



Any Where  
Any Time



*Oliver's Super Sandwiches at Sun Hung Kai Centre, Wanchai*

CAFÉ DE CORAL HOLDINGS LIMITED

## TO ALL SHAREHOLDERS, EMPLOYEES AND CUSTOMERS:

The year under review marked our 35th Anniversary celebration and was undoubtedly also a year of drama in the Group's corporate history. Few can be compared with the present year in terms of the dramatic fluctuation of the market sentiment, particularly in the retail sector. The beginning of the fiscal year started off with the sudden outbreak of SARS, not to mention the economic doldrums carried over from past years, but it ended with a remarkable market turn-around in the second half of the year with consumer sentiment and confidence gaining at the back of a series of government policy stimulants.



35th Anniversary Celebration Dinner

Undeterred by the depth and breath of the market fluctuation experienced during this tumultuous period, we responded to this exceptionally challenging business environment with a number of bold strategic initiatives, aiming at ensuring a strong solid foundation at home and building a sustainable development platform aboard. Such initiatives included accelerating on our branch development and renovation program in order to take advantage of the industry consolidation; stepping up on our geographic expansion into the growth market of China; and capitalizing opportunities on the sudden downturn of the local market with further acquisition. We believed that these are strategic measures which would enhance shareholders' value in the long run, even if it would suppress earnings in the interim period.



35th Anniversary Celebration Dinner



Staff Card for 35th Anniversary

On the strength of the above management initiatives, I am pleased to report that the Group's operating profit has attained double-digit growth despite the earlier disruption to our earnings in

the first quarter caused by SARS this year as a whole. The Group's turnover for the year reached a record high of HK\$2.72 billion. The consolidated profit attributable to shareholders for the year was HK\$258 million which represented a net profit growth of 6.3% as

compared with last year. As at 31st March, 2004, the Group's net asset value increased to HK\$1.55 billion. The Group's financial position as at 31st March, 2004 continued to be very strong, with a net cash of about HK\$463 million and available banking facilities of approximately HK\$836 million. There were no material changes in contingent liabilities and charges on assets.

## Chairman's Statement

CAFÉ DE CORAL HOLDINGS LIMITED

To leverage on our potent cash position and enhance our shareholders' value, the Company bought back about 5.97 million shares at an average cost of about HK\$4.5 per share during the first quarter of the year. This further highlights our confidence and commitment in the Group's future success. Insofar as the Group continues to maintain a healthy net cash position for funding future potential development, I would recommend to the Board to return value to our shareholders by distributing a final dividend of 18 cents per share, and a special dividend of 6.55 cents per share to commemorate our Group's 35th Anniversary. Together with the interim dividend of 6.4 cents and special dividend of 6.4 cents paid on 13th January, 2004, the total dividend of 37.35 cents per share to be payable for the entire year amounted to approximately HK\$199 million, representing a respectable investment return to our shareholders.



*The Group's 35th Anniversary Celebration Dinner*

### SOLIDIFYING FOUNDATION IN HOME MARKETS

The viral epidemic endured during the first half have taken the hardest toll in our institutional catering business, particularly in the hospital and the student catering sectors. However, we were undaunted by the sudden adversity, and have recovered much loss grounds with new contracts procured during the second half to at least minimize the damage. Since July of this year, the retail industry has also taken a turn for the better. As a result of the Closer Economic Partnership Arrangement (CEPA) and the influx of mainlanders as individual tourists, our restaurant units in the traditional shopping districts have particularly benefited. Other than the improved market condition, the better than expected performance of our local restaurant business was mainly due to our proactive measures in a series of promotional campaigns, a vigorous business process re-engineering, and an aggressive shop renovation program.



*Café de Coral at  
Grand Garden Shopping Arcade,  
Zhuhai*

Much as I anticipated in my last year's statement, the full-scale implementation of the computerized Point of Sales System and Business Management System, in which we have committed HK\$65 million, began to bear fruits this year. At the shop level, these installed systems together with a smart-card infrastructure, have enhanced marketing effectiveness, operational efficiencies, and product delivery time. At the same time, the systems have helped to deliver a more effective customer loyalty program, a more timely information update and a more powerful data analysis, with substantial savings derived in manpower and administrative expenses at the back office.

CAFÉ DE CORAL HOLDINGS LIMITED

On another front, the new food processing plant in Dongguan, PRC, has commenced its production and has gradually reallocated those labour intensive work process from Hong Kong, which slowly translates into margin improvement. This vertical integration move reinforced the long-term direction of the Group to reallocate our food processing into the PRC, not only to take advantages of the lower labour and raw materials cost for the benefit of the Group, but to ensure that the processed supplies coming out from China reached to our corporate standards in hygiene and food safety.



*New Asia Dabao's Staff, Shanghai*

Regarding the foreign exchange fluctuations, the Group earned revenue and incurred costs and expenses mainly in Hong Kong dollars. The Group's jointly controlled entities operated in North America and in the PRC whose major revenue and expenses were denominated in United States dollars, Canadian dollars or Renminbi. As disclosed in our interim report, exchange losses were nevertheless recognized in our jointly-controlled North American entities and our share of these losses has been included in this annual result. During the year, the Group closely monitored its exposure to exchange rate fluctuations and the market trends, the impact of these exchange losses was mitigated in the second half of the year. While foreign currency exposure did not pose significant risk for the Group, we would continue to take proactive measures and monitor closely of our exposure to such currency movement.



*Oliver's Super Sandwiches at Tung Ying Building, Tsimshatsui*

### SUSTAINABLE DEVELOPMENT IN OVERSEAS MARKET

Last year, I have reported on our initiative to establish a sizable growth platform in the very important China market. The Group has not only made an exciting and strategic acquisition in 2003 of a 50% stake in a 90 stores restaurant chain of **New Asia Dabao**, which is the largest Chinese quick service restaurant network by stores in Shanghai Municipal, but we have also assumed management control of

the restaurant operation since then. During the past year, we have succeeded in implementing a business improvement plan for the chain, with a series of value-added initiatives implemented in the areas of operation management and control, purchasing and product development, marketing campaigns, staff training, store redesign, as well as menu innovation. With the proven results attained so far, the **New Asia Dabao** chain is now well geared as a meaningful growth driver to the Group.

## Chairman's Statement

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*Oliver's Super Sandwiches at New Town Plaza, Shatin*

On the other side, our North America business was undergoing the process of consolidation and restructuring. Other than the operating loss, the performance of this chain was below management expectation. Further losses were suffered partly because of the non-recurring expenses incurred in the recent management reshuffle and compensation to landlord on termination of lease, on top of the exchange loss generated by the inter-company loans between our US and Canadian companies.

We believe that this new growth platform outside Hong Kong is the initiative that we have to take on for the best

interest of our shareholders in the long run. In my previous statements to the shareholders, I have always emphasized the need to take on this overseas development initiatives even though it might depress the short term performance of the Group. Going forward, as a partner in this joint venture, we would like to see ourselves, as an experienced operator, to assume greater financial and operational responsibility in the forthcoming year in adding value to this business undertaking. With that in mind, we are positive for its business turn-around at the back of the various operational and management initiatives, if and when implemented over the years.

### CAPITALIZING OPPORTUNITIES IN GROWTH MARKETS

Closer to home, **Café de Coral** restaurants in Southern China continued to achieve significant profit growth during the year. Leveraging on the experience we have accumulated in the PRC, investment in this market brought encouraging return to the Group. Under a series of shop renovation programs, our established restaurants in Zhuhai, Jiangmen, and Shenzhen, showed a remarkable double-digits growth in earning performance during the year. We have also embarked on an aggressive new branch development program by adding four new restaurants in Zhongshan and Dongguan this year, bringing our total number of restaurants in Southern China to 11. While continuous penetration in this market holds the key to our success, it is equally gratifying to report that all the new branches have also managed to deliver significant and satisfactory results.



*Oliver's Super Sandwiches at Tung Ying Building, Tsimshatsui*

In June of 2003 right after the SARS outbreak, we again capitalized on an opportunity to acquire the entire local operations and overseas franchise businesses of **Oliver's Super Sandwiches** restaurant chain. This unique quick service restaurant chain is a market leader in the niche market offering 'made-to-order' sandwiches and salads. Within a short duration of the past six months, we have quickly regained the momentum for this business as a profit-making entity by revamping its business model, fine-tuning its product mix, rationalizing its costing

# Chairman's Statement

CAFÉ DE CORAL HOLDINGS LIMITED

structures and renovating its shop images. Given our management strength in business turn-around, and also in light of our recent success in its new branch performance, the **Oliver's Super Sandwiches** is well on its way to become another meaningful profit generator for the Group.

## LOOKING BACK AND AHEAD

As of 31st March, 2004, the Group and its wholly owned subsidiaries had employed over 9,000 employees with essentially the same remuneration and benefits package as disclosed in the latest published annual report. Speaking of them, I would not have discharged my duty properly if I do not pay tribute to the heroic performance and undaunted spirit of our frontline staff at the forefront of the SARS epidemic battlefield, who persevered in their professional service to maintain uninterrupted catering service to the dining public during those critical times. I would like to take this opportunity to join hands with all our shareholders in saluting them with respect and gratitude.



*Asia Pacific Catering's Staff*

Over the past six months, the Group continued to receive honourable recognition for our management excellence at home and abroad. The “**2003 Best Employers in Hong Kong**” and the “**2003 Leader in Corporate Governance**” were among the latest ones. Recently, I was particularly gratified to be bestowed personally with the honourable “**Directors of the Year Award**” by *The Hong Kong Institute of Directors*.

Looking ahead, we are encouraged with the improved economic conditions and brighter business outlook in Hong Kong. Improved flow of Mainland visitors to Hong Kong is beneficial to our Group. Retail spending improved under signs of economic recovery and increased consumer confidence. Cost may rise if the economy recovers, but so long as we operate under a healthy business environment of manageable inflation, the Group is confident of our branding and pricing power to enhance business results. The year ahead may pose enormous challenges for management to consistently deliver continuous and consecutive profit growth on an enlarged platform.

In light of the challenges, the next twelve months would require management to rise to the occasion in successfully executing all the intended strategic management initiatives which are essential for the Group's long term growth. These initiatives would take the form of an operation breakthrough in North America targeting at a business turn-around; further fine-tuning the business models for our joint venture in Shanghai; continuous business improvement of the newly acquired **Oliver's Super Sandwiches** here at home and stepping up on our development pace for **Café de Coral** in Southern China. We reckoned that all these are formidable tasks to be dealt with in the coming months, but we are also confident of our management's caliber and experience to execute and attain all these deliverables, when I report to you again next year.

**CHAN YUE KWONG, MICHAEL**

*Chairman*

Hong Kong, 13th July, 2004



**Shop Distribution for the Group in Pearl River Delta Region up to 31st March, 2004**

	Restaurant Chain	Location			No. of Shops
		Hong Kong	PRC	Macau	
●	Café de Coral	125	10	1	136
●	The Spaghetti House	22	–	–	22
●	Institutional Catering	59	1	–	60
●	Specialty Restaurant	5	–	–	5
●	Oliver's Super Sandwiches	13	–	–	13
	<b>Total:</b>	224	11	1	236



**Shop Distribution for the Group in the World up to 31st March, 2004**

	Restaurant Chain	Location				No. of Shops
		Canada	USA	Hong Kong	PRC	
<span style="color: cyan;">●</span>	Manchu Wok	83	112	–	–	195
<span style="color: magenta;">●</span>	Dai Bai Dang	–	1	–	–	1
<span style="color: blue;">●</span>	Fan Ting	–	2	–	–	2
<span style="color: orange;">●</span>	Specialty Restaurant	–	–	5	–	5
<span style="color: purple;">●</span>	Oliver's Super Sandwiches	–	–	13	–	13
		83	115	18	–	216





Restaurant Chain	Location				No. of Shops
	Hong Kong	PRC	Macau	Indonesia	
● Café de Coral	125	10	1	–	136
● The Spaghetti House	22	–	–	2	24
● Institutional Catering	59	1	–	–	60
● New Asia Dabao	–	76	–	–	76
	206	87	1	2	296
	<b>Total:</b>				<b>512</b>