

INTRODUCTION

The year under review was encouraging but not without challenge. With focused business strategies and a competent management team, taking advantage of the steady recovery of local economy which resulted in improved operating environment, the group was able to deliver stable profit growth for the year in the face of rising rent, food and labour costs. The Group recorded increases in both turnover of 11.6% to HK\$3.04 billion and profit attributable to shareholders of 10.4% to HK\$285 million.

While focusing on our core businesses in Hong Kong, our conscious effort to identify opportunities that will create value for our shareholders led us to continuously widening our business platform overseas. In the PRC, our strategy for Southern and Eastern China was one for growth. In North America, we continued to explore different scenarios with our joint-venture partner to more effectively manage and turn around our business there.

FAST FOOD BUSINESS

Café de Coral fast food continued to maintain its leading position in the industry despite fierce local competition. During the year, 5

shops were opened, taking the total number of **Café de Coral** fast food restaurants in Hong Kong to 123 as at 31st March, 2005.

Consistent with our marketing strategy, we launched advertising and promotional campaigns to project a young and contemporary image. Our series of TV commercial with celebrity endorsement intended to energize our brand was well received. Our joint loyalty program with MTR and Octopus was again a success this year.



Freshly Brewed Coffee



Café de Coral at Maritime Square, Tsing Yi

Product-wise, we continued to introduce innovative products to our menu to provide more and better choices to our customers. The offering of freshly brewed coffee was a particular success in winning over the applause of our customers. Meanwhile, by upgrading the quality of our core products, such as Shanghai-Style Spare Ribs with Vegetable Rice and Baked Pork Chop with Rice, repackaging them with high quality utensil, we differentiated our products from those of our competitors.

FAST FOOD BUSINESS (*Continued*)

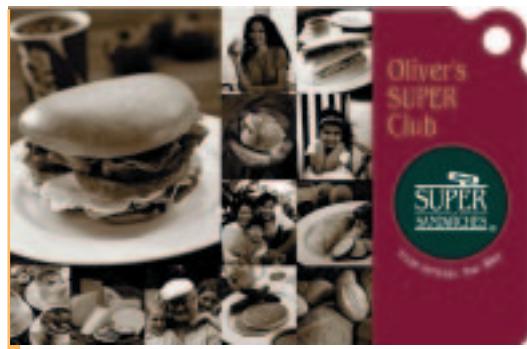
Operationally, we initiated a “Q-Shop program” aimed at promoting the best products’ and services’ standards across all **Café de Coral** shops.

We recognize the importance of continuously refreshing our stores. We invested over HK\$28 million to renovate 16 **Café de Coral** shops in order to project a stylish restaurant image. The renovation program was extended to cover our mini shops as well as shops at public housing estates. All of our restaurants are now smoke-free, assuring our customers a healthy dining environment as well as extra comfort. In addition, well-ventilated smoking cabins have been added to 22 of our restaurants to provide our smoking customers with a choice. Training programs focused at service excellence were conducted for our frontline staff to ensure a continuous culture of customer-oriented attitude and effort.

Completion of the 4-year modernization program upgraded our central kitchen in Hong Kong, allowing us to improve productivity while lowering cost. It also helped to maintain our high standard of hygiene in food processing. During the year, we successfully transplanted certain labour intensive food processing procedures from Hong Kong to our Dongguan plant. Substantial cost saving had been realized since the plant was put into full operation in 2002. We are undergoing a feasibility study to expand the production capacity of this plant without losing its discipline of stringent cost control.

With the strong branding power of **Café de Coral** and our continuous effort to upgrade the quality and standard of our food and services, we have been able to protect the profit margin of our fast food operations from rising costs.

Super Super Congee & Noodles, another fast food brand of our business in Hong Kong, delivered satisfactory performance during the year. As at 31st March, 2005, there were 5 outlets in Hong Kong. With increasing market acceptance, we have another reputable fast food chain in Hong Kong that is expansion-ready.



Oliver's Super Club

Since taking over the entire operations of **Oliver's Super Sandwiches** restaurants in June 2003, this concept has regained its momentum for growth. We were particularly encouraged by the financial performance that came so shortly after acquisition. Having successfully revamped its business model, fine-tuned its product mix and upgraded its shop image, **Oliver's Super Sandwiches** is well positioned as a unique chain of sandwich restaurants offering high quality, freshly made products.

FAST FOOD BUSINESS (*Continued*)

During the year, 7 outlets were upgraded to give them a contemporary lifestyle image. With the opening of 2 new outlets at Enterprise Square Three, Kowloon Bay and apm at Millennium City Phase 5, Kwun Tong, Oliver's network of shops has been extended to East Kowloon.



Oliver's Super Sandwiches at Enterprise Square Three, Kowloon Bay

We are confident that **Oliver's Super Sandwiches** has great growth potential both locally and overseas. As at 31st March, 2005, **Oliver's Super Sandwiches** restaurant chain comprised of 13 operating units in Hong Kong, with 8 units of franchised restaurants in the Philippines.

INSTITUTIONAL CATERING

Asia Pacific Catering recovered from the hard hit suffered at the outbreak of SARS in 2003 and regained its momentum this past year.

During the year, **Asia Pacific Catering** was able to secure additional contracts with 9 new units, making a total of 69 operating units as at 31st March, 2005, including 5 units in Dongguan and Shenzhen, PRC. These units were primarily in the health-care sector, the educational sector, the commercial and manufacturing sector and the hospitality and banking sectors.

In Hong Kong, with wide recognition of our professional catering service amongst institutional clients, **Asia Pacific Catering** not only solidified its business relation with the public sector, but also cultivated a number of reputable clients in the commercial sector. In the PRC market, **Asia Pacific Catering** accelerated its expansion by securing 3 new catering contracts during the year. With solid credentials built over the years, it won contracts from renowned manufacturers with international exposure.

New clients of **Asia Pacific Catering** included Bank of East Asia and Baptist Hospital in Hong Kong and Luen Thai Holdings, the garment manufacturer with facilities in Dongguan.



Oliver's Super Sandwiches at Festival Walk, Kowloon Tong

Our student catering business, **Luncheon Star**, recorded encouraging business growth and profit contribution to the Group. The outbreak of SARS heightened parents' and schools' awareness of food safety and hygiene. Having been awarded the international accreditation of "HACCP" and "ISO9001" on food safety and monitoring system, **Luncheon Star** strengthened its competitive edge as a recognized and trusted leading school meal caterers for quality and healthy food amongst parents and teachers.

In order to meet increasing demand, the existing reheat center in Yuen Long will be expanded in the coming year to better serve neighbouring schools.

SPECIALTY RESTAURANT

The Spaghetti House outperformed its peers in the mid-priced specialty restaurants sector in Hong Kong amid intense competition. Two new restaurants were added to the concept's portfolio. One was located at Festival Walk, Kowloon Tong while the other was opened at apm, Millennium City Phase 5, Kwun Tong. Both are prestigious shopping arcades strategically situated at transportation hubs in Kowloon.

In addition to growth, **The Spaghetti House** also focused on building up a trendy and stylish image to differentiate itself from the competitors. An image uplift program was carried out throughout the year to the existing 7 **The Spaghetti House** restaurants to enrich the dining experience of our customers.

Innovative products with high-perceived value were also introduced during the year. They were well received by our customers.



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

Supported by our promotion and loyalty programs, they all led to increment of patronage and enlargement of customer base.

Management also tested this business model outside of Hong Kong. In December, 2004, the first company-owned store was opened at "Mix City", Shenzhen, PRC. We received encouraging response from local customers and are refining the business model with an aim to rolling out this concept in the Greater China region.



Lobster Au Gratin and Veal Scaloppini vol-au-vent

As at 31st March, 2005, we had 25 **The Spaghetti House** in operation, of which 24 were in Hong Kong and 1 was in Shenzhen, PRC.

For the strategic franchise business, **The Spaghetti House** had 2 franchise restaurants in operation overseas, both located in Indonesia.

SPECIALTY RESTAURANT

(Continued)

The Spaghetti House was again recognized this year by the community for its excellent services and outstanding dining environment. It was awarded “**2004 Service Retailer (Food and Catering Category)**” by *Hong Kong Retail Management Association* and the “**Hong Kong Smoke Free Workplace Leading Company Award 2004**” by *Hong Kong Council on Smoking and Health*.



Total Quality Service Regime – Annual Quality Service Award won by The Spaghetti House

Located at Hong Kong International Airport, **Ah Yee Leng Tong** enhanced its exposure as a soup-cum-specialty-dish Chinese restaurant concept. As at 31st March, 2005, there were 2 outlets in operation. Management is in search of an expansion strategy to grow this concept when the opportunity comes.

SCANFOODS

Scanfoods, our food processing and distribution business, delivered satisfactory result to the Group despite the general rise in raw material cost. **Scanfoods**’ “Viking Boat” brand of ham and sausage products have long been recognized for its high quality. Over the years, **Scanfoods** has successfully established a solid foothold in the Hong Kong institutional market with a strong and stable client base. During the year, **Scanfoods**

continued to introduce new products and extend its distribution channels to further enhance performance.

In the PRC, **Scanfoods** extended its business network from Dongguan to Shenzhen and Guangzhou. Its products have become popular in major supermarkets and other retail channels. Riding on the back of a well-equipped manufacturing plant in Dongguan, **Scanfoods** is poised to establish a stronger business presence in the Pearl River Delta region.

CAFÉ DE CORAL IN THE PRC AND MACAU

With continuous growth of the PRC economy, business performance of this market has been encouraging. As reported to you last year, we had been back on the store opening program in the PRC. During the year, we opened another three new stores in Southern China, two in Dongguan and one in Guangzhou, making a total of 14 operating units in Southern China with one shop in Macau as at 31st March, 2005. All stores contributed profit to the Group.



Opening Ceremony of Café de Coral at TeeMall, Guangzhou

CAFÉ DE CORAL IN THE PRC AND MACAU (*Continued*)

Our performance in Guangzhou, a first-tier city in Southern China, is particularly noteworthy as it shows the maturity and competence of our local management team and their ability to operate the existing business model in a highly competitive business environment. The encouraging results of all these stores, together with our strategic association with major retail business partners, strengthened our confidence in opening stores to capture larger market share of this fast growing eating-out sector in China.



Café de Coral at TeeMall, Guangzhou

Subsequent to year-end, we opened 2 additional operating units in Southern China, with 1 unit in Guangzhou and 1 unit in Jiangmen. As of today, we have commitment to open 3 additional operating units in Southern China, including 2 units in Guangzhou. With tremendous emphasis and commensurate effort on staff training, production process development and information technology enhancement, we have now in place specific business strategies to support our PRC expansion program. As part of a long-term plan, we are undergoing a feasibility study of setting up a sizable logistics center in Southern China to support future growth in the region.

In the years to come, with the improving living standard of the people in China, we intend for **Café de Coral** fast food restaurants in Southern China to become another growth driver for the Group.

NEW ASIA DABAO

Since taking up management control of **New Asia Dabao**, a fifty-percent owned joint venture business, we have embarked upon a series of value-added initiatives aimed at improving the business performance of this 75-store restaurant chain.

While continuing effort was being devoted to improve product quality and service standards, we renovated existing stores to upgrade the dining environment and rationalized the store portfolio by closing down some non-performing shops. We are confident that with our proven management strength, this restaurant chain will become another profit generator to the Group.

As a long-term development strategy, we not only continued to fine tune the business model of **New Asia Dabao**, but also explored the possibility to open new stores at strategic locations in the outer regions of Shanghai and neighbouring provinces. We believe our investment in **New Asia Dabao** provides us with a valuable business platform in the Eastern China region to build up our management strength in this new market.



New Asia Dabao at Minhang District, Shanghai

NEW ASIA DABAO (*Continued*)

As reported to you last year, this joint-venture will test the mid-priced fast casual dining concept and will act as a vehicle to enter the lucrative restaurant market in Shanghai. In November 2004, we opened the first **Café de Coral** fast food restaurant in Times Square, Shanghai. We are optimistic of the growth potential of this concept and plan to open the second shop once a suitable place is located.

MANCHU WOK

The business of **Manchu Wok** was a disappointment to management. Despite the fact that we brought corporate overheads under control and improved the performance of some of our street-site locations in Canada, overall sales of our North American operation remained weak in the face of fierce competition and cost pressure coming from labour and rental.

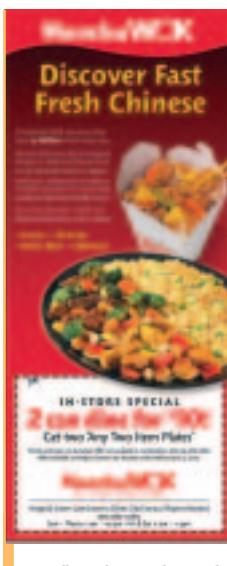


Manchu Wok at Etobicoke, Toronto

We witnessed the installation of the point-of-sale system that helped management better respond to market. We have diligently explored growth opportunities in non-traditional venues. More resources have been directed to the United States markets where challenges were most felt. We believe

that turnaround of this business unit in the near term is one of our bigger challenges. Having said that however, our overseas partner, with our joint effort, will formulate a more refined business strategy whereby **Manchu Wok** can be more efficiently managed to unlock its potential as an Asian Fast Food leader in the North American market.

As at 31st March, 2005, **Manchu Wok** had a total of 201 restaurants in operation in North America, including 1 **Dai Bai Dang** and 2 **Fan Ting** in the United States.



Leaflet of Manchu Wok

NEW BUSINESS PROCESSES

After our successful implementation of the Business Management System in prior year, we continued to roll out the system to the other business units in Hong Kong. As at 31st March, 2005, the system had been installed in all the operating units of **Café de Coral**, **The Spaghetti House**, **Super Super Congee & Noodles**, **Oliver's Super Sandwiches** and **Asia Pacific Catering** in Hong Kong.

Undoubtedly, the system greatly enhanced our competitive edge in terms of business efficiency and shortened our response time to market changes. Further, with the application of information technology to our internal logistics, we have effectively substituted many manual repetitive processes by automated systems, leading to substantial savings in manpower and administrative expenses at our back office. We believe our business performance can and will be further enhanced by implementing different IT solutions to our existing business processes.

FINANCIAL REVIEW

The Group's financial position, as at 31st March, 2005, continues to be very strong, with a net cash of close to about HK\$525 million and available banking facilities of HK\$836 million.

As at 31st March, 2005, the Group did not have any external borrowing (2004: HK\$10,000,000) and maintained a healthy gearing (being total borrowings over shareholders' funds) of Nil (2004: 0.65%). There has been no material change in contingent liabilities or charges on assets since 31st March, 2004.

As at 31st March, 2005, the Company has given guarantees totalling approximately HK\$900,347,000 (2004: HK\$946,050,000) 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.

Regarding foreign exchange fluctuations, the Group earned revenue and incurred costs and expenses are mainly denominated in Hong Kong dollars, while those of our North America and PRC jointly controlled entities are denominated in United States dollars, Canadian dollars and Renminbi respectively. Exchange losses are nevertheless recognized in our jointly-controlled North American entities and our share of these losses have been included in this annual results. While foreign currency exposure did not pose significant risk for the Group, we will continue to take proactive measures and monitor closely of our exposure to such currency movement.

HUMAN RESOURCES

As at 31st March, 2005, the Group (other than

associated companies and jointly controlled entities) employed approximately 10,390 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 were entitled 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 is full of challenges and opportunities. The recovery of local economy helps to stimulate local spending sentiment, thereby boosting sales. However, with increasing cost pressure at home, the re-emergence of inflation is inevitable. To maintain a stable and steady growth of our profit, continuous efforts have to be made by introducing value-added products and services, exercising stringent cost control, and enhancing business efficiency to improve our profitability.

While we are solidifying our local core businesses, more resources will be deployed to drive up profitability of our overseas operating units, in particular, our North America and PRC businesses, to ensure they will become new and additional profit drivers for our Group in the years to come.

Lo Hoi Kwong, Sunny
Managing Director

Hong Kong, 12th July, 2005