## BUSINESS REVIEW

*Overall Performance*

The Group is delighted to announce that Kamboat entered into a new era as a publicly listed company on 9 October 2001 when the trading of its shares commenced on The Stock Exchange of Hong Kong Limited. The success of the listing bears testament to the high quality standards which we have established in all areas of our business and provides public concurrence in our long term development plans as laid down during the listing.

Looking at 2001/2002, the global economy suffered a setback as a result of the tragic events in the United States on 11 September 2001, which badly affected overall consumer confidence. This has had an adverse impact on many open economics in Asia, including Hong Kong, which has been suffering a lingering economic slowdown in recent years. The impairment in domestic consumption continued as employment conditions and the deflationary environment attributed to an uneasy year. Yet we believe that we have a steady and strong foundation which enable us to develop and strengthen the Group to prepare for a robust growth when economies turn around. Despite the existing difficult market conditions, the Group managed to maintain a steady growth in our restaurant business.

Pursuant to a reorganisation scheme (the "Group Reorganisation") in preparation for the listing, the Group has acquired from its holding company the restaurant operations with effect from 15 August 2001 Under the Group Reorganisation, the Group disposed of its fast food operations out of the Group also with effect from 15 August 2001. Accordingly the Directors have prepared two sets of profit and loss accounts on the following bases:

(i) on a consolidation basis, where the operating results of the incoming restaurant business are included in those of the Group since date of acquisition on 15 August 2001; and the operating results of the outgoing fast food business are excluded from the Group since date of disposal on 15 August 2001.

(ii) on a pro forma combination basis, where the operating results of the incoming restaurant business are included in those of the Group for the whole year; and the operating results of the outgoing fast food business are excluded from the Group for the whole year, as of the Group structure were in place since the beginning of the year.

*Steady Growth in Turnover*

Total revenue growth of 7.8% was achieved for this financial year, with combined turnover increased from approximately HK$308.9 million for 2001 to turnover of approximately HK$333.0 million for the current year ended 30 April 2002. The consolidated turnover increased from approximately HK$89.1 million in 2001 to approximately HK$278.5 million in 2002. The robust growth in the bakery business has offset the effect from economic downturn on the restaurant business which resulted on a marginal drop of sales.

*Restaurant Operation Business*

The turnover from restaurant operations contribute 68% of the Group's total combined turnover for the current year. Based on the official research of the Census and Statistics Department of Hong Kong, the total revenue of Chinese Restaurant business in the year of 2001 has decreased by approximately 3% over that of 2000. Standing out from the market performance, the combined turnover from restaurant operation sector is approximately HK$228.1 million (2001: HK$231.9 million), which represents a only a marginal decrease of 1.6% over 2001. The consolidated turnover was approximately HK$172.0 million for 2002 (2001: nil) as the Chinese Cuisine Business was transferred to the Group from its holding company in 2002.

*Bakery and Other Food Products Business*

Kamboat Bakery is one of the pivotal operators of bakery chains in Hong Kong. The turnover from bakery chain business contributes 31% of the Group's total combined revenue. Turnover from bakery business sector reached approximately HK$104.8 million in this financial year (2001: HK$77.0 million), representing a significant growth of 36% over 2001.

Worth mentioning, during the year, turnover from the sale of festive products reached approximately HK$25.7 million (2001: HK$19.5 million), representing a 32% growth over 2001 which has great potential in development.

The increase in turnover is mainly attributable to the changing mode of distribution and the increase in the number of distribution outlets. In 2001/2002, instead of only selling our products in our own bakery outlets, we have extended our distribution network to co-operate with the Wellcome Supermarkets and distributing mooncakes in over 200 Wellcome outlets. Indeed, our own outlets have been expanded to 27 bakery outlets operated under the brandname Kamboat Bakery as at 30 April 2002. The locations of the bakery outlets were carefully selected in the way that they are located throughout Hong Kong at strategic locations with dense population and high pedestrian flow.

Apart from the contribution of an extensive sales network, the success in increasing in the sale and promotion of festive products was also attributable to the Group's heavier emphasis on launching successful marketing strategies. Moreover, an increase in the variety of food products is also one of the major factors contributing to the increase in turnover for bakery business.

*Profit Margin*

Due to a number of factors which increases the operating and production costs this year, coupled with the economic downturn in the second half of the year, the profit margin for the current financial year was adversely affected inevitably. The consolidated profit was approximately HK$4.8 million in 2002 compared with approximately HK$5.2 million in 2001. The combined profit was approximately HK$7.7 million in 2002 compared with approximately HK$39.3 million in 2001.

With a strong financial status brought from the listing, the management seized this opportunity by investing actively with an aim to capture more market share, extend into the food production industry; and widen the distribution network, which facilitate the growth of the Group in future.

*Restaurant Operation Business*

With a deflation in Hong Kong, especially in the second half of this financial year, we decide to decrease the selling price of our restaurant products. In addition, another factor affecting all business sectors in Hong Kong is the official implementation of the Mandatory Provident Fund scheme, which has increased the Group's overall combined operating costs by HK$2.6 million as compared with that in 2001 and the profit margin then decreased accordingly. Consequently, combined profit for restaurant operation business is approximately HK$13.5 million as compared to HK$33.7 million of last year. The consolidated profit was approximately HK$10.1 million in 2002 (2001: nil) as the restaurant business was transferred to the Group from its holding company in this year.

*Bakery and Other Food Products Business*

Consolidated operating loss from bakery business is approximately HK$5.9 million in 2002 (2001: profit of HK$5.7 million). The loss was attributable to the high MPF cost of HK$1.3 million (2001: HK$0.3 million) in 2002. The capital investment being made for the opening of new outlets resulted in an increase in depreciation and yet the benefit has not been realised. Moreover, there are also several outlets with high rental expenses resulting in unsatisfactory performance.

In view of this, the Group resolutely carried out well-organised programme to restructure the bakery business. In view of the high rental in certain areas, the Group has refined the profolio of the bakery outlets by closing down those outlets generating unsatisfactory results, and opening new outlets in areas with high potential sales results. Despite the heavy investment being required in this year for the re-allocation project as discussed further below, the management firmly believed that it will pay off. In the long run, the re-allocation of bakery network would increase the Group's future prospects profit. Accompanied with the Group's emphasis on the creativity of new products and on the implementation of successful promotional and marketing strategies, the management is looking forward to a better forthcoming year.

Considering that it is more cost effective to expand during the market downturn whilst the Group possesses the advantage of a strong financial base, additional production facilities were under progress. with an increase in the production capacity in the PRC and the Group will then benefit from the low operation costs from the Mainland China, and the economy of scale is expect to realize in next year. The addition facilities are mainly financed by the proceeds from the initial public offering and the internal working capital generated by the Group. In other words, the existing decrease in profit margin is expected to be offset by the long term increase in profit margin attributable to a greater economies of scale, and a lower production and operating costs in the later days.

## FINANCIAL REVIEW

*Net assets, liquidity, financial resources and exchange rate fluctuation exposure*

The Group stays in healthy financial position with consolidated shareholders' funds of approximately HK$113.2 million (2001: HK$3.4 million, before the listing proceeds) as at 30 April 2002. The current ratio has improved from 0.24 as at 30 April 2001 to 1.36 as at 30 April 2002, of which cash and cash equivalents increased from HK$1.9 million in 2001 to HK$13.7 million in 2002.

As at 30 April 2002, the Group has total borrowings of approximately HK$6.2 million (2001: HK$4.4 million) of which approximately HK$4.9 million (2001: HK$2.4 million) is represented by mortgage loans and approximately HK$1.3 million (2001: HK$2.0 million) is represented by finance lease payables. Unutilised banking facilities as at 30 April 2002 was approximately HK$3.0 million (2001: HK$3.0 million). The total borrowings matured within one year, in the second year and in the third to fifth years, inclusive, amounted to approximately HK$2.1 million (2001: HK$1.3 million), approximately HK$1.7 million (2001: HK$1.3 million) and approximately HK$2.4 million (2001: HK$1.8 million), respectively. The Group's gearing ratio (consolidated total borrowings/ consolidated total assets) is 0.04 as at 30 April 2002 (2001: 0.1). There are no seasonal factors materially affecting the Group's borrowing requirements. All bank balances and borrowings are in Hong Kong dollars. Since all the Group's business operation are in Hong Kong, the Group has minimal exposure on exchange rate fluctuations.

*Charges on assets*

At 30 April 2002, the Group's banking facilities were secured by legal charges over certain of the leasehold land and buildings and investment properties of the Group and were supported by personal guarantee executed by a director of the Company and by corporate guarantees of the Company. The Group has received written consents in principle from bank that those banking facilities supported by the personal guarantee executed by a director will be replaced by new banking facilities supported by corporate guarantees provided by the Company and/or other members of the Group.

The Group leases certain of its fixed assets. These leases are classified as finance leases and have remaining lease terms ranging from within one to two years.

*Treasury policies*

The Group generally finances its ordinary operations with internally generated resources. The interest rates of most of the borrowings are charged by reference to the prime rates.

*Contingent liabilities*

Following the purchase of the Restaurant Business, the Group's possible liabilities under the Employment Ordinance at as 30 April 2002 would be approximately HK$4 million (2001: nil). No provision has been made for these amounts.

As at 30 April 2002, the Company has provided corporate guarantees to (i) landlords in respect of the operating lease payments of its subsidiaries; and (ii) banks in respect of banking facilities granted to its subsidiary.

*Capital commitment*

As at 30 April 2002, the capital commitments in respect of purchases of fixed assets amounted to approximately HK$213,000 (2001: HK$773,000).

*Use of proceeds of New Issue*

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in October 2001, after deduction of related issuance expenses, amounted to approximately HK$42.1 million. These proceeds were fully applied during the year ended 30 April 2002 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

(a) as to approximately HK$20.1 million for the opening of a new Chinese restaurant and further bakery outlets in Hong Kong;

(b) as to approximately HK$13.5 million for the establishment of production facilities for the Group's bakery and other food products in the PRC;

(c) as to approximately HK$3.0 million for the marketing and advertising activities of the Group; and

(d) as to approximately HK$5.5 million as additional working capital of the Group.

## EMPLOYEE AND REMUNERATION POLICIES

As at 30 April 2002, the Group had 640 (2001: 518) full-time employees in Hong Kong and the PRC. The Group remunerates its employees based on their performance, work experience and the prevailing market price. To motivate the staff, the Group granted its employees with performance related bonuses on a discretionary basis. In addition, other employee benefits include mandatory provident fund, insurance and medical coverage, and training are also offered.

Under the terms of a share option scheme (the "Scheme") adopted conditionally by the Company on 15 September 2001, the board of directors of the Company may, at its discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 9 October 2001.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period from 26 June 2001 (date of incorporation) to 30 April 2002, other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 9 October 2001, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 17 August 2001 which was established in accordance with the requirements of the Code of Best Practice (the "Code") with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises all of the two independent non-executive directors of the Company. The Group's audited financial statements as at 30 April 2002 and for the year then ended have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and the Stock Exchange's and legal requirements, and that adequate disclosures have been made.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code as set out in Appendix 14 of the Listing Rules, since the date of the listing of the Company's shares on the Stock Exchange.

## CONCLUSION

With the Group's strengthened financial base as provided by the successful listing in October 2001, the Group is set to forge a more promising future with the anticipated realization of the Group's well-tailored and farsighted expansion plan in view of the prevailing marketing conditions.