CHAIRMAN'S STATEMENT

To our shareholders:

The past year has been both significant and challenging to the Group's development. With the successful listing on The Stock Exchange of Hong Kong Limited, the Group witnessed a milestone in its 17 years of establishment. The Group has leveraged the flotation to accelerate its business development.

Intensified economic recession and sluggish consumption sentiment had further dampened the retail sector and had led to cut-throat price competition in the restaurant industry, which exacerbated the difficulties in the Group's operation. Amid this predicament, the Group carried out tightened cost control measures, strategies of business consolidation and market segmentation.

Looking into 2003, the Group expects a year of greater challenges, particularly with the outbreak of Severe Acute Respiratory Syndrome ("SARS"), which has been inflicting devastating impact on the local retail, restaurant, entertainment and travel industries. The Group will continue with its business consolidation plan and market segmentation to maintain a steady cash inflow and to improve its financial position. Lowering operating costs is another major task of the Group in 2003. To achieve this, the Group will maintain its central purchasing strategy and will continue to negotiate with the lessors of its restaurants on rental reduction, and to seek to restructure its network of outlets through relocation and consolidation.

The management is well aware of the significance of improving its capital efficiency and its balance sheet, in order to sustain its continued development. The board is reviewing various options to further strengthen its capital base and to secure support from its leading bankers and suppliers.

The board is also paying attention to streamlining its operation structure to enhance cost effectiveness. However, the deteriorating economic environment has severely affected the Group's expansion and development plans.

To facilitate better comparison and consistency, the comparative figures used in the following sections, "Business Review" and "Financial Review", are extracted from the pro forma combined accounts of the Group for the year ended 31 December 2001 as stated in the annual report of the Group for 2001.

BUSINESS REVIEW

In 2002, the restaurant sector continued to contract as the Hong Kong economy was struggling to recovery. According to the Census and Statistics Department of Hong Kong, the total revenue of the restaurant sector in Hong Kong amounted to HK$53.3 billion, representing a decline of 5.5% from that of 2001. Comparing to the first half of 2002, Hong Kong's total restaurant receipts in the second half of the year dropped by a higher percentage. While the restaurant industry experienced sluggish sales, restaurant operators, particularly among those operating Chinese restaurants, significantly lowered prices to attract customers, which resulted in a cutthroat competition.

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Operating results

Affected by an adverse operating environment, the Group saw its audited consolidated turnover for the year ended 31 December 2002 erode by 8.5% from 2001's pro forma combined turnover to HK$730,466,000. The Group's audited consolidated net loss attributable to shareholders for 2002 was HK$77,044,000, against a pro forma combined net profit of HK$22,153,000 in 2001.

Factors accounted for the loss in 2002 included:

1. Owing to sluggish consumption sentiment and severe market competition, consolidated turnover decreased by 8.5% and gross profit percentage (defined as difference between turnover and cost of inventories consumed as a percentage of turnover) dropped by 1.5% when compared to the pro forma combined figures in 2001. The consolidated turnover and gross profit percentage for the second half of 2002 were lower than that in the first half of 2002;

2. Provisions for the impairment of leasehold land and buildings and leasehold improvements for certain properties of the Group of approximately HK$13.3 million were made in the annual results of the Group for 2002. The disposal of these properties was completed in June 2003 and August 2003.

3. Provision for the impairment of fixed assets and other non-current assets of the Group in respect of certain loss-making restaurants amounted to approximately HK$22.6 million were made in the annual results of the Group for 2002. The related provision for other staff benefits amounted to approximately HK$9.7 million was made in 2002. These restaurants were permanently closed during 2003.

4. Increase in advertising and promotional expenses as part of the marketing strategy to increase market presence;

5. Despite continued deflation in the overall economy, the rentals of the Group's restaurants remained high.

6. A restaurant of the Group, which commenced business in October 2002, has yet to achieve its full potential and, hence, has not reached the breakeven level in 2002.

Operation review

During the year, deteriorating market conditions resulted in intensified competition. High unemployment rate and economic slowdown culminated in lower consumption in the restaurant industry. On the other hand, many restaurant operators made deep discounted offers to boost sales, resulting in significant retreat in profits. In addition, as poor economic climate persisted, low-priced ready-to-serve meals and fast food restaurants, which used to target only the low-end market and customers pursuing quick services and convenience, gained popularity and became new strong competitors to Chinese and non-Chinese restaurants, which emphasise on service quality, product variety, culinary delights and gracious ambience. To the Group, the emergence of these new strong competitors increased the pressure of price reduction.

In the face of the tough market situation, the Group expanded its product variety, improved food quality and adopted strategic marketing plans to attract more customers. Moreover, the Group had also implemented market segmentation to enlarge its market coverage. In July and October 2002, the Group opened two new restaurants, Jing Hua Restaurant and Metropolis Harbour View Chinese Cuisine Restaurant respectively – the former is a specialty restaurant serving Guangdong cuisine and Shanghai and Beijing dim sum while the latter caters for medium to high end market. As the two new restaurants were still in their initial operating stage, substantial start-up costs were incurred, but the potential contribution to turnover and profit from them had not yet been reflected in the Group's results.

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During the year, the Group diversified into the production of seasonal food and snacks, with the commencement of operation of its food manufacturing factory. In its initial operation, the plant produced moon cakes and other festive food for the Chinese New Year, which were sold through the Group's restaurant network. Although contribution from the food production business to the Group was yet to be significant, the food operation is intended to be a long-term investment and a revenue stream in the future.

The Group had also streamlined its restaurant network to improve operational efficiency and better resources allocation. While this move brought immediate cost-saving benefits to the Group, it was intended to be a long-term strategy in improving the Group's ability to take advantage of any business opportunities arising from a better economy.

Meanwhile, the Group had also stepped up its cost control measures, such as sourcing from new suppliers offering competitive prices, adopting the central purchasing strategy, cutting wages and negotiating with lessors for rental reduction. These measures had helped mitigate part of the impact from reduced turnover and severe price competition.

During the year, the Group's plan to set up a business venture in the mainland China as stated in the Prospectus was suspended temporarily. After conducting extensive market research on the China's restaurant industry, the Group decided that it was not the appropriate timing to embark on operations in the mainland China.

During the year under review, save as disclosed in the audited financial statement for the year ended 31 December 2002 and the Group's prospectus, the Group did not have any significant investments and material acquisitions and disposals of subsidiaries and associated companies during 2002.

Staff and compensation policy

As at the end of 2002, the Group had a total workforce of 2,118 (pro forma combined basis for 2001: 1,919). The salary and wages of our employees are commensurate with their duties and performance.

FINANCIAL REVIEW

Funding policy

The Group will make its funding decision on a case-by-case basis and according to the following factors:

– the availability of bank loans and the interest rate level

– the availability of and the advantage of using internal resources instead of borrowing loans

– impact on the gearing ratio and interest rate fluctuation

Capital structure

As at 31 December 2002, the Group had outstanding bank borrowings and finance lease payables denominated in Hong Kong dollars with an aggregate amount of HK$127,350,000 (pro forma combined basis for 2001: HK$37,936,000). The cash and bank balances of the Group amounted to HK$21,927,000 (pro forma combined basis for 2001: HK$39,793,000). The increase in the outstanding bank borrowings was mainly due to the financing of the purchase of a property during 2002 (as detailed in the circular dated 27 May 2002) and the decoration of two new restaurants, which commenced operation during the second half of 2002.

The short-term borrowings of the Group accounted for 24.8% (pro forma combined basis for 2001: 2.0 %) of the total borrowings.

The consolidated interest expenses for 2002 were HK$4,468,000 (pro forma combined basis for 2001: HK$3,365,000).

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As at 31 December 2002, the ratio of total liabilities and minority interests to total assets of the Group was 89.1% (pro forma combined basis for 2001: 28.0%).

To conclude, in the coming year, the Group will adopt various measures to strengthen its financial position, including the disposal of two properties of the Group. In April 2003 and July 2003, the Group entered into two separate agreements, pursuant to which the Group have sold two of its properties for HK$83 million and HK$55 million respectively. The disposals of the aforesaid two properties have helped enhance the working capital position and reduced the outstanding bank borrowings of the Group.

Pledges of assets

As at 31 December 2002, leasehold land and buildings and investment properties of the Group with a net book value of HK$141,120,000 (pro forma combined basis for 2001: HK$56,900,000) were pledged as security for bank loans.

Use of proceeds of New Issue

The Company placed and issued 175,000,000 new shares on 18 February 2002 at a price of HK$0.2 each.

The net proceeds from share offer, after deduction of related expenses, were approximately HK$19,636,000. HK$5,247,000 had been utilised for the establishment of a food manufacturing factory in Hong Kong. HK$10,388,000 had been utilised for the expansion of the Group's restaurant business in Hong Kong.

The balance of approximately HK$4,001,000 was currently used as general working capital for the Group and will be used for the Group's restaurant business in accordance with the intended usage as stipulated in the Prospectus.

Exchange exposure

Since most of our sales, raw materials and bank loans were denominated in Hong Kong dollars during 2002 and 2001, the Group was only exposed to insignificant exchange risks.

Capital commitment

As at 31 December 2002, there was no material capital commitment for the Group (pro forma combined basis as at 31 December 2001: Nil).

Contingent liabilities

As at 31 December 2002, the Group had contingent liabilities not provided for amounted to HK$24,440,000 (pro forma combined basis for 2001: HK$25,864,000) in respect of possible future payments to eligible employees pursuant to the Employment Ordinance, Chapter 57, of the Laws of Hong Kong.

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PROSPECTS

Looking ahead, 2003 will continue to be a difficult year. In the face of a bleak economic outlook, profits tax increase and drastic decline in restaurant patrons in March and April 2003 following the SARS outbreak, the Group will step up its cost control measures, consolidate its business operations, streamline its restaurant network and implement market segmentation.

To increase cost-effectiveness, the Group will continue to fine-tune its restaurant network, such as relocating restaurants to higher traffic areas. For restaurants at strategic locations, the Group focuses on operation improvement and market segmentation. To cater for different clusters of diners, the Group introduces exotic cuisine and a new image to the appropriate restaurants. Consummating the market segmentation strategy, the Group is considering renaming restaurants with a different presentation under a new brand identity. At present, two restaurants operated under the Group are specialty restaurants, and another one targets the medium to high-end market. Such a marketing strategy is beginning to produce results, with the specialty restaurant, Jing Hua, breaking even after a few months of operation.

Regarding the food production business, the Group will continue its focus on developing marketable festive food.

To lower costs, the Group will continue to adopt its central purchasing strategy and to negotiate with lessors to reduce rentals of its restaurants.

With respect to marketing and sales promotion, the Group has joined hands with AEON Credit Service (Asia) Company Limited ("AEON") to make special offers to AEON's credit card members. In addition, the Group has also issued VIP / member cards to regular patrons to Metropolis Harbour View Chinese Cuisine Restaurant. These VIP members will enjoy special discounts and other promotional offers when they dine at Metropolis Harbour View Chinese Cuisine Restaurant.

By the order of the Board

Cheung To Sang
Chairman and Managing Director

Hong Kong, 6 November 2003