RESTAURANT OPERATION

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

	2002 HK$'000	2001 HK$'000	% Changes
Turnover	**567,756**	594,720	(4.5%)
Other revenues	**8,705**	13,334	(34.7%)
Costs of inventories consumed	**(164,617)**	(181,136)	(9.1%)
Staff costs	**(198,725)**	(199,188)	(0.2%)
Operating lease rentals	**(65,004)**	(69,229)	(6.1%)
Depreciation of fixed assets	**(26,016)**	(27,281)	(4.6%)
Other operating expenses	**(108,925)**	(117,939)	(7.6%)
Amortisation of intangible assets	**(26)**	—	n/a
Operating profit	**13,148**	13,281	(1.0%)
Finance costs	**—**	(1,252)	(100.0%)
Share of results of associated companies	**(290)**	2,472	(111.7%)
Profit before taxation	**12,858**	14,501	(11.3%)
Taxation	**(3,589)**	(3,130)	14.7%
Profit after taxation	**9,269**	11,371	(18.5%)
Shop area - sq. ft.	**246,000**	251,000	
No. of outlets	**27**	28	

During the year, Rainbow Room was closed upon lease expiry in February 2002. Our Wonderfood in Telford Plaza also underwent large-scale renovation from August to October 2001 and the shop was temporarily closed without any sales revenue. Despite the opening of Costa del Sol in Paradise Mall in November 2001, the revenue generated by this small Mediterranean restaurant was far less to offset the loss in turnover from shop closure, as a result our turnover dropped by HK$26.9 million (4.5%) from HK$594.7 million to HK$567.8 million. Though our sales volume had dropped in real term by an average of 2.8% in number of customers, we managed to keep our customers' spending per head roughly at the same level as last year of HK$70. This was largely attributable to the success of our cash coupon programme which had recorded a cumulative redemption rate of 65.5% over the programme life. It was very useful in sustaining consumer spending at a time when market sentiment was poor. Apart from that, a series of intensive marketing campaigns launched by the Group throughout the year also upheld spending.

Interest rate had been lowered by eleven times since 2001 but still failed to boost the economy. On the contrary, we had lost a substantial amount of interest yielded from our fixed deposits. As a consequence other revenues dropped drastically by HK$4.6 million to HK$8.7 million (2001: HK$13.3 million) representing a decrease of 34.7%.

With our concerted effort to control food cost, we managed to offset of sales discounts brought by the year-round vigorous promotional campaigns which had increased from 2.3% to 2.6% to gross sales and even improved on our gross profit margin from 69.5% to 71.0%.

All our operating expenses were reduced because we closed loss-making restaurants. Staff cost is traditionally our most important cost element. The full year impact of MPF adversely increased our retirement benefit costs by HK$1.7 million (24.8%) and our staff costs to sales ratio was raised from 33.5% to 35.0%. We have embarked a series of efficiency enhancement and cost control measures to suppress any surge in staff costs and was able to attain a slight decrease of 0.2%. Our rental expenses recorded a graceful savings of 6.1% which was largely caused by lowered rental upon lease renewal and also partly attributable to closure of shops during the year. Depreciation, at the same time, was reduced by 4.6% as the fixed assets for some old shops are now fully depreciated. Besides, we incurred a one off listing expenses of HK$5.9 million in last year when we spun off the bakery operation of the SHHL Group. These factors had helped reduce our operating expenses.

Performance of our associated companies was unsatisfactory. This year, we shared a loss of these associated companies of HK$0.3 million compared to a profit of HK$2.5 million in last year. A new high-end Japanese restaurant was opened earlier on in the fiscal year. Initial set up costs and less than expected sales of this new shop have dragged down our results. The Japanese restaurant in Canada was also disposed of at a loss during the year. We also re-assessed our investment in the joint-venture with the Grand Hotel Group. We made this commitment in 1997. To hang on to it, the Group will have to put in more resources, both financially and management wise, to keep it viable. The Board has thus decided that it will be in the interest of our shareholders to re-direct available resources to existing restaurants which are wholly owned. Thus, we closed three out of the four restaurants under this joint venture after the year end.

BAKERY OPERATION

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

	2002 HK$'000	Restated 2001 HK$'000	% Changes
Turnover	**476,189**	448,547	6.2%
Other revenues	**2,645**	4,259	(37.9%)
Costs of inventories consumed	**(134,497)**	(122,674)	9.6%
Staff costs	**(163,099)**	(154,498)	5.6%
Operating lease rentals	**(51,427)**	(52,306)	(1.7%)
Depreciation of fixed assets	**(25,644)**	(22,291)	15.0%
Other operating expenses	**(75,088)**	(73,028)	2.8%
Amortisation of intangible assets	**(4,600)**	(4,600)	0.0%
Operating profit	**24,479**	23,409	4.6%
Finance costs	**—**	—	n/a
Profit before taxation	**24,479**	23,409	4.6%
Taxation	**(4,279)**	(3,949)	8.4%
Profit after taxation	**20,200**	19,460	3.8%
Shop area - sq. ft.	**66,000**	67,000	
No. of bakeries	**69**	69	
No. of eateries	**2**	2	

Aggressive shop expansion and higher discount offered by our competitors forced us to follow suit to maintain our market share. This in turn eroded our profit margin. In the second half year, we have changed our strategy to improve our product quality and varieties instead of just to compete on lower price alone. Overall the turnover of our bakery and eatery sales attained a rise of 6.2% while the gross profit margin decreased from 72.7% to 71.8%. To improve our profit margin, we have continued to streamline our operation and relocating more cake production lines to our Shenzhen factory became an inevitable move. We have closed six loss-making outlets and replaced with new ones with better rental to consumer traffic ratio. We have obtained license from the Japanese developer on the know-how of "Natural Yeast" in the production process. This material has greatly improved the quality of our bread products and so far bread produced under this new process had been well received by our customers since its launch.

Same as our restaurant operation, our bakery operation also suffered a loss of interest income and as a result its other revenues had dropped by 37.9% from HK$4.3 million to HK$2.6 million.

The staff costs rose by 5.6% as resulted from the full year impact of the MPF on the entire workforce in Hong Kong. Due to opening of new shops and expanding the production capacity in current year, depreciation also increased inevitably by 15.0%.

With the implementation of the new accounting standard, we have to amortise the trademark "Saint Honore" and it had reduced our operation profit by HK$4.6 million a year. Since this accounting policy has been applied retrospectively, we also adjusted the comparative figures accordingly.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st March 2002, the Group's freely held cash on hand stood healthily at HK$200.3 million (2001: HK$149.3 million) with zero gearing. The Group's financial position is healthy with no immediate need for external fund raising. The Group plans to invest HK$17.5 million in capital assets which are largely related to shop renovation and these projects will be financed internally.

EMPLOYEES

As at 31st March 2002, the Group had a total of 2,843 (2001: 3,005) full time employees. Remuneration packages of employees include basic salary, sales incentives and discretionary bonus which are normally reviewed on annual basis. We have obtained consent from our entire workforce that any year end bonus payable in the coming fiscal year will be discretionary in nature and linked directly to their work performance. On 30th August 2001, the Company granted 30,810,000 share options to employees of the Group to subscribe for the Company's shares. Then on 31st August 2001, SHHL, a subsidiary of the Company, also granted 10,310,000 share options to employees of SHHL and its subsidiaries to subscribe for SHHL's shares.

PLEDGE OF ASSETS

As at 31st March 2002, a property in Macau with a net book value of HK$10.5 million was pledged to secure an overdraft facility of HK$1.0 million which had never been utilised. We have since requested the bank to terminate the facility. In addition, fixed deposits of HK$3.7 million have been pledged to secure bank facilities in the form of bank guarantees to secure the obligations of the Group relating leased premises and public utilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

CONTINGENT LIABILITIES

In May 2002, the Court of Appeal made a ruling against a restaurant operator for compulsory working on certain rest days. The Directors, having reviewed the circumstances of the Group in the light of the ruling, are of the opinion that the ruling would not have a material impact on the Group.

On 6th May 2002, the Company have undertaken to provide HK$44.5 million as a standing facility to the SHHL Group at the prevailing market interest rate for a three-month period and if required, can be extended. This facility has not been utilised up to the date of this report.