

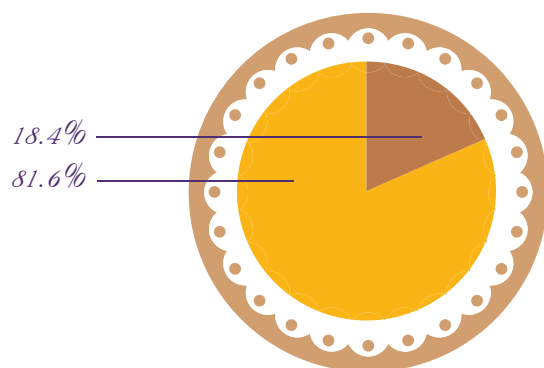
Management Discussion and Analysis of the Operations

The number of outlets are summarized as follows:

	At 31 March 2005	At 31 March 2004	Net Increase
Bakery outlets			
Saint Honore Cake Shop			
Hong Kong	56	54	2
Macau	3	2	1
PRC	4	2	2
Bread Boutique	15	15	–
	78	73	5
Eateries	2	2	–
	2	2	–

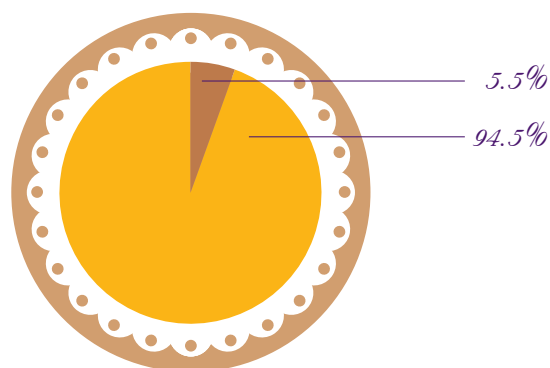
SAINT HONORE CAKE SHOP

Turnover By Products



- Bread & Cake Products
- Festive Products

Turnover By Regions



- Hong Kong & Macau
- PRC & Overseas



Super Soft Cake



Saint Honore appoints well-known artists Mr. Lawrence Cheng and Ms. Teresa Mo as mooncakes ambassadors



Chestnut Cake with Chocolate Crisp

Even though the economy of Hong Kong had improved, our core cake and bread business did not benefit much out of it. Our customers were still very reluctant to spend more on the daily necessities. We had tried to reduce the discounts given to our customers in order to compensate for the effect of rising raw material prices and our turnover was affected. Turnover of cake and bread products grew by only 2.9%. On the other hand, we had accurately foreseen that customers would be more willing to spend more for gift items and captured a sizeable share of this market with the launch of additional festive product lines such as the new flavors of 'snowy' mooncakes. Turnover of our festive products recorded a growth of 26.2%. With the economy returned to a slight inflationary state, we felt the crunch of cost pressure. Nevertheless, our production lines in Shenzhen have sheltered us to some extent our exposure to rising labour costs. With the improved economy, the landlords were asking for a higher rent at the time of lease renewal resulting in a double-digit increase in our occupancy expenses.

We made use of the proceed from the disposal of a property in Macau for greater market penetration there. 2 new outlets were opened before end of the fiscal year with two more to come on the schedule. A new factory with the capacity to support more outlet growth has been in place since December 2004.



Fresh Chestnut Cake



Double Flavours Chiffon & Steamed Cakes

Our festive products are apparently perceived to be of better quality over our rivals in PRC and their turnover has posted a 80% growth. 2 new outlets have been added in Guangzhou while the existing outlets are showing continuous growth in daily cake and bread products. In order to support the turnover growth there, a new factory was commissioned by March 2005 and we can now concentrate on sourcing for suitable locations to expand our outlet chain there.

BREAD BOUTIQUE

Bread Boutique recorded a moderate growth of 6.1% in sales which was mainly contributed to the increase in Chinese dim sum sales. In view of the growth, we acquired additional 11,000 square feet of factory space in March 2005. We passed to our customers part of the effect of rising material costs by cutting some sales discounts. At the same time, we will continue measures to cut back other operating expenses so as to offset the rise in depreciation and utility charges.

EC EATERY

The booming economy has brought in more competitors but the Individual Visit Scheme is not directing new customer flows to us. Turnover reported only a 1.4% growth, yet rising material costs and other operating expenses had eroded our net profit margin. We expect the landlords will ask for a substantial increase in rental charge when the existing leases expire in the near future. The management is contemplating relocation plan at present.



LIQUIDITY AND CAPITAL RESOURCES

Our freely-held cash on hand slightly decreased to about HK\$129.6 million at 31 March 2005 (2004: HK\$131.0 million) as we had spent over HK\$70 million on capital expenditure during the year. The Group's financial position stays healthy with zero gearing. The Group plans to invest about additional HK\$27.1 million to further expand and upgrade the outlet network and production capacity apart from the amount already committed and contracted at year end. These projects will be financed internally and there is no immediate need for external fund raising.

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2005, the Group had a total of 1,970 (2004: 1,748) full time employees of which 720 (2004: 519) staff were based in PRC and Macau. Employees' remuneration package was determined with reference to prevailing market practices and individual performance. Remuneration package includes basic salaries, sales incentives (which are only payable to some operational staff), medical and retirement benefit schemes. Discretionary bonus may be granted to eligible employees based on the performance of the Group and individual employees. Though the share option scheme of the Company has become invalid since 2001, there were still some share options previously granted by the Company that remained unexercised at the year end. The details of the share options are set out in the section headed "Share Options" in the report of the directors.

PLEDGE OF ASSETS

No assets were pledged throughout the year.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group conducts most of its business transactions in Hong Kong dollars and Renminbi ("RMB"). At 31 March 2005, the Group did not have any outstanding RMB forward exchange contracts (2004: HK\$23.0 million). In view of a possible RMB revaluation after fiscal year end, the Group has since committed HK\$40.0 million in RMB forward exchange contracts which will all expire within the next fiscal year.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at 31 March 2005.