

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company is engaged in investment holding as well as the operation and management of restaurants. Its subsidiaries are engaged in the operation of restaurants and bakeries.

An analysis of the Group's performance for the year by business segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 27.

The directors recommend a final dividend of HK3.5 cents (2003: HK1.5 cents) per ordinary share, which together with the interim dividend of HK1.0 cent (2003: Nil) per ordinary share paid on 28 January 2004 makes a total dividend of HK4.5 cents (2003: HK1.5 cents) per ordinary share for the financial year ended 31 March 2004. Subject to approval by the shareholders at the Annual General Meeting on 26 August 2004, the final dividend will be payable on or about 7 September 2004 to shareholders whose names appear on the register of members on 26 August 2004.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 23 to the accounts.

Distributable reserves of the Company at 31 March 2004, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$171,085,475 (2003: HK\$163,666,699).

DONATIONS

Donations made for charitable purposes by the Group during the year amounted to HK\$146,000 (2003: HK\$148,000).

FIXED ASSETS

Details of the movements in fixed assets of the Company and of the Group are set out in note 13 to the accounts.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's principal subsidiaries and associated companies as at 31 March 2004 are set out in note 29 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

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SHARE OPTIONS

(1) Share option scheme of Hong Kong Catering Management Limited ("HKCM")

The Company's share option scheme adopted on 13 March 2000 ("HKCM Scheme") does not fulfil certain requirements laid down in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") on share option scheme which became effective on 1 September 2001. No further share option has been granted since then. There remain 3,350,000 options being held by a director and two employees and are exercisable up to 30 September 2011 at HK\$0.48 per share.

Further details of HKCM Scheme as required to be disclosed under Rule 17.09 of the Listing Rules have not been included as in the opinion of the Board, the information is obsolete and of no more value.

The details of movements of the options issued under the HKCM Scheme ("HKCM Options") during the year are summarised below:

Participants	Grant date	Exercise period		Exercise price HK\$	Number of HKCM Options				
		From	To		As at 1 Apr. 2003	Exercised during the year (note a)	Lapsed during the year	Cancelled during the year (note b)	As at 31 Mar. 2004
Directors									
Chan Ka Lai,	30 Aug. 2001	1 Oct. 2001	30 Sept. 2011	0.48	1,000,000	-	-	-	1,000,000
Joseph	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	1,000,000	-	-	-	1,000,000
	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	1,000,000	-	-	-	1,000,000
			Total		<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
Chiu Wai	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	600,000	(600,000)	-	-	-
	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	600,000	(600,000)	-	-	-
			Total		<u>1,200,000</u>	<u>(1,200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ng Sai Hung	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	200,000	(200,000)	-	-	-
	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	200,000	(200,000)	-	-	-
			Total		<u>400,000</u>	<u>(400,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Wong Tsui Yue,	30 Aug. 2001	1 Oct. 2001	30 Sept. 2011	0.48	700,000	(700,000)	-	-	-
Lucy	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	400,000	(400,000)	-	-	-
	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	280,000	(280,000)	-	-	-
			Total		<u>1,380,000</u>	<u>(1,380,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Continuous contract employees									
contract	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	8,925,000	(6,475,000)	(1,035,000)	(1,240,000)	175,000
employees	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	9,075,000	(6,475,000)	(1,185,000)	(1,240,000)	175,000
			Total		<u>18,000,000</u>	<u>(12,950,000)</u>	<u>(2,220,000)</u>	<u>(2,480,000)</u>	<u>350,000</u>
			Grand total		<u>23,980,000</u>	<u>(15,930,000)</u>	<u>(2,220,000)</u>	<u>(2,480,000)</u>	<u>3,350,000</u>

Report of the Directors

SHARE OPTIONS *(continued)*

(1) Share option scheme of HKCM *(continued)*

Note:

(a) There were 15,930,000 HKCM Options exercised during the year and the details are summarized below:

Month	Number of HKCM Options exercised	Proceeds from exercise of HKCM Options <i>HK\$</i>
October 2003	920,000	441,600
November 2003	3,860,000	1,852,800
December 2003	2,750,000	1,320,000
January 2004	3,290,000	1,579,200
February 2004	2,740,000	1,315,200
March 2004	2,370,000	1,137,600
Total	<u>15,930,000</u>	<u>7,646,400</u>

The weighted average closing prices of the Company's shares immediately before the dates of exercise were:

Participants	Weighted average closing price before the dates of exercise <i>HK\$</i>
Chiu Wai	0.89
Ng Sai Hung	0.84
Wong Tsui Yue, Lucy	0.89
Continuous contract employees	<u>0.82</u>
Average	<u>0.83</u>

(b) The 2,480,000 HKCM Options were cancelled upon the optionholders accepted the cash offer of Well-Positioned Corporation ("Well-Positioned") which was opened over the period from 12 February 2004 to 30 March 2004.

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SHARE OPTIONS *(continued)*

(2) Share option scheme of Saint Honore Holdings Limited ("SHHL")

No further share option can be granted under the share option scheme of SHHL adopted on 25 October 2000 ("SHHL Scheme"), as it no longer fulfils the requirements of the Listing Rules on share option scheme which has become effective since 1 September 2001. Accordingly, further details of the SHHL Scheme as required under Rule 17.09 of the Listing Rules have not been included as the information is obsolete and of no more value.

The details of movements of the options issued under the SHHL Scheme ("SHHL Options") during the year are summarized below:

Participants	Grant date	Exercise period		Exercise price HK\$	Number of SHHL Options				As at 31 Mar. 2004
		From	To		As at 1 Apr. 2003	Exercised during the year <i>(note a)</i>	Lapsed during the year	Cancelled during the year <i>(note b)</i>	
Director									
Shum Wing Hon	15 Jan. 2001	1 May 2001	31 May 2010	0.50	1,000,000	(1,000,000)	-	-	-
	15 Jan. 2001	1 May 2002	31 May 2010	0.50	1,000,000	(1,000,000)	-	-	-
	31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	300,000	(300,000)	-	-	-
	31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	300,000	(300,000)	-	-	-
			Total		<u>2,600,000</u>	<u>(2,600,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other directors of SHHL and continuous contract employees									
Other directors of SHHL and continuous contract employees	15 Jan. 2001	1 May 2001	31 May 2010	0.50	4,820,000	(3,708,000)	(2,000)	(80,000)	1,030,000
	15 Jan. 2001	1 May 2002	31 May 2010	0.50	2,000,000	(1,000,000)	-	-	1,000,000
	31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	4,615,000	(3,890,000)	(265,000)	(55,000)	405,000
	31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	4,615,000	(3,890,000)	(265,000)	(55,000)	405,000
			Total		<u>16,050,000</u>	<u>(12,488,000)</u>	<u>(532,000)</u>	<u>(190,000)</u>	<u>2,840,000</u>
			Grand total		<u>18,650,000</u>	<u>(15,088,000)</u>	<u>(532,000)</u>	<u>(190,000)</u>	<u>2,840,000</u>

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SHARE OPTIONS *(continued)*

(2) Share option scheme of SHHL *(continued)*

Note:

- (a) There were 15,088,000 SHHL Options exercised during the year and the details are summarized below:

Month	Number of SHHL Options exercised			Proceeds from exercise of SHHL 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	<u>6,708,000</u>	<u>8,380,000</u>	<u>15,088,000</u>	<u>7,963,000</u>

The weighted average closing prices of the shares of SHHL immediately before the dates of exercise were HK\$1.36 and HK\$1.13 respectively regarding the SHHL Options exercised by Mr. Shum Wing Hon and the continuous contract employees of SHHL.

- (b) The 190,000 SHHL Options were cancelled upon the optionholders accepted the cash offer of Well-Positioned which was opened over the period from 12 February 2004 to 30 March 2004.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Neither the Company nor the Group had any outstanding bank loans, overdrafts and other borrowings subsisted as at 31 March 2004 and 31 March 2003.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 67 and 68.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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DIRECTORS

The directors during the year were:

Executive directors

Mr. Chan Wai Cheung, Glenn
Mr. Chan Ka Lai, Joseph
Mrs. Chan King Catherine
Mr. Chiu Wai
Mr. Ng Sai Hung (resigned on 15 May 2004)
Mr. Shum Wing Hon
Ms. Wong Tsui Yue, Lucy

Independent non-executive directors

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

In accordance with Articles 77 to 79 of the Company's Articles of Association, Mr. Cassam Soliman Gooljarry, Dr. Kwok Lok Wai, William and Ms. Wong Tsui Yue, Lucy retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

On 29 May 2003, all the independent non-executive directors renewed their service contracts with term deemed to have commenced on 1 April 2003 and would continue unless terminate by either party with one month prior written notice.

No director has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Separate annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules have been received from all the independent non-executive directors.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in section headed "Connected Transactions" below, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

At 31 March 2004, the following directors and chief executives of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

Name of company	Name of director	Number of ordinary shares held			Number of underlying ordinary shares held under equity derivatives	Total number of shares interested or deemed to be interested (long position)	Percentage of shareholding %
		Personal interest (Note b)	Family interest	Trust interest			
The Company	Chan Wai Cheung, Glenn	-	-	183,658,609 (Note a)	-	183,658,609	55.83
	Chan King Catherine	-	183,658,609 (Note a)	-	-	183,658,609	55.83
	Chan Ka Lai, Joseph	1,200,000	-	183,658,609 (Note c)	3,000,000 (Note d)	187,858,609	57.11
	Chiu Wai	312,000	-	-	-	312,000	0.09
	Wong Tsui Yue, Lucy	100,000	-	-	-	100,000	0.03
SHHL	Chan Wai Cheung, Glenn	-	-	146,485,250 (Note e)	-	146,485,250	69.32
	Chan King Catherine	-	146,485,250 (Note f)	-	-	146,485,250	69.32
	Chan Ka Lai, Joseph	182,000	-	146,485,250 (Note c)	-	146,667,250	69.41
	Chiu Wai	28,000	-	-	-	28,000	0.01

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Note:

- a. These shares are directly held by Well-Positioned, a company beneficially owned by a trust established for the benefit of the family members of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine. Mr. Chan Wai Cheung, Glenn was interested in these shares in the capacity as founder of the trust and Mrs. Chan King Catherine, being the spouse of Mr. Chan, was also deemed to be interested in these shares.
- b. These shares are held by the directors as beneficial owners.
- c. Mr. Chan Ka Lai, Joseph, being the eligible beneficiary of the family trust established by Mr. Chan Wai Cheung, Glenn, was also deemed to be interested in these shares held by Well-Positioned.
- d. These were underlying shares in respect of the share options granted under the HKCM Scheme, details of which are stated in the section headed "Share Options". The aforesaid interests were held by Mr. Chan Ka Lai, Joseph as beneficial owner.
- e. Being the founder of the trust, Mr. Chan Wai Cheung, Glenn had the trust interest in SHHL as follows:

	Number of SHHL ordinary shares held
SHHL shares held by Well-Positioned as beneficial owner	28,457,152
SHHL shares held by Well-Positioned through the Company's wholly owned subsidiary, Albion Agents Limited	118,028,098
	146,485,250

- f. Mrs. Chan King Catherine, being the spouse of Mr. Chan Wai Cheung, Glenn, was also deemed to be interested in 146,485,250 shares of SHHL held by Well-Positioned.

Save as disclosed above, at 31 March 2004, none of the directors or chief executives of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests of short positions which each of them was taken or deemed to have under the provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the directors or chief executives of the Company, the following persons, other than directors or chief executives of the Company, had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

Name of substantial shareholder	Number of HKCM ordinary shares held	Capacity	Percentage of shareholding %
Well-Positioned	183,658,609	Beneficial owner	55.83

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Board, there are 25% or more of the listed issued share capital of the Company being held in public hands as at 13 July 2004, being the latest practicable date prior to printing of this report.

CONNECTED TRANSACTIONS

- (a) The continuing connected transactions between the Group and SHHL and its subsidiaries ("SHHL Group") as listed below (the "Transactions") have been exempted by the Stock Exchange in 2000 from strict compliance with the provisions of Chapter 14 of the then Listing Rules, provided that certain conditions as set out by the Stock Exchange are fulfilled.
- (b) During the year, the Group had the following Transactions with the SHHL Group:

	2004 HK\$	2003 HK\$
Purchases of bakery and related products (note i)	5,716,289	6,009,508
Rental income in respect of land and buildings (note ii)	1,723,735	2,130,174
Management fees received (note iii)	4,164,493	4,064,947

- (i) Purchases of bakery and related products were charged at prices and terms which were determined by reference to those charged to independent customers of the SHHL Group.
- (ii) Rental income were being reimbursed at costs in respect of certain leased premises on the basis of area occupied and relevant rent as a percentage of the monthly gross turnover whichever is higher.
- (iii) Pursuant to the service sharing agreement entered into between the Company and Bread Boutique Limited ("Bread Boutique"), a wholly owned subsidiary of SHHL, the Company was engaged to provide management and administration services to Bread Boutique. Management fees were charged on a monthly basis and were calculated at a certain percentage on the monthly gross turnover of Bread Boutique.

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CONNECTED TRANSACTIONS *(continued)*

- (c) The independent non-executive directors of the Company have reviewed the Transactions and have confirmed that the Transactions have been entered into:
- (i) in the ordinary and usual course of its business;
 - (ii) on normal commercial terms; and
 - (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.
- (d) On 9 June 2004, the Company entered into new supply agreement, sub-leasing agreement, distribution agreement and administration agreement with the SHHL Group to formalize the above Transactions in compliance with the new requirements of Chapter 14A of the Listing Rules. Major terms and conditions remained materially unchanged except that all the new agreements now carry a fixed term of three years and deemed to have commenced on 1 April 2004.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except in relation to guideline No. 7 that the service contracts of independent non-executive directors were renewed with no specific tenure, but they are determinable by either party with at least one month written notice in advance.

AUDIT COMMITTEE

The Audit Committee (the "Committee") was established since 1999 with written terms of reference adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The Committee comprises three independent non-executive directors namely Mr. Cassam Soliman Gooljarry, Mrs. Fung Yeh Yi Hao, Yvette and Dr. Kwok Lok Wai, William with Mr. Cassam Soliman Gooljarry being the Chairman of the Committee. Mr. Chan Ip Sing, Evans, is also an alternate committee member to Mrs. Fung Yeh Yi Hao, Yvette.

The Committee is responsible for reviewing the Group's financial reporting process, internal controls and risk evaluation and two meetings were held during the year. The Committee had reviewed the Group's results for the year ended 31 March 2004 before they were tabled for the Board's review and approval.

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SUBSEQUENT EVENTS

Details of subsequent events are set out in note 30 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Chan Wai Cheung, Glenn
Chairman

Hong Kong, 8 July 2004