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 2005.

RESULTS

Our consolidated turnover increased by 4.4% to HK$980.5 million (2004: HK$938.8 million). Profit attributable to shareholders increased from HK$28.4 million to HK$55.2 million this year after including our attributable share of the gain on disposal of properties totalled HK$36.1 million (the gain on disposal of properties before taxation and minority interests amounted to HK$50.3 million).

DIVIDENDS

On 26 January 2005, the Company paid out an interim dividend of HK1.0 cent (2004: HK1.0 cent) plus a special dividend of HK4.0 cents (2004: Nil) per ordinary share out of the exceptional gain from property disposals recognized in the first half of the fiscal year. In view of the cash position, the directors recommend a final dividend of HK5.0 cents (2004: HK3.5 cents) per ordinary share for the year ended 31 March 2005 to be payable to shareholders whose names appear in the register of members of the Company on 8 September 2005. Subject to the passing of the necessary resolutions at the forthcoming annual general meeting, such dividend will be payable on or about 21 September 2005.

BUSINESS REVIEW

Restaurant Operation

Food costs, wages and rentals made up nearly 75% of our total operating expenses. Food costs had risen sharply since early 2004 as world commodities prices were bidden up on the back of strong demand. Rent for commercial spaces was also catching up in mid 2004 to reflect the latest rally of the Hong Kong property market boom started in late 2003. Yet, we were unable to pass these cost increments right away to our customers as local consumers were then still suspect of whether the economic rebound would be sustainable or not. Our restaurants netted an operating loss before taxation of nearly HK$17 million for the first 6 months of the fiscal year. With the easing in consumer price resistance, we started to raise our selling prices in November 2004 by an average of 5% and managed to cut back the loss of our restaurant business to HK$3.1 million for the full fiscal year.

We have not expanded in outlet number as our traditional Cantonese restaurants are still struggling for improvement. On the other hand, competition had intensified for our Shanghainese/Peking restaurants which used to be a major profit contributor. The combined annual sales for this cuisine dropped by 7% having included the effect of temporary business suspension of Shanghai Lu Yang Cun Restaurant which was closed for renovation for nearly a month after reaching an agreement to extend the lease with the landlord on the existing location. We sold all the 5 investment properties at Sceneway Plaza, Lam Tin to realize a portion of the capital gain from the property portfolio

in this shopping mall which was showing no significant improvement in its pedestrian flow. Our operating loss was completely offset by this gain on property disposals totalling HK$24.2 million and was turned around to a profit before taxation of HK$22.7 million.

Business of our fastfood and the remaining outlets offering non-Chinese cuisines remained robust. Our oldest fastfood shop at Lok Fu finished its renovation in April 2004 and its sales recorded satisfactory growth thereafter.

Rental for commercial premises has skyrocketed since early 2005 in anticipation of a sharp surge in tourist arrival with the opening of Disneyland in September. We haven't committed to lease any new premises for local shop expansion over this interim period while effort is being used to re-engineer our production processes so as to achieve further savings on food and labour costs.

Bakery Operation

Turnover of cake and bread products increased marginally by 3.1% mainly attributed to the addition of new outlets. Sales of our festive products recorded a 26.2% growth due to the introduction of new products and effective marketing campaigns. Despite the rebound of the Hong Kong economy, our customers are still very price sensitive when making their daily purchases of bakery products and we have not been able to adjust our selling prices very aggressively. On the other hand, our main ingredients like flour, sugar and dairy produces have all suffered double-digit price increase. We had made efforts to safeguard our gross margin by reducing discounts given to customers, nevertheless, the full year gross profit margin was being eroded by 1.7%. Occupancy costs had increased by nearly 12% partly due to the absence of concession granted after the Severe Acute Respiratory Syndrome ("SARS") in fiscal year 2003/04, higher rental charges demanded by landlords as the retail/property market continued to improve especially in the second half of the fiscal year as well as the addition of outlets. We have exerted tighter control over other expenses including payroll and general operational costs in order to compensate the unavoidable pressure from food costs and rental charges.

To take advantage of the property market boom in Macau, we disposed one of the self-occupied shop premises there and realized an after-tax capital gain of HK$22.0 million. The Group has made use of the proceeds from this disposal to further develop the bakery market in Macau. We replenished the property disposed with 2 shop premises in less touristy districts as well as acquiring a factory floor of 12,000 square feet for a new central workshop which can further support our outlet growth there. The new workshop has already started production since December 2004 and there were a total of 3 outlets at year end.

Fiscal year 2004/05 has been a fruitful year for our PRC market with turnover there nearly doubled, driven primarily by mooncake sales. We had commissioned a new central workshop in Guangzhou which started production in March 2005 and will support the development of the retail market which was only served by 4 outlets at year end. We also acquired a factory block with a total area of 100,000 square feet next to the existing Shenzhen workshop. By so doing we have secured extra production capacity which is in great demand in PRC at the moment. All together, we spent HK$38.2 million to complete the acquisitions of workshops and outlets mentioned above as well as another 11,000 square feet of factory space in Hong Kong for warehousing purpose.

PROSPECT

With the dining industry moving to new era where learned customers are looking for more than palatable satisfaction, we must evolve to brace ourselves for this challenge. In this respect, we have invested more manpower resource in marketing and new business development which will enable us to take a more proactive approach to de-age our customer base and to diversify into new dining concepts or even new territories.

In respect of our bakery business, although the costs of the raw materials have become steady recently, the pressure from rising payroll and rental expenses continues. We will put in more resources to develop new products and streamline our operation to further reduce our expenses. Apart from sourcing more cost effective materials to improve our gross profit, we will not renew the leases for loss-making outlets once they expire.

The development of the Macau and PRC markets will be continued. With the 2 new central workshops in Macau and Guangzhou became operative, we plan to increase the respective number of outlets to 8 and 10 at these locations.

ACKNOWLEDGEMENTS

This year marked the 15th anniversary of the Group since its listing on The Stock Exchange of Hong Kong Limited. On behalf of the Board, I'd like to sincerely express our wholehearted gratitude to all our fellow staff and business partners for their unfailing support over these years to bring us to this milestone and beyond.

Chan Wai Cheung, Glenn
Chairman

Hong Kong, 13 July 2005