

Dear Shareholders,

The financial year 2002/03 was a challenging one for the catering industry. The continuous deflationary environment is well into its fifth straight year, coupled with the persistently high unemployment rate, which together have stagnated the already weak consumer market. In addition, the outbreak of severe atypical respiratory syndrome (“SARS”) in Hong Kong and the People’s Republic of China (“PRC”) further weaken the local economy and consumer spending, which in turn deepened the adversity over our operating environment. The performance of the Group’s business in the second half of the current financial year was unavoidably affected. Confronted with the acute market conditions, the Group was able to maintain our consolidated turnover at last year’s level. The consolidated turnover for the year ended 30 April 2003 is approximately HK\$325.0 million, representing a mild drop by 2% as compared to the combined turnover of approximately HK\$333.0 million for the year ended 30 April 2002.



Restaurant Operation Business

The local operating environment has worsened due to the deflationary environment and low consumer spending sentiment. Many restaurant operators were adversely affected, including us, by the recent SARS outbreak and the World Cup Soccer last year. In the current year, the Group’s consolidated turnover for Chinese Restaurant operation has slightly drop from HK\$228.1 million in last year to approximately HK\$220.0 million in the current financial year. During the year, the Group has implemented stringent cost control measures to improve competitiveness and pave our way to consolidate a strong foundation for sustainable growth and development in the long run.

Despite the ongoing recessionary pressure, we continue to build the Group as a dynamic and innovative company operating to the highest standards of products and services with affordable prices. We have staged aggressive promotional campaigns to maintain customer patronage and per head spending level. As one of the pioneers in this market, we continue to launch innovative products and menus. The “321 triple choices menu” met with overwhelming customer acceptance.

In December 2002, we have made our first move into the PRC catering market. Our first Chinese restaurant “Kamboat Chinese Cuisine” was opened in Guangzhou. With the opening of our first flagship shop, it lay down an important milestone for the Group’s development in the greater China market and built a solid foundation for the Group’s long-term growth and development.

Bakery and Other Food Products Business

The consolidated turnover for bakery and other food products business for the financial year ended 30 April 2003 is approximately HK\$104.9 million which is comparable with that of HK\$104.8 million in last year. Operating losses were attributable to higher rental expenses for certain retail shops and additional depreciation expenses after the Dongguan food product factory commenced production. The Group has been successful in negotiating with some of its landlords for concessionary terms to lower our rental burden in the future.

To avoid further erosion of the operating margin of the bakery and other food products business, we have implemented restructuring plans to close down bakery shops with unsatisfactory performance. On the other hand, the Group has opened new bakery shops in large shopping malls such as Olympian City, Wong Tai Sin and Ma On Shan. The management believe this strategic repositioning allows the Group to further extend its bakery distribution network and to strengthen its market penetration ability. As at 30 April 2003, the Group operated a total of 38 bakery outlets under the brand name of Kamboat Bakery in Hong Kong.



“Kamboat” is a well-known brand among local consumers for its high quality innovative products. During the year, the Group has continued to launch new and innovative bakery products such as Cutie Mousse Cake and Mousse Cups, which receive encouraging response from local customers. Chinese steam buns have been added to our product line to offer an alternative product choice to customers. In addition to the above, we have organised cash sales stands in large department stalls and wholesales to supermarkets and chain stores to extend our retail network coverage and to reach out for a wider clientele.

The food production factory has commenced operation during the year. The lower product costs and labour costs generated positive contributions, but the savings were partly offset by the depreciation charges over the production plant and machineries. The management anticipated the new food production factory would gradually improve its efficiency with economy of scale when the production capacity is further utilised. In the long run, it will contribute to the improvement of the Group's gross margin, which in turn will allow for flexibility on pricing strategies.

Expanding the Chinese Restaurant Network

As one of the leading players in the market, the Group is implementing development plan in strategic locations with high pedestrian flow but relatively low competition for middle to high-end new style Chinese cuisine. We have plans to open a new Chinese restaurant in The Victoria Tower, a sizable luxury residential development within walking distance to major commercial and shopping area and The China Hong Kong Ferry Terminal. We have confidence that with this strategic location, we can absorb high-end local customers as well as attracting the PRC tourists travelling through The China Hong Kong Ferry Terminal.

Parallel with its expansion in local Chinese restaurant network, the Group has targeted to develop the PRC market with longer-term perspective. We are considering to open new restaurants in major cities such as Shanghai and Shenzhen with high population density and low rental charges. The management believes the potential of the PRC catering market is enormous. This strategy provides the Group with a new avenue for growth.

Innovative products in the pipeline

Recently, price competition has intensified in view of the sluggish economy and high unemployment rate. To maintain competitiveness, the Group has speeded up its innovative product launching cycle and to develop a variety of Chinese dishes and bakery products. Coupled with aggressive marketing and promotional activities, the innovative products in the pipeline will contribute to better profit margin and a larger market share. In addition, the management has endeavoured to ensure the consistent delivery of high quality food and services to maintain its market leading position.

Channelling its sales network

Capitalising on our successful experience to distribute our festive products in Wellcome and Park-n-Shop last year, the Group is actively negotiating with large department stores and Japanese style super-markets to distribute its festive products as well as other food products such as bakery products. In addition, the Group is formulating a plan to develop its bakery shops with franchise system in the PRC. The management is confident that these strategies should enable us to increase market share as well as to promote the brand awareness of "Kamboat".



Outlook

With the end of the SARS outbreak in June this year and the signing of CEPA, the consumer sentiment and customer flow is gradually recovering. Recently, the retail industry saw encouraging recovery with the influx of PRC travellers. Customer flows are growing. Although the recent income is not reflected in the results for the current financial year under review. The management is optimistic towards our growth in the coming year and improvement of our profitability.

We believe the business environment in the PRC will continue to improve following her entry into the World Trade Organisation. Business operating environment is improving. Taping on this unprecedented opportunity and enormous potential in the PRC market will enable our business to have a great leap forward.



Despite struggling with current severely competitive environment, the management is optimistic with the future development of the Group. Capitalising on its market leading position, accumulated experience, extensive distribution network, valuable brand recognition in both Hong Kong and the PRC market, couple with our development strategies, the Group is on the right track to strengthen its market leading position in Hong Kong and its development in the PRC market, while at the same time, laid down a solid foundation for sustainable growth.

DIVIDENDS

The broad of directors is recommending a final dividend of HK1.5 cents per share at the forthcoming Annual General Meeting.

APPRECIATION

I would like to take this opportunity to express my heartfelt appreciation to all our staff for their co-operation and commitment during the SARS outbreak. Equally important, I wish to thank our shareholders for their continued support and trust.

Hong Kong
28 August 2003

Wong Chi Man
Chairman and Managing Director