

TO ALL SHAREHOLDERS, EMPLOYEES AND CUSTOMERS:

I wrote to you in my last annual report saying that 2004 would be a year clouded with changing business conditions that required management to execute all the intended business initiatives in order to deliver a solid and healthy result. I reckoned that the rise in cost at home and business challenges abroad are the mounting concerns that we have to deal with during the year.

As we have set out to achieve, we have been able to deliver a solid financial and operational performance. Group's turnover and net profit registered a record high of HK\$3.04 billion and HK\$285 million respectively. As at 31st March, 2005, the Group's net asset value increased to HK\$1.67 billion and the Group's financial position continued to be strong, with a net cash of about HK\$525 million and available banking facilities of approximately HK\$836 million. There were no material changes in contingent liabilities and charges on assets.

Given the Group continues to maintain a healthy net cash position for funding future potential development, I would again recommend to the Board to repatriate greater



The Spaghetti House at apm, Millennium City 5, Kwun Tong

return to our shareholders by distributing a final dividend of 20 cents per share. Together with the interim dividend of 7.5 cents paid on 11th January, 2005, a total dividend of 27.5 cents per share would be payable for the entire year, representing an increase of 12.7% over that of last year.

The year 2004 saw the continued economic recovery in Hong Kong, while it also witnessed a catering industry with a landscape that is constantly changing. With the improved economic condition and the continuous influx of Mainland travelers under the Individual Visit Scheme, better performance has been registered in our local restaurant business, particularly in the commercial districts. On the other hand, cost increase in raw materials and retail rental crept back as significant challenges to the industry. In response, we as a business enterprise must always adapt to these constant challenges. As demonstrated positively in this year's result, not only are we able to protect the profit margin of our core business from being eroded by any such cost increments, we also managed to continue achieving efficiency and productivity enhancement. What was perhaps most exciting about 2004 was that we began to see the fruits of our strategic business imperatives initiated a few years back, which include (1) building on local branding power; (2) proactive



Café de Coral at Maritime Square, Tsing Yi

approach to product improvement; (3) continuous rollout of new shop design format; (4) vigorous business technology re-engineering; and (5) steadily unlocking vast potential of our overseas markets. All these initiatives are centered directly on enhancing value to both our shareholders and our customers, which is the focus of everything we do at the Group today.

SUSTAINABLE GROWTH IN HOME MARKETS

As an ongoing strategic imperative, we reckoned that we are serving a target customer who is constantly redefining her needs, we took it upon ourselves to never stop improving and innovating on our products and shop environment in order to enhance the branding power of all of our local restaurant chains. Coupled with a series of effective customer-focus marketing campaigns, the strong branding of **Café de Coral** and **The Spaghetti House** have given us the pricing power to shelter from cost pressure and margin erosion.

Under the same token, by revamping its business model, fine-tuning its product mix,



Total Quality Service Regime – Annual Quality Service Award Presentation Ceremony



Oliver's Super Sandwiches at Festival Walk, Kowloon Tong

rationalizing its costing structures, renovating its shop images and opening successful new stores, the **Oliver's Super Sandwiches** is also well-positioned for local business growth. Speaking of the local market, I am also glad to report that both our **Asia Pacific** institutional catering and **Luncheon Star** have been able to regain their growth momentum to recuperate from the significant business downturn during the SARS outbreak in 2003.

Constant improvement in shop design remains another important strategic imperative at all our restaurants within the Group. Following years of successful shop renovation program implemented throughout our various chains of restaurants, we accelerated our efforts in the rollout of our new interior design program for all of our restaurants which include **Café de Coral**, **The Spaghetti House** and **Oliver's Super Sandwiches**. This new format provides a more comfortable dining experience aiming to add value to our customers in every large and small ways. The design rollout not only revolutionizes the dining experience and raises the bar for the rest of the industry, it is a business strategy designed to win customer loyalty, while expanding our customer base.

Business technology is another one of our imperatives, which plays an increasingly important role in the services we offer to customers. It plays an important role to strengthen connections with our customers and to make their lives easier from the speed and convenience of transaction offered at our counters. The full-scale implementation of the

computerized Point-of-Sales System and Business Management System, together with the smart-card infrastructure and an effective customer loyalty program, have optimized marketing effectiveness, operational efficiencies, and product delivery time. The systems have also helped to maintain a more timely information update and a more powerful data analysis at the back office.

CAPITALIZING OPPORTUNITIES IN GROWTH MARKETS

As indicated in many of my previous statements, unlocking the vast potentials of our overseas market has always been our long term imperatives of strategic value. We recognized that the Group's continuous expansion into the China market has been a key driver for business growth. On this, we have embarked on a multi-directional development strategy in China. Our 50% stake in the 75 store restaurant chain of **New Asia Dabao** in Eastern China presents the Group with a strong foothold in this market of great potentials. After taking over the management since acquisition in July 2003, we witnessed promising results in implementing a series of value-added business improvement initiatives in the areas of operational control, purchasing and product development, marketing campaigns, staff training, store design as well as menu innovation, which should eventually bear fruits in the upcoming years.



The Spaghetti House at Hanford House, Nathan Road



New Asia Dabao at Ruijin Road, Shanghai

Building on the successful cumulated experience and a more refined business model, we are now embarking on a more aggressive branch development program in Southern China. I am pleased to report that our established **Café de Coral** set up some ten years ago have now recorded meaningful profitability and consistent earning growth, with all our new branches in the region also posting satisfactory results shortly after opening. At the same time, we have been relentless in testing out new grounds with our business re-entry in the first tier cities of China, such as our first **The Spaghetti House** restaurant in Shenzhen and the comeback opening of **Café de Coral** in Guangzhou and Shanghai last year with satisfactory results. As of today, the total number of operating units in China reaches 97, all within management expectation.



Café de Coral at Shanghai Times Square

We also recognize that expansion outside greater China is another strategic play for our long term business growth. As I reported last year, our managing partner in North American business continued with its business consolidation and restructuring process. Concerned with a setback in the business performance, we are putting in place greater financial scrutiny and stricter corporate governance on this joint venture business. We entrust our overseas partner would ensure the management team of this jointly-controlled entity to deliver the business targets as set out.



Manchu Wok at New Market, Toronto

LOOKING BACK AND AHEAD

I would like to express my heartfelt gratitude to every member of our staff for their continued commitment and perseverance. Taking this opportunity, I extend my sincerer appreciation to the long and dedicated contribution of Ms. Leung Sau Lai, Kathy, who resigned as non-executive director for personal reasons during the year, and at the same time welcoming Mr. Kwok Lam Kwong,

Larry, who joined the Group in July 2004 as an independent non-executive director. My gratitude also goes to our shareholders, customers and business partners who relentlessly supported and contributed for the well-being of the Group.

I am glad to also report that the Group was recognized for its corporate governance and technology excellence in winning the **“Overall Regional Best Managed Medium Cap Company Award”** and the **“IT Excellence Awards”** from *AsiaMoney* and the *Hong Kong Computer Society* respectively. At the same time, I have been bestowed personally with the **“Hong Kong Business Mastermind”** Award, an honor which I am proud to receive on behalf of the Group.



“Hong Kong Business Mastermind” Award Presentation Ceremony

Looking ahead, we are encouraged with the improved economic conditions and the brighter business outlook in Hong Kong at the back of the continued positive Central Government policies, the improved inflow of Mainland visitors to Hong Kong and the opening of the Disney theme park in September this year.

While we are witnessing a gradual and healthy economic recovery under a manageable inflation, we are also watching out very closely the general rise in business cost. Each day, in thousands of ways large and small, we are constantly looking for ways to improve on our products and to raise the standards on the overall dining experience, all focused on redefining our brand promise to constantly strive for excellence for our customers. As always, I invite you to come and experience yourself the passion and spirit of innovation that permeates our enterprise.

Chan Yue Kwong, Michael
Chairman

Hong Kong, 12th July, 2005