



香港飲食管理有限公司
Hong Kong Catering Management Limited

HONG KONG
CATERING
MANAGEMENT
LIMITED

INTERIM REPORT 2005/06



CORPORATE INFORMATION

Board of Directors

Executive directors

Mr. Chan Wai Cheung, Glenn, *Chairman*
Mr. Chan Ka Lai, Joseph, *Managing Director*
Mrs. Chan King Catherine
Mr. Chiu Wai
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

Audit Committee

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

Company Secretary

Ms. Wong Tsui Yue, Lucy

Authorized Representatives

Mr. Chan Wai Cheung, Glenn
Ms. Wong Tsui Yue, Lucy

Registered Office

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Tel: (852) 2527 6311
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Share Registrar

Computershare Hong Kong Investor
Services Limited
46/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Transfer Office

Computershare Hong Kong Investor
Services Limited
Shops 1712-6, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited

Solicitors

Sidley Austin Brown & Wood

Auditors

PricewaterhouseCoopers

Stock Code

668

Website

<http://www.hkatering.com>



The board of directors (the “Board”) of Hong Kong Catering Management Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2005 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Note	Unaudited	
		Six months ended	
		30 September	
		(Restated)	
		2005	2004
		HK\$'000	HK\$'000
Turnover	3	509,358	495,252
Other revenues	4	4,035	1,938
Cost of inventories consumed		(159,356)	(153,106)
Staff costs		(162,705)	(164,074)
Operating lease rentals		(52,324)	(50,264)
Depreciation of fixed assets		(20,582)	(30,839)
Other operating expenses		(94,688)	(89,505)
Amortization of intangible assets		(2,300)	(2,300)
Gain on disposal of properties		10,491	50,310
Operating profit	5	31,929	57,412
Share of profit of an associated company		852	645
Profit before taxation		32,781	58,057
Taxation	6	(5,293)	(9,015)
Profit after taxation		27,488	49,042
Attributable to:			
Equity holders of the Company		18,874	32,000
Minority interests		8,614	17,042
		27,488	49,042
Dividends	7		
– Interim		3,290	3,290
– Special		6,579	13,158
		9,869	16,448
Earnings per share	8		
Basic		5.7 cents	9.7 cents
Diluted		5.7 cents	9.6 cents



CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2005

		Unaudited 30 September 2005 HK\$'000	Audited (Restated) 31 March 2005 HK\$'000
Non-current assets			
Trademarks	9	25,300	27,600
Fixed assets	10	191,719	191,452
Leasehold land and land use rights	10	88,180	111,131
Deposits for purchase of properties		–	3,576
Interest in an associated company		3,238	2,385
Held-to-maturity investments		16,581	–
Available-for-sale financial assets		6,900	–
Investments in securities		–	13,797
Rental deposits paid		23,640	22,491
Deferred tax assets		1,739	3,193
		357,297	375,625
Current assets			
Inventories		28,053	24,371
Trade receivables	11	18,462	5,405
Deposits, prepayments and other receivables		20,335	17,432
Taxation recoverable		60	999
Cash and cash equivalents		337,876	295,604
		404,786	343,811
Current liabilities			
Trade payables	12	39,316	30,908
Other payables and accrued charges		91,216	78,345
Taxation payable		8,514	7,578
Cake coupon liabilities		132,537	116,490
		271,583	233,321
Net current assets		133,203	110,490
Total assets less current liabilities		490,500	486,115



CONSOLIDATED BALANCE SHEET (CONT'D)
AS AT 30 SEPTEMBER 2005

		Unaudited	Audited
		30 September	(Restated)
		2005	31 March
	Note	HK\$'000	2005
			HK\$'000
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	32,896	32,896
Reserves		333,297	322,389
Dividend reserve		9,869	16,448
		376,062	371,733
Minority interests		101,615	100,680
Total equity		477,677	472,413
Non-current liabilities			
Rental deposits received		162	114
Provision for long service payments		10,551	11,038
Deferred tax liabilities		2,110	2,550
		12,823	13,702
		490,500	486,115



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

Attributable to equity holders of the Company

	Share		Investment	Exchange	Other	Retained	Dividend	Total	Minority	Total
	capital	premium	property	fluctuation						
	HK\$'000	HK\$'000	revaluation	reserve	reserve	reserve	reserve	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004	32,896	125,278	24,636	69	-	174,699	11,514	369,092	88,175	457,267
Write-back of revaluation gain of investment properties on disposal	-	-	(24,636)	-	-	-	-	(24,636)	-	(24,636)
Increase in minority interests upon exercise of a subsidiary's share options under its share option scheme	-	-	-	-	-	-	-	-	131	131
Profit for the period	-	-	-	-	-	32,000	-	32,000	17,042	49,042
2003/04 final dividend paid	-	-	-	-	-	-	(11,514)	(11,514)	(8,418)	(19,932)
2004/05 interim dividend declared	-	-	-	-	-	(3,290)	3,290	-	-	-
2004/05 special dividend declared	-	-	-	-	-	(13,158)	13,158	-	-	-
At 30 September 2004	32,896	125,278	-	69	-	190,251	16,448	364,942	96,930	461,872
At 1 April 2005	32,896	125,278	-	69	-	197,042	16,448	371,733	100,680	472,413
Gain in fair value of available-for-sale financial assets	-	-	-	-	1,903	-	-	1,903	-	1,903
Increase in minority interests upon exercise of a subsidiary's share options under its share option scheme	-	-	-	-	-	-	-	-	900	900
Profit for the period	-	-	-	-	-	18,874	-	18,874	8,614	27,488
2004/05 final dividend paid	-	-	-	-	-	-	(16,448)	(16,448)	(8,579)	(25,027)
2005/06 interim dividend declared	-	-	-	-	-	(3,290)	3,290	-	-	-
2005/06 special dividend declared	-	-	-	-	-	(6,579)	6,579	-	-	-
At 30 September 2005	32,896	125,278	-	69	1,903	206,047	9,869	376,062	101,615	477,677



CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Unaudited	
	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Net cash inflow generated from operating activities	55,935	38,158
Net cash inflow from investing activities	10,464	85,766
Net cash outflow from financing activities	(24,127)	(18,932)
Net increase in cash and cash equivalents	42,272	104,992
Cash and cash equivalents at 1 April	295,604	253,811
Cash and cash equivalents at 30 September	337,876	358,803



NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

This unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim accounts should be read in conjunction with the 2004/05 annual accounts.

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and HKAS (“New HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group’s accounting policies and the effect of adopting these New HKFRS are set out in note 2 below.

2. Changes in principal accounting policies

In accounting period commencing 1 April 2005, the Group adopted the New HKFRS below, which are relevant to its operations. The 2004/05 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating leases – Incentives
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKFRS 2	Share-based Payment

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 27, 28, 33, 36, 38 and HKAS-Int 15 did not result in substantial changes to the Group’s accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of an associated company and cake coupon liabilities.
- HKASs 2, 7, 8, 10, 16, 21, 27, 28, 33, 36, 38 and HKAS-Int 15 had no material effect on the Group’s policies.



2. Changes in principal accounting policies (cont'd)

The following is a summary of material changes in principal policies or presentation of accounts as a result of the adoption of the New HKFRS with rationale explained below:

(i) *HKAS 1*

HKAS 1 has affected the presentation of minority interests, share of net after-tax results of an associated company and cake coupon liabilities. In prior years, the estimated value of cake coupons which were expected to be redeemed in the next twelve months was classified as current liabilities on the balance sheet. Upon the adoption of HKAS 1, the whole amount of cake coupon liabilities is classified as current liabilities, as the Group does not have an unconditional right to defer settlement of the cake coupon liabilities.

(ii) *HKAS 17*

In prior years, the Group's leasehold land and buildings for own use were accounted for as finance leases and were stated at cost less accumulated depreciation and accumulated impairment losses. Upon the adoption of HKAS 17 on 1 April 2005, the Group's leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest on any buildings situated on the leasehold land could be split reliably from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group. In case the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and accumulated impairment losses. The land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortized on a straight-line basis over its unexpired lease term. The new accounting policy has been applied retrospectively to the extent that results in the reclassification of certain leasehold interest in land previously included in "fixed assets" as "other properties" with the comparatives restated to conform to the current period's presentation. This change has no significant impact on the Group's results and equity.

(iii) *HKASs 32 and 39*

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 March 2005, investments in club debentures of the Group were included as non-current investments in securities and stated in the consolidated balance sheet at cost less any accumulated impairment losses. In accordance with HKAS 39, these investments were reclassified as available-for-sale financial assets and stated in the consolidated balance sheet at fair value, with subsequent changes in value reflected as reserve movements. It also resulted in the recognition of held-to-maturity investments as non-current assets and stated in the consolidated balance sheet at amortized cost. HKAS 39 does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. Therefore the comparative of the investments in securities in prior year is not restated.

(iv) *HKFRS 2*

The Group adopted the transitional provisions of HKFRS 2 which applies to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested at the effective date of the HKFRS 2, the accounting periods commencing on or after 1 January 2005. As the unexercised share options of the Group were granted before 7 November 2002 and were fully vested before our accounting period commencing 1 April 2005, there is no impact of adopting HKFRS 2 on the balance sheet and profit and loss account.



2. Changes in principal accounting policies (cont'd)

The following is a summary of effect of adopting the New HKFRS on major items in the condensed consolidated accounts:

	Increase/(decrease) Effect of adopting		Total HK\$'000
	HKASs 16 and 17 HK\$'000	HKASs 32 and 39 HK\$'000	
At 30 September 2005			
Non-current assets			
Fixed assets	(88,180)	–	(88,180)
Leasehold land and land use rights	88,180	–	88,180
Investments in securities	–	(23,481)	(23,481)
Held-to-maturity investments	–	16,581	16,581
Available-for-sale financial assets	–	6,900	6,900
Effect on non-current assets	–	–	–
For six months ended 30 September 2005			
Operating expenses			
Operating lease rentals	1,091	–	1,091
Depreciation of fixed assets	(1,091)	–	(1,091)
Effect on operating profit	–	–	–
			Increase/(decrease) Effect of adopting HKASs 16 and 17 HK\$'000

At 31 March 2005

Non-current assets			
Fixed assets			(111,131)
Leasehold land and land use rights			111,131
Effect on non-current assets			–

For six months ended 30 September 2004

Operating expenses			
Operating lease rentals			1,472
Depreciation of fixed assets			(1,472)
Effect on operating profit			–



3. Turnover and segment information

The Group is principally engaged in two main business segments:

- Restaurant operation – operating restaurants of different cuisines
- Bakery operation – manufacturing and selling bakery products which are undertaken by Saint Honore Holdings Limited and its subsidiaries

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

	Unaudited			Unaudited (Restated)		
	Six months ended 30 September 2005			Six months ended 30 September 2004		
	Restaurant HK\$'000	Bakery HK\$'000	Group HK\$'000	Restaurant HK\$'000	Bakery HK\$'000	Group HK\$'000
Turnover	197,363	315,587	512,950	199,945	298,125	498,070
Inter-segment sales	–	(3,592)	(3,592)	–	(2,818)	(2,818)
Segment turnover	197,363	311,995	509,358	199,945	295,307	495,252
Segment results	7,047	24,288	31,335	(16,991)	48,764	31,773
Unallocated revenue			594			25,639
Operating profit			31,929			57,412
Share of profit of an associated company	852	–	852	645	–	645
Profit before taxation			32,781			58,057
Taxation			(5,293)			(9,015)
Profit after taxation			27,488			49,042

There was a gain on disposal of a self-occupied property amounting to HK\$10.8 million included in restaurant segment results whereas a loss on disposal of another self-occupied property of HK\$0.3 million was included in bakery segment results. (2004: The gain on disposal of a self-occupied property amounting to HK\$26.1 million was allocated to the segment results of bakery operation whereas gain on disposal of investment properties totalled HK\$24.2 million was included as unallocated revenue.)



4. Other revenues

	Unaudited Six months ended 30 September	
	2005	(Restated) 2004
	HK\$'000	HK\$'000
Interest income	3,441	496
Rental income from investment properties	–	584
Rental income from other properties	594	858
	4,035	1,938

5. Operating profit

Operating profit is stated after charging the following:

	Unaudited Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
Amortization of prepaid rent on leasehold land and land use rights included in operating lease rentals	1,091	1,472
Loss on disposal of other fixed assets	273	8
Provision for long service payments included in staff costs	36	552
Retirement benefit costs included in staff costs	6,864	6,538

6. Taxation

	Unaudited Six months ended 30 September	
	2005	(Restated) 2004
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	2,075	3,546
Overseas taxation	2,205	6,305
Deferred taxation	1,013	(836)
Taxation charge	5,293	9,015

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

Share of associated company's taxation for the six months ended 30 September 2005 of HK\$154,756 (2004: HK\$143,024) is included in the consolidated profit and loss account as share of profit of an associated company.



7. Dividends

	Unaudited Six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Interim dividend, declared on 12 December 2005, of HK1 cent (2004: HK1 cent) per ordinary share	3,290	3,290
Special dividend, declared on 12 December 2005, of HK2 cents (2004: HK4 cents) per ordinary share	6,579	13,158
	9,869	16,448

8. Earnings per share

	Unaudited Six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Earnings		
Profit attributable to equity holders of the Company for the calculation of basic earnings per share	18,874	32,000
Adjustment to the share of results of a subsidiary based on the dilution of this subsidiary's earnings per share	(82)	(236)
Profit attributable to equity holders of the Company for the calculation of diluted earnings per share	18,792	31,764
	2005	2004
Number of shares		
Weighted average number of ordinary shares for the calculation of basic earnings per share	328,958,609	328,958,609
Effect of dilutive potential ordinary shares	2,305,845	1,725,758
Weighted average number of ordinary shares for the calculation of diluted earnings per share	331,264,454	330,684,367



9. Trademarks

	Unaudited HK\$'000
Net book value, 1 April 2005	27,600
Amortization charge	(2,300)
Net book value, 30 September 2005	<u>25,300</u>
Cost	92,000
Accumulated amortization	(66,700)
Net book value, 30 September 2005	<u>25,300</u>
Cost	92,000
Accumulated amortization	(64,400)
Net book value, 31 March 2005	<u>27,600</u>

10. Capital expenditure

	Unaudited	
	Fixed assets	Leasehold land and land use rights
	HK\$'000	HK\$'000
Net book value, 1 April 2005		
– as previously reported	302,583	–
– prior year adjustments on interests in leasehold land and land use rights	(111,131)	111,131
– as restated	191,452	111,131
Additions	26,351	2,247
Disposals	(5,502)	(24,107)
Depreciation and amortization	(20,582)	(1,091)
Net book value, 30 September 2005	<u>191,719</u>	<u>88,180</u>



11. Trade receivables

Details of the ageing analysis are as follows:

	Unaudited 30 September 2005 HK\$'000	Audited 31 March 2005 HK\$'000
Current to 30 days	14,095	3,974
31 to 60 days	3,078	253
Over 60 days	1,289	1,178
	18,462	5,405

The majority of the Group's sales are conducted in cash, credit cards or through redemption of cake coupons. Credit sales are mainly to certain corporate customers for purchases of normal bakery products and cake coupons or festive products from bakery operation and they are normally granted respectively with credit terms of 30 days or 61 to 120 days. Overseas corporate customers are generally requested to pay advanced deposits in the amount of 20% to 30% to their estimated purchase values.

The increase in trade receivables from the March balance merely reflects the seasonality trend of the bakery business with the September balance normally includes unsettled accounts from sales of festive products.

12. Trade payables

Details of the ageing analysis are as follows:

	Unaudited 30 September 2005 HK\$'000	Audited 31 March 2005 HK\$'000
Current to 30 days	26,817	26,590
31 to 60 days	7,243	2,336
Over 60 days	5,256	1,982
	39,316	30,908

The increase in trade payables from the March balance is for the similar reason as mentioned in note 11 for trade receivables.



13. Share capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorized		
At 1 April 2005 and 30 September 2005	400,000,000	40,000
Issued and fully paid		
At 1 April 2005 and 30 September 2005	328,958,609	32,896

14. Commitments

	Unaudited 30 September 2005 HK\$'000	Audited 31 March 2005 HK\$'000
(a) Capital commitments for properties, leasehold improvements, furniture, fixtures and equipment		
Contracted but not provided for	1,661	4,387
Approved but not contracted for	17,095	31,480
	18,756	35,867
(b) Commitments under operating leases for land and buildings		
Within one year	94,236	85,128
In the second to fifth year inclusive	87,917	85,765
After the fifth year	2,690	2,289
	184,843	173,182



RESULTS

Consolidated turnover increased by 2.8% to HK\$509.3 million (2004: HK\$495.3 million) while the profit attributable to equity holders of the Company decreased by 40.9% to HK\$18.9 million (2004: HK\$32.0 million).

INTERIM AND SPECIAL DIVIDENDS

The directors have declared an ordinary interim dividend of HK1 cent (2004: HK1 cent) plus a special dividend of HK2 cents (2004: HK4 cents) per ordinary share for the six months ended 30 September 2005. The dividends will be payable to the shareholders whose names appear in the register of members of the Company on 6 January 2006. The dividends will be payable on or about 25 January 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 January 2006 to 12 January 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed interim and special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged with the Transfer Office of the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-6, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 6 January 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Restaurant operation

We had started in late 2004 to adjust our selling prices upward over the festive seasons so as to offload a portion of the cost increment to our customers. Having enjoyed years of deflation and when the supply of Chinese restaurants is still plentiful, our customers on the other hand are quite resistant to price increases. This price elasticity has been reflected in the turnover of the restaurant operation for the first six months which shows a marginal drop of 1.3% to HK\$197.4 million (2004: HK\$199.9 million). Nevertheless, we improved on our gross profit margin from 69.2% to 71.0%.

Rental for commercial premises had skyrocketed since early 2005 when the official opening of Disneyland drew closer. The completion of the disposal of the shop premises at Sceneway Plaza in May 2005 and the subsequent lease-back of this property for use by one of our Imperial Kitchen has led to a further increase in rental expenses which jumped by an average of 7.6% as compared to the same period last year. The property sale gave rise to a profit of HK\$10.8 million (2004: HK\$24.2 million arose from disposal of 5 investment properties). Included in last year's segment results was approximately HK\$10 million in accelerated depreciation charge relating to restaurants though it was partially written back in the final results. Excluding the effect of accelerated depreciation and property sales from the segment results, we have cut down our operating loss to about HK\$3.8 million from HK\$7.0 million last year.



Bakery operation

Turnover of our bakery business increased by 5.9% largely attributable to double-digit growth in the Macau and PRC markets derived from sales of our festive products. Despite our gross profit margin was being eroded by 1.9%, we managed to contain other costs, in particular rental charges by closing 4 bakeries which leases proved to be neither profitable nor affordable upon renewal. We added 5 outlets in other strategic locations. Our operating profits increased by 8.6% after excluded the exceptional gain from property disposal in the previous year.

Prospect

Since March 2005, the local authority has followed the US Federal Reserve Board and raised interest rates by 7 times to contain inflation. This will inevitably dampen consumer spending. Also, rising oil price earlier on has spearheaded the inflationary economy lately and imposes further cost pressure to our business. All these together with the global threat of a possible avian flu epidemic has clouded our outlook with uncertainty at least in the interim period and put us on hold of any aggressive expansion plan of our restaurant business.

For our bakery business, we will explore into possible measures to achieve more cost savings from the new purchasing task force set up in PRC as well as commissioned a consultancy project to streamline our supply chain with the ultimate objective of sharpening our business competitive edge.

As Hong Kong bakery market is already saturated, we have developed a new business line with the introduction of the new coffee concept “Premio d’ Italia” at our Man Yee outlet and will extend it to other outlets in the commercial area. Macau and PRC will surely be our driving force for future growth. We have opened 2 new outlets in Macau with 2 to 3 more to come. The China retail market continues to look robust with a swelling middle-class and higher disposable household income. Apart from the organic growth of adding outlets, we will consider acquisition or joint venture with local partners.

Liquidity and capital resources

At 30 September 2005, the Group’s freehold cash reserve further increased from HK\$295.6 million as at 31 March 2005 to about HK\$337.9 million even after spending HK\$28.6 million in capital expenditure. The Group’s financial position is strong with zero gearing. The capital commitments as at 30 September 2005 totalled HK\$18.8 million are mainly for the expansion of production facilities and also for enhancing the retail networks, especially in Macau and PRC markets, of bakery business. All these projects will be financed internally.

Pledge of assets

No assets were pledged throughout the period.



Employees

At 30 September 2005, the Group hired 3,045 (31 March 2005: 3,120) full time employees of which 786 (31 March 2005: 720) staff were based in PRC and Macau. Employees' remuneration package was determined with references to prevailing market practices and individual performance. Remuneration package includes basic salaries, sales incentives (which are only payable to some operational staff), medical and retirement benefit schemes. Discretionary bonus may be granted to eligible employees based on the performance of the Group and individual employees.

Contingent liabilities

The Group had no significant contingent liabilities as at 30 September 2005.

Exposure to fluctuations in exchange rates and related hedges

The Group conducts most of its business transactions in currencies of Hong Kong dollars and Renminbi ("RMB"). To hedge the Group's exposure to RMB revaluation, we have taken out forward contracts to cover regular payments in this currency. At 30 September 2005, the Group has committed in deliverable RMB forward contracts which amounted to HK\$23.0 million (31 March 2005: Nil).

⤿ PURCHASE, SALE OR REDEMPTION OF SHARES ⤿

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



SHARE OPTIONS

The share option schemes respectively adopted by the Company (“HKCM Scheme”) and Saint Honore Holdings Limited (“SHHL”), a listed subsidiary of the Company, (“SHHL Scheme”) do not fulfill certain requirements as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) on share option scheme, as a result both schemes became invalid and no further share option can be granted under these schemes.

During the period under review, there was no movement of share options previously granted under HKCM Scheme (“HKCM Options”) and HKCM Options outstanding as at 30 September 2005 had the following terms:

Participants	Grant date	Exercise period		Exercise price HK\$	Number of HKCM Options
		From	To		At 1 Apr. 2005 and 30 Sept. 2005
Director					
Chan Ka Lai, Joseph	30 Aug. 2001	1 Oct. 2001	30 Sept. 2011	0.48	1,000,000
	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	1,000,000
	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	1,000,000
				Total	3,000,000
Continuous contract employees	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	175,000
	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	175,000
				Total	350,000
				Grand total	3,350,000



Details of the movements of share options previously granted under SHHL Scheme (“SHHL Options”) during the period are as follows:

Participant	Grant date	Exercise period		Exercise price HK\$	Number of SHHL Options		
		From	To		At 1 Apr. 2005	Exercised during the period (Note)	At 30 Sept. 2005
A director of SHHL	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	(800,000)	200,000
	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
Grand total					2,600,000	(1,800,000)	800,000

Note: There were 1,800,000 SHHL Options exercised on 5 August 2005 and the closing price of the shares of SHHL immediately before the date of exercise was HK\$2.60 per share.



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

At 30 September 2005, 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 (the “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 Issuers (the “Model Code”) to be notified to the Company and the Stock Exchange:

Name of company	Name of director	Number of ordinary shares held			Number of underlying shares held under equity derivatives	Total number of shares interested or deemed to be interested (long position)	Percentage of shareholding %
		Personal interest (Note a)	Family interest	Trust interest			
The Company	Chan Wai Cheung, Glenn	–	–	186,224,609 (Note b)	–	186,224,609	56.61
	Chan King Catherine	–	186,224,609 (Note b)	–	–	186,224,609	56.61
	Chan Ka Lai, Joseph	1,200,000	–	186,224,609 (Note c)	3,000,000 (Note d)	190,424,609	57.89
	Chiu Wai	112,000	–	–	–	112,000	0.03
	Wong Tsui Yue, Lucy	100,000	–	–	–	100,000	0.03
SHHL	Chan Wai Cheung, Glenn	–	–	155,223,250 (Note e)	–	155,223,250	72.75
	Chan King Catherine	–	155,223,250 (Note f)	–	–	155,223,250	72.75
	Chan Ka Lai, Joseph	182,000	–	155,223,250 (Note c)	–	155,405,250	72.84
	Chiu Wai	28,000	–	–	–	28,000	0.01

Notes:

- a. These shares are held by the directors as beneficial owners.
- b. These shares are directly held by Well-Positioned Corporation (“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 and Mrs. Chan King Catherine are interested in these shares in the capacity of the founder of the trust and the spouse of founder respectively.



- c. Mr. Chan Ka Lai, Joseph, being an eligible beneficiary of the family trust established by Mr. Chan Wai Cheung, Glenn, is also deemed to be interested in these shares held by Well-Positioned.
- d. These are underlying shares in respect of the share options granted by the Company, the details of which are stated in the section "Share Options". The aforesaid interest is held by Mr. Chan Ka Lai, Joseph as beneficial owner.
- e. Being the founder of the trust, Mr. Chan Wai Cheung, Glenn has the trust interest in SHHL shares held by the following means:

	Number of SHHL shares held
SHHL shares directly held by Well-Positioned as beneficial owner	37,195,152
SHHL shares held by Well-Positioned through its wholly owned subsidiary, Albion Agents Limited	<u>118,028,098</u>
	<u>155,223,250</u>

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

Save as disclosed above, at 30 September 2005, 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 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 to be notified to the Company and the Stock Exchange.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2005, 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 require to be disclosed by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were 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 shareholders	Number of ordinary shares held	Capacity	Percentage of shareholding %
Well-Positioned (note 1)	186,224,609	Beneficial owner	56.61
DJE Investment S.A. (note 2)	19,984,000	Beneficial owner	6.07

Notes:

1. Well-Positioned is a wholly owned subsidiary held by a trust established by Mr. Chan Wai Cheung, Glenn for the benefit of the family members of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine.
2. DJE Investment S.A. is 81% controlled by Dr. Jens Ehrhardt Kapital AG which in turn is 83.5% controlled by Dr. Jens Alfred Karl Ehrhardt.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company was in compliance with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules except the followings:

1. To comply with code provision A.2.1, the roles of chairman and chief executive officer were segregated with their respective roles set out and approved by the Board upon the appointment of Mr. Chan Ka Lai, Joseph as the Managing Director of the Company with effect from 1 June 2005. Mr. Chan Ka Lai, Joseph is a son of Mr. Chan Wai Cheung, Glenn, the Chairman, and Mrs. Chan King Catherine, another director of the Company.
2. The independent non-executive directors ("INEDs") are not appointed with specific term as required by code provision A.4.1, but their appointments are determinable by either party with at least one month written notice in advance. The Board considers the one-month notice period for termination of INEDs' contracts provided adequate protection to either party and would not impose undue pressure of possible compensation liable by the Group for the termination. Besides, INEDs are also subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.



3. A special resolution was passed in the annual general meeting held on 8 September 2005 to amend the Articles of Association whereby all directors including the Managing Director of the Company who was previously exempted is now subject to retirement by rotation and re-election.
4. The Board is in the opinion that establishment of a remuneration committee as required by code provision B.1.1 is not justified after due consideration of the size of the Group and the associated costs involved.
5. In July 2005, the Audit Committee ratified its scope of duties by formally adopting the terms of reference according to the requirements as set out in the code provision C.3.3. The terms of reference of the Audit Committee will be posted on the Company's website by the end of the year as required by code provision C.3.4.
6. The disclosure requirements as set out in the CG Code in relation to Corporate Governance Report (the "CG Report") will be fulfilled when CG Report is to be issued and included in the 2005/06 annual report.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 of the Listing Rules. The directors confirmed that they had complied with the required standards of the Model Code and its code of conduct throughout the six months ended 30 September 2005.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed with the management the Group's unaudited interim accounts for the six months ended 30 September 2005 and has also discussed the internal control, the accounting principles and practices adopted by the Group.

On behalf of the Board
Chan Wai Cheung, Glenn
Chairman

Hong Kong, 12 December 2005