



Chairman's Statement



ENHANCING SHAREHOLDERS' VALUE

GLOBALISATION AND PROFITABILITY

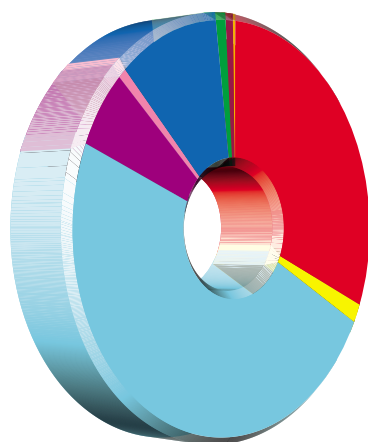
INTRODUCTION

This year's performance is particularly encouraging given that the local economy is still recovering from a lengthy recession. During the year, the local business enterprises continued to operate in a deflation economy, high unemployment persisted, consumer purchasing power remained sluggish, and the implementation of the Mandatory Provident Fund scheme at the beginning of the year put on new costing burdens to the business community.

Riding on the back of a breakthrough profit record of HK\$220 million last year, our operating profit continued into the sixth straight consecutive years of double-digits growth. The Group is pleased to report sales achievement of HK\$2,540 million and net profits record of HK\$254 million during the year, which represented once again, a net profit growth of 15% in comparison with the last year. Earnings per share increased 16%, generating year-on-year value enhancement to our shareholders. Given the increasingly difficult business environment, such admirable year-on-year unabated profits growth was no easy task. The

Board and the management teams have dedicated themselves to make it happen, by our commitment to targeted business goals and clear business strategies in the right direction.

With such encouraging results in the year, coupled with a solid net cash financial position, the Board would like to appreciate the continuing support from our shareholders and is delighted to recommend a final dividend of 15.1 cents per share. Together with the enhanced interim dividend of 4.4 cents per share paid on 5th January, 2001, the total dividend of 19.5 cents per share for



- 114 Café de Coral fast food restaurants (Hong Kong)
- 6 Café de Coral fast food restaurants (PRC & Macau)
- 183 Manchu Wok
- 22 Spaghetti House restaurants
- 3 Ah Yee Leng Tong restaurants
- 39 Institutional Catering restaurants
- 4 Bravo le Café restaurants
- 3 Super Super Congee & Noodles
- 1 Noodles Plus





Chairman's Statement (cont'd)

the entire year amounted to HK\$106 million, representing a distinguished return when compared to its peers in Hong Kong's food industry.

As the Group continues to deliver encouraging results to our shareholders, the management is determined to further enhance our long-term shareholders' values through strategic business management, global business alliance and disciplined productivity efficiencies.



VALUE ENHANCEMENT THROUGH BUSINESS MANAGEMENT

Fast Food Business

The quick service restaurant market faced increased competition. The number of individual operators continued to increase drastically, coupled with the shift of local consumption to the Mainland, there has been little room for price adjustment. Our **Café de Coral Fast Food** managed to continue to grow and expand by way of appealing new product development, continuous shop environment revitalisation, and continuing focus in profitable store openings, without resorting to the

vicious price-cutting game as adopted by many of our competitors in the market.

During the year, **Café de Coral Fast Food** totally opened 12 new stores in Hong Kong and in line with expectation, contributing encouraging profit results to the Group. In addition, we have renovated 13 of our fast food outlets with a totally brand new design image. The facelift program not only has won tremendous praise among our customers but has set new industry standard among all operators to enhance the total dining experience. In all of our renovated stores, enhancement in business





Chairman's Statement (cont'd)

performance, customers volume and bottom-line contribution was immediately delivered.

I am also pleased to report on our 2 Mega store concepts launched during the year, "The Centro" of 16,000 sq. ft. and "Pier Marina" at Maritime Square of Tsing Yi with 14,000 sq. ft., both together accommodate 4 of our exciting restaurant concepts. The mega store concept has been proven viable, in terms of third party rental income and operational revenue, to encourage us in exploring similar opportunities at suitable locations in future.



Specialty Restaurant Business

It is another high performance year for **The Spaghetti House** chain. During the year, the profit contribution from the chain almost doubled in comparison with last year.

This remarkable result was largely attributable to an effective marketing strategy; innovative menu development and new interior design breakthrough.

After a successful market re-positioning strategy implemented two years ago, **The Spaghetti House** chain of 18

outlets has been gaining wide acceptance as a popular western concept restaurant by the local higher-spending younger generation. More encouragingly, the chain's new store image is such a successful breakthrough that it has been constantly attracting new customers in addition to successful retention of existing customers.

Aside from good business results achieved, **The Spaghetti House** chain won a distinguished service award namely "**Hong Kong Award for Services : Customer Services 2000**" from the *Hong Kong Retail*





Chairman's Statement (cont'd)



Management Association during the year.

Institutional Catering Business

Despite increase competition from existing operators and new entrants, **Asia Pacific Catering** continued to sign up new hospital and commercial catering contracts during the year. A major achievement was our success in winning the institutional catering contract with the University of Hong Kong. With this, **Asia Pacific Catering** is now operating a total of 39 catering units and is by far the largest operators in the institutional catering sector in Hong Kong.

Another important milestone during the year was the geographic business expansion across the territory border. Three new catering contracts in Shenzhen were secured with major conglomerates. Together with the HSBC contract at Guangzhou, we



now have 4 institutional catering restaurants operating in China. This breakthrough achievement is promising and is going to lead the Group in building a meaningful market presence in the Southern China region in future.

VALUE ENHANCEMENT THROUGH BUSINESS DEVELOPMENT

Globalisation and Business Alliance

As I reported to our shareholders last year, the Group is strategically aiming to capture a greater share of the food business in the domestic and





Chairman's Statement (cont'd)

international market and ultimately to become a leading global market player. During the year, we have made an exciting move towards globalisation and have taken its first step outside Asia. The Group invested a cash amount of approximately HK\$24 million for acquisition of an about 48% equity interest in **Manchu Wok** chain in North America. The total consideration of the entire acquisition amounts to approximately HK\$167 million. The current operations comprise 183 restaurant outlets, with 105 stores in the United States, 76 stores across

Canada and 2 stores in Poland. **Manchu Wok** is currently the second largest Chinese Quick Service Restaurant chain in the United States and the largest in Canada, which has a track record of strong and consistent cashflow.

This acquisition is a landmark accomplishment of the Group in leveraging on our core business's financial strength to make strategic acquisitions for enhancing long-term shareholder values. At one stroke, the acquisition benefits the Group in establishing a solid foothold in the North America quick service restaurant business. As the Chinese cuisine has long been widely accepted by the local western customers in the North America,

the growth potential of **Manchu Wok** chain is tremendous. The proven business track record and experience of the **Manchu Wok** management team would



assist the Group in achieving our globalisation mission in the years ahead.

By this **Manchu Wok** acquisition, the Group now has around 375 restaurant units under our ownership throughout the world. This strategic move further enhances the position of **Café de Coral Group** as the largest Chinese Quick Service Restaurant Group in the world. Over the six months operation up to the end of March 2001 since acquisition, both the system sales and operating earnings are ahead of budget and last year's figures. The total system sales during





Chairman's Statement (cont'd)

the 6 months period since our investment amounted to C\$70 million (approximately HK\$350 million).

Locally, the Group is also driving our value enhancement through business alliances. In this regard, we formed

We reckon the benefits of leveraging the business network, be it locally or internationally, for enhancing the value of the Group and without strain on the capital resources employed. We believe the business alliance



an alliance with Tao Heung Seafood Hotpot Restaurant Group to own and manage a Chinese seafood hotpot restaurant with satisfactory business results attained. We also teamed up with Four Seas Mercantile Group's distribution network for selling **Denny's** quality bread in major supermarkets and convenience store chains.

strategy is effective to expand our business portfolio and will continue to work on it should opportunities arise in future.

New Business Dynamic

Scanfoods, our ham processing business, continued to contribute satisfactory profits during the year. In spite of pricing pressures,

Scanfoods still managed to grow the sales volumes and most of all, to consistently generating satisfactory profit contribution to the Group. This profit attainment is largely attributable to the continuous product quality improvement efforts. During the year, **Scanfoods** successfully obtained the ISO9001 Quality Certificate.

It is also a fruitful and rewarding year for the newly established **Luncheon Star** operation. Since its operation commencement in September 1999, the **Luncheon Star** captured a meaningful market share of the student lunch box business in Hong Kong. Its operation currently include a central kitchen and 3 re-heat centres located in different parts of Hong Kong. During the year, the student lunch box market has been attracting new entrants and competition intensified. Nevertheless, the Group would further expand on our production capacity in this area, and we are confident our **Luncheon Star**





Chairman's Statement (cont'd)



VALUE ENHANCEMENT THROUGH PRODUCTIVITY EFFICIENCIES

Business Process Efficiency

Consistent with previous years, we continue on our efforts in pursuing re-engineering initiatives. We are in the final phase of our business process

Production Efficiency

The Group has dedicated HK\$18 million in the modernisation of production capabilities and capacities at our Central Processing Facilities. Such material appropriation of resources signifies the Group's commitment in streamlining workflow, improving economies of scale and food quality and increasing productivity. We believe these changes will further improve the Group's competitive advantage and profit margin for the benefit of the shareholders.

will continue to grow healthily in the forthcoming year.

For the two home-grown concept restaurants, **Bravo le Café** and **Super Super Congee and Noodles**, the business performance has been satisfactory with addition of one new **Bravo le Café** in the central business core and 2 more **Super Super Congee and Noodles** in private and public housing estates.

re-engineering implementation. By the implementation of a chain-wide intelligent Branch Management System including the adoption of new Point of Sales System for all restaurant outlets, we are confident of our productivity enhancement. The success of this re-engineering task will definitely increase the competitive edge of the Group and bring in significant gains in terms of efficiency, productivity and ultimately margin improvement.





Chairman's Statement (cont'd)

Operational Efficiency

Also, with the implementation of the MPF scheme, the increased costs to the Group have been considerable. To alleviate the impact of this cost, the Group undertook proactive measures such as operational efficiency enhancement and the extension of working hours at the shop level.

Financial Efficiency

The Group continued to maintain a healthy, solid financial position with reliable liquidity, sound financial return on assets and robust capital structure. At present, the Group has a net cash of HK\$345 million and available banking facilities of HK\$1,025 million. As at 31st March,



2001, the Group's net asset value amounted to HK\$1,220 million, an increase of 11% compared with that of last year. Net asset value per share was HK\$2.23, a 12% increase from last year.

Trademarks of **Ah Yee Leng Tong**, **The Spaghetti House** and **Manchu Wok** represented valuable intangible

assets to the Group. In accordance with the newly issued accounting standards to be adopted next year, these trademarks will be appropriately amortised such that the

return on assets will be further enhanced. There will be no material adverse effect on the Group's financial position.

To leverage our potent cash position to our shareholders, the Group established a share repurchase program in previous year. We believe such share buy-back program plainly demonstrated the management's explicit belief on the unrealised intrinsic values of our shares and on the future prospect of the Group. During the year, the Group bought back approximately 6,210,000 shares at an average cost of HK\$3 per share.





Chairman's Statement (cont'd)

PROSPECTS FOR FURTHER VALUE ENHANCEMENT

The persistent deflation economy in our domestic market and uncertain global slowdown will present a substantive challenge to the management in the forthcoming year. Still, we are confident to grow our business steadily in the year ahead just as we have been successfully riding out all economic cycles in the past three decades. The key is our ability to adapt to change.

Customer Focus

Our restaurant business will continue in adding

values to our existing loyal customers by developing & re-packaging new products and creatively upgrading the in-store environment. We will continue to open new shops and launching new restaurant concepts for expanding our presence in the restaurant segment.

Asia Pacific Catering and **Luncheon Star** are expected to do well in an increasingly competitive market. With their established track records and brand image, we are confident that these two strategic business units of the Group would continue to be a leading market player in their respective arenas.

Managing Efficiency

In the year ahead, our newly installed Point of Sales System and Branch Management System will be in full operation throughout our restaurants in Hong Kong. The associated benefits will gradually be reflected in our customer services, information management and cost control arenas. We anticipate that the return on this investment will not only amount to a productivity increase, but would bring in long term benefits to the Group by way of dramatic improvements in its revitalised business logistics.

Going Global

The **Manchu Wok** acquisition is a milestone breakthrough for the Group. We believe we have established a solid entry into the North America food business market. Our globalisation vision in the years ahead will continue to be pursued in a disciplined pace through further acquisition and franchising.





Chairman's Statement (cont'd)

PRC poses another interesting market for the Group to revisit in the year ahead. In view of the latest revival of China's economy and its anticipated entry into the WTO in the near future, and with our chain of 6 restaurants in South China now achieving positive cashflow, the Group will closely look into new store openings or acquisition opportunities in the PRC. Our previous operating experience has been valuable for the Group in taking this business forward.



As **The Spaghetti House** chain opened up its fourth franchisee store in Indonesia in April 2001, our international franchising focus will be expanded into the other South East Asia region. Given our many well-recognised restaurant brands, we believe the international franchising business offers long-term growth potentials for the Group.

APPRECIATION

The Group continues to receive highly respected recognition on a worldwide basis. This year is no exception. I am honoured that the Group has been recognised by *Forbes Global*, for the third consecutive year, as one of the “**World's 300 Best Small Companies**”. In addition, our **Café de Coral** Fast Food as well as the specialty restaurants of **Ah Yee Leng Tong** and **The Spaghetti House** have also been granted “**Quality Tourism Services**” award

from the *Hong Kong Tourism Board*.

Our accomplishment would not have been accomplished without our staff's tireless dedication in this demanding year. On this, we owe our colleagues a very special word of thanks.

It is not an easy task to grow and it is even harder to grow on an expanded base. Given the depth of the resources we have, the management calibre we possess, and the robustness of the business model we have so far demonstrated, the Group is strongly positioned to take our various business concepts to new frontiers of growth at home and abroad, and to create greater values to our customers and shareholders as a whole.

Chan Yue Kwong, Michael
Chairman

Hong Kong, 5th July, 2001

