1 Group reconstruction

Hong Kong Catering Management Limited (the "Company") and its subsidiaries (hereafter collectively referred as the "Group") underwent a group reconstruction in preparation for the separate listing, on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), of its bakery business. The bakery business was operated by two subsidiaries of the Group, namely Saint Honore Cake Shop Limited and Bread Boutique Limited (the "Bakery Operating Subsidiaries"). Upon completion of the group reconstruction, Saint Honore Holdings Limited ("SHHL") became the holding company of the Bakery Operating Subsidiaries.

Pursuant to the spin-off proposal dated 9th August 2000, the Company declared and paid to the then shareholders a special interim dividend in the form of 78,200,902 shares in SHHL, representing 39.85% of its issued share capital, on the basis that one SHHL's share was distributed for every four ordinary shares of the Company then held.

The spin-off was completed during the year and SHHL's shares were listed on the Stock Exchange on 21st November 2000. SHHL did not make other new issue of shares in connection with the spin-off to dilute the Company's interest therein. Accordingly the Group holds an effective interest of 60.15% in the issued shares of SHHL.

2 Principal accounting policies

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

(a) 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. The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties and trademarks.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. 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.

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50 percent of its voting power or issued share capital or controls the composition of its board of directors and the interest in the subsidiary is held for long term purposes.

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

2 Principal accounting policies *(cont'd)*

(b) 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 goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Reserve or goodwill arising on consolidation represents the deficit or excess of the purchase consideration for subsidiaries under or over the fair value ascribed to their net assets at the date of acquisition. Reserve arising on consolidation is credited directly to reserves. Goodwill is eliminated against available reserves with any balance remaining being charged to the profit and loss account in the year in which it arises.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) Trademarks

Trademarks are stated at cost and supported by professional valuation, where appropriate. The value of the trademarks is reviewed annually by the directors and provision is made if, in their opinion, a diminution in value other than temporary in nature has arisen.

2 Principal accounting policies *(cont'd)*

(e) 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 profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

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.

(f) Fixed assets

(i) Other properties

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

Depreciation is calculated to write off their costs over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The expected useful life used for this purpose is 50 years.

(ii) Kitchen utensils, uniforms and other operating equipment

Initial purchase costs of utensils, china, glasses, plates, uniforms and linen incurred for the opening of new restaurants and bakery outlets are capitalised and not depreciated. Costs of subsequent replacement for these assets are charged to the profit and loss account in the year in which such expenditure is incurred.

2 Principal accounting policies *(cont'd)*

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

(iii) Leasehold improvements

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

Depreciation of leasehold improvements is calculated to write off their carrying amounts over the unexpired periods of the leases or their expected useful lives to the Group. The annual rate used for this purpose is 15%.

(iv) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation on other tangible fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The annual rates used for this purpose are 10% to 25%.

(v) Restoring costs

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(vi) Recoverable amounts

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

(vii) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset 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.

(g) Assets under operating leases

Leases where substantially all the rewards and risks 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 on a straight-line basis over the lease term.

2 Principal accounting policies *(cont'd)*

(h) Other investments

Other investments held for long term are stated at cost less provision for any diminution other than temporary in nature in value.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cake coupon liabilities

Cake coupons are recorded as liabilities when sold. 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 coupon sale value. The estimated value of the cake coupons which are expected to be redeemed in the next twelve months is reclassified as current liabilities at the end of the year.

(l) 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 the 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 accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

(m) 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.

2 Principal accounting policies *(cont'd)*

(n) Revenue recognition

Sales revenue from restaurant and fast food operations are recognised as revenue when services are rendered to customers.

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

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

Rental income and management fee income are recognised on an accrual basis.

(o) Retirement benefit costs

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and, where applicable, are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

(p) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying assets.

3 Turnover and revenue

(a) The Group is principally engaged in the operation of restaurants and bakeries and property investment. Turnover comprises takings and service charges from restaurant and bakery operations less discounts and credit card commission. Revenue recognised during the year are as follows:

	Group	
	2001	2000
	HK$	HK$
Turnover		
Restaurant operation	**594,719,697**	631,250,911
Bakery operation	**444,876,406**	426,313,235
	1,039,596,103	1,057,564,146
Other revenues		
Interest income	**8,844,867**	7,953,559
Rental income from investment properties	**1,126,932**	2,165,912
Management fee income	**1,304,510**	1,404,644
	11,276,309	11,524,115
Total revenues	**1,050,872,412**	1,069,088,261

(b) An analysis of the group's contribution to operating profit for the year by principal activities is as follows:

	Group	
	2001	2000
	HK$	HK$
Operating profit		
Restaurant operation	**13,280,380**	29,724,519
Bakery operation	**28,009,379**	29,140,390
	41,289,759	58,864,909

Geographical segment information is not shown as the Group's turnover and operating profit are mainly derived from Hong Kong.

4 Operating profit

	Group 2001 HK$	Group 2000 HK$
Operating profit is stated after		
Crediting:–		
Recovery of bad debts previously written off	–	491,577
And after charging:		
Auditors' remuneration	1,290,667	1,135,345
Listing expenses in respect of the spin-off of a subsidiary	5,877,852	–
Long service payment provision included in staff costs	210,000	105,362
Retirement benefit costs (note 10)	9,786,590	3,056,215
Loss on shop closures		
– Write off of fixed assets	3,600,960	–
– Compensation for early termination of operating leases	2,372,248	–
Loss on disposal of fixed assets	828,844	459,444
Net exchange loss	275,648	112,810
Deficit on revaluation of investment properties	570,000	3,000,000
Provision for diminution in value of other properties	850,000	2,000,000
Write off of pre-operating expenses	–	1,316,876

5 Finance costs

	Group 2001 HK$	Group 2000 HK$
Interest on bank loans		
Wholly repayable within five years	1,252,048	2,522,913
Other interest	–	52,609
	1,252,048	2,575,522

6 Taxation

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

	Group	
	2001	2000
	HK$	HK$
Hong Kong profits tax	**6,484,346**	9,256,800
Overseas taxation	**777,364**	806,821
Over provision in prior years	**(432,061)**	(400,608)
Deferred taxation (note 24)	**(47,503)**	(1,819,596)
	6,782,146	7,843,417
Share of taxation attributable to associated companies	**297,180**	130,233
	7,079,326	7,973,650

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$15,204,166 (2000:HK$72,711,364).

8 Dividends

	Group		Company	
	2001	2000	**2001**	2000
	HK$	HK$	**HK$**	HK$
Under provision in prior year	**108,500**	–	**108,500**	–
Write back of unclaimed dividends for 1991-94	**(34,560)**	–	**(34,560)**	–
Special interim dividend of SHHL's shares	**97,975,068**	–	**81,904,434**	–
Interim, paid, of HK3 cents (2000: HK3 cents) per ordinary share	**9,384,109**	9,189,108	**9,384,109**	9,189,108
Final, proposed, of HK4 cents (2000: HK7 cents) per ordinary share	**12,512,144**	21,787,753	**12,512,144**	21,787,753
	119,945,261	30,976,861	**103,874,627**	30,976,861

The special interim dividend in specie at the Company level of HK$81,904,434 is stated at the book value of the shares of SHHL distributed, as carried in the balance sheet of the Company on 25th October 2000, the date when the special interim dividend was proposed by the board of the directors (the "date of demerger").

The special interim dividend in specie at the Group level of HK$97,975,068 is stated at 39.85% of the net assets of SHHL and its subsidiaries (the "SHHL Group") at the date of demerger, and a pro-rated portion of the goodwill previously written off to retained earnings.

9 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK$34,135,845 (2000: HK$47,922,140) and on the weighted average of 311,678,677 (2000: 306,306,887) ordinary shares in issue during the year. The Company has no potential dilutive ordinary shares that were outstanding during the two years ended 31st March 2001 and 2000.