I am pleased to present to you the 2002 annual report of Hong Kong Catering Management Limited (the "Company") and its subsidiaries (the "Group").

RESULTS

The economy continued to weaken for the fourth consecutive year with the local unemployment rate expected to deteriorate further posed gloomy outlook to our business. The deflation pressure persisted with the composite Consumer Price Index dropped by another 1.6% compared to a year ago. Despite slackening customer spending, we struggled to keep up sales volume and maintain our consolidated turnover at more or less the same level at HK$1,039.9 million (2001: HK$1,039.6 million) as last year. Through various cost saving and efficiency enhancement measures, we also maintained our profit after taxation and before minority interests at HK$29.5 million which represented a mere drop of HK$1.3 million (4.2%) from last year's HK$30.8 million (restated). Profit attributable to shareholders nevertheless dropped by 34.7% from HK$30.3 million to HK$19.8 million as the Group consolidated for the first time the full year effect of the Group restructure in November 2000 which involved the spin-off of the subsidiary, Saint Honore Holdings Limited ("SHHL") and the distribution in specie of its shares to our then shareholders.

DIVIDENDS

On 29th January 2002, an interim dividend of HK1.5 cents (2001: HK3 cents) per ordinary share was paid. The directors declared a final dividend of HK3.5 cents (2001: HK4 cents) payable to shareholders whose names appear in the register of members of the Company on 29th August 2002. Subject to the shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on or about 10th September 2002.

BUSINESS REVIEW

Restaurant operation

Hong Kong retail sales took a sharp dip as globally, consumers reacted to the shock of the September 11th terrorist attack of the United States ("911 event") and its aftermath by closing their purses. The 911 event dampened any hopes for an imminent recovery. With Hong Kong still manoeuvring her way for possible remedies to lift herself out of the recession caused by structural changes to her economy, the Board foresaw domestic spending would unlikely strengthen in medium term. We must preserve our financial resources for the worst to come. Two long loss-making restaurants were closed during the fiscal year and there would be a few more to deal with to stop further bleeding.

We want to shed off our aged image and expand on our customer base to the younger generation. A total of HK$14.8 million has been set aside for shop renovations. To re-enforce this image building exercise and cultivate customer loyalty, we introduce a privilege card programme in March 2002. Our customers can now apply for our YUMMIE card and enjoy instant discount. This privilege card programme has replaced the cash coupon programme launched in 1998. The coupon programme was very successful as the cummulative redemption rate was over 65.5%. A more generous budget has been set aside for year-round marketing campaigns, we want to create more customer awareness and to stand out from competitors as a reliable service provider of good food.

Organisations stay afloat these days on stringent cost control measures. We make no exception in this aspect. Our three major cost elements being direct food cost, labour cost and occupancy cost are under close scrutiny. Our purchasing team worked closely with our production departments to source more appropriate substitutes and to contain wastage. We improved our average gross profit margin to 71.0% (2001: 69.5%) despite more sales discounts were given. We have made more flexible leave arrangement with our workforce and thus negated the cost pressure brought about by the full year impact of MPF contributions.

The recent Court of Appeal ruling on Hsin Kuang Restaurant regarding working on rest days is expected to open up numerous claims from ex-employees against operators in the industry. Way back in early 1999, the Company already recognised our exposure to such potential claims. Remedial measures have been made which include among others: re-draft new employment contracts to clarify ambiguities for new employees, add clarification clauses to old contracts for existing employees and use of individual pay-slip to improve communication. Whether these measures will effectively bar the Group from future claims is yet to be tested in the court. Nevertheless, the Board believes that ratification made so far should contain such claims to an immaterial amount and thus no provision has been made in the accounts.

Bakery operation

We have changed our sales strategy. We avoid the vicious circle of confronting competition with further sales discount as our principal ammunition. Instead we focus on excelling ourselves in product quality and varieties. As a marketing gimmick, we still offer heavy discounts on selective items throughout the year but our profit margin is at least shell-proof, for the time being, from further erosion. Working alongside with aggressive marketing campaigns, we managed to increase our turnover by 6.2%

To improve our profitability, we have replaced 6 loss-making outlets with news ones at other locations with better rental to consumer traffic ratio. We also renovated a few flagship outlets to give a more refreshing image. Our depreciation charge inevitably increased. We halted the expansion plan in Singapore after the 911 event and charged the setup costs incurred of HK$0.7 million to the profit and loss account. Operating profit was further affected by lower interest earned from fixed deposits and thus improved modestly by only 4.6%.

The implementation of SSAP 29 requires us to re-capitalise the trademark "Saint Honore" at cost and amortise the amount over a period of 20 years from 1992 i.e. the first year of use. Accordingly, an annual amortisation charge of HK$ 4.6 million has been charged to our operating results. Prior year comparison was restated to adjust for this charge as well.

Mainland China has assumed the role of the manufacturing hub for many multinationals. To live up to worldwide quality assurance standard, we re-engineered our Shenzhen plant for Hazard Analysis Critical Control Point ("HACCP") certification. This plant has now been accredited with both ISO9001 and HACCP.

Around March 2002, malicious rumours were spreading around the internet that SHHL and its subsidiaries ("SHHL Group") were in financial difficulty. We reported it to the Hong Kong Police for investigation. To prevent the incident from escalating into a full size cake run, I in person and the Company together with a substantial shareholder have undertaken to provide to SHHL Group a standing facility of not more than HK$74.0 million when required. We volunteer to publish quarterly results announcement of SHHL in the coming fiscal year so as to increase her financial transparency to the public. By initiating this action, we hope to take the situation in our hands and shut the rumourmonger up.

PROSPECT

Domestic spending is unlikely to improve in the immediate future. We have scheduled major renovation work for various restaurant outlets thereby giving them a refreshing look which should appeal to the young generation. With the uncertain outlook, the Board will take a very prudent attitude on any restaurant expansion and is more inclined to target niche petit size restaurants.

To achieve higher production efficiency, we have planned to move more bakery production lines to the Shenzhen plant which is accredited with the ISO9001 and HACCP certification. With the accession of mainland China to the World Trade Organisation, the Board believes it is now an appropriate time to reassess the potentials of this huge consumer market. Our first pilot retail outlet has started to operate in Guangzhou in early July 2002.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my sincere appreciation to our staff who have been so dedicated and supportive to the Group and help us through the difficult times among these years.

Chan Wai Cheung, Glenn
Chairman

Hong Kong, 11th July 2002