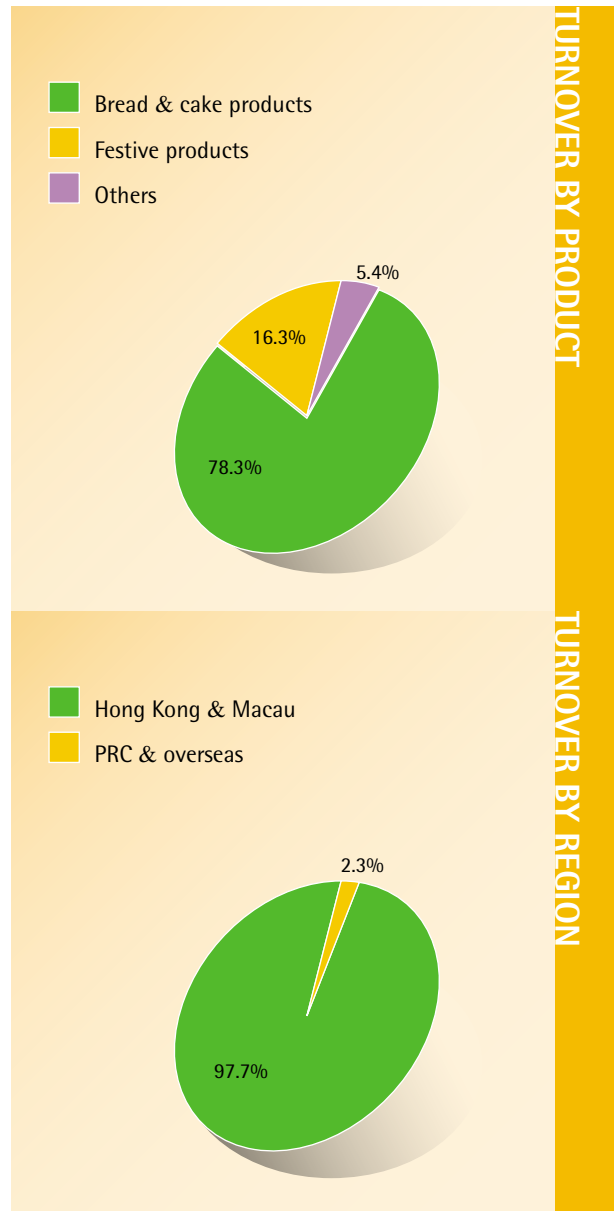


SAINT HONORE CAKE SHOP

Earlier this year, aggressive shop expansion and higher discount offered by our competitors had forced us to follow suit in order to maintain our market share. This in turn eroded our profit margin. By then, we have changed our strategy to improve on our product quality and varieties instead of just to compete on lower price alone. This strategy has proved to work as our profit margin started to improve. Overall the turnover of our core business on cake and bread sales increased slightly by 1.5%. To improve our profit margin, we have continued to streamline our operation and relocating more cake production lines to our Shenzhen factory became an inevitable move. We have also closed six loss-making outlets and opened four new ones with better rental to consumer traffic ratio. Some of the flagship outlets have been renovated during the year to give a more refreshing image. We have obtained the exclusive license from the Japanese developer on the know-how of using "Natural Yeast" in the production process. This material has greatly improved the quality of our bread products, and so far bread produced under this new process have been well received by our customers since its launch.



SAINT HONORE CAKE SHOP *(cont'd)*

Festive products are generally considered as luxury goods for gifts purposes. The continual economic downturn in Hong Kong resulted in reduction in spending on this product category. To cope with this, we introduced new products at more affordable price to stimulate buying. The turnover of our festive products dropped by a mere 1.6% compared to a much higher market average proved that our decision was right.

With the implementation of the new accounting standard, we have to amortise the trademark of "Saint Honore" and it has reduced our operating profit by HK\$4.6 million a year. Low interest rate also means less interest income generated from our surplus cash.

Hong Kong and Macau remain to be our major operating territories and contributed 97.7% (2001: 97.5%) of our consolidated turnover as their combined turnover increased by 12.1% while turnover from the PRC and overseas markets was relatively stagnant as a combined result of the global recession and our prudent credit policy to new customers.



Deluxe XO Sauce Fungus and Pork Floss Rice Dumplings

BREAD BOUTIQUE

During the year, sales of our Bread Boutique Limited ("BBL") chain rose by 5.8% of which 3.2% was contributed 2 new shops, namely Oi Tung and Lung Cheung, opened in April 2001 and November 2001 respectively. We expanded the Central Workshop at Kowloon Bay where bulk of the Group's pre-packed bread loaves are manufactured here and was previously worked to its capacity limit. BBL will continue to contribute to the Group by supplying more packed bakery products so as to relieve Saint Honore Cake Shop's capacity for cake production and festive products. Major shop renovation in the coming year has been scheduled to give a complete facelift to our shops, hopefully to present a younger image to our customers.



Oven Fresh Bread



Whole Egg Loaf

E.C. EATERY

Learning from the painful experience of Chatham Road shop closure, we have been very careful in selecting the location for new outlets. The new outlet at Causeway Bay has proved to be successful and together with



Steam Cake

the Tsim Sha Tsui flagship, the eatery business has turned around and contributed to this year profit of HK\$2.4 million as compared to loss of HK\$2.3 million at last year. We believe that there is genuine demand for this type of niche eatery in the Hong Kong market and the management is looking for suitable location for more outlets.



Assorted Crunchy Nuts Waffles Gift Box

LIQUIDITY AND CAPITAL RESOURCES

There was a healthy inflow of cash during the past year. As at 31st March 2002, the Group's freely held cash on hand stood at record level of HK\$79.7 million (2001: HK\$64.1 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 for increasing our production capacity of our Shenzhen factory.

PLEDGE OF ASSETS

As at 31st March 2002, a property in Macau with a net book value of HK\$10.5 million was pledged to secure an overdraft facility of HK\$1.0 million which had never been utilised. We have since requested the bank to terminate the facility. In addition, fixed deposits of HK\$1.2 million have been pledged to secure bank facilities in form of bank guarantees to secure the obligations of the Group relating leased premises and public utilities.



Double-Yolk White Lotus Seed Paste Mooncake



Saint Honore Bread

EMPLOYEES

As at 31st March 2002, the Group had a total of 1,460 (2001: 1,500) full time employees. Remuneration packages of employees include basic salary, sales incentives and discretionary bonus which are normally reviewed on annual basis. We have obtained consent from our entire workforce that any year end bonus payable in the coming fiscal year will be discretionary in nature and linked directly to

their work performance. On 31st August 2001, the Company granted 10,310,000 share options to employees of the Group.

CONTINGENT LIABILITIES

As at the reporting date, the Group did not have any significant contingent liability.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's activities are primarily denominated in Hong Kong dollars. There is no significant exposure to foreign exchange fluctuations.



Chinese New Year Gold Pudding Gift Set



Saint Honore Cake – Mango flavour