

Chairman's Statement

I am pleased to present to you the 2004 annual report of Saint Honore Holdings Limited (the "Company") and its subsidiaries (the "Group").

RESULTS

Our consolidated turnover increased by 8.7% to HK\$537.5 million (2003: HK\$494.5 million) while our profit attributable to shareholders improved by 144.8% to HK\$45.4 million (2003: HK\$18.5 million) including the gain on disposal of an investment property amounting to HK\$7.2 million.

DIVIDENDS

The directors recommended a final dividend of HK9.0 cents (2003: HK3.5 cents) per share, which together with the interim dividend of HK4.0 cents (2003: HK2.0 cents) per share paid on 28 January 2004 makes a total dividend of HK13.0 cents (2003: HK5.5 cents) per share for the financial year ended 31 March 2004. Subject to approval by the shareholders at the Annual General Meeting on 26 August 2004, the final dividend will be payable on or about 7 September 2004 to shareholders whose names appear on the register of members on 26 August 2004.

BUSINESS REVIEW

The past twelve months have been a rewarding year for the Group. Despite the outbreak of Severe Acute Respiratory Syndrome ("SARS") earlier on which affected most businesses in Hong Kong, we rebounded in no time following the introduction by the Central Government of various policies favouring the recovery of Hong Kong economy. Making use of the improved economic environment, we had launched several large scale marketing campaigns which succeeded in boosting our turnover, especially for the sales of our normal cake and bread products. With the benefit of cost savings achieved from our Shenzhen production lines, we are now able to offer more discounts to our customers. Though our gross profit margin suffered slightly and fell from 71.0% to 70.6%, overall turnover increased by 8.7% and with our conscious effort to contain our fixed costs, our operating profit before taxation soared to a record figure of HK\$45.8 million, before adding the exceptional profit from disposal of an investment property.

Turnover contribution from the PRC continued to improve despite no change in the number of outlets there. Overall turnover in the PRC has increased by 70% mainly from the sales of our mooncake products as our brand is now well recognized locally following the winning of various national awards such as the "Famous Mooncake" and "National Hygiene Quality Standard". In fact, the PRC market is now making positive contribution to our bottom line.

We also took advantage of the recent property market boom and restructured our property portfolio by disposing an investment property in Causeway Bay and replacing it with a shop premise at Yuen Long, which we will take over eventually for self-use. We realized a capital gain of HK\$7.2 million from the disposal.

PROSPECT

Although there are clear signs of a gradual recovery of the Hong Kong economy, we can sense our customers are still very price sensitive. This is evidenced from the comparatively lower turnover growth recorded from our festive products which are normally considered by many as being luxury products rather than daily necessities. On the other hand, we are starting to feel the pressure from rising costs: we foresee higher rental will be demanded by landlords as the local retail market continues to pick up and higher material costs ahead as world commodity prices have escalated. Profit margin erosion may be inevitable and we have to exercise restraint on outlet expansion in order not to jack up our fixed costs unnecessarily.

The lower production costs enjoyed by our Shenzhen plant enable us to compete favourably against other bakery operators, but this comparative advantage will lose its effectiveness in time when our competitors follow suit. We must invest continuously to acquire new know-how, equipment as well as to keep up with the latest trend in shop layout and design so as to maintain our leadership in product quality and market image.

We have already established a firm hold in Guangzhou and more outlets will be opened in the coming year. We are confident that "Saint Honore" will be recognized as one of the leading brands there.

ACKNOWLEDGEMENTS

On behalf of the board of directors, I must take this opportunity to express our most sincere appreciation of our business partners and staff whose unfailing supports have been the main impetus to ride us to the outstanding results achieved in the past year.

Chan Wai Cheung, Glenn

Chairman

Hong Kong, 8 July 2004