

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospect

Restaurant operation

The restaurant business continued to suffer as the deflationary spiral unleashed from the economic recession kept weakening consumer spending. Aggregate turnover for our restaurants dropped by 3.7% as we have closed the Hau Fook Chinese Restaurant since July 2000. Also, the fastfood outlet at Telford Plaza was temporarily closed for business during September 2001 due to renovation. We barely managed to maintain sales on existing shops through marketing campaigns and other value-added services aimed to enhance customer loyalty. Despite achieving cost savings on food costs and other operating expenses, our profit margin nevertheless, was further eroded by increased staff costs in the form of MPF contribution and reduced interest income earned from surplus cash placed on fixed deposits. Performance of our associated companies was dragged down by the two new Japanese restaurants opened in two hotels in Tsim Sha Tsui during the period.

Bakery operation

The turnover derived from our bakery operation rose by HK\$18.2 million (7.7%) from HK\$236.9 million to HK\$255.1 million for the first half of the year out of which sales of cake and bread increased moderately by 6.5% largely due to marketing campaigns launched which aimed to secure our market share. On the other hand, sales of festive products dropped by 8.6% as mooncake sales had not been fully recognised in the half-year results due to the Mid-Autumn Festival fell in October this year.

Due to implementation of Statement of Standard Accounting Practice (“SSAP”) 29, the trademark “Saint Honore” which was acquired in 1992 was re-capitalised at cost and amortised over 20 years commenced in the year available for use. As a result, our bottom line was hit by this accounting treatment by HK\$2.3 million, being the amortisation charge for 6 months. Since this accounting policy has been applied retrospectively, we also adjusted the comparative figures accordingly.

Our expansion plan in Singapore was aborted due to the drastic economic slowdown in the last 6 months. As a result, we have written off the setup cost totalled HK\$0.7 million to the results for the period.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Business Review and Prospect (Cont'd)

Prospect

The economic downturn and accelerating unemployment rate will continue and has further intensified with the “911” event happened in September this year. This trend will continue and our business will be hurt significantly in the second half year as consumer confidence will be weakened further still. To confront this, we have embarked on a series of profitability-enhancing measures and procedures to improve operational efficiency. Hopefully the accomplishment of these measures will raise our competitiveness and help us through this recessionary period.

Liquidity and financial resources

As at 30th September 2001, the Group's freehold cash on hand stood at HK\$182.9 million (2000: HK\$ 209.9 million) with zero gearing. The Group's financial position is healthy with no immediate need for external fund raising. The capital commitments as at the reporting date were largely pertained to shop refurbishments and 2 news shops to be opened in the second half year and these projects would be financed internally.

Employees

As at 30th September 2001, the Group employed about 3,000 employees. The Group offers competitive remuneration package and employees are rewarded with performance-based bonus. The Group also has share option schemes according to which directors may, at their discretion, grant options to employees to subscribe for shares in the Company. On 30th August 2001, the Company granted in aggregate 30,810,000 share options to employees.

Contingent liabilities

As at the reporting date, the Group did not have significant contingent liability.

Exposure to fluctuations in exchange rates and related hedge

The Group's activities are primarily denominated in Hong Kong dollars. There is no significant exposure to foreign exchange fluctuations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of its listed securities during the period.