Chairman's Statement

I take great pleasure in presenting the 2001 annual report to the shareholders of Hong Kong Catering Management Limited (the "Company") and its subsidiaries (the "Group").

Results and Dividends

Our turnover suffered as the composite Consumer Price Index in Hong Kong still remained depressingly at -3.7% throughout the year of 2000. Nevertheless, consolidated turnover dropped by a modest 1.7% to HK$1,040 million (2000: HK$1,058 million) as consumer spending in Chinese restaurants had stablised both in volume and value terms. Profit attributable to shareholders reduced by HK$13.8 million or 28.8% to HK$34.1 million . The decrease was due to contribution to Mandatory Provident Fund ("MPF"), listing expenses incurred to spin-off a subsidiary and costs associated with earlier surrender of two leases, which had been mostly charged to our results in the second half of the fiscal year.

With shareholders' approval, the Company paid a special interim dividend on 15th November 2000 in the form of 78,200,902 shares in Saint Honore Holdings Limited ("SHHL") on the basis of one SHHL share for every four shares held by the then members. An interim cash dividend of HK3 cents (2000: HK3 cents) per share was further paid on 19th January 2001. The Directors have recommended a final dividend of HK4 cents (2000: HK7 cents) per share to be payable to shareholders whose names appear in the register of members of the Company on 30th August 2001. Subject to the passing of the necessary resolution at the annual general meeting, such dividend will be payable on or about 11th September 2001 in cash.

Business Review

During the past year, we saw evolutionary changes in the local dining culture. A new breeding of concept restaurants posed an unprecedented threat to our survival as a traditional operator. Fresh in their up-style decoration, they are offering a hybrid menu which appeals more to the younger generation and the middle class. Many are being owner-run which enable them to be more responsive to changes in local market conditions than normal chain operators. Another phenomenal change is the growing habitual practice for the middle to lower income population to move their spending during weekends and long holidays to the mainland where the buying power of the Hong Kong dollar improves by leaps and bounds. Local traditional Chinese restaurants are competing not only among themselves but also with their counter-parts across the border where the operating costs are significantly cheaper.

We embarked on a more defensive course of action as we foresaw there would be not much improvement in consumer spending in the medium term. We held back large scale capital investment in refurbishing existing shops as the immediate return appeared unattractive. As our strength and niche remain in operating Chinese restaurants, we consolidated our existing shop portfolio and closed down a substantial loss-making outlet by negotiating with the landlord for an earlier surrender of the related lease. For this closure, one-off expenditure totaling HK$3.9 million comprising of compensation payment to landlord and write-off of fixed assets were charged to the results for the year but this exercise should trim our cost structure and enhance future profitability. For remaining shops, top management worked closely alongside with the managers-in-charge in formulating marketing and pricing strategies while the latter are entrusted with the highest degree of autonomy whereby they have the flexibility to confront competitors within their operating vicinity but still enjoy all the advantages of back-up support as a chain store. Our corporate philosophy is to enhance value and service quality to our customers while maintaining competitive pricing through more efficient sourcing of food supplies. We have kept our gross margin at last year's level of 69% but increased staff costs from MPF contribution nevertheless ate into our profit margin.

Our bakery operation held up slightly better under the deflationary pressure. Revenue jumped by 4.3% largely due to a net addition of 3 outlets but our net margin suffered slightly due to increase in staff costs.

During the year, the Group succeeded to spin off its bakery operation by way of an introduction of the shares of SHHL on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). We considered it to be an appropriate timing to give a separate recognition of this quality asset while the listed vehicle would enable it to have direct access to the capital market for future expansion into overseas markets. Costs incurred in connection with the listing of HK$5.9 million have been charged to the results for the year.

Prospect

The road looking ahead is going to be bumpy. Quite a few leases of our restaurants are to be renewed within the next twelve months. The rental outlay for shops in prime location such as Telford Plaza is likely to increase by some extent. Upon renewal of the leases of our fast-food outlets, all the three shops will be face-lifted and re-opened with a new image. We will have to close each of these shops for business at least a month during the renovation period. Also, the full year effect of MPF contribution will add pressure to our bottom-line. Hopefully, the six consecutive interest rate cuts earlier on should work its way to give the economy a boost in the latter half of the year. We have completed the feasibility study about retail bakery in Singapore and our first retail outlet is expected to be opened there before end of the year.

Acknowledgements

I would like to pay special tribute to our entire workforce who have borne with us all this while with the Group's pay scale being frozen for four consecutive years.

Glenn Wai Cheung Chan
Chairman

Hong Kong, 12th July 2001

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HONG KONG CATERING MANAGEMENT LIMITED
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