

## 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 revised Statement of Standard Accounting Practice ("SSAP") No.12 "Income Taxes" (Revised) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current and prior accounting periods.

## 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 a majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed 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.

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 unamortized goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognized in the consolidated profit and loss account.

## 2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### (a) Group accounting *(cont'd)*

#### (i) Consolidation *(cont'd)*

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 amortized 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.

The gain or loss on disposal of an entity includes the unamortized 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 realized in the profit and loss account.

## 2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### **(b) Intangible assets *(cont'd)***

#### *(ii) Trademarks*

Expenditures on acquired trademarks are capitalized at cost and amortized 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 recognized 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 property 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 realized in respect of previous valuations is released from the investment property revaluation reserve to the profit and loss account.

### **(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, whichever is shorter. The expected useful life used for this purpose is 50 years.

## 2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### (d) Fixed assets *(cont'd)*

#### *(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 recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account.

#### *(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 recognized 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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### **(f) Inventories**

Inventories comprise raw materials, packing materials, work-in-progress and finished goods, and are stated at the lower of cost and net realizable value. Cost is calculated on a first-in, first-out basis. Net realizable 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**

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 recognized 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 recognizes 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.

### **(j) Cake coupon liabilities**

Cake coupons are recorded as liabilities when sold. Cake coupons surrendered in exchange for products during the year are recognized 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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### **(k) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In prior years, deferred taxation was accounted for at the current taxation 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (Revised) represents a change in accounting policy, which has no material effect on the results of the Group for the current and prior years.

### **(l) Revenue recognition**

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

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

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

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

### **(m) Employee benefits**

#### *(i) Employee leave entitlements*

Employee entitlement to annual leave is recognized 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 recognized 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:

#### Schemes established under Mandatory Provident Fund Schemes Ordinance (“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 Schemes Ordinance (“ORSO Schemes”)

The Group has discontinued all contributions to the ORSO Schemes when it joined the MPF Schemes. For those group companies who 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 recognized 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 properties and gain on disposal of an investment property, while unallocated expense represents deficit on revaluation of an investment property. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash and exclude items such as taxation recoverable, deferred tax assets and investment property. Segment liabilities comprise operating liabilities and exclude items such as taxation payable and deferred tax liabilities. Capital expenditure comprises additions to intangible assets and fixed assets.

## 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 recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

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

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
<b>Turnover</b>		
Bakery operation	<b>508,385,481</b>	466,793,409
Eatery operation	<b>29,130,361</b>	27,698,872
	<b>537,515,842</b>	494,492,281
<b>Other revenues</b>		
Interest income	<b>592,037</b>	703,167
Rental income from an investment property	<b>541,471</b>	936,000
Rental income from other properties	<b>568,711</b>	-
	<b>1,702,219</b>	1,639,167
<b>Total revenues</b>	<b>539,218,061</b>	496,131,448



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

#### Primary reporting format – business segments

For management purpose, the Group is currently organized 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.

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

	2004			2003		
	Bakery HK\$	Eatery HK\$	Group HK\$	Bakery HK\$	Eatery HK\$	Group HK\$
Turnover	<b>508,385,481</b>	<b>29,130,361</b>	<b>537,515,842</b>	466,793,409	27,698,872	494,492,281
Segment results	<b>42,981,964</b>	<b>1,678,951</b>	<b>44,660,915</b>	27,724,367	1,351,596	29,075,963
Unallocated revenue			<b>8,269,342</b>			936,000
Unallocated expense			<b>-</b>			(4,585,970)
Profit before taxation			<b>52,930,257</b>			25,425,993
Taxation			<b>(7,571,286)</b>			(6,897,028)
Profit attributable to shareholders			<b>45,358,971</b>			18,528,965
Segment assets	<b>361,588,986</b>	<b>7,888,995</b>	<b>369,477,981</b>	320,349,681	7,856,143	328,205,824
Unallocated assets			<b>1,342,666</b>			10,500,000
Total assets			<b>370,820,647</b>			338,705,824
Segment liabilities	<b>178,694,221</b>	<b>3,132,445</b>	<b>181,826,666</b>	179,472,890	5,001,765	184,474,655
Unallocated liabilities			<b>2,344,262</b>			5,721,526
Total liabilities			<b>184,170,928</b>			190,196,181
Capital expenditure	<b>36,458,025</b>	<b>677,498</b>	<b>37,135,523</b>	28,201,718	230,490	28,432,208
Depreciation	<b>27,786,918</b>	<b>2,036,288</b>	<b>29,823,206</b>	26,943,616	1,679,507	28,623,123
Amortization charge	<b>4,600,000</b>	<b>-</b>	<b>4,600,000</b>	4,600,000	-	4,600,000

Unallocated revenue included a gain on disposal of an investment property amounting to HK\$7,159,160.

**3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)****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 results of the Group are attributable to markets outside Hong Kong and Macau.

**4. PROFIT BEFORE TAXATION**

Profit before taxation is stated after charging the following:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Auditors' remuneration	<b>733,197</b>	744,838
Non-audit service fees paid to the Company's auditors	<b>213,626</b>	152,087
Loss on disposal of other fixed assets	<b>346,705</b>	80,981
Net exchange losses	<b>511,716</b>	678,907
	<b><u>511,716</u></b>	<u>678,907</u>

**5. TAXATION**

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Current taxation		
Hong Kong profits tax	<b>6,418,826</b>	6,576,068
Overseas taxation	<b>2,422,127</b>	639,601
Overprovision in prior years	<b>(49,144)</b>	(354,699)
Deferred taxation (note 24)	<b>(1,220,523)</b>	36,058
	<b><u>7,571,286</u></b>	<u>6,897,028</u>
Taxation charge		

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits for the year. In 2003, the Hong Kong Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. 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.

**5. TAXATION (cont'd)**

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Profit before taxation	<b>52,930,257</b>	25,425,993
Calculated at a taxation rate of 17.5% (2003: 16%)	<b>9,262,795</b>	4,068,159
Effect of different taxation rates in other countries	<b>(350,539)</b>	(8,477)
Income not subject to taxation	<b>(1,464,779)</b>	(114,353)
Expenses not deductible for taxation purposes	<b>939,073</b>	1,777,878
Overprovision in prior years	<b>(49,144)</b>	(354,700)
Unrecognized temporary differences	<b>(914,230)</b>	1,295,181
Tax losses not recognized	<b>65,158</b>	184,852
Increase in opening net deferred tax liabilities resulting from an increase in taxation rate	<b>80,178</b>	-
Others	<b>2,774</b>	48,488
	<b>7,571,286</b>	6,897,028
Taxation charge	<b>7,571,286</b>	6,897,028

**6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$27,381,726 (2003: HK\$17,835,897).

**7. DIVIDENDS**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Interim, paid, of HK4.0 cents (2003: HK2.0 cents) per ordinary share	<b>8,311,080</b>	3,924,580
Final, proposed, of HK9.0 cents (2003: HK3.5 cents) per ordinary share (note 23(a))	<b>19,031,130</b>	6,868,015
	<b>27,342,210</b>	10,792,595

At a meeting held on 8 July 2004 the directors declared a final dividend of HK9.0 cents per ordinary share for the year ended 31 March 2004. 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 are based on the following:

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
<b>Earnings</b>		
Earnings for the purpose of the calculation of basic and diluted earnings per share	<b>45,358,971</b>	18,528,965
<b>Number of shares</b>	<b>2004</b>	2003
Weighted average number of ordinary shares for the purpose of the calculation of basic earnings per share	<b>200,753,104</b>	196,229,000
Effect of dilutive potential ordinary shares	<b>6,181,846</b>	4,672,171
Weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share	<b>206,934,950</b>	200,901,171

**9. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Wages and salaries, including directors' fees	<b>155,281,949</b>	140,448,802
Termination benefits	<b>88,729</b>	424,628
(Reversal of)/provision for unused annual leave	<b>(47,126)</b>	1,015,351
Retirement benefit costs – defined contribution scheme (note 10)	<b>6,651,483</b>	6,261,964
Provision for long service payments (note 20)	<b>518,262</b>	119,215
Other staff costs	<b>7,669,313</b>	7,495,311
	<b>170,162,610</b>	155,765,271

**10. RETIREMENT BENEFIT COSTS**

The Group participates in MPF Schemes and 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 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. 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\$80,641 (2003: HK\$113,229). The aggregate amount of unvested benefits refunded to the Group was HK\$11,986 (2003: HK\$37,375). At 31 March 2004, the aggregate amount of unvested benefits not yet refunded was HK\$149,902 (2003: HK\$81,247).

## 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:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Directors' Fees	<b>237,500</b>	120,000
Other emoluments:		
Basic salaries and benefits in kind	<b>5,451,087</b>	5,425,900
Performance related bonuses	<b>1,826,947</b>	714,000
Pension contributions	<b>184,669</b>	185,442
	<b>7,700,203</b>	6,445,342

For both years, all of the above were paid to executive directors except for the directors' fees amounting to HK\$237,500 (2003: HK\$120,000) which were paid to five (2003: four) non-executive directors.

The emoluments of the directors fell within the following bands:

<b>Emolument bands</b>	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil – HK\$1,000,000	<b>7</b>	6
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	–
HK\$1,500,001 – HK\$2,000,000	<b>–</b>	3
HK\$2,000,001 – HK\$2,500,000	<b>2</b>	–
	<b>10</b>	9

No directors have waived emoluments in respect of the two years ended 31 March 2004 and 2003. No share options were granted to the directors during the year. The details of share options exercised by the directors are set out in section headed "Share Options" in the report of the directors.

### (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' other emoluments above (the directors' fees are payable to non-executive directors only).

**12. INTANGIBLE ASSETS****Trademarks**

	<b>Group HK\$</b>
Net book value, 1 April 2003	36,800,000
Amortization charge	<u>(4,600,000)</u>
Net book value, 31 March 2004	<u>32,200,000</u>
<b>Cost</b>	<b>92,000,000</b>
<b>Accumulated amortization</b>	<b><u>(59,800,000)</u></b>
<b>Net book value, 31 March 2004</b>	<b><u>32,200,000</u></b>
Cost	92,000,000
Accumulated amortization	<u>(55,200,000)</u>
Net book value, 31 March 2003	<u>36,800,000</u>

At 31 March 2004, the remaining amortization period of trademarks was 7 years.

Goodwill on acquisition occurring prior to 1 April 2001 was written off against the Group's contributed surplus. At 31 March 2004, such goodwill amounted to HK\$75,101,546 (2003: 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\$
<b>Cost or valuation</b>							
At 1 April 2003	10,500,000	115,774,545	108,564,320	5,017,639	117,255,139	10,725,698	367,837,341
Additions	-	21,420,173	9,066,332	336,414	4,075,753	2,236,851	37,135,523
Disposals	(10,500,000)	-	(14,147,973)	(412,284)	(1,593,701)	(480,465)	(27,134,423)
At 31 March 2004	-	137,194,718	103,482,679	4,941,769	119,737,191	12,482,084	377,838,441
<b>Accumulated depreciation</b>							
At 1 April 2003	-	18,758,459	81,275,658	3,495,816	7,729,815	5,779,276	186,602,024
Charge for the year	-	2,436,692	14,074,716	508,985	11,390,850	1,411,963	29,823,206
Disposals	-	-	(13,991,694)	(360,554)	(1,297,318)	(480,464)	(16,130,030)
At 31 March 2004	-	21,195,151	81,358,680	3,644,247	8,738,634	6,710,775	200,295,200
<b>Net book value</b>							
<b>At 31 March 2004</b>	<b>-</b>	<b>115,999,567</b>	<b>22,123,999</b>	<b>1,297,522</b>	<b>32,350,844</b>	<b>5,771,309</b>	<b>177,543,241</b>
At 31 March 2003	10,500,000	97,016,086	27,288,662	1,521,823	39,962,324	4,946,422	181,235,317

The analysis of the cost or valuation of the above assets is as follows:

<b>At cost, at</b>							
<b>31 March 2004</b>	<b>-</b>	<b>137,194,718</b>	<b>103,482,679</b>	<b>4,941,769</b>	<b>119,737,191</b>	<b>12,482,084</b>	<b>377,838,441</b>
At cost	-	115,774,545	108,564,320	5,017,639	117,255,139	10,725,698	357,337,341
At professional valuation, 2003	10,500,000	-	-	-	-	-	10,500,000
At 31 March 2003	10,500,000	115,774,545	108,564,320	5,017,639	117,255,139	10,725,698	367,837,341



**13. FIXED ASSETS (cont'd)**

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
In Hong Kong, held on:		
Leases of over 50 years	<b>7,820,833</b>	18,520,833
Leases of between 10 to 50 years	<b>77,330,591</b>	57,394,258
Outside Hong Kong, held on:		
Leases of over 50 years	<b>19,609,191</b>	20,097,710
Leases of between 10 to 50 years	<b>11,238,952</b>	11,503,285
	<b>115,999,567</b>	107,516,086

**14. INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Unlisted shares, at cost	<b>193,687,880</b>	193,687,888
Loan to a subsidiary	<b>2,999,992</b>	2,999,992
	<b>196,687,872</b>	196,687,880

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**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Raw materials	<b>3,891,643</b>	3,377,511
Packing materials	<b>3,240,926</b>	3,411,707
Work in progress	<b>459,387</b>	347,848
Finished goods	<b>453,522</b>	560,992
	<b>8,045,478</b>	7,698,058

At 31 March 2004, all inventories were stated at cost.

**16. TRADE RECEIVABLES**

At 31 March 2004, the ageing analysis of the trade receivables was as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Current to 30 days	<b>2,438,389</b>	1,515,709
31 to 60 days	<b>151,403</b>	451,006
Over 60 days	<b>123,279</b>	137,163
	<hr/> <b>2,713,071</b> <hr/>	<hr/> 2,103,878 <hr/>

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. AMOUNTS DUE FROM SUBSIDIARIES**

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

**18. AMOUNT DUE TO A HOLDING COMPANY**

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

**19. TRADE PAYABLES**

At 31 March 2004, the ageing analysis of the trade payables was as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Current to 30 days	<b>6,409,102</b>	5,108,702
31 to 60 days	<b>3,521,327</b>	3,207,199
Over 60 days	<b>398,431</b>	167,857
	<hr/> <b>10,328,860</b> <hr/>	<hr/> 8,483,758 <hr/>

**20. PROVISION FOR LONG SERVICE PAYMENTS**

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

	<b>Group HK\$</b>
At 1 April 2003	6,175,268
Provision for the year (Note 9)	518,262
Less: Amounts utilized	<u>(534,236)</u>
At 31 March 2004	<u>6,159,294</u>

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**

	<b>Company</b>	
	<b>2004 HK\$</b>	2003 HK\$
Authorised		
400,000,000 ordinary shares of HK\$0.10 each	<u><b>40,000,000</b></u>	<u>40,000,000</u>
Issued and fully paid		
211,317,000 (2003:196,229,000) ordinary shares of HK\$0.10 each	<u><b>21,131,700</b></u>	<u>19,622,900</u>

The movements in the share capital during the year are as follows:

	<b>Number of shares</b>	
	<b>2004</b>	2003
Ordinary shares of HK\$0.10 each		
At 1 April 2003/2002	<u><b>196,229,000</b></u>	196,229,000
Issue of shares upon exercise of share options	<u><b>15,088,000</b></u>	-
At 31 March 2004/2003	<u><b>211,317,000</b></u>	<u>196,229,000</u>

## 22. SHARE OPTIONS

The share option scheme adopted by the Company no longer fulfils the requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which has become effective since 1 September 2001, the share option scheme had become invalid and no further share option can be granted under this scheme.

The details of movements of share options previously granted under the share option scheme during the year are as follows:

	Number of share options	
	2004	2003
At 1 April 2003/2002	18,650,000	19,280,000
Exercised (note a)	(15,088,000)	-
Lapsed	(532,000)	(630,000)
Cancelled (note b)	(190,000)	-
At 31 March 2004/2003 (note c)	2,840,000	18,650,000

(a) The details of share options exercised during the year are as follows:

Month	Number of share options exercised			Proceeds from exercise of share options HK\$
	Exercisable at HK\$0.50	Exercisable at HK\$0.55	Total	
August 2003	80,000	-	80,000	40,000
September 2003	328,000	380,000	708,000	373,000
October 2003	2,620,000	620,000	3,240,000	1,651,000
November 2003	490,000	1,800,000	2,290,000	1,235,000
December 2003	1,090,000	2,380,000	3,470,000	1,854,000
January 2004	40,000	1,720,000	1,760,000	966,000
February 2004	2,060,000	710,000	2,770,000	1,420,500
March 2004	-	770,000	770,000	423,500
Total	6,708,000	8,380,000	15,088,000	7,963,000

**22. SHARE OPTIONS (cont'd)**

- (b) In December 2003, Well-Positioned Corporation (“Well-Positioned”) made a cash offer to acquire all the shares and the Company’s outstanding share options not being then held by the offeror and/or its concert parties. Upon the lapse of the offer on 30 March 2004, there were 190,000 share options tendered by the optionholders which were cancelled upon their acceptance.
- (c) Share options outstanding at the end of the year have the following terms:

Grant date	Exercise period		Exercise price HK\$	Number of share options	
	From	To		2004	2003
<b>Directors</b>					
15 Jan. 2001	1 May 2001	31 May 2010	0.50	<b>1,000,000</b>	3,750,000
15 Jan. 2001	1 May 2002	31 May 2010	0.50	<b>1,000,000</b>	3,000,000
31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	<b>300,000</b>	1,275,000
31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	<b>300,000</b>	1,275,000
			Total	<b>2,600,000</b>	<b>9,300,000</b>
<b>Other employees</b>					
15 Jan. 2001	1 May 2001	31 May 2010	0.50	<b>30,000</b>	2,070,000
31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	<b>105,000</b>	3,640,000
31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	<b>105,000</b>	3,640,000
			Total	<b>240,000</b>	<b>9,350,000</b>
			Grand total	<b>2,840,000</b>	<b>18,650,000</b>

**23. RESERVES**

- (a) The reserves of the Group and of the Company as at 31 March 2004 are analysed as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Reserves	<b>146,486,889</b>	122,018,728	<b>211,479,078</b>	204,988,162
Dividend reserve (note 7)	<b>19,031,130</b>	6,868,015	<b>19,031,130</b>	6,868,015
Total reserves (note 23(b) & (c))	<b>165,518,019</b>	128,886,743	<b>230,510,208</b>	211,856,177

**23. RESERVES (cont'd)****(b) Group**

	Share premium HK\$	Contributed surplus (note (d)) HK\$	Exchange fluctuation reserve HK\$	Retained earnings HK\$	Dividend reserve HK\$	Total HK\$
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
2001/02 final						
dividend paid	-	-	-	-	(6,868,015)	(6,868,015)
2002/03 interim						
dividend proposed	-	-	-	(3,924,580)	3,924,580	-
2002/03 interim						
dividend paid	-	-	-	-	(3,924,580)	(3,924,580)
2002/03 final dividend						
proposed	-	-	-	(6,868,015)	6,868,015	-
	<u>-</u>	<u>104,929,484</u>	<u>69,124</u>	<u>17,020,120</u>	<u>6,868,015</u>	<u>128,886,743</u>
At 31 March 2003	-	104,929,484	69,124	17,020,120	6,868,015	128,886,743
<b>At 1 April 2003</b>	<b>-</b>	<b>104,929,484</b>	<b>69,124</b>	<b>17,020,120</b>	<b>6,868,015</b>	<b>128,886,743</b>
<b>Premium on issue of shares upon the exercise of share options</b>	<b>6,454,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,454,200</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,358,971</b>	<b>-</b>	<b>45,358,971</b>
<b>Underprovision of dividend in previous year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,800)</b>	<b>2,800</b>	<b>-</b>
<b>2002/03 final</b>						
dividend paid	-	-	-	-	(6,870,815)	(6,870,815)
<b>2003/04 interim</b>						
dividend proposed	-	-	-	(8,176,280)	8,176,280	-
<b>2003/04 interim</b>						
dividend paid	-	-	-	(134,800)	(8,176,280)	(8,311,080)
<b>2003/04 final</b>						
dividend proposed	-	-	-	(19,031,130)	19,031,130	-
	<u>6,454,200</u>	<u>104,929,484</u>	<u>69,124</u>	<u>35,034,081</u>	<u>19,031,130</u>	<u>165,518,019</u>
At 31 March 2004	6,454,200	104,929,484	69,124	35,034,081	19,031,130	165,518,019

**23. RESERVES (cont'd)****(c) Company**

	Share premium HK\$	Contributed surplus (note (d)) HK\$	Retained earnings HK\$	Dividend reserve HK\$	Total HK\$
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
2001/02 final dividend paid	-	-	-	(6,868,015)	(6,868,015)
2002/03 interim dividend proposed	-	-	(3,924,580)	3,924,580	-
2002/03 interim dividend paid	-	-	-	(3,924,580)	(3,924,580)
2002/03 final dividend proposed	-	-	(6,868,015)	6,868,015	-
	-	180,031,060	24,957,102	6,868,015	211,856,177
<b>At 1 April 2003</b>	<b>-</b>	<b>180,031,060</b>	<b>24,957,102</b>	<b>6,868,015</b>	<b>211,856,177</b>
<b>Premium on issue of shares upon the exercise of share options</b>	<b>6,454,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,454,200</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>27,381,726</b>	<b>-</b>	<b>27,381,726</b>
<b>Underprovision of dividend in previous year</b>	<b>-</b>	<b>-</b>	<b>(2,800)</b>	<b>2,800</b>	<b>-</b>
<b>2002/03 final dividend paid</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,870,815)</b>	<b>(6,870,815)</b>
<b>2003/04 interim dividend proposed</b>	<b>-</b>	<b>-</b>	<b>(8,176,280)</b>	<b>8,176,280</b>	<b>-</b>
<b>2003/04 interim dividend paid</b>	<b>-</b>	<b>-</b>	<b>(134,800)</b>	<b>(8,176,280)</b>	<b>(8,311,080)</b>
<b>2003/04 final dividend proposed</b>	<b>-</b>	<b>-</b>	<b>(19,031,130)</b>	<b>19,031,130</b>	<b>-</b>
<b>At 31 March 2004</b>	<b>6,454,200</b>	<b>180,031,060</b>	<b>24,993,818</b>	<b>19,031,130</b>	<b>230,510,208</b>

**(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").

**(e)** Under the Companies Act 1981 of Bermuda, 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 realizable 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 is calculated on temporary differences under the liability method using a principal taxation rate of 17.5% (2003:16%).

The movements in the net deferred tax liabilities are as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
At 1 April 2003/2002	<b>1,259,530</b>	1,223,472
(Credited)/charged to profit and loss account (note 5)	<b>(1,220,523)</b>	36,058
At 31 March 2004/2003	<b>39,007</b>	1,259,530
It was analysed as:		
Deferred tax assets	<b>(999,639)</b>	-
Deferred tax liabilities	<b>1,038,646</b>	1,259,530
Net deferred tax liabilities	<b>39,007</b>	1,259,530

The deferred tax assets and liabilities represent the taxation effect of the accelerated depreciation allowances for taxation purposes.

**25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**

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

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Profit before taxation	<b>52,930,257</b>	25,425,993
Amortization of intangible assets	<b>4,600,000</b>	4,600,000
Gain on disposal of an investment property	<b>(7,159,160)</b>	-
Loss on disposal of other fixed assets	<b>346,705</b>	80,981
Depreciation of fixed assets	<b>29,823,206</b>	28,623,123
Deficit on revaluation of an investment property	-	4,585,970
Interest income	<b>(592,037)</b>	(703,167)
Operating profit before working capital changes	<b>79,948,971</b>	62,612,900
Cash inflow from sales of cake coupons	<b>41,355,062</b>	56,763,738
Cake coupons redeemed as sales	<b>(49,461,352)</b>	(64,567,675)
Decrease/(Increase) in rental deposits paid	<b>1,058,862</b>	(321,677)
Increase in inventories	<b>(347,420)</b>	(2,912,994)
(Increase)/decrease in trade receivables, deposits, prepayments and other receivables	<b>(987,545)</b>	3,480,165
Increase/(decrease) in trade payables, other payables and accrued charges	<b>1,869,630</b>	(736,211)
Increase/(decrease) in amount due to a holding company	<b>3,443,000</b>	(388,434)
Decrease in provision for long service payments	<b>(15,974)</b>	(675,732)
Increase in rental deposits received	<b>161,645</b>	-
Net cash inflow generated from operations	<b>77,024,879</b>	53,254,080
Hong Kong profits tax paid	<b>(11,271,659)</b>	(2,845,896)
Overseas taxation paid	<b>(1,019,557)</b>	(643,359)
Net cash inflow from operating activities	<b>64,733,663</b>	49,764,825



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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Contracted but not provided for	<b>1,000,000</b>	282,139
Approved but not contracted for	<b>44,000,000</b>	10,185,090
	<b>45,000,000</b>	10,467,229

**(b) Commitments under operating leases**

At 31 March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Within one year	<b>37,682,306</b>	38,174,504
In the second to fifth year inclusive	<b>28,882,265</b>	36,754,126
After the fifth year	<b>2,335,174</b>	2,387,576
	<b>68,899,745</b>	77,316,206

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 2004 (2003: Nil).
- (d)** At 31 March 2004, the Group had commitment in respect of Renminbi forward exchange contracts amounting to HK\$23,000,000 expiring within the next financial year (2003: Nil).

**27. FUTURE OPERATING LEASE ARRANGEMENTS**

At 31 March 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Within one year	<b>1,701,333</b>	936,000
In the second to fifth year inclusive	<b>16,500</b>	31,200
	<b><u>1,717,833</u></b>	<u>967,200</u>

**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:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Sales of bakery and related products (note (a))	<b>5,716,289</b>	6,009,508
Rental expenses in respect of land and buildings (note (b))	<b>1,723,735</b>	2,130,174
Management fees paid (note (c))	<b>4,164,493</b>	4,064,947
	<b><u>11,604,517</u></b>	<u>12,204,629</u>

- (a) Sales of bakery and related products were charged at prices and terms determined by reference to those charged to independent customers of the Group.
- (b) Rental expenses were reimbursed at costs in respect of certain shared and leased premises.
- (c) Pursuant to the service sharing agreement entered into between Bread Boutique Limited ("BBL"), a wholly owned 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 2004, the Group had aggregate banking facilities of HK\$5,000,000 (2003: HK\$5,000,000) for overdrafts and bank guarantees. These facilities were secured by corporate guarantees given by the Company.

At 31 March 2004, the facilities were utilized by the Group to the extent of HK\$3,218,574 (2003: HK\$1,749,199) primarily for 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 2004:

Name of subsidiaries	Place of incorporation and operation	Particulars of issued share capital/ registered capital	Effective percentage holding attributable to the Group %	Principal activities
<b>Interests held directly:</b>				
Bodega Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Investment holding
Eltham Agents Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100	Investment holding
<b>Interests held indirectly:</b>				
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
Easywin Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Holding of trademarks
Evergain Consultants Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Investment holding

**30. SUBSIDIARIES (cont'd)**

Name of subsidiaries	Place of incorporation and operation	Particulars of issued share capital/ registered capital	Effective percentage holding attributable to the Group %	Principal activities
<b>Interests held indirectly:</b> (cont'd)				
Great Moment Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property holding
Kingdom Wise Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property holding
@ 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
@# Saint Honore Cake Shop (Shenzhen) Limited	People's Republic of China	HK\$17,200,000	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, result in particulars of excessive length.

**30. SUBSIDIARIES (cont'd)**

- # 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. SUBSEQUENT EVENTS**

Subsequent to 31 March 2004, the Group entered into a sale and purchase agreement for disposal of a property in Macau for a total cash consideration of HK\$36.3 million. The disposal will be completed on or before 16 August 2004. The capital gain on disposal of the property is approximately HK\$25 million.

**32. ULTIMATE HOLDING COMPANY**

The directors regard Well-Positioned, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

**33. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 8 July 2004.