



Management Discussion and Analysis of the Operations

Restaurant Operation

The results of the restaurant operation, including inter-company transactions with the bakery operation, are summarised as follows:–

	2001 HK\$'000	2000 HK\$'000	% Changes
Turnover	594,720	631,250	(5.8%)
Other revenues	13,334	17,697	(24.7%)
Costs of inventories consumed	(181,136)	(194,862)	(7.0%)
Staff costs	(199,188)	(205,224)	(2.9%)
Operating lease rentals	(69,229)	(73,304)	(5.6%)
Depreciation of fixed assets	(27,281)	(33,077)	(17.5%)
Other operating expenses	(117,939)	(112,754)	4.6%
Operating profit	13,281	29,726	(55.3%)
Finance costs	(1,252)	(2,546)	(50.8%)
Share of results of associated companies	2,472	1,310	88.7%
Profit before taxation	14,501	28,490	(49.1%)
Taxation	(3,130)	(3,807)	(17.8%)
Profit after taxation	11,371	24,683	(53.9%)
Shop area - sq. ft.	251,000	273,000	
No. of outlets	28	28	

Turnover dropped by 5.8% mainly due to the closure of the Hau Fook Chinese Restaurant. Average spending per head fell by 4% but offset to similar extent by increase in the total number of customers for the remaining restaurants. We re-launched our cash coupon programme in July 2000 as consumer spending suddenly subsided following the burst of the dot.com bubble in the stock market. Revenue in the form of consultancy fee paid by a subsidiary for the service of a common director ceased as it had entered a direct service agreement with him.

Our gross margin improved slightly from 69.1% to 69.5% as we have increased our purchases from producers directly in their countries of origin. Excluding the listing costs of HK\$5.9 million for the spin-off of the bakery operation which has been included in other operating expenses, we have maintained other major cost elements at similar level compared to last year, except for staff costs which nevertheless increased to 33.5% (2000: 32.5%) of turnover due to the commencement of MPF and thus eroding our operating profit margin.

Performance of the Japanese restaurants run by an associated company continued to improve and a new shop specialized in Tempura was opened during the year. The four Chinese restaurants located in the hotels, on the other hand, had suffered as banquet sales which accounted for over 30% of their turnover fell short of the sales volume of last year. Banquet sales generally account for 17% of the revenue of other restaurants.



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Bakery Operation

The results of the bakery operation, including inter-company transactions with the restaurant operation, are summarised as follows:–

	2001 HK\$'000	2000 HK\$'000	% Changes
Turnover	448,547	430,126	4.3%
Other revenues	4,259	2,155	97.6%
Costs of inventories consumed	(122,674)	(117,947)	4.0%
Staff costs	(154,498)	(142,717)	8.3%
Operating lease rentals	(52,306)	(49,669)	5.3%
Depreciation of fixed assets	(22,291)	(20,744)	7.5%
Other operating expenses	(73,028)	(72,065)	1.3%
Operating profit	28,009	29,139	(3.9%)
Finance costs	–	(29)	(100.0%)
Profit before taxation	28,009	29,110	(3.8%)
Taxation	(3,949)	(4,166)	(5.2%)
Profit after taxation	24,060	24,944	(3.5%)
Shop area - sq. ft.	67,000	61,000	
No. of bakeries	69	67	
No. of eateries	2	1	

Turnover increased by 4.3% with the net addition of 3 outlets. More interest earned on fixed deposits held at financial institutions as the cash holding of the bakery operation increased from HK\$55 million to HK\$65 million as of the year end date.

Our gross margin has been maintained at around 72.7 % for the last two years after we prepared our flour mix with a more economic formula. Our staff costs inevitably increased as we need to provide more retirement protection for our workforce and we have to bear directly our attributable share of the payroll of a senior executive.

Since February this year, we have consolidated the production facilities for Saint Honore Cake Shop in Hong Kong into a single location within an industrial building by relocating the bread production line from Kowloon Bay to Kwai Chung after we acquired another 12,228 sq. ft. of additional space. We now occupy a total of 45,000 sq. ft. (including 3,500 sq. ft. of leased premises) in this building. The space so vacated at Kowloon Bay is now being used to expand the production facility of Bread Boutique. We have also lifted the warehouse capacity of our Shenzhen factory by acquiring an additional 12,696 sq. ft. of floor space.



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We boldly aborted the second EC Eatery shortly after it was opened for business for four months as expected business did not realise from the nearby pedestrian flow. Bearing this experience, we selected Causeway Bay, an area more popular with shoppers and diners, for the third outlet which was opened in early March 2001.

Liquidity and Capital Resources

As at 31st March 2001, the Group's freely held cash on hand stood healthily at HK\$149 million after we had fully repaid outstanding bank loan of HK\$31 million and invested HK\$41 million in capital assets. Capital outlay committed for the next twelve months largely related to shop refurbishment and expansion is approximately HK\$20 million which will be financed from internal resources.

Employees

We employed a total of 3,005 (2000: 2,921) full time staff as at 31st March 2001. Remuneration packages of employees include basic salary, sales incentives and discretionary bonus which are normally reviewed on annual basis. As far back as ten years ago, the Group already took out provident fund schemes in the form of insurance policies to provide some sort of retirement protection for our entire workforce. To avoid the administrative costs of running two schemes concurrently, we did not apply for exemption for the old scheme funds which would be carried on without further contribution after the commencement of MPF. The management intends to convert the funds remaining in the old schemes presently invested in low-risk guarantee funds as voluntary contribution to the new MPF schemes at such appropriate time when our staff have built up for themselves a fair knowledge of the investment options available under MPF. We have also set aside on our balance sheet HK\$23 million as provision for our long service payment which should be sufficient to cover our statutory obligation in this respect.