# Delicacy derives from enthusiastic & innovative variations

## RESTAURANT OPERATION

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

| | 2006 HK$'000 | (Restated) 2005 HK$'000 | Changes +/(-) |
|---|---|---|---|
| **Turnover** | **405,996** | 417,260 | (2.7%) |
| **Other revenues** | **11,194** | 6,420 | 74.4% |
| **Costs of inventories consumed** | **(117,201)** | (125,688) | (6.8%) |
| **Staff costs** | **(141,561)** | (147,656) | (4.1%) |
| **Operating lease rentals** | **(50,418)** | (47,170) | 6.9% |
| **Depreciation and impairment losses of property, plant and equipment** | **(14,630)** | (18,964) | (22.9%) |
| **Other operating expenses** | **(87,249)** | (87,299) | (0.1%) |
| **Operating profit/(loss) from ordinary operating activities** | **6,131** | (3,097) | 298.0% |
| **Gain on disposal of properties** | **10,798** | 24,197 | (55.4%) |
| **Operating profit** | **16,929** | 21,100 | (19.8%) |
| **Share of profit of an associated company** | **1,398** | 1,367 | 2.3% |
| **Profit before income tax** | **18,327** | 22,467 | (18.4%) |
| **Shop area – sq. ft. at the end of the year** | **150,400** | 150,400 | |
| **No. of outlets at the end of the year** | **18** | 18 | |

Since late 2004 and over the festive seasons to follow, we had been adjusting our selling prices upward so as to offload a portion of the cost increment to our customers. Having enjoyed years of deflation under intense competition in the restaurants industry, our customers were quite resistant to price increases. This price elasticity was reflected in the turnover of the restaurant operation which show a marginal drop of 2.7% to HK$406 million (2005: HK$417.3 million). Nevertheless, we improved on our gross profit margin from 69.9% to 71.1%.

Other revenues increased by 74.4% (HK$4.8 million) mainly due to the better return generated on our investment portfolio other than traditional fixed deposits. Nevertheless, we have taken a prudent approach on selecting our investments to ensure that a better yield is achieved within an endurance level of risk exposure.

To combat intense competition, we further streamlined some processes in our restaurant operation and achieved savings on our wage bill. This together with the reversal of an overprovision in long service payments liabilities from previous years resulted in a reduction on our overall staff cost by 4.1% to HK$141.6 million (2005: HK$147.7 million).

We witness a rapid escalation in rentals for commercial premises since early 2005 as a result of the opening of Disneyland Hong Kong. The completion of the disposal of the shop premises at Sceneway Plaza in May 2005 and the subsequent lease-back of this property for use by one of our Imperial Kitchen has led to a further increase in rental expenses which jumped by an average of 6.9% as compared to the same period last year. The property sale gave rise to a profit of HK$10.8 million (2005: HK$24.2 million arose from disposal of 5 investment properties).

Included in last year's segment results was approximately HK$4.5 million in impairment losses provided on loss-making restaurants and accelerated depreciation on shops likely to conclude a shorter-than-expected lease term. Excluding those effects, depreciation was showing a mild increase of 1.1%.

## BAKERY OPERATION

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

| | 2006 HK$'000 | (Restated) 2005 HK$'000 | Changes +/(-) |
|---|---|---|---|
| **Turnover** | **589,421** | 568,901 | 3.6% |
| **Other revenues** | **4,018** | 2,592 | 55.0% |
| **Costs of inventories consumed** | **(192,332)** | (176,789) | 8.8% |
| **Staff costs** | **(172,700)** | (171,719) | 0.6% |
| **Operating lease rentals** | **(54,615)** | (55,744) | (2.0%) |
| **Depreciation of property, plant and equipment** | **(27,484)** | (27,300) | 0.7% |
| **Other operating expenses** | **(96,356)** | (89,781) | 7.3% |
| **Amortization of trademarks** | **–** | (4,600) | (100.0%) |
| **Operating profit from ordinary operating activities** | **49,952** | 45,560 | 9.6% |
| **(Loss)/gain on disposal of properties** | **(307)** | 26,113 | (101.2%) |
| **Loss on deemed disposal of a subsidiary** | **(522)** | (39) | 1,238.5% |
| **Profit before income tax** | **49,123** | 71,634 | (31.4%) |
| **Shop area – sq. ft. at the end of the year** | **72,000** | 72,000 | |
| **No. of bakeries at the end of the year** | **85** | 78 | |
| **No. of eateries at the end of the year** | **1** | 2 | |

The Hong Kong market which contributed to around 85% of our bakery turnover for the past year remained to be our major market segment and it performed fairly in the past year. The mild growth of 2% in turnover is a combination of 3% growth in the core cake and bread business and 9% drop in the festive products.

To maintain our market position, efforts were spent to develop new products so as to distinguish ourselves from the competitors. The newly launched coffee bun, the fresh chestnut cake and mini pastries have been well received by the market. We are also focusing to develop more health oriented products, such as high fiber grain bread and low-sugar festive products to capture the increasingly health conscious customers.

The gross margin of our Hong Kong market was eroded by 2% due to increased in the commodity prices. To compensate the effect, we managed to achieve savings in rental via relocation of some of our shops from prime commercial areas to residential zone. Our Shengzhen factory has sheltered us to a certain extent the effect of the latest round of pay rises brought about by the recovery of the Hong Kong market.

Macau and PRC markets continued to record high growth of over 40% each in turnover in the past year. We are optimistic about the Macau market given the booming casino business. To tackle the local labour shortage problem, we will continue to import workers from PRC and some of the labour-intensive production processes will be transplanted to our Shenzhen factory. For the PRC market, a new corporate sales team has been set up to promote our products through established distribution network in PRC.

## LIQUIDITY AND CAPITAL RESOURCES

At 31 March 2006, the Group had freely-held cash on hand which amounted to about HK$349.7 million (2005: HK$295.6 million) and zero gearing. Approved capital commitments in the next financial year are estimated to be about HK$20.2 million, mainly for the expansion of bakery production capacity and its retail network. These projects will be financed internally and there is no immediate need for external fund raising.

## EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2006, the Group had a total of 3,037 (2005: 3,120) full time employees of which 770 (2005: 720) staff were local staff of PRC and Macau. Employees' remuneration package was determined with reference to prevailing market practices and individual performance. Remuneration package includes basic salaries, sales incentives (which are only payable to some operational staff), medical and retirement benefit schemes. Discretionary bonus may be granted to eligible employees based on the performance of the Group and individual employees. Though the share option schemes of the Company and its listed subsidiary, Saint Honore Holdings Limited ("SHHL") had become invalid since 2001, there were still some share options previously granted under these schemes that remained unexercised at the year end. The details of the share options are set out in the section headed "Share Options" in the report of the directors.

## PLEDGE OF ASSETS

No asset was pledged throughout the year.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group conducts most of its business transactions in Hong Kong dollars and Renminbi ("RMB"). The Group hedges its RMB exchange exposure by using foreign exchange forward contracts as well as holding surplus cash in RMB deposits. At 31 March 2006, the Group did not have any outstanding foreign exchange forward contract and had RMB fixed deposits amounted to RMB 26.5 million.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at 31 March 2006.