BUSINESS REVIEW

Overall performance

The year under review was challenging due to the persistently high unemployment rate, which further weakened the local economy and consumer spending. In addition, the outbreak of severe atypical respiratory syndrome ("SARS") in Hong Kong and the People's Republic of China ("PRC") since March 2003 has stagnated the already weak consumer market, 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. Confronting with the acute market conditions, the Group was able to maintain our consolidated turnover at last year's level. 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.

However, the Group's profit margin was further squeezed due to intensifying competition, high fixed overheads and more importantly, the outbreak of SARS. Capital investments made in the last and the current year caused additional depreciation and amortisation charges of approximately HK$5.6 million while the returns of such investments have not been fully realised. The consolidated operating loss before tax for the current year is HK$5.9 million (2002: combined profit before tax of HK$7.1 million). Nevertheless, with the end of the SARS outbreak and the recent signing of CEPA, consumer spending sentiment and customer flows are picking up and the catering industry is recovering.

Pursuant to a reorganisation scheme (the "Group Reorganisation") in preparation for the listing, the Group has acquired from its holding company the restaurant operations and disposed of its fast food operations out of the Group. Accordingly the Directors have prepared a set of profit and loss accounts for reference purposes, based on a 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.

The analytical review is based on the combined figures rather than the consolidated figure in 2002 as comparative figures which are considered to be more meaningful.

The Restaurant Business

Catering industry is very sensitive to the local economic conditions. Faced such a challenging operating environment, the restaurant business of the Group managed to sustain a consolidated turnover of approximately HK$220.0 million, represented only a slight drop of 4% from the combined turnover of approximately HK$228.1 million last year.

The recent fierce price cuts among industry competitors has sparked off cut-throat price war. The Group has confronted this challenge by launching a series of promotional offers and value-for-money menus to customers. However, we were unable to lower the fixed overheads, particularly labour and rental costs correspondingly, which caused further erosion of our profit margin for the year under review. Coupled with the adversity brought by the SARS outbreak in March this year, the catering industry and the consumer market as a whole were severely affected. Profitability is unavoidably hard hit for the year under review.

Under the widespread concern of SARS, management has set up a special taskforce to implement a comprehensive business plan and impose stringent measures to minimize the risk of SARS on our customers and staff. To ensure the customers have a better and more hygienic dinning environment, we have invested approximately HK$1 million for the leasehold improvements furniture and fixtures of our restaurants.

On the other hand, we have offered innovative menu in order to boost sales. The management of the Group has implemented a series of cost reduction measures to contain the adverse impact and to improve operating results. Such measures include searching for high standard suppliers with reasonable price, negotiating with the landlords for rental concession and review staff remuneration policies. Though the benefits of such measures are unable to be reflected in the result of the current year, which led to a decrease from a combined operating profit of approximately HK$13.8 million for last year to a consolidated operating profit of approximately HK$11.7 million in current year, the management is confident that with the above measures and solid foundation and speedy response to market changes, we are able to minimize losses and at the same time geared ourselves for future growth. We have not closed or suspended any of our restaurants or bakery outlets during SARS, which had successfully retained the confidence of our customers and staff to the Group.

In December 2002, the Group has opened its flagship restaurant in Guangzhou. This signified the Group's first step into the PRC catering market. Although the SARS outbreak in Guangzhou has eroded the contribution from the new Guangzhou restaurant, its contributions to the results of the Group in the coming years are optimistic.

The recent encouraging growth in customer flow after the signing of CEPA with the central government of the PRC has shown sign of full scale recovery in the catering industry. The Group has responded swiftly to this new opportunity by opening of a new 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.

Bakery and Other Food Products Business

Bakery and other food products business was adversely affected by the sluggish retail market , deflationary economy and high unemployment rate. Through expansion of retail network, repositioning and re-vamping of retail shops, the Group continues to improve retail outlet environment as well as the quality of products and services to foster a brand new image to consumers. The consolidated turnover was approximately HK$104.9 million in the current year which is comparable with approximately HK$104.8 million in last year. Despite fierce competition and low market sentiment, our festive products such as moon-cakes received encouraging customer support. Festive products sales reached approximately HK$28.4 million, represented a 11% increase from approximately HK$25.7 million in last year.

The segment result for the bakery sector was loss of approximately HK$14.8 million (2002: HK$5.9 million). Operating losses were attributable to high rental expenses for certain retail shops and additional depreciation expenses after the Dongguan food product factory commenced production. The operation of the Dongguan food production factory is at its initial stage and its contribution to costs saving is yet to be realised.

In the meantime, costs control is our prime concern. Expenses from all sectors and branches are tightly controlled. In addition, the Group has been successful in negotiating with some of its landlords for concessionary terms to lower our rental burden by 20% in the future.

In addition to cost control measures, we have implemented restructuring plans to close down bakery shops with unsatisfactory performance but opened new bakery shops in large shopping malls and MTR stations to further extend its bakery distribution network and to strengthen its operation efficiency.

FINANCIAL REVIEW

Working capital and liquidity resources

Both the capital investments during the year and the outbreak of SARS at end of the financial year had affected the current ratio and gearing ratio of the Group. Thanks to the Group's prudent financial management and borrowing policy, we managed to stay in a healthy financial position.

As at 30 April 2003, the Group's consolidated shareholders' funds was approximately HK$100.0 million, represented a drop of 12% from approximately HK$113.2 million as at 30 April 2002. The current ratio as at 30 April 2003 was 0.95 (2002: 1.36). Out of the above, cash and cash equivalent as at 30 April 2003 was approximately HK$6.5 million (2002: HK$13.7 million).

As at 30 April 2003, the Group has total borrowings of approximately HK$8.9 million (2002: HK$6.2 million), of which approximately HK$8.6 million (2002: HK$4.9 million) is represented by bank loans and approximately HK$0.3 million (2002: HK$1.3 million) is represented by finance lease payables. Total borrowings matured within one year, in the second year and in the third to fifth years, inclusive, amounted to approximately HK$3.5 million (2002: HK$2.1 million), approximately HK$1.9 million (2002: HK$1.7 million) and approximately HK$3.5 million (2002: HK$2.4 million), respectively. The Group's gearing ratio (consolidated total borrowings to consolidated total assets) is 0.06 as at 30 April 2003 (2002: 0.04). The increase in borrowings was mainly due to the financing of the acquisition of factory premises in Tai Po by way of mortgage loan of approximately HK$4.0 million. The interest rates of most of the borrowings are charged by reference to the prime rates.

There are no seasonal factors materially affecting the Group's borrowing requirements. Since the Group's major source of income and all bank borrowings are denominated in Hong Kong dollars, the Group has minimal exposure on exchange rate fluctuations.

As at 30 April 2003, the capital commitments in respect of leasehold improvements/purchases of fixed assets and investment in certain of its subsidiaries amounted to approximately HK$1.9 million (2002: HK$0.2 million) and HK$1.4 million (2002: nil), respectively. The Group remained a low gearing policy and generally finances its ordinary operations with internally generated resources.

Charges on assets

At 30 April 2003, certain of the Group's properties were pledged to its bankers and supported by corporate guarantees of the Company and certain of its subsidiaries.

Contingent liabilities

As at 30 April 2003, the Group's possible liabilities under the Employment Ordinance at as 30 April 2003 is approximately HK$3.7 million (2002: HK$4.0 million).

As at 30 April 2003, the Company has provided corporate guarantees to (i) and landlords in respect of the operating lease payment of its subsidiaries; and (ii) banks in respect of banking facilities granted to its subsidiaries.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 April 2003, the Group had 885 (2002: 640) full-time employees. The Group remunerates its employees by reference to the market practice. Staff benefits, welfare and mandatory provident fund, if any, are provided in accordance to the prevailing legal requirements of the place of operations. The Group has not experienced any significant labour problems, disputes or shortage of labour which lead to disruption of the Group's operations.

Under the terms of a share option scheme (the "Scheme") adopted by the Company, 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 on 9 October 2001.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 30 April 2003, other than the repurchase of 1,395,000 shares, 3,500,000 shares and 260,000 shares of the Company in January, February and March 2003, respectively (2002: nil), 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") as set out in the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 two independent non-executive directors of the Company. The Group's audited financial statements as at 30 April 2003 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 complied with the Code as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code because they are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the Company's bye-laws.