INTRODUCTION

Café de Coral at Admiralty Centre, Wanchai

For the year under review, the Group's turnover reached a record high of HK$2.72 billion while profit attributable to shareholders amounted to HK$258 million, representing an increase of 6.3% over last year. This result was particularly encouraging for the Group despite the fact that the spread of SARS in the first half of the year dealt a severe blow to our restaurant businesses, particularly the institutional and student catering. These two business units encountered unprecedented difficulties from the local environment during the crisis that hit hardest their bottom line. Nevertheless, the Group's brands have long been recognized for good quality of food and service while having high sanitation standard. During the outbreak of this epidemic, with a series of innovative marketing, operational and product strategies and enhancement of business systems, our fast food and specialty restaurant chains picked up swiftly with growth in sales which was totally off setting the revenue shortfall registered in the institutional and student catering.

The second half of the year witnessed a rebound of the local economy. With the support from the central government, the introduction of the Closer Economic Partnership Arrangement (CEPA) accelerated the cross border economic activities while the implementation of the Individual Travel Scheme eased the restriction for the mainlanders to travel into Hong Kong. These two measures helped improving the overall business environment in Hong Kong and the Group continues to benefit under the Scheme as more mainlanders from inner provinces are permitted to visit Hong Kong.

FAST FOOD BUSINESS

Café de Coral fast food continued to deliver strong profit growth in the entire year despite the adverse impact of SARS and the fierce pricing competition. Significant sales drop was recorded in the tea and dinner segments during the SARS period, but we responded to this challenge by launching a series of promotions to stimulate customers' needs, particularly the take-away dishes promoted in the dinner menu. Throughout the year, in line with our marketing strategy, we launched a series of new products, as well as advertising and promotional campaigns. **Café de Coral** also entered into joint promotion and loyalty program with Mass Transit Railway and Kowloon-Canton Railway Corporation East Rail for bolstering the customer patronage. In celebration of our 35th Anniversary, we further embarked on a new series of promotional campaign and celebrity endorsed TV commercials.

In the shop front, the Group invested approximately HK$32 million to renovate 18 **Café de Coral** shops. New image renovation has been extended to shops at private and public housing estates, in order to project a stylish restaurant image to our customers and making **Café de Coral** as their most preferred place for fast casual dining.

Café de Coral at Grand Garden Shopping Arcade, Zhuhai

For the year under review, **Café de Coral** opened 4 new restaurants. We secured another strategic site at the food court in the Restricted Area of Hong Kong International Airport. This year also witnessed the return of **Café de Coral** to Yuen Long area with the opening of the Opulence Height Branch. As at 31st March, 2004, there were 120 **Café de Coral** fast food restaurants in operation.

During the year, the new plant in Dongguan had been put into full operation. Since opening in October 2002, this plant handled labour intensive food process relocated from Hong Kong. With experience accumulated, substantial cost savings could be realised to take the benefit of lower labour and raw material cost so as to enhance the profit margin in the long term.

Super Super Congee & Noodles delivered stable return during the year. At present, there are 6 outlets of **Super Super Congee & Noodles** in operation comprising 1 new shop opened at City One, Shatin in May this year. After years of operation, this brand has already built up a strong customer base and is readily placed for further expansion.

INSTITUTIONAL CATERING

Asia Pacific Catering with 30 restaurants operating in major hospitals and universities in Hong Kong was severely hit by the outbreak of SARS in the first half of the year. In the spread of this fatal epidemic, our staff in hospitals deserved our vote of thanks and the highest praise for the bravery in delivering the catering services to all medical staff. Business in the hospitals did not totally return to normal growth in the second half of the year as on-going precautionary measures adopted in the hospital continued to affect the numbers of visitors.

Food Processing Centre for Luncheon Star

In addition to securing catering contracts for staff canteens of 3 hotels and a club house earlier in the year, **Asia Pacific Catering** won a contract in the banking sector with Nanyang Commercial Bank. In the health-care sector, 4 new catering contracts were signed with Wong Tai Sin Hospital, Kwong Wah Hospital, Sandy Bay Hospital and Grantham Hospital. The winning of the said contracts further exemplified the wide recognition of our professional catering service by an increased number of institutional clients. After the year end, we also procured a contract with Television Broadcasts Limited to provide catering services to its TVB City in Tseung Kwan O Industrial Estate.

Asia Pacific Catering had 60 units in total which include 29 units in the health-care sector, 11 units in the educational sector, 15 units in the commercial and manufacturing sector, and 5 units in the hospitality and banking sectors at the year end. With this broad spectrum of client base coupled with the establishment of its presence in Southern China, **Asia Pacific Catering** is now in a solid position to capture future opportunities in the institutional catering market of the PRC.

Our student catering business, **Luncheon Star**, suffered badly during the SARS period due to class suspension in March last year. Although classes gradually resumed in May last year, most schools adopted a shorter timetable without having their students to take lunch at school. Nevertheless, with an increasing awareness of hygiene standard by the public, **Luncheon Star**, being accredited with "ISO9001" and "HACCP" awards, could steadily enhance its market share with meaningful contribution to the Group in future. In the year, a new reheat center was set up in Kwai Chung district, serving schools in Kowloon West area.

SPECIALTY RESTAURANT

In the first half of the year, despite severely competitive environment and further weakening of consumption sentiment caused by SARS, **The Spaghetti House** continued to perform well. The introduction of innovative products with high valued perception continued to be the business focus to suit the enhancing demand of our customers. Various seasonal products with appealing themes were launched regularly, supported by advertising programs with the local renowned business associates such as MTR. During the year, a new restaurant was opened at Imperial Hotel in September 2003 followed by opening in January 2004 the first **The Spaghetti House** restaurant at Tuen Mun district. This new restaurant, being located at Tuen Mun Town Plaza, experienced an overwhelming support from the neighbourhood since opening. In addition, 5 **The Spaghetti House** restaurants were renovated in the year. At the year end, we had 22 **The Spaghetti House** in operation in Hong Kong.

Oliver's Super Sandwiches at Tung Ying Building, Tsimshatsui

With its well established brand, coupled with stylish and trendy decor, **The Spaghetti House** is well positioned to capture greater market share in the mid-priced specialty restaurants.

For the strategic franchise business, **The Spaghetti House** is now having 2 franchise restaurants in operation overseas, all located in Indonesia.

The Spaghetti House continues to receive recognition for its service. During the year, it was awarded the "**Service Leader – Food and Catering Category**" by *Hong Kong Retail Management Association* and the "**Total Quality Service Regime**" by *MTR Property Management*.

The Spaghetti House at Tuen Mun Town Plaza, Tuen Mun

The opening of **Ah Yee Leng Tong** at the Hong Kong International Airport placed this home-made soup-cum-specialty-dish Chinese restaurant in the international exposure. Since opening in summer last year, the business performance fared well and this concept is well accepted by the travellers. With management endeavouring to reposition **Ah Yee Leng Tong** to a market niche in particular to attract tourists, this brand is ready to regain its momentum for expansion when opportunities come.

Café de Coral at Grand Tower, Mongkok

Café de Coral at Harbour Centre, Wanchai

SCANFOODS

Scanfoods, our food processing and distribution business, expanded its presence in the local and the PRC market by introducing new products. Its brand repositioning strategy during the year was successful in gaining wider recognition in the market and the customer base continued to expand. **Scanfoods** has consistently been growing since acquisition and its operation has been ready to take a leap to become a significant profit contributor to the Group in future.

CAFÉ DE CORAL IN THE PRC AND MACAU

The continuous growth in the PRC economy over the years helped rising the general consumption power that in turn stimulated the retail market as a whole. Taking the advantage of the economic revival, we had been back on the store opening program with a new store opened in Xiaolan, Zhongshan since November, 2002. After that, 4 new **Café de Coral** restaurants were opened in Zhongshan and Dongguan in this year, all recording immediate cashflow contribution to the Group. These new restaurants are located in the secondary cities and surrounded by a dense population of high spending power, but with a rental level more reasonable than the primary cities such as Guangzhou and Shenzhen.

We also renovated our existing restaurant during the year to revitalize the shop environment and enhance its brand image, leading to superb double-digits growth in sales for our restaurants in Zhuhai, Jiangmen and Shenzhen.

With years of experience accumulated, we succeeded in repositioning our fast food shops and in modifying the pricing and marketing strategies to adapt to the local spending power and taste. In addition, we have been perfecting the business model with strong and competent local management team established in the PRC and are confident to step up our store opening program with an aim to have 50 outlets in the Southern China within five years.

As at 31st March, 2004, there were 10 operating units in Southern China and 1 unit in Macau.

NEW ASIA DABAO

In view of tremendous potential in the PRC market after China's entry into the WTO, the Group made an exciting and important strategic move by establishing a sizable foothold in the very important part of Eastern China. In March 2003, our strategic acquisition of 50% stake in a restaurant chain of **New Asia Dabao**, which is the largest Chinese quick service restaurant network by stores in Shanghai Municipal, gave us a meaningful presence in this market.

Since July 2003, we assumed management control of the **New Asia Dabao** and embarked on a series of value-added initiatives in areas of operation management, marketing, store design, and menu innovation. A prototype for the face uplift program was developed and installed in one store. The store design coupled with the brand new logo projects a modern, trendy image and gives a bright, clean dining environment. The layout of the food counter and the mode of operation were re-designed to overcome operational issues faced before the changeover.

As the existing menu for breakfast was reasonably comprehensive, we focused on the product development for the lunch and dinner segment. A series of combo meal set was introduced regularly. New products introduced were well received by customers, thus generating significant sales growth. Besides, a series of pricing strategy was introduced to enhance average spending through price adjustment for the existing menu and the launch of new products with higher pricing point.

New Asia Dabao at Yuan Nan, Shanghai

During the year, with the closure of some non-profit making restaurants, we continued to see business improvement for this restaurant chain. As at 31st March, 2004, there were 76 restaurants in operation. We are confident that with our proven management strength, this restaurant chain will become a significant profit generator to the Group.

To tap into the lucrative restaurant markets in Shanghai and its neighbouring regions, while promoting the business of **New Asia Dabao** to serve the basic need, this joint-venture vehicle would also look into the mid-priced fast casual dining concept by building **Café de Coral** fast food restaurants in the region.

MANCHU WOK & CHINA INN

The business of **Manchu Wok** and **China Inn** continued to perform below par. For the year under review, on top of the exchange losses generated by the inter-company loan between our US and Canadian companies, we incurred additional non-recurring expenses in management reshuffle and compensation to the landlord for early termination of lease as well as conversion cost to unify **China Inn** brand into **Manchu Wok** as a national brand. On the other hand, we faced the hike in the food cost and rental in the shopping centers which suppressed the operating profit margin of the business.

As a long-term development plan, **Manchu Wok** not only continues to fine tune its business model to regain the growth momentum, but also strengthens the operation formats of its stores in shopping centers and, in particular, its free-standing street-site locations, which are currently in trial phase, to become part of future growth drive beyond the traditional quality shopping centers where most of our stores are now concentrated in and the supply of which becomes increasingly scarce. With these initiatives implemented to improve the business performance, we are confident for its business turn-around in the year ahead.

The Spaghetti House at New Town Plaza, Shatin

As at 31st March, 2004, **Manchu Wok** had a total of 198 restaurants in operation in Canada and the United States, including 1 **Dai Bai Dang** and 2 **Fan Ting** in the States.

NEW BUSINESS

We acquired the **Oliver's Super Sandwiches** restaurant chain from Jardine, Matheson & Co., Ltd. in June 2003, which is a well recognized brand name and operates as a unique chain of sandwich restaurants offering highly recognized 'made-to-order' sandwiches and salad, together with a growing selection of hot food such as baked potatoes, pasta and soup. We were particularly encouraged by our achievement of a satisfactory business turn-around for this restaurant chain in this fiscal year, as the chain commenced to generate profit from November 2003. Two new restaurants were opened during the year at the Hong Kong International Airport and Sun Hung Kai Centre. A new design with unique image was used to reposition this chain of restaurants. Management is confident that this concept has potential to grow locally and to expand this business in the market overseas. As at 31st March, 2004, the restaurant chain comprised of 13 restaurants in Hong Kong.

Café de Coral at Dong Men, Shenzhen

NEW BUSINESS PROCESSES

The implementation of Business Management System has been completed since the end of this fiscal year. During the year, this system was installed to all the **Café de Coral**, **The Spaghetti House**, and **Super Super Congee & Noodles** shops. Lots of manual procedures have been replaced with new workflows and new business processes. With this installed system, all critical business information, including sales and marketing, procurement and inventory, accounting and cash management, human resources, menu rotation, product delivery time, have been automated and transmitted in a timely and reliable environment from our restaurants to headquarters. In addition, there was streamlining of manpower expenses at the headquarters for automating all the accounting journal which can be generated automatically with the sales and purchase transactions at the shop level. Another major improvement was the introduction of automatic linkage of points of sales transaction to customer's loyalty programs with the introduction of marketing campaigns and programs under the instant Octopus smart card system. It shortens all the customers' queuing time and coins exchange time. The installation of these systems will undoubtedly increase the competitive edge of the Group in terms of efficiency, business and information analysis, and productivity and has translated to profit margin enhancement.

FINANCIAL REVIEW

As of 31st March, 2004, the Group's total borrowings was HK$10,000,000 and maintained a healthy gearing (being total borrowings over shareholders' funds) of 0.65%. The total loan of HK$10,000,000 is repayable within one year.

As at 31st March, 2004, the Company has given guarantees totalling approximately HK$946,095,000 to financial institutions in connection with the total banking facilities granted to its subsidiaries and in respect of the outstanding loans drawn by certain jointly controlled entities.

Café de Coral at Xiaolan, Zhongshan

HUMAN RESOURCES

As at 31st March, 2004, the Group and its wholly owned subsidiaries had employed over 9,000 employees. Remuneration packages are generally structured by reference to market terms and individual qualifications and experience. With a unique Executive Share Option Scheme together with profit sharing bonus and performance incentive system, employees are allowed to share in the growth of the Group.

During the year, various training activities have been conducted to improve the front-end quality of services as well as to ensure the smooth and effective installation of the Group's business systems.

CONCLUSION

The year ahead poses opportunities and challenges as evidenced by the improved prospects for the retail business, both locally and globally with the threat of the return of inflation in the local environment. Against this backdrop, the Group will continue to enhance rigorously its brands by delivering innovative and value-added products with quality service to customers while endeavour to contain the cost in order not to disrupt the profitability. With an aim to turnaround our North America business, we would also further strengthen all other profitable operating units in order to sustain the long term profit growth for the Group.

LO HOI KWONG, SUNNY
Managing Director

Hong Kong, 13th July, 2004