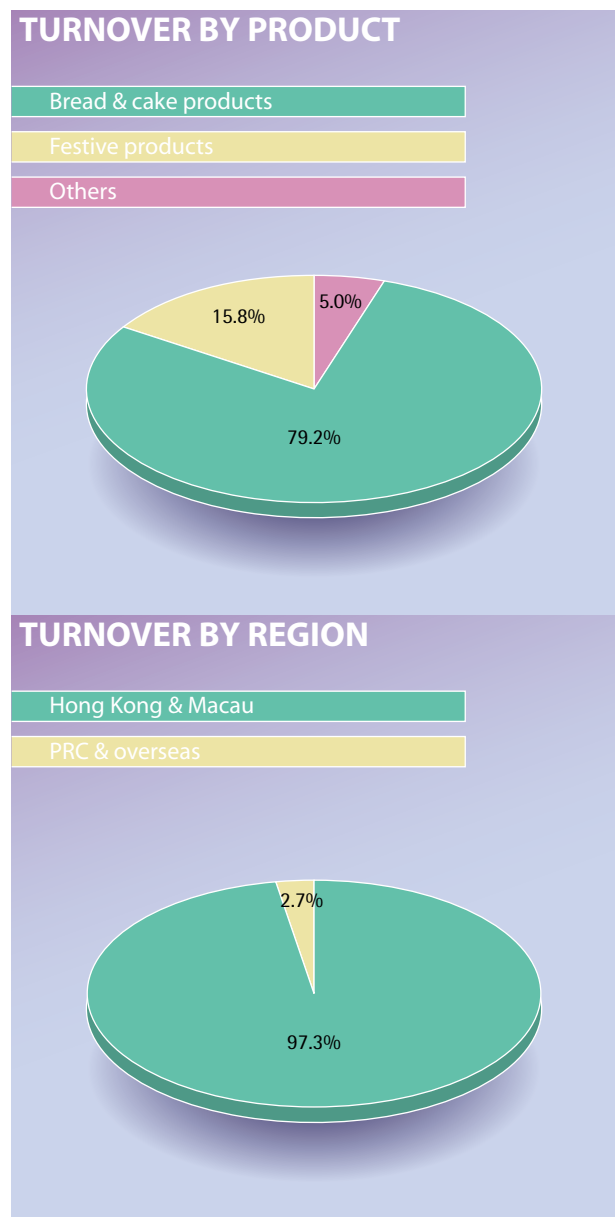


## SAINT HONORE CAKE SHOP

In order to maintain our market share in the wake of intensifying competition and a stagnant economy, the Company placed more emphasis on product enhancement, marketing promotions and pricing strategy. These concerted efforts are well recognised by customers as indicated by the increase in the overall turnover by 6.2%. The introduction of "Natural Yeast" to our bread products has proved to be a triumphant success. This natural yeast not only improves the softness of our bread products, it also brings out the natural aroma of wheat in the products. Customers' feedback has been very positive as reflected in the surge of turnover of our bread products by 11.8%. Over the year, we have also worked with various renowned joint promotion partners for cross-selling our products and enlargement of marketing segments.



Our customer traffic counts have increased significantly by folds through various promotional campaigns. To compensate for the erosion in gross margin resulted from higher discount offered to customers and the increased marketing cost, we have migrated some of our cake production lines to Shenzhen to save production costs. Staff cost has also been reduced by 4.5% mainly due to this migration but the saving was partly offset by the increment in depreciation charge from related capital expenditure. With the successful migration of these production lines, we are now equipped with more competitive edge and increased production capacity to meet customer demand in the near future and large-scale promotional campaigns.

As Hong Kong economy has not emerged from its downturn since 1997, we will take a prudent approach in expanding new outlet. Instead we will continue on our shop-revamping program to uplift the image of those aged outlets. Chinese steam buns will be added to our product lines in these outlets to offer an alternative product choice to customers. During the year, two outlets were closed upon their tenancy expiry and four new outlets were opened while six other outlets underwent renovation for a fresh outlook and upgraded image. The depreciation charge increased as a result of more outlets in number but our rental expenses slightly reduced by 3.7% due to successful negotiation with landlords for rental reduction.

## SAINT HONORE CAKE SHOP (cont'd)

The turnover of our festive products achieved an overall growth of 2.7% despite the weak economy. We have introduced 'Snowy' mooncakes to our product range and they were so well received by customer that all were sold out well before the last Mid Autumn Festival. We have appointed the celebrities 'Twins' for the first time to endorse our mooncake on print media and TV commercials. The marketing strategy proved to be a tremendous success as our TV commercial of mooncake was chosen as the Fourth Highest Recalled TV Commercials during the season by a survey done by Media's Adwatch.

The exploration of the PRC retail market is under way and at the end of the fiscal year we opened a total of three outlets at Guangzhou. Our brand is getting more accepted by Guangzhou people and our turnover there is increasing. With the establishment of our retail network, we will have a better foothold in the mainland for sales of our festive products to the mass Chinese population.

The supreme quality of our mooncake and our quality production system are well recognised by the Chinese government and our mooncake products were awarded by the Guangdong Provincial Authority as a 'National Famous Brand'.

At 31 March 2003, we have a total of fifty four outlets in Hong Kong, two at Macau and three more at Guangzhou with Hong Kong and Macau generated 97.3% of the turnover.

## BREAD BOUTIQUE

Bread Boutique recorded steady growth this year again. Though we did not add any new outlets this year, its sales increased by 3.9%, which was achieved by the joint effort of different marketing campaigns launched with our promotion partners and the recognition of our improved products quality by customers. To remain competitive, we also diversified into selling Chinese dim sum in some of our outlets. In view of overwhelming acceptance by customers, we shall extend this new product line to the whole chain in the coming year. To maximize the revenue generated on per square foot of leased premises, we have split a few existing shops into two selling the Saint Honore products side-by-side to each other.



Awarded issued by Guangdong Provincial Authority to Saint Honore's Mooncake



Strawberry Crispy Cake

## EC EATERY

During the 2002 World Cup Soccer event in the first quarter of the fiscal year, many restaurants were hard hit including ours. In the subsequent months we have implemented a series of business enhancement plans to increase our turnover. Such tactics include a more frequent main menu revision, the introduction of Shanghainese dim sum and up-grading of ingredients. All these measures paid off and turnover has since been catching up gradually, especially for the Causeway Bay outlet. However, the outbreak of the SARS in March 2003 gave us another blow and overall, our annual turnover dropped by 6.3%. In order to more truly reflect the performance of our eateries, we started charging them a share of the management expenses previously borne by the bakery business only. As a result, its profit contribution reduced by around HK\$1 million.

## LIQUIDITY AND CAPITAL RESOURCES

During the year, the Group released the pledge of certain of its bank balances. Our freely held cash on hand increased from HK\$79.7 million to HK\$92.2 million even though we have spent HK\$28.4



Mango Crispy Cake



Saint Honore Mother's Day Cake Series:

- Bird's Nest & Mango Crispy Cake (Back)
- Mixed Fruit Fresh Cream Cake (Front)

## LIQUIDITY AND CAPITAL RESOURCES *(cont'd)*

million on new capital expenditure. The Group's financial position stays healthy with zero gearing. The Group plans to invest about HK\$10.5 million mainly to expand and upgrade the outlet network. These projects will be financed internally and we do not have immediate need for external fund raising.

## EMPLOYEES

At 31 March 2003, the Group had a total of 1,670 (2002: 1,460) full time employees. Employees are remunerated based on basic salaries and sales incentives are payable to some operational staff. Bonuses were discretionary in nature and based on the performance of the employees and the Group. The Company



*Saint Honore Chinese New Year Puddings*

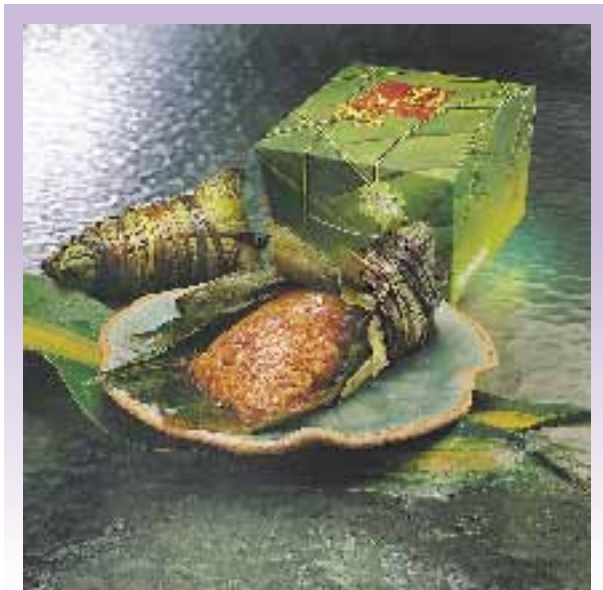
The Company has adopted a share option scheme to provide incentive to working staff.

## PLEDGE OF ASSETS

No assets were pledged as at 31 March 2003.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group conducts most of its business transactions in currencies of Hong Kong dollars, Pataca and Renminbi. As these currencies were relatively stable during the year, the Group had not exposed to any material currency fluctuation risk during the year.



*Jiang Nan Deluxe Rice Dumplings*

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 March 2003.