MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover for the bakery operation increased by 4.0% as compared to the same period last year. As analysed by product types, sales of cake and bread increased moderately by 6.5% largely due to the combined effort of marketing promotion and new products 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. Intense competition has forced the Group to offer larger discount while burden from MPF contribution has increased our staff costs, our profit margin shrank as a result. In order to improve profitability, we had replaced 2 loss-making outlets with 3 new shops which were opened in the selected residential area with lower rental and constant consumer traffic. We also renovated some aged “anchor” outlets to present a more refreshing image to our customers.

Our two eateries continued to contribute positively to the Group’s profitability. Superior quality and right pricing strategy were the prime factors of success and we will strengthen ourselves in these aspects.

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.

Prospect

The Group does not expect the coming six months will be very promising due to the continual weak economic environment in Hong Kong. We foresee the full impact of “911” will adversely affect our business in the second half of the year, especially on festive product sales. We will continue to face the pressure of price reduction and 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

There was a healthy inflow of cash during the past six months. As at 30th September 2001, the Group's freehold cash on hand stood at HK$83.8 million (2000: HK$74.0 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 mainly pertained to our expansion of the bread production capacity and a new shop 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 1,480 full time employees out of which 1,230 were employed in Hong Kong and there were 250 overseas staff. As an incentive to our staff, the directors granted 10,310,000 share options to employees to subscribe for shares in the Company on 31st August 2001.

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.