

MANAGEMENT DISCUSSION AND ANALYSIS

Performance review

After suffering from a period of economic recession and the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in 2003, Hong Kong has finally shown signs of a moderate market recovery with a moderate increase in GDP. The Group’s turnover for the six months ended 31 October 2004 was approximately HK\$122.1 million, representing a decrease of 22.8% as compare to that of HK\$158.4 million for the six months ended 31 October 2003. The decrease is largely contributed by the deem disposal of a former wholly owned subsidiary of the Company, Kamboat Bakery Limited (“Kamboat Bakery”) as discussed below.

On 28 May 2004, Sincere Land Limited (“Sincere Land”), entered into an agreement (“Subscription Agreement”) to subscribe for 1,040,000 new shares (“Subscription Shares”) of Kamboat Bakery, representing 51% of the total issued share capital as enlarged by the Subscription Shares for a consideration of HK\$1,040,000. Pursuant to the terms of the Subscription Agreement, Sincere Land has to provide a shareholder’s loan of HK\$1,000,000 to Kamboat Bakery as working capital. On 31 May 2004, Sincere Land paid a total sum of HK\$2,040,000 as consideration for the Subscription Shares and the shareholder’s loan. On 16 June 2004, the Subscription Shares have been issued and allotted to Sincere Land.

Since then, the financial result and the financial position of Kamboat Bakery were not consolidated into the Company’s consolidated financial statement. The interim financial result of the Company has taken up Kamboat Bakery’s result for the period from 1 May 2004 to 15 June 2004.

On 28 May 2004, E-Rapid Developments Limited (“E-Rapid”), a wholly owned subsidiary of the Company entered into a shareholder’s loan agreement (the “Shareholder’s Loan Agreement”) pursuant to which E-Rapid assigned to Sincere Land the shareholder’s loan of approximately HK\$11.86 million due by Kamboat Bakery to E-Rapid for a consideration of HK\$5 million. The consideration was received before the balances sheet date on 31 October 2004.

Total operating expenses of the Group were reduced from HK\$102.6 million for the six months ended 31 October 2003 to HK\$81.8 million of the six months ended 31 October 2004. In particular, the Group’s staff costs and operating lease rentals decreased by 20% and 35% from HK\$39.2 million and HK\$19.9 million for the six months ended 31 October 2003 to HK\$31.3 million and HK\$12.9 million for the six months ended 31 October 2004, respectively. The total operating expenses has already taken into account of the loss of HK\$6.86 million arising from the assignment of loan as discussed above. The significant decreases of total operating expenses were by implementation of various costs saving measures and the deem disposal of Kamboat Bakery.

The Group recorded a net loss attributable to shareholder of HK\$3.1 million for the six months ended 31 October 2004, as compared to that of HK\$2.3 million profits for six months ended 31 October 2003.

Operation Review

Restaurant Business

In responses to the relaxation of travel restriction for mainland tourist has made a positive impact to the local economy and the food and catering sector.

The Group's turnover in respect of the restaurant increased by approximately HK\$12.8 million from HK\$104.3 million in the six months ended 31 October 2003 to HK\$117.1 million in the six months ended 31 October 2004. The operating profits of the Group's restaurant business has approximately HK\$7.9 million for the six months ended 31 October 2004, representing an increase of approximately 3.1% from that of approximately HK\$7.7 million for the six months ended 31 October 2003.

Bakery and other food products business

The Group's bakery and other food products business recorded a turnover and loss of HK\$5 million and HK\$1.8 million for the six months ended 31 October 2004 from approximately of HK\$54 million and HK\$2.4 million for the six months ended 31 October 2003. The decrease in turnover and loss for the six months ended 31 October 2004 was because of the deem disposal of the bakery business as discussed above.

Strategies and vision

In view of the vast consumer market in the Mainland China, the Group is focusing on seeking business opportunities on further expanding the Group's operations in the Mainland China market.

The management is optimistic on the Group's operations in the mainland China market but will remain cautious on not only managing the existing business but also making further investments therein.

SEASONAL/CYCLICAL FACTORS

The sales volume during the festive period is normally higher than the sales volume in the slack period of the year.