes	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Property, plant and equipment	7	4,212	3,548	3,569
Current assets				
Inventories	9	523	481	555
Trade and other receivables	10	263	142	148
Deposits and prepayments		1,710	1,897	2,223
Bank balances and cash		4,367	4,530	6,588
		6,863	7,050	9,514
Current liabilities				
Trade payables	12	592	636	900
Other payables, accruals and deposits		769	743	697
Dividend payable		1,000	–	–
Provision for taxation		44	206	397
		2,405	1,585	1,994
Net current assets		4,458	5,465	7,520
Total assets less current liabilities		8,670	9,013	11,089
Non-current liability				
Deferred tax	13	181	96	80
NET ASSETS		8,489	8,917	11,009
Share capital	14	40	40	40
Share premium	15	5,316	4,539	3,937
Retained profits	16	3,133	4,338	7,032
CAPITAL AND RESERVES		8,489	8,917	11,009

BALANCE SHEETS OF PACIFIC COFFEE

		As at 31st March,		
		2003	**2004**	**2005**
	Notes	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Investments in subsidiaries	8	1,123	1,123	1,123
Current assets				
Amounts due from subsidiaries	11	2,096	1,694	1,961
Other receivable		23	24	24
Prepayments		61	56	49
Bank balances and cash		2,950	2,186	1,343
		5,130	3,960	3,377
Current liabilities				
Amounts due to subsidiaries		–	609	685
Accruals		44	61	53
Dividend payable		1,000	–	–
		1,044	670	738
Net current assets		4,086	3,290	2,639
NET ASSETS		5,209	4,413	3,762
Share capital	14	40	40	40
Share premium	15	5,316	4,539	3,937
Accumulated losses	16	(147)	(166)	(215)
CAPITAL AND RESERVES		5,209	4,413	3,762

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF THE PACIFIC COFFEE GROUP

	Year ended 31st March,		
	2003	**2004**	**2005**
	US$'000	*US$'000*	*US$'000*
Total equity as at 1st April	8,925	8,489	8,917
Shares repurchase	(7)	–	–
Profit for the year	571	1,205	2,694
Dividends	(1,000)	(777)	(602)
Total equity as at 31st March	8,489	8,917	11,009

CONSOLIDATED CASH FLOW STATEMENTS OF THE PACIFIC COFFEE GROUP

	Year ended 31st March,		
	2003	**2004**	**2005**
	US$'000	*US$'000*	*US$'000*
Operating activities			
Profit before taxation	796	1,520	3,311
Adjustments for:			
Depreciation	1,439	1,540	1,464
Loss on disposal of property, plant and equipment	260	74	66
Bank overdraft interest	1	–	–
Interest income	(39)	(15)	(24)
Operating cash flows before movements in working capital	2,457	3,119	4,817
Decrease (increase) in inventories	375	42	(74)
(Increase) decrease in trade and other receivables	(120)	121	(6)
Increase in deposits and prepayments	(210)	(187)	(326)
(Decrease) increase in trade payables	(182)	44	264
Increase (decrease) in other payables, accruals and deposits	35	(26)	(46)
Cash generated from operations	2,355	3,113	4,629
Interest paid	(1)	–	–
Interest received	39	15	24
Profits tax paid	(114)	(238)	(442)
Net cash from operating activities	2,279	2,890	4,211
Investing activities			
Proceeds from disposal of property, plant and equipment	26	5	–
Purchase of property, plant and equipment	(1,887)	(955)	(1,551)
Net cash used in investing activities	(1,861)	(950)	(1,551)
Financing activities			
Dividend paid	–	(1,777)	(602)
Repurchase of shares	(7)	–	–
Net cash used in financing activities	(7)	(1,777)	(602)
Increase in cash and cash equivalents	411	163	2,058
Cash and cash equivalents at beginning of the year	3,956	4,367	4,530
Cash and cash equivalents at end of the year	4,367	4,530	6,588
Representing:			
Bank balances and cash	4,367	4,530	6,588

NOTES TO THE FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. The significant accounting policies adopted in preparing these Financial Information are as follows:

(a) Basis of consolidation

The consolidated financial information of the Pacific Coffee Group incorporates the financial information of Pacific Coffee and its subsidiaries made up to 31st March each year.

(b) Subsidiaries

Investments in subsidiaries are carried at cost less provision for impairment loss where appropriate.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of the assets over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Furniture and fixtures	10% – 60%
Machinery and equipment	16.67% – 85.71%

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(d) Impairment

At each balance sheet date, the carrying amounts are reviewed 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. 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, but so 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.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis.

(f) Revenue recognition

Revenue from sales of goods is recognised when the goods are delivered to customers and the title has been passed.

Maintenance service income and marketing service income are recognised upon completion of services provided.

Interest income is recognised on a time proportion basis by reference to the principal amounts outstanding and the interest rates applicable.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating lease are charged or credited to the income statement on a straight-line basis over the relevant lease terms.

(h) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as expenses as they fall due.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Foreign currencies

The financial records of Pacific Coffee are maintained in United States Dollars whereas those of its subsidiaries are maintained in the domestic currencies of the geographical areas, in which the businesses operate. Transactions in currencies other than United States Dollars or the reporting currencies where applicable are translated at the prevailing rates on the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated at the rate prevailing on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Pacific Coffee Group's subsidiaries with financial records maintained in domestic currencies are translated at exchanges rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising on consolidation are classified as translation reserve under equity. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

(j) Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profits, 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 utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiary, except where the Pacific Coffee Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rate that are expected to apply in the period when the liability is settled or the assets realised. Deferred tax is charged or credited in 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.

In 2004, HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as the "new HKFRSs") which are effective for accounting period beginning on or after 1st January, 2005.

The Pacific Coffee Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

2. SEGMENT INFORMATION

Over 90% of the Pacific Coffee Group's operations are located and carried out in Hong Kong, and the sole principal activity of the Pacific Coffee Group is operation of coffee shops. Accordingly, no segment information by business and geographical area presented.

3. TURNOVER

Turnover represents sales at invoiced value to customers.

4. PROFIT BEFORE TAXATION

	Year ended 31st March, 2003	2004	2005
	US$'000	*US$'000*	*US$'000*
Profit before taxation is arrived at after charging:			
Auditors' remuneration	10	11	20
Depreciation	1,439	1,540	1,464
Directors' emoluments			
– fee	–	–	–
– contributions to retirement benefit scheme	4	4	4
– other emoluments	491	447	488
Staff costs	3,860	3,771	4,436
	4,355	4,222	4,928
Operating lease charges in respect of rented properties	3,991	4,539	5,196
Loss on disposal of property, plant and equipment	260	74	66
Finance costs			
– Bank overdraft interest	1	–	–
– Bank charges	16	17	25
	17	17	25
and crediting:			
Interest income	39	15	24
Gross earning from leasing of machinery	78	48	44
Maintenance service income	77	89	102
Marketing service income	216	175	388

5. TAXATION

	Year ended 31st March, 2003	2004	2005
	US$'000	*US$'000*	*US$'000*
The charge comprises:			
Hong Kong Profits Tax *(note (a) below)*	178	400	633
Deferred tax *(note 13)*	47	(85)	(16)
	225	315	617

The taxation charge can be reconciled to the profit for the Relevant Periods as follows:

	Year ended 31st March, 2003	2004	2005
	US$'000	*US$'000*	*US$'000*
Profit before taxation	796	1,520	3,311
Tax at the Hong Kong Profits Tax rate of 16%, 17.5% and 17.5%	127	266	579
Tax effect of non-deductible expenses	7	9	13
Tax effect of non-taxable income	(1)	(1)	(1)
Tax effect of utilisation of unrecognised tax losses	(3)	(9)	–
Tax effect of tax losses not recognised	64	–	–
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate *(note (b) below)*	–	17	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	–	(4)	(2)
Others	31	37	28
Taxation charge for the year	225	315	617

5. TAXATION *(continued)*

Notes:

(a) Hong Kong Profits Tax is provided at the rate of 16%, 17.5% and 17.5% on the assessable profits for each of the three years ended 31st March, 2003, 31st March, 2004 and 31st March, 2005, respectively.

No provision for foreign income tax is required as the subsidiary operating in other jurisdiction incurred losses during the Relevant Periods.

(b) During the year ended 31st March, 2004, the Hong Kong Government changed the Hong Kong Profits Tax rate from 16% to 17.5% with effect from the year of assessment 2003/04.

6. DIVIDENDS

	Year ended 31st March,		
	2003	**2004**	**2005**
	US$'000	*US$'000*	*US$'000*
Interim dividend			
US$0.6928 and US$1.5048 per ordinary share in 2004 and 2005	–	277	602
Special dividend			
US$2.4979 and US$1.2489 per ordinary share in 2003 and 2004	1,000	500	–
	1,000	777	602

7. PROPERTY, PLANT AND EQUIPMENT

	PACIFIC COFFEE GROUP			
		Machinery and equipment		
	Furniture and fixtures	**held for own use**	**held for lease**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
COST				
As at 1st April, 2002	5,096	1,922	212	7,230
Additions	1,430	445	12	1,887
Disposals	(497)	(101)	(143)	(741)
As at 31st March, 2003	6,029	2,266	81	8,376
Additions	717	226	12	955
Disposals	(60)	(93)	(11)	(164)
As at 31st March, 2004	6,686	2,399	82	9,167
Additions	1,210	340	1	1,551
Disposals	(594)	(455)	(54)	(1,103)
As at 31st March, 2005	7,302	2,284	29	9,615
ACCUMULATED DEPRECIATION				
As at 1st April, 2002	2,116	887	177	3,180
Charge for the year	1,017	391	31	1,439
Eliminated on disposals	(246)	(66)	(143)	(455)
As at 31st March, 2003	2,887	1,212	65	4,164
Charge for the year	1,136	395	9	1,540
Eliminated on disposals	(17)	(57)	(11)	(85)
As at 31st March, 2004	4,006	1,550	63	5,619
Charge for the year	1,098	357	9	1,464
Eliminated on disposals	(550)	(431)	(56)	(1,037)
As at 31st March, 2005	4,554	1,476	16	6,046
NET BOOK VALUES				
As at 31st March, 2003	3,142	1,054	16	4,212
As at 31st March, 2004	2,680	849	19	3,548
As at 31st March, 2005	2,748	808	13	3,569

8. INVESTMENTS IN SUBSIDIARIES

	As at 31st March,		
	2003	**2004**	**2005**
	US$'000	*US$'000*	*US$'000*
Unlisted shares, at cost	1,123	1,123	1,123

9. INVENTORIES

All inventories, which are held for resale, are carried at cost.

10. TRADE AND OTHER RECEIVABLES

Included in these amounts are trade receivables of US$202,000, US$92,000 and US$108,000 outstanding at 31st March, 2003, 31st March, 2004 and 31st March, 2005, respectively. An aged analysis of the trade receivable is as follows:

	As at 31st March,		
	2003	**2004**	**2005**
	US$'000	*US$'000*	*US$'000*
Aged at 0 to 30 days	202	85	102
Aged at 31 to 60 days	–	6	5
Aged at over 60 days	–	1	1
	202	92	108

The Pacific Coffee Group has a policy of allowing an average credit period of 30-60 days to its trade customers.

11. AMOUNTS DUE FROM SUBSIDIARIES

	As at 31st March,		
	2003	**2004**	**2005**
	US$'000	*US$'000*	*US$'000*
Secured *(note (b))*	–	1,679	1,961
Unsecured	2,096	15	–
	2,096	1,694	1,961

Notes:

(a) The amounts due from subsidiaries are interest free and have no fixed term of repayment.

(b) The balance is secured by all assets of the subsidiary.

12. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	As at 31st March,		
	2003	**2004**	**2005**
	US$'000	*US$'000*	*US$'000*
Aged at 0 to 30 days	572	630	767
Aged at 31 to 60 days	1	–	11
Aged at over 60 days	19	6	122
	592	636	900

13. DEFERRED TAX

The major deferred tax liabilities recognised by the Pacific Coffee Group and movements thereon during the Relevant Periods are attributable to the followings:

	Accelerated tax allowances	Tax losses	Total
	US$'000	*US$'000*	*US$'000*
As at 1st April, 2002	134	–	134
Charge to income statement	47	–	47
As at 31st March, 2003	181	–	181
Charge to income statement	(85)	–	(85)
As at 31st March, 2004	96	–	96
Charge (credit) to income statement	11	(27)	(16)
As at 31st March, 2005	107	(27)	80

At the balance sheet date, the Pacific Coffee Group has unused tax losses and deductible temporary differences in respect of capital allowances for which no deferred tax assets is recognised in the balance sheet as follows:

	2003	2004	2005
	US$'000	*US$'000*	*US$'000*
Capital allowances	876	932	1,021
Tax losses	746	695	695
	1,622	1,627	1,716

Deferred tax asset has not been recognised due to the unpredictability of future profit streams to utilise the deductible temporary differences or to offset against the unused tax losses which can be carried forward indefinitely.

14. SHARE CAPITAL

	As at 31st March,		
	2003	2004	2005
	US$'000	*US$'000*	*US$'000*
Authorised:			
500,000 ordinary shares of US$0.1 each	50	50	50
Issued and fully paid:			
400,337 ordinary shares of US$0.1 each	40	40	40

At the beginning of the Relevant Periods, the issued capital of Pacific Coffee was US$40,071 divided into 400,710 shares of US$0.1 each. Pursuant to the special resolution passed on 14th January, 2003, the issued share capital was reduced from US$40,071 to US$40,034 by the repurchase of 370 ordinary shares at US$20 each for cash at a premium of US$19.9 each. The repurchased shares were cancelled upon repurchase.

Other than the above, there was no change in the authorised, issued and fully paid capital during each of the three years ended 31st March, 2003, 2004 and 2005.

15. SHARE PREMIUM

	As at 31st March,		
	2003	2004	2005
	US$'000	*US$'000*	*US$'000*
As at 1st April	6,323	5,316	4,539
Shares repurchase	(7)	–	–
Dividends	(1,000)	(777)	(602)
As at 31st March	5,316	4,539	3,937

16. RETAINED PROFITS (ACCUMULATED LOSSES)

	PACIFIC COFFEE GROUP		
	As at 31st March,		
	2003	2004	2005
	US$'000	*US$'000*	*US$'000*
As at 1st April	2,562	3,133	4,338
Profit for the year	571	1,205	2,694
As at 31st March	3,133	4,338	7,032

	PACIFIC COFFEE		
	As at 31st March,		
	2003	2004	2005
	US$'000	*US$'000*	*US$'000*
As at 1st April	(142)	(147)	(166)
Loss for the year	(5)	(19)	(49)
As at 31st March	(147)	(166)	(215)

17. OPERATING LEASE COMMITMENTS

(a) At the balance sheet dates, the Pacific Coffee Group had commitments for future minimum lease payments in respect of leasing of properties under non-cancellable operating leases which fall due as follows:

	As at 31st March,		
	2003	2004	2005
	US$'000	*US$'000*	*US$'000*
Within one year	3,948	4,140	4,526
In the second to fifth year inclusive	3,984	4,192	5,586
After the fifth year	–	379	–
	7,932	8,711	10,112

Leases are negotiated for term ranging from two to three years and rental are fixed for an average of two years.

(b) At the balance sheet dates, the Pacific Coffee Group had contracted with the lessees in respect of leasing of machinery for the following future minimum lease payments:

	As at 31st March,		
	2003	2004	2005
	US$'000	*US$'000*	*US$'000*
Within one year	32	30	11
In the second to fifth year inclusive	24	14	4
	56	44	15

All machinery held for leases were leased out for an average terms of two years.

18. CONTINGENT LIABILITIES

At 31st March, 2005, the Pacific Coffee Group had contingent liabilities of US$128,000 in respect of liquidated damages for an alleged breach of a wholesale food supply contract. No provision is made in the financial information as the directors of Pacific Coffee are of the opinion that the plaintiff is unlikely to be successful in claiming the amount.

B. RETIREMENT BENEFIT SCHEMES

The Pacific Coffee Group participates in Mandatory Provident Fund Scheme (the "MPF Scheme") and Central Provident Fund ("CPF"), defined contribution schemes, for the benefits of the Hong Kong and Singapore employees respectively. The assets of the schemes are held separately from those of the Pacific Coffee Group, in funds under the control of trustees.

The total cost charged to income statement for the three years ended 31st March, 2003, 2004 and 2005 of US$189,000, US$177,000 and US$210,000, respectively, represents contributions pay and payable to these schemes by the Pacific Coffee Group in respect of the respective accounting period. Contributions of US$18,000, US$15,000 and US$23,000 as at 31st March, 2003, 31st March, 2004 and 31st March, 2005, respectively, had not been paid over the schemes.

C. SUBSEQUENT EVENTS

Subsequent to 31st March, 2005 but before the completion of Acquisition, an interim dividend for the year ending 31st March, 2006 of US$16.88 per ordinary share, amounting to US$6,758,000 was paid to the shareholders.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Pacific Coffee or any of its subsidiaries have been issued subsequent to 31st March, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(B) MANAGEMENT DISCUSSION ON PACIFIC COFFEE GROUP

The Pacific Coffee Group's capital structure as of 31st March, 2005 consisted of shareholders' equity of US$11,009,000 (approximately HK$85,870,000). As at 31st March, 2004, the shareholders' equity was US$8,917,000 (approximately HK$69,553,000). As at 31st March, 2003, the shareholders' equity was US$8,489,000 (approximately HK$66,214,000). The Pacific Coffee Group has been financing its operations through shareholders' funds and internally generated cash flow.

The Pacific Coffee Group enjoyed a sales growth of 23.5% and 8.8% during the years ended 31st March, 2005 to US$22,991,000 (approximately HK$179,330,000) and 31st March, 2004 to US$18,618,000 (approximately HK$145,220,000) as compared to the year ended 31st March, 2004 and 31st March, 2003 respectively. Gross profits in 2005 improved by 23.5% to US$16,999,000 (approximately HK$132,592,000) and in 2004 increased by 11.3% to US$13,762,000 (approximately HK$107,344,000). The 2005 profit before taxation increased by 117.8% to US$3,311,000 (approximately HK$25,826,000) while profit after taxation increased by 123.6% to US$2,694,000 (approximately HK$21,013,000) as compared to the year ended 31st March, 2004. Whereas, the 2004 profit before taxation increased by 91.0% to US$1,520,000 (approximately HK$11,856,000) and the profit after taxation increased by 110.0% to US$1,205,000 (approximately HK$9,399,000) as compared to the year ended 31st March, 2003. The growth of turnover and gross profits are attributable to the success of business strategies of capturing market share and cost controlling.

The Pacific Coffee Group had about 240 employees as at the Latest Practicable Date. Total staff costs for the year ended 31st March, 2005 amounted to US$4,928,000 (approximately HK$38,438,000).

The Pacific Coffee Group generated strong positive cashflow from operations of US$4,629,000 (approximately HK$36,106,000) during the year ended 31st March, 2005. The Pacific Coffee Group had no borrowings as at 31st March, 2005.

The Pacific Coffee Group's sales are predominantly in Hong Kong dollars, whereas part of its materials purchases are from offshore suppliers denominated in U.S. dollars, which remained relatively stable during each of the three years ended 31st March, 2003, 2004 and 2005.

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 and its associated corporations, within the meaning of Part XV of the SFO, which have 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

Name of Directors	Capacity	Number of Shares Personal interests	 Family interests	 Total	Approximate percentage of interest *(%)*
CHOW Yei Ching	Beneficial owner	144,276,359*	–	144,276,359	51.79
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 144,276,359 Shares, representing approximately 51.79% 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

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	86,994,933*	–	93,810,787	54.75
KUOK Hoi Sang	CiTL	Beneficial owner	2,400,000	–	–	2,400,000	1.40
FUNG Pak Kwan	CiTL	Beneficial owner	2,580,000	–	–	2,580,000	1.50
TAM Kwok Wing	CiTL	Beneficial owner	400,000	–	10,400	410,400	0.24
KAN Ka Hon	CiTL	Beneficial owner	451,200	–	–	451,200	0.26

* *Dr. Chow had notified CiTL that under the SFO, he was deemed to be interested in 86,994,933 shares in CiTL which were all held by the Company as Dr. Chow beneficially owned 144,276,359 Shares, representing approximately 51.79% of the issued share capital of the Company.*

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, no other person has interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are 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 are required, pursuant to S352 of the SFO, to be recorded in the register referred to therein; or are 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 is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the Shares or underlying Shares which have 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 Shareholder	Number of Shares held		Approximate percentage of interest *(%)*
CHOW Yei Ching	144,276,359		51.79
MIYAKAWA Michiko	144,276,359	*(Note 1)*	51.79
Value Partners Limited	16,730,000		6.01
CHEAH Cheng Hye	16,730,000	*(Note 2)*	6.01

Note:

1. Under Part XV of the SFO, Ms. Miyakawa Michiko, the spouse of Dr. Chow, was deemed to be interested in the same parcel of 144,276,359 Shares held by Dr. Chow.

2. Such interests arose through the interests in the relevant Shares owned by Value Partners Limited, a funds management company, in which Mr. Cheah Cheng Hye held approximately 31.82% shareholding interests.

Save as disclosed above, as at the Latest Practicable Date, so far as is 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 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 Enlarged Group or in any options in respect of such capital.

3. LITIGATION

As at the Latest Practicable Date, so far as is known to the Directors, 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 have 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 have entered, or are 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

Deloitte Touche Tohmatsu, 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, Deloitte Touche Tohmatsu 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 31st March, 2004, 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 Enlarged Group, or were proposed to be acquired or disposed of by or leased to the Enlarged 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, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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