

MANAGEMENT DISCUSSION AND ANALYSIS

Performance review

The operating environment of the Group remained harsh and challenging in the first half of the period under review. The outbreak of the Severe Acute Respiratory Syndrome (“SARS”) severely hit the already weak economy in Hong Kong to a deeper extent. Undoubtedly, the food and catering sector was one of the most adversely affected industries from the epidemic.

Nevertheless, with the end of SARS outbreak in June 2003 and the improved market sentiment induced by the individual tourists from the Mainland China, domestic economy showed signs of recovery in the later half of the period. The Group’s operations thereafter started to catch up the loss of turnover brought about by SARS. For the six months ended 31 October 2003, the Group’s turnover was approximately HK\$158.4 million, representing a drop of 10.3% as compared to that of HK\$176.6 million for the six months ended 31 October 2002.

Confronted with the acute situation, the Group implemented various stringent cost saving measures during the period. Total operating expenses of the Group were accordingly reduced from HK\$113.4 million in the six months ended 31 October 2002 to HK\$102.6 million in the six months ended 31 October 2003. In particular, the Group’s staff costs and operating lease rentals decreased by 15.8% and 7.0% from HK\$46.7 million and HK\$21.4 million for the six months ended 31 October 2002 to HK\$39.3 million and HK\$19.9 million for the six months ended 31 October 2003, respectively. As a result, the Group maintained to report a net profit attributable to shareholders of HK\$2.3 million for the six months ended 31 October 2003, representing a decrease of 20.7% as compared to that of HK\$2.9 million for six months ended 31 October 2002.

Operation review

Restaurant business

In response to the adverse market conditions, the Group focused on maintaining and enhancing customers' satisfaction and patronage by periodic launch of innovative dishes and improving product quality. Whereas, the depressed customers' confidence still hindered the growth of the Group's turnover on restaurant business. The Group's turnover in respect of its restaurant business decreased by approximately HK\$11.0 million from HK\$115.3 million in the six months ended 31 October 2002 to HK\$104.3 million in the six months ended 31 October 2003. Notwithstanding that, with the improved operating result of the restaurant in Guangzhou, the operating profit of the Group's restaurant business was approximately HK\$7.7 million for the six months ended 31 October 2003, representing an increase of approximately 8.5% from that of approximately HK\$7.1 million for the six months ended 31 October 2002.

Bakery and other food products business

Under intense competition among the bakery industry and the sluggish market condition, the Group's bakery and other food products business recorded a decrease in turnover of HK\$7.2 million from approximately HK\$61.3 million in the six months ended 31 October 2002 to approximately HK\$54.1 million in the six months ended 31 October 2003.

Cost saving effect from the migration of certain bakery production processes to the food product factory in Dongguan has not yet been fully realised in view of its relatively high rental expenses and depreciation charges. During the six months ended 31 October 2003, the Group's bakery and other food products business still incurred operating loss of approximately HK\$2.5 million (2002: HK\$1.1 million).

With a view to turnaround the operating result of the Group's bakery and other food products business, the management continuously reviews the retail networks so as to seek for the need to reposition the location of our bakery outlets. During the period, the Group successfully negotiated and agreed with some of its landlords for rental concession. In addition, certain under-performing outlets were closed by the Group to prevent further erosion of profit margins. As at 31 October 2003, the Group operated a total of 35 bakery outlets under the brandname of Kamboat Bakery all over Hong Kong.

Strategies and vision

In view of the vast consumer market in the Mainland China, the Group is focusing on seeking business opportunities on further expanding the Group's operations in the Mainland China market.

In January 2004, the Group opened another restaurant in Shanghai. The management is optimistic on the Group's operations in the Mainland China market but will remain cautious on not only managing the existing business but also making further investments therein.

SEASONAL/CYCLICAL FACTORS

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