



香港飲食管理有限公司
HONG KONG CATERING MANAGEMENT LIMITED

Stock Code: 668

Interim Report **2006/07**



CORPORATE INFORMATION

Board of Directors

Executive directors

Mr. Chan Wai Cheung, Glenn, *Chairman*
Mr. Chan Ka Lai, Joseph, *Managing Director*
Mrs. Chan King Catherine
Mr. Chiu Wai
Ms. Wong Tsui Yue, Lucy

Non-executive director

Mr. Shum Wing Hon
(Re-designated from executive director to non-executive director on 1 November 2006)

Independent non-executive directors

Mr. Cassam Soliman Gooljarry
Mrs. Fung Yeh Yi Hao, Yvette
Mr. Chan Ip Sing, Evans
(alternate to Mrs. Fung Yeh Yi Hao, Yvette)
Dr. Kwok Lok Wai, William

Audit Committee

Mr. Cassam Soliman Gooljarry, *Committee Chairman*
Mrs. Fung Yeh Yi Hao, Yvette
Mr. Chan Ip Sing, Evans
(alternate to Mrs. Fung Yeh Yi Hao, Yvette)
Dr. Kwok Lok Wai, William

Company Secretary

Ms. Wong Tsui Yue, Lucy

Authorized Representatives

Mr. Chan Wai Cheung, Glenn
Ms. Wong Tsui Yue, Lucy

Registered Office

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Causeway Bay, Hong Kong
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Share Registrar and Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited

Solicitors

Sidley Austin Brown & Wood

Auditors

PricewaterhouseCoopers

Stock Code

668

Website

<http://www.hkcatering.com>

The board of directors (the "Board") of Hong Kong Catering Management Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2006 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2006

	Note	Unaudited Six months ended 30 September	
		2006 HK\$'000	(Restated) 2005 HK\$'000
Turnover	3	489,187	509,358
Other revenues	4	6,762	4,035
Cost of inventories consumed		(151,009)	(159,356)
Staff costs		(161,467)	(162,705)
Operating lease rentals		(52,887)	(52,324)
Depreciation of property, plant and equipment		(20,567)	(20,582)
Other operating expenses		(88,959)	(94,688)
Gain on disposal of leasehold land and properties		-	10,491
Operating profit	5	21,060	34,229
Share of profit of an associated company		479	852
Profit before income tax		21,539	35,081
Income tax expense	6	(4,443)	(5,293)
Profit for the period		17,096	29,788
Attributable to:			
Shareholders of the Company		8,919	20,146
Minority interests		8,177	9,642
		17,096	29,788
Dividends	7	5,176	9,869
Earnings per share	8		
Basic		2.7 cents	6.1 cents
Diluted		2.7 cents	6.1 cents

CONSOLIDATED BALANCE SHEET

At 30 September 2006

		Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Trademarks		27,600	27,600
Property, plant and equipment	9	178,662	185,247
Leasehold land and land use rights	9	86,151	87,166
Interest in an associated company		3,485	4,056
Held-to-maturity investments		43,766	12,675
Available-for-sale financial assets		6,900	6,900
Rental deposits paid		24,561	23,281
Deferred income tax assets		1,338	1,833
		372,463	348,758
Current assets			
Inventories		39,305	25,578
Trade receivables	10	16,406	7,474
Deposits, prepayments and other receivables		23,566	19,158
Other financial assets at fair value through profit or loss		2,221	225
Cash and cash equivalents		348,909	349,704
		430,407	402,139
Total assets		802,870	750,897
LIABILITIES			
Current liabilities			
Trade payables	11	42,458	30,332
Other payables and accrued charges		101,650	77,250
Tax payable		5,985	2,850
Dividend payable		32,989	-
Cake coupon liabilities		127,059	132,010
		310,141	242,442
Non-current liabilities			
Rental deposits received		124	161
Provision for long service payments		9,537	9,217
Deferred income tax liabilities		1,720	1,836
		11,381	11,214
Total liabilities		321,522	253,656



	Unaudited	Audited
	30 September	31 March
	2006	2006
<i>Note</i>	HK\$'000	HK\$'000
Total assets less current liabilities	492,729	508,455
Net current assets	120,266	159,697
Net assets	481,348	497,241
EQUITY		
Capital and reserves attributable to the Company's shareholders		
Share capital	12 32,896	32,896
Reserves	332,830	329,087
Dividend reserve	5,176	26,317
	370,902	388,300
Minority interests	110,446	108,941
Total equity	481,348	497,241



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Net cash generated from operating activities	39,090	55,935
Net cash (used in)/generated from investing activities	(39,885)	10,464
Net cash used in financing activities	-	(24,127)
Net (decrease)/increase in cash and cash equivalents	(795)	42,272
Cash and cash equivalents at 1 April	349,704	295,604
Cash and cash equivalents at 30 September	348,909	337,876

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Attributable to shareholders of the Company								
	Share capital	Share premium	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings	Dividend reserve	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	32,896	125,278	-	69	198,083	16,448	372,774	101,503	474,277
Revaluation surplus of available-for-sale financial assets	-	-	1,903	-	-	-	1,903	-	1,903
Contributions from minority shareholders upon exercise of a subsidiary's share options	-	-	-	-	-	-	-	900	900
Profit for the period, as restated	-	-	-	-	20,146	-	20,146	9,642	29,788
2004/05 final dividend paid	-	-	-	-	-	(16,448)	(16,448)	(8,579)	(25,027)
2005/06 interim dividend declared	-	-	-	-	(3,290)	3,290	-	-	-
2005/06 special dividend declared	-	-	-	-	(6,579)	6,579	-	-	-
At 30 September 2005, as restated	32,896	125,278	1,903	69	208,360	9,869	378,375	103,466	481,841
At 1 April 2006	32,896	125,278	2,176	69	201,564	26,317	388,300	108,941	497,241
Profit for the period	-	-	-	-	8,919	-	8,919	8,177	17,096
2005/06 final dividend transfer to dividend payable	-	-	-	-	-	(26,317)	(26,317)	(6,672)	(32,989)
2006/07 interim dividend declared	-	-	-	-	(5,176)	5,176	-	-	-
At 30 September 2006	32,896	125,278	2,176	69	205,307	5,176	370,902	110,446	481,348



NOTES TO THE FINANCIAL STATEMENTS

1. General information

The Group operates restaurants, manufactures, distributes and sells bakery products.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 27/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The unaudited condensed consolidated interim financial statements should be read in conjunction with the 2005/06 annual report.

The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars (HK\$), unless otherwise stated.

The unaudited condensed consolidated interim financial statements have been approved for issue by the Board on 16 December 2006.

2. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2006.

In the current interim period, the Group has applied the new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for the accounting periods beginning on or after 1 April 2006. The application of these new HKFRSs has had no material effect on the results for the current and prior accounting periods.

The Group has not early applied the new HKFRSs that have been issued but not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Comparatives were restated to reflect the effect of the adoption of Hong Kong Financial Reporting Standards issued by the HKICPA. In the 2005/06 annual financial statements, the Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38 and considered the trademarks held by the Group as having indefinite useful lives. Therefore, the trademarks are not amortized but will be tested for impairment. Previously the Group amortized its trademarks over 20 years. The transitional provision of HKAS 38 prohibits any adjustments to the carrying amount recognized on first adoption and any assessment of useful life shall be accounted for prospectively as a change in accounting estimate in accordance with HKAS 8.

3. Turnover and segment information

The Group is currently organized into 2 business segments:

- Restaurant operation – operating restaurants of different cuisines
- Bakery operation – manufacturing and selling bakery products which are undertaken by Saint Honore Holdings Limited and its subsidiaries

An analysis of the Group's turnover and results for the period by business segments is as follows:

	Unaudited			Unaudited (Restated)		
	Six months ended 30 September 2006			Six months ended 30 September 2005		
	Restaurant HK\$'000	Bakery HK\$'000	Group HK\$'000	Restaurant HK\$'000	Bakery HK\$'000	Group HK\$'000
Turnover	192,100	301,379	493,479	197,363	315,587	512,950
Inter-segment sales	(64)	(4,228)	(4,292)	–	(3,592)	(3,592)
Segment turnover	192,036	297,151	489,187	197,363	311,995	509,358
Segment results	(2,602)	23,210	20,608	7,047	26,588	33,635
Unallocated revenue			452			594
Operating profit			21,060			34,229
Share of profit of an associated company	479	–	479	852	–	852
Profit before income tax			21,539			35,081
Income tax expense			(4,443)			(5,293)
Profit for the period			17,096			29,788

There was a gain on disposal of a self-occupied property amounting to HK\$10.8 million in 2005 restaurant segment results whereas a loss on disposal of another self-occupied property of HK\$0.3 million was included in 2005 bakery segment results.

4. Other revenues

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Interest income	6,310	3,441
Rental income from other properties	452	594
	6,762	4,035

5. Operating profit

Operating profit is stated after charging the following:

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Amortization of prepaid operating lease payments	1,015	1,091
Loss on disposal of other plant and equipment	176	273
Provision for long service payments included in staff costs	222	36
Retirement benefit costs included in staff costs	6,667	6,864

6. Income tax expense

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	2,483	2,075
Income tax arising from other jurisdictions	1,507	2,205
Under provision in prior years	74	–
Deferred income tax charge	379	1,013
Income tax expense	4,443	5,293

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Income tax arising from other jurisdictions has been calculated on the estimated assessable profits for the period at the rates prevailing in the relevant jurisdictions.

7. Dividends

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Interim dividend, declared on 16 December 2006, of HK1.5 cents (2005: HK1.0 cent) per ordinary share	5,176	3,290
Special dividend, nil (2005: HK2.0 cents) per ordinary share	<u>–</u>	<u>6,579</u>
	5,176	<u>9,869</u>

8. Earnings per share

The calculations of basic and diluted earnings per share are based on the following:

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Earnings		(Restated)
Profit attributable to shareholders of the Company	8,919	20,146
Adjustment to the share of results of a subsidiary based on the dilution of the subsidiary's earnings per share	<u>(24)</u>	<u>(94)</u>
Profit used to calculate diluted earnings per share	8,895	<u>20,052</u>
	2006	2005
Number of shares		
Weighted average number of ordinary shares in issue	328,958,609	328,958,609
Effect of potential dilutive ordinary shares (Note)	<u>2,150,000</u>	<u>2,305,845</u>
Weighted average number of ordinary shares for diluted earnings per share	331,108,609	<u>331,264,454</u>

Note:

The amount represents the weighted average number of shares deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

9. Capital expenditure

	Unaudited	
	Property, plant and equipment HK\$'000	Leasehold land and land use rights HK\$'000
Net book value, at 1 April 2006	185,247	87,166
Additions	14,266	–
Disposals	(284)	–
Depreciation and amortization	<u>(20,567)</u>	<u>(1,015)</u>
Net book value, at 30 September 2006	<u>178,662</u>	<u>86,151</u>

10. Trade receivables

Details of the ageing analysis are as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Current to 30 days	15,450	6,343
31 to 60 days	806	459
Over 60 days	150	672
	<u>16,406</u>	<u>7,474</u>

The majority of the Group's sales are conducted in cash, by credit cards or through redemption of cake coupons. Credit sales are made mainly to certain corporate customers of the bakery operation for purchases of normal bakery products and cake coupons or festive products and they are normally granted respectively with credit terms of 30 days or 61 to 120 days. Overseas corporate customers are generally requested to pay deposits in the amount of 20% to 30% of their estimated purchase values.

11. Trade payables

Details of the ageing analysis are as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Current to 30 days	29,768	25,577
31 to 60 days	8,497	2,389
Over 60 days	4,193	2,366
	<u>42,458</u>	<u>30,332</u>

12. Share capital

	Amount HK\$'000
Authorized 400,000,000 ordinary shares of HK\$0.10 each at 1 April 2006 and 30 September 2006	<u>40,000</u>
Issued and fully paid 328,958,609 ordinary shares of HK\$0.10 each at 1 April 2006 and 30 September 2006	<u>32,896</u>

13. Commitments

(a) Capital commitments

Capital expenditure for property, plant and equipment at the balance sheet date but not yet incurred is as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Contracted but not provided for	837	2,234
Approved but not contracted for	8,533	17,962
	<u>9,370</u>	<u>20,196</u>

(b) Operating lease commitments

At 30 September 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Within one year	90,092	94,651
After one year and within five years	74,328	70,867
Over five years	2,225	2,276
	<u>166,645</u>	<u>167,794</u>

The actual payment in respect of certain leases are calculated at the higher of the minimum commitments as noted above and the amounts determined based on a percentage of the sales of the related outlets.



14. Related-party transactions

The Group is controlled by Well-Positioned Corporation (“Well-Positioned”), a company incorporated in British Virgin Islands, which owns 56.61% of the Company’s shares. The remaining 43.39% of the shares are widely held.

15. Subsequent event

On 14 November 2006, the Board was notified by Saint Honore Holdings Limited (“SHHL”) that it had received a request from Convenience Retail Asia Limited (“CRA”) to put forward a proposal to its shareholders regarding a proposed takeover of the SHHL by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda (the “Proposal”). The Proposal, if implemented, will effectively be a disposal of its entire interest in SHHL by the Company which constitutes a major and connected transaction of the Company under the Listing Rules and has to be approved by independent shareholders. The detail of the Proposal was announced on 17 November 2006 and the circular containing further details was despatched to shareholders on 18 December 2006.



RESULTS

Consolidated turnover decreased by 4% to HK\$489.2 million (2005: HK\$509.4 million) while the profit attributable to shareholders of the Company decreased by 55.7% to HK\$8.9 million (2005: HK\$20.1 million).

INTERIM DIVIDEND

The Board declared an ordinary interim dividend of HK1.5 cents (2005: HK1.0 cent plus a special dividend of HK2.0 cents) per ordinary share for the period ended 30 September 2006. The dividend will be payable to the shareholders whose names appear in the register of members of the Company on 18 January 2007. The dividend will be payable on or about 24 January 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 January 2007 to 18 January 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Transfer Office of the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 12 January 2007.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE OPERATIONS

Business review

Restaurant operation


Turnover for the period under review declined by 2.7% as we did not renew the lease of Imperial Kitchen at Sceneway Plaza, Lam Tin which expired in May 2006 while opening of a new shop was delayed until late August 2006. We have streamlined our business by scaling down traditional Chinese restaurants and expanding into a new dining concept that targets customers of a younger age group. The pilot shop under the new concept was opened in Gateway, Tsim Sha Tsui features a broad menu similar to that of many Hong Kong style teahouses while the chic interior setting is designed for additional comfort and a relaxed dining environment.

Management has continued to exercise cautious cost control. Gross margin has slightly improved from 71% to 71.2% as we centralized and outsourced certain food preparation processes to our subsidiary in mainland China. Together with the impact from the closure of the Lam Tin shop and efficiency gain, staff cost has decreased by around 4% as compared to the same period last year. The growth momentum in rental expense has slightly slowed down in the past 6 months to around 2.1% while utility charges has an approximately 3% increase.

Excluding the effect of the gain on disposal of a self-occupied property amounted to HK\$10.8 million in 2005, the restaurant performance has improved by approximately HK\$1.2 million.

Bakery operation

With the Mid-autumn Festival fell in the month of October in 2006, more than 30% of mooncake sales will be recognized in the second half of this fiscal year. As a result, turnover of the bakery operation for the period ended 30 September 2006 dropped by 4.5% to HK\$301.4 million (2005: HK\$315.6 million). Excluding sales of festive products, normal cake and bread business of the Group increased by 5%.



Gross profit margin slightly improved from 66.4% to 66.9% as prices of major raw materials except sugar have stabilized and the Group also benefited from direct sourcing at the origins of the supply chain. We are still facing pressure of an upward trend in wage scale especially in People's Republic of China ("PRC") and Macau which contributes to the 2% increase in staff cost. Occupancy costs are still on its upward trend. The overall rental expense has shown a gross increase of 4% though offset by savings from the closure of one eatery thus resulted in a net increase of 0.7%. Nevertheless, we managed to achieve savings in marketing expenses.

Together with the effect of having mooncake sales partially recognized in the interim results and the increase in operating costs, the segment results has decreased by around HK\$3.4 million.

Prospect

On 14 November 2006, the Board was notified by SHHL that it had received a proposal from CRA to privatize this subsidiary. If the Proposal is implemented, it will effectively be a disposal of our entire interest in SHHL and the Group will realize a one-off profit of approximately HK\$218.2 million from the disposal in the financial year ending 31 March 2007. It is the intention of the Board to pay out a substantial portion of the proceed on this disposal as dividend.

Should this disposal be effective, the Group will focus its resources to develop its principal business in the management and operation of restaurants. In the coming year, we will diversify our focus from traditional Chinese banquet business to boutique eateries offering fusion cuisine to cater for the younger age group. The Group still have sufficient cash on hand to enable it to explore more aggressively for investment opportunities in food and beverage businesses in Hong Kong and the PRC that will complement its existing business which in turn will enhance the competitiveness of the Group as well as the shareholders' value in the long run.

Liquidity and capital resources

At 30 September 2006, the Group had freely-held cash on hand which amounted to about HK\$348.9 million (31 March 2006: HK\$349.7 million) and zero gearing. Approved capital commitments at 30 September 2006 are estimated to be about HK\$9.4 million, mainly for the expansion of bakery production capacity and its retail network. These projects will be financed internally and there is no immediate need for external fund raising.

Pledge of assets

No assets were pledged throughout the period.

Employees

At 30 September 2006, the Group had a total of 3,271 (31 March 2006: 3,037) full time employees of which 985 (31 March 2006: 770) were local staff of PRC and Macau. Employees' remuneration package was determined with reference to prevailing market practices and individual performance. Remuneration package includes basic salaries, sales incentives (which are only payable to some operational staff), medical and retirement benefit schemes. Discretionary bonus may be granted to eligible employees based on the performance of the Group and individual employees.

Contingent liabilities

The Group had no significant contingent liabilities at 30 September 2006.

Exposure to fluctuations in exchange rates and related hedges

The Group conducts most of its business transactions in Hong Kong dollars and Renminbi ("RMB"). The Group hedges its RMB exchange exposure by holding surplus cash in RMB deposits. At 30 September 2006, the Group had RMB fixed deposits amounted to RMB13.2 million (31 March 2006: RMB26.5 million).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company had not redeemed any of its shares during the period and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period.

SHARE OPTIONS

The share option scheme respectively adopted by the Company ("HKCM Scheme") and SHHL, a listed subsidiary of the Company, ("SHHL Scheme") do not fulfill certain requirements as set out in the Listing Rules on share option scheme, as a result both schemes became invalid and no further share option can be granted under these schemes.

During the period, there was no movement of share options previously granted under HKCM Scheme ("HKCM Options") and the detail of HKCM Options that remained unexercised are summarized below:

Participants	Grant date	Exercise period		Exercise price HK\$	Number of HKCM Options
		From	To		At 1 April 2006 and 30 September 2006
A director of the Company					
Chan Ka Lai, Joseph	30 August 2001	1 October 2001	30 September 2011	0.48	1,000,000
	30 August 2001	1 March 2002	30 September 2011	0.48	1,000,000
	30 August 2001	1 September 2002	30 September 2011	0.48	1,000,000
				Total	3,000,000
Other employees					
	30 August 2001	1 March 2002	30 September 2011	0.48	175,000
	30 August 2001	1 September 2002	30 September 2011	0.48	175,000
				Total	350,000
				Grand total	3,350,000

Mr. Chan Ka Lai, Joseph subsequently exercised the remainder of his outstanding 3,000,000 HKCM Options on 1 November 2006.



During the period, there was no movement of share options previously granted under SHHL Scheme ("SHHL Options") and the details of SHHL Options that remained unexercised are summarized below:

Participants	Grant date	Exercise period		Exercise price <i>HK\$</i>	Number of SHHL Options
		From	To		At 1 April 2006 and 30 September 2006
A director of SHHL	15 January 2001	1 May 2002	31 May 2010	0.50	200,000
	31 August 2001	1 March 2002	30 September 2011	0.55	300,000
	31 August 2001	1 September 2002	30 September 2011	0.55	300,000
				Total	<u>800,000</u>

The outstanding 800,000 SHHL Options was subsequently exercised on 3 November 2006.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 2006, the following directors and chief executives of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange:

Name of company	Name of director	Number of ordinary shares held			Number of underlying ordinary shares held under equity derivatives	Total number of shares interested or deemed to be interested (long position)	Percentage of shareholding %
		Personal interest (Note a)	Family interest	Trust interest			
The Company	Chan Wai Cheung, Glenn	-	-	186,224,609 (Note b)	-	186,224,609	56.61
	Chan King Catherine	-	186,224,609 (Note b)	-	-	186,224,609	56.61
	Chan Ka Lai, Joseph	1,200,000	-	186,224,609 (Note c)	3,000,000 (Note d)	190,424,609	57.89
	Chiu Wai	112,000	-	-	-	112,000	0.03
	Wong Tsui Yue, Lucy	100,000	-	-	-	100,000	0.03
SHHL	Chan Wai Cheung, Glenn	-	-	155,223,250 (Note e)	-	155,223,250	72.75
	Chan King Catherine	-	155,233,250 (Note f)	-	-	155,223,250	72.75
	Chan Ka Lai, Joseph	182,000	-	155,223,250 (Note c)	-	155,405,250	72.84
	Chiu Wai	28,000	-	-	-	28,000	0.01

Notes:

- These shares are held by the directors as beneficial owners.
- These shares are directly held by Well-Positioned, a company beneficially owned by a trust established for the benefit of the family members of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine. Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine are interested in these shares in the respective capacity as the founder of the trust and the spouse of the founder.
- Mr. Chan Ka Lai, Joseph, being the eligible beneficiary of the family trust established by Mr. Chan Wai Cheung, Glenn, is also deemed to be interested in these shares held by Well-Positioned.
- These are underlying shares in respect of the share options granted by the Company, the details of which are stated in the section "Share Options". The aforesaid interest is held by Mr. Chan Ka Lai, Joseph as beneficial owner.

- e. Being the founder of the trust, Mr. Chan Wai Cheung, Glenn has a trust interest in SHHL shares held by the following means:

	Number of SHHL shares held
SHHL shares directly held by Well-Positioned as beneficial owner	37,195,152
SHHL shares held by Well-Positioned through its wholly owned subsidiary, Albion Agents Limited	<u>118,028,098</u>
	<u>155,223,250</u>

- f. Mrs. Chan King Catherine, being the spouse of Mr. Chan Wai Cheung, Glenn, is also deemed to be interested in the SHHL shares held by Well-Positioned.

Save as disclosed above, at 30 September 2006, none of the directors or chief executives of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2006, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the directors or chief executives of the Company, the following persons, other than directors or chief executives of the Company, had an interest or short position in the shares or underlying shares which would require to be disclosed by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

Name of substantial shareholders	Number of ordinary shares held	Capacity	Percentage of shareholding %
Well-Positioned (<i>Note a</i>)	186,224,609	Beneficial owner	56.61
DJE Investment S.A. (<i>Note b</i>)	19,984,000	Beneficial owner	6.07

Notes:

- a. Well-Positioned is a wholly owned subsidiary held by a trust established by Mr. Chan Wai Cheung, Glenn for the benefit of the family members of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine.
- b. DJE Investment S.A. is 81% controlled by Dr. Jens Ehrhardt Kapital AG which in turn is 83.5% controlled by Dr. Jens Alfred Karl Ehrhardt.



Save as disclosed above, at 30 September 2006, the directors and the chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares which would require to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the importance of good corporate governance practices and believes that they are essential to the development of the Group and safeguard the interests of shareholders.

The Code on Corporate Governance Practices (the "CG Code") issued by the Stock Exchange came into effect on 1 January 2005. For the period ended 30 September 2006, the Company was in compliance with the CG Code except for the following:

1. The independent non-executive directors ("INEDs") are not appointed with specific term as required by code provision A.4.1, but their appointments are determinable by either party with at least one month written notice in advance. The Board considers the one-month notice period for termination of INEDs' contracts provided adequate protection to either party and would not impose undue pressure of possible compensation liable by the Group for the termination. Besides, INEDs are also subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.
2. The Board is in the opinion that the establishment of a remuneration committee as required by code provision B.1.1 is not justified after consideration of the size of the Group and the associated costs involved.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of the directors, the Company confirmed that they all have complied with the required standard as set out in the Model Code during the period ended 30 September 2006.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the period ended 30 September 2006 and has also discussed the internal control, the accounting principles and practices adopted by the Group.

On behalf of the Board
Chan Wai Cheung, Glenn
Chairman

Hong Kong, 16 December 2006