On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results of Hong Kong Catering Management Limited (the "Company") and its subsidiaries (collectively called the "Group") for the year ended 31 March 2003.

RESULTS

This was a difficult year for the Group. One-off losses associated with revaluation of certain self-occupied properties and the write-off of remaining fixed assets from shop restructure adversely affected our overall performance. We incurred a net loss of HK$58.2 million for the fiscal year ended 31 March 2003 when compared to a profit attributable to shareholders of HK$19.8 million for last year. Consolidated turnover was also reduced by 8.3% to HK$953.7 million (2002: HK$1,039.9 million).

DIVIDENDS

Despite the reported loss, our operating activities still returned a positive cash flow for the whole year. Taking into consideration our cash position and foreseeable capital commitments, the Board proposed a final dividend of HK1.5 cents (2002: interim dividend of HK1.5 cents and final dividend of HK3.5 cents) so as to maintain the dividend yield for our shareholders.

BUSINESS REVIEW

Restaurant Operation

Macro economic conditions at large: ongoing deflationary pressure, weakened consumer spending and fierce price wars still working at odds against the industry. Traditional Cantonese restaurants suffered the most due to their lack of competitive edge other than relying on price cuts to out-beat their rivals. These shops dragged down our overall performance.

We must revamp our traditional Chinese restaurant portfolio before we can bring our results back to black. The Group had a total of ten shops that made up this portfolio at the beginning of the fiscal year. We resolved amicably with our partner, Grand Hotel Holdings Limited, to dissolve our joint venture which was then operating four Chinese restaurants in their hotels. We also closed a mega-size shop, Hong Fook Chinese Restaurant, in Kornhill Plaza by early surrender of the premises to the landlord when we failed to extend certain concessionary arrangements thereon. Followed the opening of the Tseung Kwan O line of the Mass Transit Railway in August 2002, Pak Fook Chinese Restaurant, another mega-shop at Sceneway Plaza has been struggling for survival as pedestrian flow was diverted away from Lam Tin which used to be the major "interchange" point in Eastern Kowloon. The outbreak of Severe Acute Respiratory Syndrome ("SARS") in late March 2003 posed a bleaker prospect and we eventually closed this restaurant in mid April 2003. Losses resulted from the aforementioned closures pertaining to write-offs of fixed assets and goodwill, compensation payment to the landlord together with severance and termination payments, which amounted to HK$27.8 million were fully charged to the results for the year.

Pak Fook's closure prompted the Board to re-assess the value of its property portfolio in Sceneway Plaza which added up to a total of about 29,000 sq. feet. Provision in the amount of HK$33.9 million was made in the accounts to reflect corresponding impairment losses. With the negative market sentiment brought about by SARS, our investment properties were also revalued downward by HK$2.8 million.

BUSINESS REVIEW *(continued)*

Restaurant Operation *(continued)*

We have set aside a total of about HK$50 million to re-package a total of ten restaurants to enhance our competitive edge. We spent HK$21 million to renovate four shops in this fiscal year and the remaining six shops will be face-lifted by the end of the coming fiscal year. Other than re-decorating the interior for a modern ambience, we are taking advantage of the employment market to refine the quality of our frontline crew. External trainers were engaged to brush up their skills on customer servicing and soft-selling. During the renovation period, we have to suspend business temporarily which on average lasts for five weeks or so. Our bottom-line has been disrupted as fixed costs such as wages and rent are still incurred in the absence of revenue.

Bakery Operation

Turnover of our bakery operation increased by 3.8% despite continuing weak consumer spending. The growth was primarily attributable to the concerted effort of effective marketing tactics and stringent product quality controls. The persistence of a deflationary economy and the acute price-sensitivity of our customers have worked to erode our gross margin while pushing our advertising budget to a record level. Riding on the strength of our brand name, sales of our festive products throughout the fiscal year all exceeded the targeted volume.

Migration of certain secondary production lines to Shenzhen has relieved some pressure off our bottom-line. We achieved savings in labour costs though it was offset to a lesser extent by an increase in depreciation charge. The expanded workshop in Shenzhen has added more flexibility to our production line when it comes to support large-scale promotional campaigns during which time the sales volume may jump by folds. Excluding the HK$4.6 million additional provision for diminution in value of an investment property, profit before taxation for our bakery operation increased by 22.6%.

Our voluntary action to increase the financial transparency of our bakery operation through published quarterly announcements of Saint Honore Holdings Limited has succeeded in restoring public confidence in the cake coupon system. Our cake coupon sales returned to normal when we resumed our regular promotion sales in October 2002, after a six-month cooling period.

In July 2002, we opened our first PRC retail outlet in Guangzhou. Two more shops were added by the end of the fiscal year. Although the PRC retail operation is not generating positive contribution at this initial stage, we believe that we have laid a secure foundation for future growth into a potentially huge market. During the year, "Saint Honore" was selected by the Guangdong Provincial Authority as a national famous brand for our mooncake products. This should pave our way for future market penetration.

PROSPECT

Our restaurant business was seriously affected in the month of April 2003 when SARS was at its peak. Though three restaurants happened to be closed for renovation around that time, sales of our operating restaurants dropped on average by 22%. This prompted the Board to issue a profit warning announcement in April 2003. We have implemented various hygiene measures in our shops to foster an image of a "safe" dining place which, together with the numerous joint marketing campaigns launched by interest groups, have gradually brought the local consumers back. Our sales volume has returned to normal though spending per head is still short of the pre SARS level. This inevitably will pull down our performance for the first half of the new fiscal year. Nevertheless, the Board is optimistic to make up our lost ground in the second half with our rejuvenated image.

PROSPECT *(continued)*

Though the outbreak of SARS in March 2003 has not largely affected our normal bakery business, it has further weakened Hong Kong's already fragile economy. The full economic impact will surface in the coming months which may affect our forthcoming mooncake sale. The Board will continue to take a prudent attitude in expanding our retail network. We will continue our quest for quality products so as to live up to our brand image and differentiate ourselves from our competitors. Our expanded Shenzhen workshop will facilitate us to explore further into the PRC market which we will do so cautiously to ensure it is within our financial restraints.

The coming year will undoubtedly be a difficult year. Despite that we hope the economic revival package proposed by the government will successfully boost the economy's recovery and lure tourists back. Therefore we shall be prepared for such and renovation of our remaining aged shops will proceed as planned.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my gratitude to our staff and business partners who have shown their unfailing support and excellence to the Group especially during this difficult period.

Chan Wai Cheung, Glenn
Chairman

Hong Kong, 10 July 2003


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