

## MANAGEMENT DISCUSSION AND ANALYSIS

### Performance review

During the past six months, the Group has passed rigorous tests in such a challenging economic environment. The global economy has been hindered by the United States' economic downturn, which in turn has adversely affected the global as well as local consumers' confidence. The food and catering industry is traditionally the direct indicator of the economic environment. The current economic environment attributed to a slowdown in food and catering industry and exerted severe pressure on the business development of the Group.

Nevertheless, continuous improvements are made by the Group as a result of strong competition. The Group has a strong and solid foundation which enables it to consolidate and to prepare for a robust growth once the economy rebounds. Despite the existing difficult market conditions, the management of the Group is confident that with their determination and hardworking, they will be able to strive through the storms.

Despite the effect of the economic downturn, the Group recorded an increase in turnover by 3% with total revenue growth from approximately HK\$172.0 million in the six months ended 31 October 2001 to approximately HK\$176.6 million in the six months ended 31 October 2002. The increase in turnover is mainly contributed by new bakery outlets opened during the period and the new restaurant in the Westwood which was opened in October last year.

The profit margin has been affected by the high level of rental costs and the Group's aggressive pricing strategy to boost up sales. Operating profit has decreased from approximately HK\$19.8 million in the six months ended 31 October 2001 to approximately HK\$3.8 million in the six months ended 31 October 2002, representing a decrease of approximately 81%.

### Operation review

In view of shrinking consumption power, the management has implemented a number of measures to consolidate and re-engineer the Group's business operations during the period.

#### *Restaurant business*

Restaurant operations saw marginal increment in turnover in the period. The turnover for restaurant operations was approximately HK\$115.3 million in the six months ended 31 October 2002, representing a marginal increase of approximately 3% from that of HK\$112.1 million in the six months ended 31 October 2001. The operating profit was approximately HK\$5.9 million for the six months ended 31 October 2002, representing a drop of approximately 63% from that of approximately HK\$16.0 million for the six months ended 31 October 2001.

The increase in turnover and the decrease in operating profit were affected by price cutting competitions whilst the average spending per head has been reduced due to economic slowdown.

During the period, the Group launched aggressive promotion campaigns to maintain customer headcounts and offered innovative menus to encourage higher level of spending per head. Better quality control and judicial expansion strategies are the key areas to strengthen the restaurant operations.

*Bakery and food products*

The aggressive marketing strategies implemented in the bakery operations resulted in a slight increase in the turnover of the bakery operations from approximately HK\$59.9 million in the six months ended 31 October 2001 to approximately HK\$61.4 million in the six months ended 31 October 2002, representing an increase of approximately 3%.

The Group's reputation for providing quality and innovative food and services has enabled the Group to swiftly expand the bakery and food products operations. As of today, the Group has developed its market share and becomes one of the major market players in this industry. Following the successful experience of co-operation with "Wellcome", one of the largest supermarket chains in Hong Kong, to distribute the Group's mooncakes in September last year, a new product "Mini Garlic Toast" was launched recently and is available in 100 "Park'n Shops" supermarkets.

Operating profit from bakery operations has decreased from approximately HK\$3.8 million in the six months ended 31 October 2001 to an operating loss of approximately HK\$2.1 million in the six months ended 31 October 2002, representing a decrease of approximately 155%. The high commercial rental costs of certain outlets reduced the profit contribution of the bakery business contribution.

During the period, the Group has strategically consolidated its bakery shop network. On one hand, the under-performing outlets were closed to prevent further erosion of profit margins. On the other hand, in order to enlarge market share and capture high customer flow, the Group opened new outlets in Ngau Tau Kok and Cheung Sha Wan MTR stations. Other new outlets are located in prime areas such as Olympic City, Wong Tai Sin and Ma On Shan. As at 31 October 2002, the Group operates a total of 32 bakery outlets under the brandname of *Kamboat Bakery* all over Hong Kong.

**Strategies and vision**

*The grand opening of the flagship restaurant in Guangzhou signified the advancements of the Group into the Mainland China market*

Due to the keen competition in Hong Kong, it is the Group's strategy to expand outside Hong Kong. The Group has already opened its first flagship restaurant in Guangzhou, the People's Republic of China (the "PRC"), which acts as its first step in entering into the Mainland China market. The Group sees the large growth potential in the PRC and are looking into opportunities in developing catering business on the PRC.

Capitalizing its well-established brand name as a quality food and services provider in Hong Kong, the management believe that the Group enjoys competitive advantages during its recent advancement in the Southern China market. The Group is actively investigating the feasibility of opening new restaurants in other major cities in the PRC such as Shenzhen.

### *A brand-new-look bakery outlet*

Efforts were also made to enhance and upgrade bakery shop facilities. The Group planned to renovate its bakery outlets in order to bring a fresh and vibrant image to the consumers. Compiling aggressive promotion campaigns and cost control measures should lead to the improvement of the performance of the bakery operations.

Leveraging on the decreasing commercial rental market, the abundant supply of catering labour force, the management is confident on the future of the business.

### *A cost saving expansion*

In addition to the well-planned and carefully executed cost control measures, the Group has been selectively relocating part of the Group's back office operations to the PRC to keep the Group in a competitive position.

Seeking to expand production capacity and minimize production costs as well as enhancing efficiency, the Group's new production site in Dongguang, the PRC has already put into operation during the period. Moreover, the Group plans to establish a new factory in Tai Po, which will replace the existing Kwun Tong factory when the leases expired in 2003. The location chosen for the new factory is next to major highways. It is expected that the Group will be benefited from savings of transportation time and costs and easy logistic management. Significant cost savings can be realized by the new production facilities in terms of much lower labour costs and overheads and higher returns on economies.

### *A sustainable framework for growth*

Sustainable growth and profitability are the Group's main focuses in drafting the blueprint for the future. The Group has taken advantage of the current low cost environment to deepen its market penetration. Opening outlets in MTR stations is a further step towards a mature bakery networks to capture bakery wedding coupon market.

With the successful experience of distributing mooncakes through "Wellcome" supermarkets last year, the Group will expand its coverage to other food distributors such as other supermarkets and chain stores. Expansion of distribution channels and building of its own network are the two arms which allow the Group to capture growth and profitability once the economy rebounds.

### **When the environment gets tough, only the tough gets going**

With the Group's long established solid reputation, experience, extensive distribution network and well-planned and insightful marketing strategies, the Directors are confident that the Group will strive through the economic down-turn with uncompromised quality products and services while at the same time laying down solid foundation for growth and long term development in the future. The management is committed to attaining better performance and enhancing future returns for its shareholders.

## **SEASONAL/CYCLICAL FACTORS**

The sales volume during festive period is normally higher than the sales volume in the slack period of the year.