

06 Management Discussion and Analysis



BUSINESS REVIEW

Overall performance

Our restaurant business did not benefit much from the recovery of the economy and the various administrative policies from the government to revive the economy after SARS. Our ordinary restaurant activities has turned from profit to loss making, from HK\$2,449,000 profits in last year to HK\$12,792,000 loss up to 30 April 2005.

Free visiting mainland tourists help retail industry positively resulting in an enhancement of overall market sentiment. Though retailers of luxury goods particularly in the tourist areas reaped the biggest benefits, we did not feel any substantial upturn in restaurant sales in our shops. We still had to offer different privileges and discounts to attract patronage.

On the other hand, rising raw material costs inevitably ate into our gross margin which in turn attributed to our loss this year. Volatility in the labour market started to pick up as the economy continued to improve, there was pressure to adjust the pay rate upwards for skilled labour. Nevertheless, we've managed to minimize our overall staff costs.

However, the property market boom has created significant operating pressure to our restaurants as our occupancy costs will unavoidably be raised when we negotiate for lease renewal with landlords. Nevertheless, we are still enjoying the long leases we have with the landlords and the pressure of a major rental increase will not be immediate.

Consolidated turnover for the year ended 30 April 2005 was approximately HK\$249 million, representing a drop of approximately 21.7% as compared to the consolidated turnover of approximately HK\$318.1million for the year ended 30 April 2004. The decrease in turnover was caused by the deemed disposal of our bakery business to an independent third party in Hong Kong in June 2004.

For the year ended 30 April 2005, the Group recorded a net loss attributable to shareholders of HK\$24.9 million (2004: HK\$26.8 million). At 30 April 2005 the Group had consolidated net current liabilities of HK\$7.6 million (2004: HK\$10.0 million) and consolidated net assets of HK\$49.6 million (2003: HK\$70.8 million), respectively.

During the year, the net loss for the year, net current liabilities and net assets of the Group deteriorated, which was largely due to poor business operation for the Group's sale and distribution of bakery, and other food and beverage products and the Group's restaurant operations in Hong Kong during the year.

The bakery, and other food and beverage products' business segment of the Group operated at a loss of HK\$1.5 million for the year ended 30 April 2005 (2004: HK\$23 million).



The Restaurant Business

Catering industry is very sensitive to local economy. Faced with such challenging operating environment, the restaurant business of the Group managed to sustain a consolidated segment turnover of approximately HK\$238.4 million, represented a decrease of 1.8% from the consolidated segment turnover of approximately HK\$242.9 million in last year.

FINANCIAL REVIEW

Working capital and liquidity resources

As at 30 April 2005, the Group's consolidated shareholders' fund was approximately HK\$49.6 million, represented a drops of 30.0% from approximately HK\$70.7 million as at 30 April 2004.

The current ratio as at 30 April 2005 was 0.811 (2004: 0.798). Out of the above, cash and bank balances as at 30 April 2005 was approximately HK\$3.0 million (2004: HK\$6.1 million).

As at 30 April 2005, the Group has a total borrowings of approximately HK\$0.3 million (2004: HK\$3.7 million), of which bank loans (2004: HK\$3.2 million) and approximately HK\$0.3 million (2004: HK\$0.5 million) represented by finance leases.

There are no seasonal factors materially affecting the Group's borrowing requirements.

Since the Group's major source of income and all bank borrowings are denominated in Hong Kong dollars, the Group has minimal exposure on exchange rate fluctuations.

The Group remained a low gearing policy and generally finances its ordinary operations with internally generated resources.

Charges on assets

As at 30 April 2005, the Group disposed all of its property with the last piece being the property situated in Tai Po sold to a third party for the consideration of HK\$5,938,000 and was used to repay all the bank loans under its pledge.

Contingent Liabilities

As at 30 April 2005, the Company has provided corporate guarantees to (i) landlords in respect of operating lease payment in subsidiaries; and (ii) banks in respect of banking facilities granted to its subsidiaries.

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EMPLOYEE AND REMUNERATION POLICES

As at 30 April 2005, the Group has 890 (2004: 1,125) full-time employee. The Group remunerates its employees by reference to the market practices. Staff benefits and mandatory provident fund, if any, are provided in accordance to the prevailing requirements of the place of operations. The Group has not experienced any significant labour problems, disputes or shortage of labour which lead to disruption of the Group's operations.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 17 August 2001 which was established in accordance with the requirements of the Code of Best Practice (the "Code") as set out in the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises three independent non-executive directors of the Company. The Group's audited financial statements as at 30 April 2005 and for the year then ended have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and the Stock Exchange's and legal requirements, and that adequate disclosures have been made.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by this announcement, except that the non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code because they are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the Company's bye-laws.