

# Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Hong Kong Catering Management Limited (the "Company") and its subsidiaries (collectively called the "Group") for the year ended 31 March 2004.

## RESULTS

We turned around to make a profit attributable to shareholders of HK\$28.4 million for the fiscal year ended 31 March 2004 when compared to a net loss of HK\$58.2 million for last year despite consolidated turnover was reduced by 1.6% to HK\$938.8 million (2003: HK\$953.7 million).

## DIVIDENDS

On 28 January 2004, an interim dividend of HK1.0 cent (2003: Nil) per ordinary share was paid. The directors proposed a final dividend of HK3.5 cents (2003: HK1.5 cents) payable to shareholders whose names appear in the register of members of the Company on 26 August 2004. Subject to the shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on or about 7 September 2004.

## BUSINESS REVIEW

### Restaurant operation

The outbreak of Severe Acute Respiratory Syndrome ("SARS") cast shadows to our performance in the first quarter of the fiscal year. Confidence crisis in public hygiene prompted customers to stay in. All facets of business were hard hit. Nevertheless, with the unfailing support of our business partners and staff alike, we managed to survive this period of immense hardship. To preserve our financial resources, we closed our last ailing shop, Pak Fook Chinese Restaurant at Sceneway Plaza. We also postponed the reopening of three renovated shops to May 2003 when SARS was eventually under control. Compared to first quarter last year, overall restaurant sales nearly shrank by 32%.

Thereon, market sentiment remained quite negative until the introduction of a series of policies by the Hong Kong Government in our second fiscal quarter which aimed to revive the local economy. Among these was the Individual Visit Scheme launched to boost mainland tourist traffic to Hong Kong, the renowned Shopping Heaven. The retail and hospitality industries were among the first to taste the strength of this newly unleashed buying power from the mainland. Though the dining industry has not benefited directly from a more robust retail sector, our business has improved gradually in line with a more optimistic economic outlook fostered to some extent by the rebound of the property market in the third quarter which has instilled confidence among local consumers. We managed to make up some of the loss ground from the first quarter but restaurant sales still dropped on average by 12.5% for the full year.

After streamlining our portfolio to cut out the loss-makers, we managed to improve our profitability of the restaurant operation which returned a profit before taxation of approximately HK\$9.9 million for the year as compared to a loss before taxation of HK\$67.4 million last year.

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## **BUSINESS REVIEW** *(continued)*

### **Restaurant operation** *(continued)*

The culinary world seems to fascinate entrepreneurs and there's never short of new comers willing to risk their capital and venture into the local market. This has in turn changed customers' expectation to hunt for the new "shop or talk in town". New ambience and aggressive marketing can easily draw the initial crowd but to sustain their interests in time is still bothering many operators as there is fierce competition for the dining dollars. The large scale refurbishment program of our shop portfolio that started some two years ago is nearly completed except for the Green Willow Village Restaurant and one small congee shop which renovation is scheduled in September 2004. Despite the hardware upgrade, our Cantonese restaurants are still under constant threats from competitors who are still using primitive cut-throat discounts as their weapon to fight for survival. Competition for our Shanghainese restaurants has also intensified with more boutique style shops opened up in newtowns offering this cuisine.

### **Bakery operation**

Despite the outbreak of SARS earlier on which affected most businesses in Hong Kong, our bakery operation rebounded in no time following the introduction by the Central Government of various policies favouring the recovery of Hong Kong economy. Making use of the improved economic environment, we had launched several large scale marketing campaigns which succeeded in boosting our bakery turnover, especially for the sales of our normal cake and bread products. With the benefit of cost savings achieved from our Shenzhen production lines, we are now able to offer more discounts to our customers. Though our gross profit margin suffered slightly and fell from 71.0% to 70.6%, overall turnover increased by 8.7% and with our conscious effort to contain our fixed costs, contribution from this business segment to our profit before taxation soared to a record figure of HK\$46.2 million.

Turnover contribution from the PRC continued to improve despite no change in the number of outlets there. Overall turnover in the PRC has increased by 70% mainly from the sales of our mooncake products as our brand is now well recognized locally following the winning of various national awards such as the 'Famous Mooncake' and 'National Hygiene Quality Standard'. In fact, the PRC market is now making positive contribution to our bottom line.

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## PROSPECT

The local economy has shown signs of a recovery but we foresee inflationary pressure is also on its way. With world commodity prices skyrocketed, our food costs have inevitably been affected. The recent improved property market has caused landlords to be more aggressive in lease negotiations and will likely affect our rental cost. On the other hand, while consumers' confidence has increased since April 2003, competition remains tough and hence pricing power for the foreseeable future is on the side of the customers. As a result, although the Group has a strong balance sheet, we have no immediate plan to expand aggressively our restaurant operation in Hong Kong and we will only look to expand our bakery operation in strategic locations.

Our bakery operation has already established a firm hold in Guangzhou and more Saint Honore outlets will be opened in the coming year. We are confident that "Saint Honore" will be recognized as one of the leading brands there.

We have taken the opportunity of the recent market boom to realize the capital gain accrued on our properties. We have disposed seven properties since November 2003 and the profits realized from the disposals are estimated to be approximately HK\$57 million of which HK\$7.2 million has been reflected in this year results. With the completion of these disposals by August 2004, our cash on hand will stand at approximately HK\$350 million. The Board is actively exploring direct investment opportunities in food related business which will enhance the return to our shareholders.

## ACKNOWLEDGEMENTS

Following the success of the cash offer made by my family trust to acquire a controlling interest in the Company, my effective interest in the Company is now increased to 55.83%. My commitment in the Group will further enhance its development and I am relying on the support of my fellow staff and business partners to accomplish this goal.

**Chan Wai Cheung, Glenn**  
*Chairman*

Hong Kong, 8 July 2004

