



Management Discussion and Analysis of the Operations

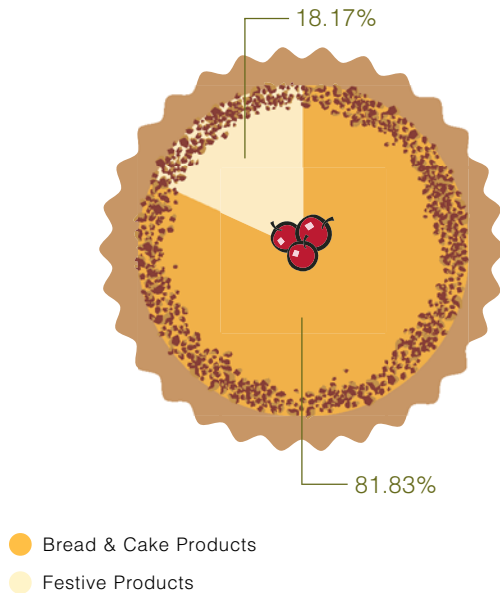
The number of outlets are summarized as follows:

	At 31 March 2006	At 31 March 2005	Net Increase/ (decrease)
Bakery outlets			
Saint Honore Cake Shop			
Hong Kong	59	56	3
Macau	6	3	3
PRC	5	4	1
Bread Boutique	15	15	–
	<u>85</u>	<u>78</u>	<u>7</u>
Eateries	<u>1</u>	<u>2</u>	<u>(1)</u>

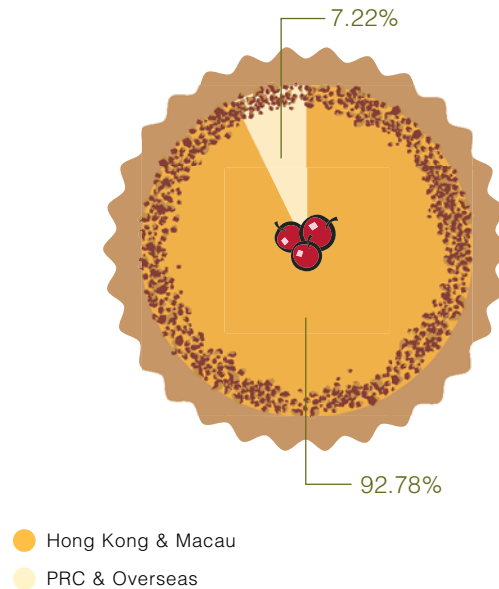
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SAINT HONORE CAKE SHOP

Turnover By Products



Turnover By Regions





"Happy Hour" Mango and Mixed Fruit Cakes

SAINT HONORE CAKE SHOP

Hong Kong Market

The Hong Kong market which contributed to around 70% of our consolidated turnover for the past year remained to be our major market segment. This market performed fairly in the past year. The core cake and bread business grew by 4% while turnover of our festive products on the other hand dropped by 9%. Overall, turnover in Hong Kong grew by a mere 2%.

Despite the steady recovery of local economy, fierce competitions among operators left us with little room to raise prices. In order to maintain our market share, we diverted our efforts to develop new products and to distinguish ourselves from our competitors. We added over 250 new items and more than doubled our product choices available to our customers. For instance, the newly launched coffee bun successfully captured the hearts of both young and old; our fresh chestnut cake and mini pastries were all well accepted by the market. With the population becoming more health conscious, more health oriented products such as high fiber grain bread and low-sugar content mooncake/festive puddings are being developed to capture the growing demands of this market. Also, sales of cake coupons jumped by 50% over the corresponding period due to active promotion thus securing advance sales for us in the future.

Our gross margin was eroded by 2% as direct food costs were bidden up in line with world commodity prices and our inability to pass them to our customers. We managed to make this up with savings on our rental and labour costs. During the year, we closed 6 outlets located at prime commercial areas upon expiry of leases and reopened 9 new one with a

fresher look largely at residential areas commanding a lower rent. Our Shenzhen factory which is operating at a comparatively lower wage rate has sheltered us to some extent the effect of the latest round of pay rises brought about by the recovery of the Hong Kong economy.





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Deluxe XO Sauce Pork Floss &
Chestnut Rice Dumpling

Macau Market

We opened 3 new outlets in Macau. Turnover recorded a growth of nearly 50% while the gross margin was reduced by 4.4% due to increase in raw material prices despite having a small raise in our selling prices during the year. We expect this market continues to be favorable due to booming casino business there. To tackle the labour shortage problem, we have started importing workers from PRC as well as transplanting some of the labour-intensive production processes to our PRC plant. With 6 retail outlets and a centralized workshop now in full operation, we can now capture the OEM and corporate sales market on top of the retail market.

PRC Market

Despite one outlet was added in Guangzhou, turnover grew by around 45% as the organic growth on existing outlets for both our normal cake and bread products as well as festive products remained strong. A new corporate sales team has also been setup to promote our products through established distribution network in PRC.

We expect shortly to take vacant possession of the whole factory block located next to our existing Shenzhen plant. The premises was acquired last year. We are in the process of drawing up a blue print to integrate the two buildings into a highly functional plant which should provide the capacity needed to support foreseeable expansion there.

Overall

In order to improve our production efficiency and to better react to market and sales demand, we are implementing a new Enterprise Resources Planning system that is expected to be implemented before end of 2006. According to the new HKFRS, we ceased amortizing our trademarks and correspondingly there has been an annual saving of HK\$4.6 million from April 2005 onwards.

BREAD BOUTIQUE

Bread Boutique contributed to 19.7% of consolidated turnover. Sales performance of this chain was quite stable with the number of outlets remained at 15 for the past few years. Operating profit suffered a slight decline of 5.8% when compared to 2005 due to increment in food costs, rental and public utilities expenses. We will revamp the outlets by stages to refresh our image.



New Chinese New Year Gift Boxes

EC EATERY

Turnover contribution of our eatery business dropped by 32% due to the closure of Tsim Sha Tsui outlet earlier on in the fiscal year. Performance of the remaining shop at Causeway Bay was far from satisfactory ever since the access to the basement level where we are located was redesigned by the landlord resulted in a lesser pedestrian flow. Our gross margin was eroded by 1.8% due to rising food cost. As management has decided to concentrate its effort to develop the core bakery business, the eatery business will be phased out when the current rental lease expires in late 2006.

LIQUIDITY AND CAPITAL RESOURCES

Our freely-held cash on hand increased to about HK\$145.5 million at 31 March 2006 (2005: HK\$129.6 million) as capital expenditure for the year was considerably reduced to HK\$36.6 million (2005: HK\$70.6 million). The Group's financial position stays healthy with zero gearing. Apart from the HK\$1.7 million (2005: HK\$4.4 million) already committed and contracted at the year end, the Group plans to invest an additional sum of about HK\$14.3 million (2005: HK\$27.1 million) to expand and upgrade the outlet network and production capacity. These projects will be financed internally and there is no immediate need for external fund raising.

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Coffee Bun

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2006, the Group had a total of 1,950 (2005: 1,970) full time employees of which 770 (2005: 720) staff were local staff of 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 had 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 Option" in the report of the directors.

PLEDGE OF ASSETS

No asset was 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"). The Group hedges its RMB exchange exposure by using foreign exchange forward contracts as well as holding surplus cash in RMB deposits. At 31 March 2006, the Group did not have any outstanding foreign exchange forward contract and had RMB fixed deposits amounted to RMB 26.5 million.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at 31 March 2006.