

Management Discussion and Analysis





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Group Results

Turnover

The Group's turnover for the year was HK\$86.4 million, representing a decrease of 13% when compared with last year. Restaurant sales decreased by 10% while the income from investment properties increased by 12%.

In the coming year, the Group will streamline its existing business, and at the same time, broaden its income sources and diversify to other promising industries so as to achieve a stable growth amidst the tough operating environment.

Operating loss before tax

Operating loss before tax increased by HK\$17.0 million to HK\$38.1 million in 2002. The increase was due to the making of provisions for impairment of fixed assets and investments and employees' long service payments in connection with review of employees' salaries and against deposits paid.

During the year, the Group implemented a series of cost cutting and control measures. As a result, food and beverages costs and staff costs dropped by 14% and 6% respectively in 2002. In future, the Group will continue to streamline its operations to attain higher efficiency.

Divisional Review

A. Restaurant operations and related activities

Turnover

Total sales for restaurant operation and related activities this year decreased by 10% to HK\$78.2 million. Among various categories of sales, local banquet catering increased approximately by 14%. The drop in restaurant sales was mainly attributed to the tough operating environment. In face of forthcoming challenges, the Group will strengthen its marketing strategies and transform the Jumbo Kingdom into a modern complex of fine-dining, shopping, sightseeing and cultural attraction so as to deliver greater customer value and increase future revenue.

Restaurant gross operating margin

Average gross operating margin increased slightly to 68% and gross operating profit for the year amounted to HK\$52 million.

Other operating expenses

With the implementation of efficiency enhancement program, direct operating expenses decreased by 17% to HK\$14.3 million, in respect of which ferry expenses declined by 19% to HK\$1.8 million and fuel expenses dropped by 25% to HK\$2 million. Cleaning and laundry expenses decreased by 13% to HK\$1.6 million.

Upon completion of salary review in 2002, staff costs of the floating restaurant declined by 10% to approximately HK\$45.3 million. Staff costs would be further reduced by HK\$650,000 per month from March 2003 which would lead to a further 8% cut in monthly operating costs of the floating restaurants. In future, the Group would further enhance operational efficiency by means of cost cutting measures.

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 decreased to HK\$1.3 million this year (2001: HK\$1.7 million).

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 74% to 90% in 2002. As a result, income for the year increased to HK\$3.5 million, representing a 21% increase when compared with 2001.

C. Investment and others

Turnover for investment and others, mainly representing bank interest income for the year, decreased to HK\$3.4 million.

Employees

The Group employed a total of 259 employees at the year end of 2002 and staff costs, excluding directors' emoluments, dropped by 6% to approximately HK\$52 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 note 23 to the financial statements.

Liquidity and Capital Resources

Cash available to the Group at the year end amounted to HK\$219 million, representing an increase of HK\$7 million from the previous year. The Group's current assets represented approximately 13 times of its current liabilities at the year end of 2002. The Group is in a financially sound position for future operation and expansion.

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 2002, there were 145,287,134 ordinary shares issued and fully paid. The capital reserve account and share premium account are HK\$357,784,733 and HK\$19,189,283 respectively. Investment property revaluation reserve was increased to HK\$79,214,408.

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Cash Flow Variance Analysis

| | 2002 | 2001 | Variance |
|--|---------------------|--------------|-------------|
| | HK\$ | HK\$ | HK\$ |
| Operating activities | (22,530,258) | (17,405,124) | (5,125,134) |
| Investing activities | (5,435,451) | (1,197,974) | (4,237,477) |
| Financing activities | 34,651,450 | – | 34,651,450 |
| Increase/(decrease) in cash and cash equivalents | 6,685,741 | (18,603,098) | 25,288,839 |

Operating activities

The net operating cash outflow for the year increased by HK\$5.1 million, partly due to the decline in the sales of restaurant business.

Investing activities

The net cash outflow from investing activities increased by HK\$4.2 million during the year.

Financing activities

The net cash inflow from financing activities increased by HK\$34.7 million, due to issue of additional share capital.

Pledge of Assets

As at 31 December 2002, the Group's bank deposits amounting to HK\$1,100,000 (2001: HK\$911,000) were pledged to secure a letter of guarantee to the extent of HK\$1,031,000 (2001: HK\$911,000) granted by a bank for the Group's water and electricity deposits.