

1 BASIS OF PREPARATION

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of the above standards had no material effect on amounts reported in prior year, except that certain presentational changes have been made upon the adoption of SSAP 1 (revised) “Presentation of financial statements” and SSAP 15 (revised) “Cash flow statements”.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposal of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(a) Group accounting (cont'd)

(i) Consolidation (cont'd)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as movements in reserves.

(b) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 April 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of not more than 20 years.

Goodwill on acquisitions that occurred prior to 1 April 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 such that goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with the policy set out below.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) Intangible assets (cont'd)

(i) Goodwill (cont'd)

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 April 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(ii) Trademarks

Expenditures on acquired trademarks are capitalised at cost and amortised using the straight-line method over their useful lives of not more than 20 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(c) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating results. Any subsequent increases are credited to operating results up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(d) Fixed assets***(i) Other properties*

Other properties are interests in land and buildings other than investment properties and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Depreciation on other properties is calculated to write off their costs less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group on a straight-line basis. The expected useful life used for this purpose is 50 years.

(ii) Leasehold improvements

Leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Depreciation on leasehold improvements is calculated to write off their costs less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group on a straight-line basis. The annual rate used for this purpose is 15%.

(iii) Other tangible fixed assets

Other tangible fixed assets, comprising air-conditioning plant, furniture, fixtures and equipment, and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation on other tangible fixed assets is calculated to write off their costs less accumulated impairment losses over their expected useful lives to the Group on a straight-line basis. The annual rates used for this purpose range from 10% to 25%.

(iv) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Fixed assets (cont'd)

(v) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Assets under operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account over the lease periods on a straight-line basis.

(f) Inventories

Inventories comprise raw materials, packing materials, work-in-progress and finished goods, and are stated at the lower of cost and net realisable value. Cost is calculated on a first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from the date of investment.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Group recognises a provision for long service payments for existing employees which are payable upon termination of their employment in accordance with statutory requirements. The provision is calculated with reference to the statutory requirements, the employees' turnover statistics, the employees' remuneration and their age profile.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(j) Cake coupon liabilities**

Cake coupons are recorded as liabilities when sold. Cake coupons surrendered in exchange for products during the year are recognised as sales and transferred to the profit and loss account using the weighted average cake coupon sale value. The estimated value of the cake coupons which are expected to be redeemed in the next twelve months is classified as current liabilities at the end of the year.

(k) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(l) Revenue recognition

Revenue from the sale of bakery products is recognised on the transfer of ownership, which generally coincides with the time of delivery.

Sales revenue from eatery operations are recognised as revenue when services are rendered to customers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognised on an accrual basis over the lease period.

(m) Employee benefits*(i) Employee leave entitlements*

Employee entitlement to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(m) Employee benefits (cont'd)

(ii) Pension obligations

The Group operates the following principal defined contribution pension schemes:

Mandatory Provident Fund Schemes ("MPF Schemes")

Contributions to MPF Schemes by the Group are calculated as a percentage of employees' basic salaries but subject to a cap in accordance with the statutory requirements except for some managerial staff. The Group's contributions are charged to the profit and loss account when incurred.

Schemes established under Occupational Retirement Scheme Ordinance ("ORSO Schemes")

The Group has discontinued all contributions to the ORSO Schemes when it joined the MPF Schemes. For those group companies which opted not to transfer the accrued benefits of the employees in the ORSO Schemes as voluntary contributions to MPF Schemes, such benefits are retained and their investment returns are accumulated. The contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution are credited to the profit and loss account when refunded.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(iii) Equity compensation benefits

Share options are granted to executive directors and to full-time employees at the discretion of directors. No employee benefit cost is recognised when options are granted. When the options are exercised, the proceeds received are credited to share capital and share premium.

(n) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated revenue represents rental income from investment properties and unallocated expense represents deficit on revaluation of investment properties. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash and exclude items such as taxation recoverable and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation payable and deferred taxation. Capital expenditure comprises additions to intangible assets (note 12) and fixed assets (note 13).

2 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(n) Segment reporting (cont'd)

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

(o) Contingent liabilities

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 Group. It can also be a present obligation arising from past events that is not recognised 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 recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the operation of bakery, eatery and property investment. Turnover comprises takings and service charges less discounts and credit card commission from bakery and eatery operations. Revenues recognised during the year were as follows:

	2003 HK\$	Group 2002 HK\$
Turnover		
Bakery operation	466,793,409	446,619,407
Eatery operation	27,698,872	29,569,187
	494,492,281	476,188,594
Other revenues		
Interest income	703,167	1,709,043
Rental income from an investment property	936,000	936,000
	1,639,167	2,645,043
Total revenues	496,131,448	478,833,637

3 TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

Primary reporting format – business segments

For management purpose, the Group is currently organised into two main business segments – bakery and eatery. These segments are the basis on which the Group reports its primary segment information.

- Bakery – manufacturing and retailing of bakery products
- Eatery – operating eateries

There are no significant sales between the business segments.

Secondary reporting format – geographical segments

No geographical analysis is provided as less than 10% of the Group's turnover and less than 10% of the consolidated profit of the Group are attributable to markets outside Hong Kong.

	2003			2002		
	Bakery HK\$	Eatery HK\$	Group HK\$	Bakery HK\$	Eatery HK\$	Group HK\$
Turnover	466,793,409	27,698,872	494,492,281	446,619,407	29,569,187	476,188,594
Segment results	27,724,367	1,351,596	29,075,963	21,109,754	2,433,635	23,543,389
Unallocated revenue			936,000			936,000
Unallocated expense			(4,585,970)			–
Profit before taxation			25,425,993			24,479,389
Taxation			(6,897,028)			(4,279,462)
Profit attributable to shareholders			18,528,965			20,199,927
Segment assets	320,349,681	7,856,143	328,205,824	312,422,501	9,657,524	322,080,025
Unallocated assets			10,500,000			15,820,664
Total assets			338,705,824			337,900,689
Segment liabilities	179,472,890	5,001,765	184,474,655	189,079,255	6,223,186	195,302,441
Unallocated liabilities			5,721,526			1,824,975
Total liabilities			190,196,181			197,127,416
Capital expenditure	28,201,718	230,490	28,432,208	27,061,581	238,368	27,299,949
Depreciation	26,943,616	1,679,507	28,623,123	23,936,001	1,707,549	25,643,550
Amortisation charge	4,600,000	–	4,600,000	4,600,000	–	4,600,000

4 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2003	Group
	HK\$	2002
		HK\$
Auditors' remuneration	744,838	882,681
Deficit on revaluation of an investment property	4,585,970	–
Loss on disposal of fixed assets	80,981	283,840
Net exchange losses	678,907	290,521
Pre-operating expenses written off	–	702,878
	_____	_____

5 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2003	Group
	HK\$	2002
		HK\$
Hong Kong profits tax	6,576,068	2,826,612
Overseas taxation	639,601	684,406
Overprovision in prior years	(354,699)	(237,237)
Deferred taxation (note 24)	36,058	1,005,681
	_____	_____
	6,897,028	4,279,462
	_____	_____

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$17,835,897 (2002: HK\$5,079,175).

7 DIVIDENDS

	2003	2002
	HK\$	HK\$
Interim, paid, of HK2.0 cents (2002: HK2.5 cents) per ordinary share	3,924,580	4,905,725
Final, proposed, of HK3.5 cents (2002: HK3.5 cents) per ordinary share	6,868,015	6,868,015
	<u>10,792,595</u>	<u>11,773,740</u>

At a meeting held on 10 July 2003 the directors declared a final dividend of HK3.5 cents per ordinary share for the year ended 31 March 2003. This proposed dividend is not reflected as a dividend payable in these accounts. It is reflected as an appropriation of retained earnings and is presented as a dividend reserve in the balance sheet.

8 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2003	2002
	HK\$	HK\$
Earnings		
Earnings for the purpose of the calculation of basic and diluted earnings per share	<u>18,528,965</u>	<u>20,199,927</u>
Number of shares	2003	2002
Weighted average number of ordinary shares for the purpose of the calculation of basic earnings per share	196,229,000	196,229,000
Effect of dilutive potential ordinary shares	<u>4,672,171</u>	<u>3,851,608</u>
Weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share	<u>200,901,171</u>	<u>200,080,608</u>

9 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2003	2002
	HK\$	HK\$
Wages and salaries including directors' fees	140,448,802	147,235,980
Termination benefits	424,628	51,580
Unused annual leave	1,015,351	3,724,896
Retirement benefit costs – defined contribution scheme (note 10)	6,261,964	6,335,477
Provision for/(reversal of) long service payments (note 20)	119,215	(1,412,093)
Other staff costs	7,495,311	7,162,704
	<u>155,765,271</u>	<u>163,098,544</u>

10 RETIREMENT BENEFIT COSTS

The Group participates in mandatory provident fund schemes established under the Mandatory Provident Fund Ordinance ("MPF Schemes"). The Group's contributions to MPF Schemes are set at 5% of employees' relevant income up to a maximum of HK\$1,000 per employee per month ("Mandatory Contributions") except for some managerial staff whose monthly contributions are not capped at that absolute amount. The Mandatory Contributions to MPF Schemes are fully and immediately vested on the employees as accrued benefits once they are paid. The Group's contributions in excess of the Mandatory Contributions are voluntary contributions which are subject to a vesting scale.

Since 1 December 2000, the Group had discontinued all contributions to the schemes established under Occupational Retirement Schemes Ordinance ("ORSO Schemes") when it joined the MPF Schemes. For those subsidiaries which opted not to transfer the accrued benefits of the employees in the ORSO Schemes as voluntary contributions to MPF Schemes, such benefits are retained and their investment returns are accumulated. Employees can withdraw their accrued benefits upon termination of their employment.

Both funds are established under trust with the assets of the funds held separately from those of the Group by independent trustees.

Aggregate amount of unvested benefits accrued to the Group during the year amounted to HK\$113,229 (2002: HK\$47,302). The aggregate amount of unvested benefits refunded to the Group was HK\$37,375 (2002: HK\$80,204). At 31 March 2003, the aggregate amount of unvested benefits not yet refunded was HK\$81,247 (2002: HK\$5,393).

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS
(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year were as follows:

	2003	2002
	HK\$	HK\$
Directors' Fees	120,000	120,000
Other emoluments:		
Basic salaries and benefits in kind	5,425,900	5,528,760
Performance related bonuses	714,000	838,858
Pension contributions	185,442	189,756
	<u>6,445,342</u>	<u>6,677,374</u>

For both years, all of the above were paid to executive directors except for the directors' fees amounting to HK\$120,000 (2002: HK\$120,000) which were paid to four (2002: four) non-executive directors.

The emoluments of the directors fell within the following bands:

Emoluments bands	Number of directors	
	2003	2002
Nil - HK\$1,000,000	6	6
HK\$1,500,001 - HK\$2,000,000	3	3
	<u>9</u>	<u>9</u>

No directors have waived emoluments in respect of the two years ended 31 March 2003 and 2002. No options were granted to nor exercised by the directors during the year.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(cont'd)*

(b) Five highest paid individuals

During the year, the five individuals whose emoluments were the highest in the Group were also executive directors of the Company. Their aggregate emoluments during the year are disclosed in the directors' emoluments in note (a) above being the sum of other emoluments (the directors' fees are payable to non-executive directors).

In last year there was an individual who was not a director and whose emoluments was within the five highest ones within the Group. The aggregate amounts of emoluments payable to this individual in last year were as follows:

	2002 HK\$
Basic salaries and benefits in kind	562,652
Pension contributions	22,842
	<hr/>
	585,494
	<hr/>

12 INTANGIBLE ASSETS
Trademarks

	Group HK\$
At 1 April 2002	41,400,000
Amortisation charge	(4,600,000)
	<hr/>
At 31 March 2003	<u>36,800,000</u>
Cost	92,000,000
Accumulated amortisation	(55,200,000)
	<hr/>
Net book value, 31 March 2003	<u>36,800,000</u>
Cost	92,000,000
Accumulated amortisation	(50,600,000)
	<hr/>
Net book value, 31 March 2002	<u>41,400,000</u>

At 31 March 2003, the remaining amortisation period of trademarks was 8 years.

Goodwill on acquisition occurring prior to 1 April 2001 was taken to the Group's contributed surplus. At 31 March 2003, such goodwill amounted to HK\$75,101,546 (2002: HK\$75,101,546).

13 FIXED ASSETS
Group

	Investment property HK\$	Other properties HK\$	Leasehold improve- ments HK\$	Air- conditioning plant HK\$	Furniture, fixtures, and equipment HK\$	Motor vehicles HK\$	Total HK\$
Cost or valuation							
At 1 April 2002	15,085,970	115,774,545	95,024,970	4,773,904	107,780,492	9,429,445	347,869,326
Additions	-	-	15,954,824	243,735	9,967,855	2,265,794	28,432,208
Disposals	-	-	(2,415,474)	-	(493,208)	(969,541)	(3,878,223)
Revaluation adjustment	(4,585,970)	-	-	-	-	-	(4,585,970)
At 31 March 2003	<u>10,500,000</u>	<u>115,774,545</u>	<u>108,564,320</u>	<u>5,017,639</u>	<u>117,255,139</u>	<u>10,725,698</u>	<u>367,837,341</u>
Accumulated depreciation							
At 1 April 2002	-	16,472,868	70,511,551	2,964,927	66,223,794	5,594,690	161,767,830
Charge for the year	-	2,285,591	13,134,043	530,889	11,518,475	1,154,125	28,623,123
Disposals	-	-	(2,369,936)	-	(449,454)	(969,539)	(3,788,929)
At 31 March 2003	-	<u>18,758,459</u>	<u>81,275,658</u>	<u>3,495,816</u>	<u>77,292,815</u>	<u>5,779,276</u>	<u>186,602,024</u>
Net book value							
At 31 March 2003	<u>10,500,000</u>	<u>97,016,086</u>	<u>27,288,662</u>	<u>1,521,823</u>	<u>39,962,324</u>	<u>4,946,422</u>	<u>181,235,317</u>
At 31 March 2002	<u>15,085,970</u>	<u>99,301,677</u>	<u>24,513,419</u>	<u>1,808,977</u>	<u>41,556,698</u>	<u>3,834,755</u>	<u>186,101,496</u>
The analysis of the cost or valuation of the above assets is as follows:							
At cost	-	115,774,545	108,564,320	5,017,639	117,255,139	10,725,698	357,337,341
At professional valuation, 2003	<u>10,500,000</u>	-	-	-	-	-	<u>10,500,000</u>
At 31 March 2003	<u>10,500,000</u>	<u>115,774,545</u>	<u>108,564,320</u>	<u>5,017,639</u>	<u>117,255,139</u>	<u>10,725,698</u>	<u>367,837,341</u>
At cost	-	115,774,545	95,024,970	4,773,904	107,780,492	9,429,445	332,783,356
At professional valuation, 2002	<u>15,085,970</u>	-	-	-	-	-	<u>15,085,970</u>
At 31 March 2002	<u>15,085,970</u>	<u>115,774,545</u>	<u>95,024,970</u>	<u>4,773,904</u>	<u>107,780,492</u>	<u>9,429,445</u>	<u>347,869,326</u>

13 FIXED ASSETS (cont'd)

Group (cont'd)

The Group's interests in investment property and other properties at their net book values are analysed as follows:

	2003	2002
	HK\$	HK\$
In Hong Kong, held on:		
Leases of over 50 years	18,520,833	23,306,803
Leases of between 10 to 50 years	57,394,258	58,726,998
Outside Hong Kong, held on:		
Leases of over 50 years	20,097,710	20,586,228
Leases of between 10 to 50 years	11,503,285	11,767,618
	<u>107,516,086</u>	<u>114,387,647</u>

At 31 March 2003, the investment property was revalued by BMI Appraisals Limited, an independent professional valuer, on an open market value basis.

During the year, fixed assets previously pledged as security for the Group's bank facilities had been released (at 31 March 2002: the carrying value of pledged fixed assets amounted to HK\$10,524,010).

14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$	HK\$
Unlisted shares, at cost	193,687,888	193,687,888
Loan to a subsidiary	2,999,992	2,999,992
	<u>196,687,880</u>	<u>196,687,880</u>

The loan to a subsidiary is unsecured, interest-free and has no fixed terms of repayment. The details of principal subsidiaries are set out in note 30.

15 INVENTORIES

	2003	Group
	HK\$	2002 HK\$
Raw materials	3,377,511	2,168,059
Packing materials	3,411,707	1,970,469
Work in progress	347,848	228,376
Finished goods	560,992	418,160
	<u>7,698,058</u>	<u>4,785,064</u>

At 31 March 2003, all inventories were stated at cost.

16 TRADE RECEIVABLES

At 31 March 2003, the ageing analysis of the trade receivables was as follows:

	2003	Group
	HK\$	2002 HK\$
Current to 30 days	1,515,709	852,583
31 to 60 days	451,006	1,217,592
Over 60 days	137,163	171,803
	<u>2,103,878</u>	<u>2,241,978</u>

Sales are normally conducted by cash and through redemption of cake coupons. Credit sales are made to local and overseas corporate customers who are normally granted with respective credit terms of 30 days and 61 to 120 days. Overseas corporate customers are required to pay a deposit in the amount of 20% to 30% of their estimated purchase values.

17 AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The balance is unsecured, interest-free and has no fixed terms of repayment.

18 AMOUNTS DUE FROM SUBSIDIARIES

The balances are unsecured, interest-free and have no fixed terms of repayment.

19 TRADE PAYABLES

At 31 March 2003, the ageing analysis of the trade payables was as follows:

	2003	Group
	HK\$	2002
		HK\$
Current to 30 days	5,108,702	5,740,922
31 to 60 days	3,207,199	1,872,124
Over 60 days	167,857	22,292
	<hr/> 8,483,758 <hr/>	<hr/> 7,635,338 <hr/>

20 PROVISION FOR LONG SERVICE PAYMENTS

The movements in provision for long service payments for the Group during the year are as follows:

	Group
	HK\$
At 1 April 2002	6,851,000
Provision for the year (Note 9)	119,215
Less: Amounts utilised	(794,947)
	<hr/> 6,175,268 <hr/>
At 31 March 2003	<hr/> 6,175,268 <hr/>

The provision for long service payments relates to the Group's net obligation to the long service payments liable to employees in accordance with the statutory requirements. The provision is reduced by the amount of employees' entitlements under the Group's retirement schemes.

21 SHARE CAPITAL

	2003 HK\$	2002 HK\$
Authorised		
400,000,000 ordinary shares of HK\$0.10 each	40,000,000	40,000,000
Issued and fully paid		
196,229,000 ordinary shares of HK\$0.10 each	19,622,900	19,622,900

22 SHARE OPTIONS

A share option scheme was adopted by the Company on 25 October 2000 (the "Share Option Scheme") which is effective for ten years expiring on 24 October 2010. Under the Share Option Scheme, directors may, at their discretion, invite full-time employees including executive directors of the Group to take up options to subscribe for shares of the Company which in aggregate may not exceed 10% of the issued share capital of the Company, excluding for this purpose the shares issued pursuant to the Share Option Scheme. The maximum number of shares in respect of which options may be granted to any full time employee or executive director shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Share Option Scheme.

According to the Share Option Scheme, the exercise price per share was set at not less than the higher of the nominal value of the Company's shares and 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the grant of the options.

The details of movements of the share options during the year are as follows:

	Number of options	
	2003	2002
At 1 April 2002/2001	19,280,000	9,190,000
Granted	–	10,310,000
Lapsed	(630,000)	(220,000)
At 31 March 2003/2002 (note b)	18,650,000	19,280,000

22 SHARE OPTIONS (cont'd)

- (a) No share options were exercised or cancelled in both years.
- (b) Share options outstanding at the end of the year have the following terms:

Grant date	Exercise period		Exercise price HK\$	Number of options	
	From	To		2003	2002
Directors					
15 Jan. 2001	1 May 2001	31 May 2010	0.50	3,750,000	3,750,000
15 Jan. 2001	1 May 2002	31 May 2010	0.50	3,000,000	3,000,000
31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	1,275,000	1,275,000
31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	1,275,000	1,275,000
				9,300,000	9,300,000
Other employees					
15 Jan. 2001	1 May 2001	31 May 2010	0.50	2,070,000	2,220,000
31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	3,640,000	3,880,000
31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	3,640,000	3,880,000
				9,350,000	9,980,000
				18,650,000	19,280,000

23 RESERVES

(a) The reserves of the Group and of the Company as at 31 March 2003 are analysed as follows:

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Reserves	122,018,728	114,282,358	204,988,162	197,944,860
Dividend reserve (note 7)	6,868,015	6,868,015	6,868,015	6,868,015
Total reserves (note 23(b) & (c))	128,886,743	121,150,373	211,856,177	204,812,875

(b) **Group**

	Contributed surplus (note (d)) HK\$	Exchange fluctuation reserve HK\$	Retained earnings HK\$	Dividend reserve HK\$	Total HK\$
At 1 April 2001	104,929,484	69,124	857,563	11,773,740	117,629,911
Profit for the year	-	-	20,199,927	-	20,199,927
2001 final dividend paid	-	-	-	(11,773,740)	(11,773,740)
2002 interim dividend proposed	-	-	(4,905,725)	4,905,725	-
2002 interim dividend paid	-	-	-	(4,905,725)	(4,905,725)
2002 final dividend proposed	-	-	(6,868,015)	6,868,015	-
At 31 March 2002	104,929,484	69,124	9,283,750	6,868,015	121,150,373
At 1 April 2002	104,929,484	69,124	9,283,750	6,868,015	121,150,373
Profit for the year	-	-	18,528,965	-	18,528,965
2002 final dividend paid	-	-	-	(6,868,015)	(6,868,015)
2003 interim dividend proposed	-	-	(3,924,580)	3,924,580	-
2003 interim dividend paid	-	-	-	(3,924,580)	(3,924,580)
2003 final dividend proposed	-	-	(6,868,015)	6,868,015	-
At 31 March 2003	104,929,484	69,124	17,020,120	6,868,015	128,886,743

23 RESERVES (cont'd)
(c) Company

	Contributed surplus (note (d))	Retained earnings	Dividend reserve	Total
	HK\$	HK\$	HK\$	HK\$
At 1 April 2001	180,031,060	24,608,365	11,773,740	216,413,165
Profit for the year	–	5,079,175	–	5,079,175
2001 final dividend paid	–	–	(11,773,740)	(11,773,740)
2002 interim dividend proposed	–	(4,905,725)	4,905,725	–
2002 interim dividend paid	–	–	(4,905,725)	(4,905,725)
2002 final dividend proposed	–	(6,868,015)	6,868,015	–
	<u>180,031,060</u>	<u>17,913,800</u>	<u>6,868,015</u>	<u>204,812,875</u>
At 31 March 2002	<u>180,031,060</u>	<u>17,913,800</u>	<u>6,868,015</u>	<u>204,812,875</u>
At 1 April 2002	180,031,060	17,913,800	6,868,015	204,812,875
Profit for the year	–	17,835,897	–	17,835,897
2002 final dividend paid	–	–	(6,868,015)	(6,868,015)
2003 interim dividend proposed	–	(3,924,580)	3,924,580	–
2003 interim dividend paid	–	–	(3,924,580)	(3,924,580)
2003 final dividend paid	–	(6,868,015)	6,868,015	–
	<u>180,031,060</u>	<u>24,957,102</u>	<u>6,868,015</u>	<u>211,856,177</u>
At 31 March 2003	<u>180,031,060</u>	<u>24,957,102</u>	<u>6,868,015</u>	<u>211,856,177</u>

- (d) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of its direct subsidiaries, and the cost of investment in these subsidiaries. The contributed surplus of the Group represents the difference between the nominal value of the Company's shares issued in connection with the Group reconstruction and the fair value of the underlying subsidiaries at the time of their initial acquisition by Hong Kong Catering Management Limited ("HKCM"), the ultimate holding company.
- (e) Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, its issued share capital and its share premium.

24 DEFERRED TAXATION

Deferred taxation represents the tax effect of the excess of tax allowances on fixed assets over depreciation and has been fully provided for. The movement of the deferred taxation are analysed as follows:

	2003	Group
	HK\$	2002
		HK\$
At 1 April 2002/2001	1,223,472	217,791
Transfer from profit and loss account (note 5)	36,058	1,005,681
	1,259,530	1,223,472
At 31 March 2003/2002		

The potential deferred taxation assets not recognised as at 31 March 2003, which relates to the excess of depreciation over tax allowances, totalled HK\$1,259,530 (2002: HK\$441,604).

25 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash inflow from operating activities:

	2003	2002
	HK\$	HK\$
Profit before taxation	25,425,993	24,479,389
Amortisation of intangible assets	4,600,000	4,600,000
Loss on disposal of fixed assets	80,981	283,840
Depreciation of fixed assets	28,623,123	25,643,550
Deficit on revaluation of an investment property	4,585,970	–
Interest income	(703,167)	(1,709,043)
	62,612,900	53,297,736
Operating profit before working capital changes		
Cash inflow from sales of cake coupons	56,763,738	62,828,465
Cake coupons redeemed as sales	(64,567,675)	(70,218,343)
(Increase)/decrease in rental deposits paid	(321,677)	742,512
Increase in inventories	(2,912,994)	(1,749)
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	3,480,165	(1,655,705)
(Decrease)/increase in trade payables, other payables and accrued charges	(736,211)	17,980,175
Decrease in amount due to ultimate holding company	(388,434)	(695,483)
Decrease in provision for long service payments	(675,732)	(2,709,000)
Decrease in rental deposit received	–	(72,645)
	53,254,080	59,495,963
Net cash inflow generated from operations		
Hong Kong profits tax paid	(2,845,896)	(1,789,858)
Overseas taxation paid	(643,359)	(686,100)
	49,764,825	57,020,005
Net cash inflow from operating activities		

26 COMMITMENTS
(a) Capital commitments for leasehold improvements, furniture, fixtures and equipment

	2003	Group
	HK\$	2002
		HK\$
Contracted but not provided for	282,139	–
Approved but not contracted for	10,185,090	2,656,694
	10,467,229	2,656,694

(b) Commitments under operating leases

At 31 March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003	Group
	HK\$	2002
		HK\$
Within one year	38,174,504	43,496,806
In the second to fifth year inclusive	36,754,126	43,610,191
After the fifth year	2,387,576	2,462,211
	77,316,206	89,569,208

The actual payments in respect of certain operating 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.

- (c) The Company did not have any capital or operating leases commitments at 31 March 2003 (2002: Nil).

27 FUTURE OPERATING LEASE ARRANGEMENTS

At 31 March 2003, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2003	Group
	HK\$	2002
		HK\$
Within one year	936,000	936,000
In the second to fifth year inclusive	31,200	967,200
	967,200	1,903,200

28 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant related party transactions with HKCM and its subsidiaries other than the Group:

	2003	2002
	HK\$	HK\$
Sales of bakery and related products (note (a))	6,009,508	4,026,102
Rental expenses in respect of land and buildings (note (b))	2,130,174	754,835
Management fees paid (note (c))	4,064,947	3,876,760

- (a) Sales of bakery and related products were charged at prices and terms were determined by reference to those charged to independent customers of the Group.
- (b) Rental expenses were reimbursed at cost in respect of certain leased premises on the basis of area occupied.
- (c) Pursuant to the service sharing agreement entered into between Bread Boutique Limited ("BBL"), a subsidiary of the Company and HKCM, HKCM was engaged to provide management and administration services to BBL. Management fees were charged on a monthly basis and were calculated at certain percentage on the monthly gross turnover of BBL.

29 BANKING FACILITIES

At 31 March 2003, the Group had aggregate banking facilities of HK\$5,000,000 (2002: HK\$7,562,000) for overdrafts and bank guarantees. These facilities were secured by corporate guarantees given by the Company.

At 31 March 2003, the facilities were utilised by the Group to the extent of HK\$1,749,199 (2002: HK\$2,220,406) including bank guarantees granted to third parties in lieu of rental and utility deposits.

30 SUBSIDIARIES

The following is the particulars of the principal subsidiaries as at 31 March 2003:

Name of subsidiaries	Place of incorporation and operation	Particular of issued share capital/ registered capital	Effective percentage holding attributable to the Group	Principal activities
Interests held directly:				
Bodega Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Investment holding
Easywin Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Holding of trademarks
Eltham Agents Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100	Investment holding
Interests held indirectly:				
Bliset Investment Limited	Hong Kong	100 ordinary shares of HK\$1 each 102 non-voting deferred shares of HK\$1 each	100	Property holding
Bread Boutique Limited	Hong Kong	3,000,000 ordinary shares of HK\$1 each	100	Bakery operator
Evergain Consultants Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Investment holding
Kingdom Wise Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property holding
^e Saint Anna Cake Shop (Macau) Limited	Macau	MOP100,000	100	Bakery operator
Saint Honore Cake Shop Limited	Hong Kong	5 ordinary shares of HK\$10 each 345,005 non-voting deferred shares of HK\$10 each	100	Bakery operator

30 SUBSIDIARIES (cont'd)

Name of subsidiaries	Place of incorporation and operation	Particular of issued share capital/ registered capital	Effective percentage holding attributable to the Group	Principal activities
^{@#} Saint Honore Cake Shop (Shenzhen) Limited	People's Republic of China	HK\$16,000,000	100	Manufacturing of bakery products
Strong Glory Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Investment holding
Uni-Leptics Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property holding
Zillion Will Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Eatery operator
^{@#} 夢工場美食(廣州)有限公司	People's Republic of China	US\$400,000	100	Manufacturing of bakery products

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, would result in particulars of excessive length.

The subsidiaries were established as wholly foreign-owned enterprises in the People's Republic of China.

@ These subsidiaries have a financial year-end date of 31 December which is in compliance with the respective local regulations.

31 ULTIMATE HOLDING COMPANY

The directors regard HKCM, a company incorporated in Hong Kong and listed on the Stock Exchange, as being the ultimate holding company.

32 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 10 July 2003.