

Management Discussion and Analysis

Group Results

Turnover

The Group's turnover for the year was HK\$99 million, representing a decrease of 9% when compared with last year. Restaurant sales, which constituted the major part of the Group's turnover, decreased by 5%. The income from investment properties remained stable.

Operating loss before tax

Operating loss before tax increased by HK\$13 million to HK\$21 million in 2001, attributable partly to decline in restaurant sales.

Divisional Review

A. Restaurant operations and related activities

Turnover

Turnover for restaurant operation and related activities this year decreased by 5% to HK\$87 million, of which HK\$85 million was generated from catering income. The average number of customers per day decreased by 4% while the average spending per customer reduced by 2% during the year.

Restaurant gross operating margin

Average gross operating margin declined slightly to 65% and gross operating profit for the year amounted to HK\$51 million.

Other operating expenses

Direct operating expenses remained stable at HK\$17 million. Electricity expenses for the year increased by 10% to HK\$4 million. Fuel expenses during the year increased by 10% to HK\$2.6 million, due to substantial increase in fuel price.

B. Property investment and related activities

Carpark Income

Carpark income is derived from the 509 carparking spaces at Jumbo Court Public Carpark, which is leased to a carpark operator. The income increased by 7% this year.

Art Court

Art Court is a 12-unit residential building situated at 5 Tung Shan Terrace. The average occupancy rate of the property increased from 72% to 74% in 2001. As a result, income for the year increased to HK\$2.9 million, representing a 5% increase when compared with 2000.

C. Investment and others

Turnover for investment and others, representing bank interest income for the year, decreased to HK\$8 million.

Employees

The Group employed a total of 273 employees at the year end of 2001 and staff cost, excluding directors' emoluments, amounted to approximately HK\$55 million this year. The Group ensures that the pay levels of its employees are competitive.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible staff. Details of the scheme are described in the Report of the Directors.

Liquidity and Capital Resources

Cash available to the Group at the end of 2001 amounted to HK\$213 million, representing a decrease of HK\$19 million. The Group is in a financially sound position for future expansion and business development. At the balance sheet date, the Group did not have any significant capital commitment.

Capital Structure

The authorized share capital of Melco International Development Limited is HK\$480,000,000 at HK\$1.00 per share. As at 31 December, 2001, there were 121,087,134 ordinary shares issued and fully paid. The capital reserve account and share premium account were HK\$357,784,733 and HK\$8,737,833 respectively. Investment property revaluation reserve was reduced to HK\$76,613,932.

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Cash Flow Variance Analysis

	2001 HK\$	2000 HK\$	Variance HK\$
Operating Activities	(25,457,841)	(11,949,225)	(13,508,616)
Return on investments and servicing of finance	8,003,722	13,565,597	(5,561,875)
Tax	48,995	(57,037)	106,032
Investing Activities	(1,197,974)	12,270,663	(13,468,637)
Financing Activities	-	-	-
Increase/(Decrease) in cash and cash equivalents	<u>(18,603,098)</u>	13,829,998	(32,433,096)

Operating activities

The net operating cash outflow for the year increased by HK\$13.5 million, partly due to the decline in the sales of restaurant business.

Returns on investments and servicing of finance

The decrease of returns on investments and servicing of finance was due to the reduction of interest rate.

Tax

The cash inflow was due to tax refund this year.

Investing activities

Without the contribution from the disposal of vessels, the net cash flow for investing activities decreased during the year.