



## **SOMERLEY LIMITED**

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2 January 2007

*To: The Saint Honore Independent Board Committee*

Dear Sirs,

**PROPOSED TAKEOVER BY CONVENIENCE RETAIL ASIA LIMITED  
OF  
SAINT HONORE HOLDINGS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT 1981  
(AS AMENDED) OF BERMUDA**

### **INTRODUCTION**

We refer to our appointment to advise the Saint Honore Independent Board Committee in connection with the proposed takeover of Saint Honore by CRA by way of a scheme of arrangement under Section 99 of the Companies Act. Details of the Proposal are contained in the composite document to the Saint Honore Shareholders dated 2 January 2007 (the "Document") of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Document unless the context herein otherwise requires.

The Saint Honore Board comprises five executive Saint Honore Directors, two non-executive Saint Honore Directors and three independent non-executive Saint Honore Directors. The Saint Honore Independent Board Committee, comprising all three independent non-executive Saint Honore Directors, namely Dr. Cheung Wai Lam, William, Dr. Ho Sai Wah, David and Mr. Bingley Wong, has been formed to consider and to make recommendations to the Saint Honore Shareholders in respect of the Proposal. The two non-executive Saint Honore Directors, Mrs. Chan King Catherine and Mr. Chan Ka Lai, Joseph are respectively the spouse and the son of Mr. Chan Wai Cheung, Glenn (the chairman of the Saint Honore Board), and therefore they have not been appointed as members of the Saint Honore Independent Board Committee. The Saint Honore Independent Board Committee has approved the appointment of Somerley as the independent financial adviser to the Saint Honore Independent Board Committee in connection with the Proposal.

Somerley is not associated or connected with Saint Honore, CRA, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Proposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from Saint Honore, CRA, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Saint Honore Directors or the CRA Directors, which we have assumed to be true, accurate and complete as at the date of this letter. We have reviewed the published information on the Saint Honore Group and the CRA Group, including their respective annual reports and unaudited half-yearly and quarterly (in respect of CRA) reports. We have also reviewed the trading performance of Saint Honore Shares and CRA Shares on the Stock Exchange and considered the future intention of the CRA Group regarding the Saint Honore Group.



We have sought and received confirmation from the Saint Honore Directors that no material facts have been omitted from the information supplied and opinions expressed by them to us in connection with the Proposal. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Document were true as at the date of the Document and will continue to be true as at the date of the Court Meeting and the Special General Meeting. We have, however, not conducted any independent investigation into the businesses and affairs of the Saint Honore Group and the CRA Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Scheme Shareholders of approving and accepting the Proposal since these depend on their individual circumstances. In particular, Scheme Shareholders who are residents in overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in doubt, consult their professional advisers.

#### PRINCIPAL TERMS OF THE PROPOSAL

In summary, the Proposal involves the following principal steps:

- (i) All the Scheme Shares will be cancelled and each Scheme Shareholder will be entitled to receive either:
  - (a) *Cash Alternative*: Cash of HK\$2.95 for every Scheme Share; or
  - (b) *Share & Cash Alternative*: One CRA Share plus cash of HK\$2.95 for every two Scheme Shares.

The Scheme Shareholders may elect either the Cash Alternative or the Share & Cash Alternative but not a combination of the two.

In this letter, the Cancellation Consideration refers to (i) the Cash Alternative which values each Scheme Share at HK\$2.95; or (ii) the Share & Cash Alternative which, based on the closing price of HK\$2.95 per CRA Share on the CRA Last Trading Day, also values each Scheme Share at HK\$2.95.

It has been stated in the Announcement that the Cancellation Consideration will not be revised, and CRA does not reserve the right to do so.

If one or more Scheme Shareholders choose to take the Cash Alternative, the number of new CRA Shares which would otherwise have been taken up by such Scheme Shareholders if they had chosen to take the Share & Cash Alternative will become CRA Substitution Shares. Scheme Shareholders who validly elect for the Share & Cash Alternative may also make the CRA Shares Substitution Election whereby they may, subject to availability, apply for CRA Substitution Shares using the cash portion of the Share & Cash Alternative at HK\$2.95 per CRA Substitution Share. In the event that a Scheme Shareholder who validly elects for the Share & Cash Alternative wishes to make a CRA Shares Substitution Election, he must do so only in respect of his entire holding of the Scheme Shares.



The final allocation of CRA Substitution Shares will depend on the number of CRA Substitution Shares available and will so far as practicable be made on a pro-rata basis with reference to the respective number of Scheme Shares held by those Scheme Shareholders who have made the CRA Shares Substitution Election.

As at the Latest Practicable Date, there were 214,157,000 Saint Honore Shares in issue and Saint Honore did not have any outstanding options, warrants, derivatives or other convertible securities. On this basis, the amount payable under the Cash Alternative will be HK\$631,763,150. CRA intends to finance the cash required for the Proposal from internal resources and external financing. The maximum number of new CRA Shares to be made available for allotment and issue under the Share & Cash Alternative will be 107,078,500, representing 50% of the number of the Saint Honore Shares in issue as at the Latest Practicable Date.

- (ii) All Scheme Shares will be cancelled and the authorised and issued share capital of Saint Honore will be reduced pursuant to Section 46 of the Companies Act.
- (iii) Subject to the approval of the Scheme at the Court Meeting and the Special General Meeting, 1,000,000 new Saint Honore Shares will be allotted and issued to CRA nil paid immediately prior to the cancellation of all Scheme Shares on the Effective Date. Upon completion of the Scheme, Saint Honore will become a wholly-owned subsidiary of CRA and the listing of the Saint Honore Shares on the Stock Exchange will be withdrawn after the Effective Date. However, in the event that the Proposal is not approved or lapses, Saint Honore will maintain the listing of the Saint Honore Shares on the Stock Exchange.

The Scheme is subject to a number of conditions, including but not limited to:

- (a) sanction of the Scheme (with or without modifications) by the Court;
- (b) the approval (by way of a poll) of the Scheme by a majority in number of Saint Honore Shareholders present and voting either in person or by proxy at the Court Meeting holding not less than three-fourths in nominal value of the Saint Honore Shares that are voted either in person or by proxy by the Saint Honore Shareholders at the Court Meeting, provided that the Scheme is not disapproved at the Court Meeting by the Saint Honore Shareholders holding more than 10% in value of all the Saint Honore Shares held by the Saint Honore Shareholders. As at the Latest Practicable Date, Saint Honore Shareholders held 214,157,000 Saint Honore Shares, 10% of which amounted to 21,415,700 Saint Honore Shares; and
- (c) the passing by the Saint Honore Shareholders (other than those who are prohibited from voting under relevant laws, rules or regulations) of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the share capital of Saint Honore) by a majority of at least three-fourths of the votes cast by the Saint Honore Shareholders present and voting, in person or by proxy, at the Special General Meeting.

Details of the conditions to which the Scheme is subject are set out in the paragraph headed "Conditions of the Proposal" in the Explanatory Statement.



CRA has received the Irrevocable Undertaking pursuant to which WPC has undertaken to vote, or procure the voting, to approve the Scheme at the Court Meeting and the Special General Meeting in respect of the WPC Committed Shares (which represented approximately 17.4% of the Saint Honore Shares in issue as at the Latest Practicable Date).

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation with regard to the Proposal, we have taken into account the following principal factors and reasons:

### **1. Background to and reasons for the Proposal**

#### **(a) Background**

The Saint Honore Group is the bakery division of Hong Kong Catering and is principally engaged in the manufacture of bakery products and operation of a retail chain of bakeries in Hong Kong, Macau and the PRC. It is one of the dough and bakery products suppliers to the CRA Group. For the years ended 31 March 2004, 2005 and 2006, sales of dough and bakery products by the Saint Honore Group to the CRA Group amounted to approximately HK\$12.1 million, HK\$17.3 million and HK\$24.0 million respectively, representing 2.3%, 3.0% and 4.1% of the Saint Honore Group's turnover in the respective years.

#### **(b) Reasons for the Proposal**

The reasons for the Saint Honore Board to put forward the Proposal to the Saint Honore Shareholders for their consideration, as set out in the letter from the Saint Honore Board included in the Document, are as follows:

- (i) the Saint Honore Board is of the view that given the Cancellation Consideration per Scheme Share represents a significant premium over the closing price of Saint Honore Share on the Saint Honore Last Trading Day and the 10-day and 30-day approximate average closing prices per Saint Honore Share, the terms of the Proposal are attractive to the Saint Honore Shareholders;
- (ii) the trading volume of the Saint Honore Shares has been thin, resulting in the low liquidity of the Saint Honore Shares; and
- (iii) the Proposal represents an opportunity for the Saint Honore Shareholders to realise their investments in Saint Honore.

#### **(c) Intention of CRA regarding the Saint Honore Group**

Following implementation of the Proposal, CRA intends that the Saint Honore Group will continue to carry on its current business in manufacture of bakery products and operation of a retail chain of bakeries. The CRA Directors recognise the strong brand value of Saint Honore and believe its expertise in the baking business will enhance the business proposition for the CRA Group's convenience stores as well as underpinning its China strategy. The Saint



Honore Group is an existing dough and baked products supplier to the CRA Group and the implementation of the Proposal will further facilitate the business integration between the two groups and capture revenue synergies and greater operational efficiency.

## **2. Business operations of the Saint Honore Group**

The Saint Honore Group offers cakes, breads and other festive food products, including mooncake, Chinese New Year fortune products and rice dumplings. The Saint Honore Group also had operated an eatery chain since 1999 which ceased operation in November 2006. Core cake and bread products are the major revenue contributors of the Saint Honore Group. For the year ended 31 March 2006, cake and bread products accounted for approximately 82% of the Saint Honore Group's turnover, while the festive products and the eatery operation accounted for approximately 15% and 3% respectively.

Hong Kong is the largest market for the Saint Honore Group. For the year ended 31 March 2006, the Hong Kong market accounted for close to 90% of the turnover of the Saint Honore Group, while the Macau, PRC and overseas markets in aggregate accounted for approximately 10%. The Saint Honore Group operates a retail bakery chain under the tradenames of "Saint Honore Cake Shop" and "Bread Boutique". As at 30 September 2006, there were 72 shops operated under the tradename of "Saint Honore Cake Shop", of which 60 in Hong Kong, six in Macau and six in Guangzhou, the PRC. As at 30 September 2006, there were 15 shops operated under the tradename of "Bread Boutique" in Hong Kong. The "Saint Honore Cake Shop" has been the largest revenue contributor of the Saint Honore Group. It accounted for about 77% of the turnover of the Saint Honore Group for the year ended 31 March 2006 while "Bread Boutique" contributed about 20%. The eatery business, which contributed the remaining 3% of the turnover of the Saint Honore Group for the year ended 31 March 2006, was completely phased out in November 2006 as the management decided to concentrate on the development of its bakery business.



### 3. Financial performance of the Saint Honore Group

The following table summarises the audited consolidated profit and loss accounts of Saint Honore for the last three financial years and the unaudited consolidated profit and loss accounts for the six months ended 30 September 2006 and 2005 respectively:

#### Consolidated profit and loss accounts of Saint Honore

	For the six months ended 30 September		For the year ended 31 March		
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	301,379	315,587	589,421	568,901	537,516
<b>Growth / (Decline) in turnover</b>	<b>(5)% (Note)</b>	<b>6% (Note)</b>	<b>4%</b>	<b>6%</b>	<b>9%</b>
Other revenues	2,839	1,543	4,018	2,592	1,702
Costs of inventories consumed	(99,879)	(105,686)	(192,332)	(176,790)	(158,127)
<b>Gross profit</b>	<b>201,500</b>	<b>209,901</b>	<b>397,089</b>	<b>392,111</b>	<b>379,389</b>
<b>Growth / (Decline) in gross profit</b>	<b>(4)% (Note)</b>	<b>3% (Note)</b>	<b>1%</b>	<b>3%</b>	<b>8%</b>
<b>Gross profit margin</b>	<b>67%</b>	<b>67%</b>	<b>67%</b>	<b>69%</b>	<b>71%</b>
Staff costs	(92,159)	(90,318)	(172,700)	(171,719)	(170,163)
Operating lease rentals	(27,742)	(27,560)	(54,615)	(55,744)	(48,542)
Depreciation of property, plant and equipment	(12,928)	(13,488)	(27,484)	(27,300)	(29,823)
Other operating expenses	(47,869)	(52,644)	(96,356)	(89,781)	(82,192)
Amortisation of trademarks	-	-	-	(4,600)	(4,600)
(Loss)/Gain on disposal of leasehold land and/or properties	-	(307)	(307)	26,113	7,159
Profit before income tax	23,641	27,127	49,645	71,672	52,930
<b>Operating profit margin</b>	<b>8%</b>	<b>9%</b>	<b>8%</b>	<b>13%</b>	<b>10%</b>
Income tax expense	(4,408)	(5,102)	(8,679)	(12,458)	(7,571)
Profit for the period/year attributable to the Saint Honore Shareholders	19,233	22,025	40,966	59,214	45,359
<b>Growth / (Decline) in net profit</b>	<b>(13)% (Note)</b>	<b>(46)% (Note)</b>	<b>(31)%</b>	<b>31%</b>	<b>145%</b>
<b>Net profit margin</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>10%</b>	<b>8%</b>
Dividends	6,425	8,696	23,631	29,627	27,342
Earnings per Saint Honore Share for profit attributable to the Saint Honore Shareholders during the period/year					
Basic	9.0 cents	10.4 cents	19.3 cents	28.0 cents	22.6 cents
Diluted	9.0 cents	10.3 cents	19.2 cents	27.7 cents	21.9 cents

Note: The growth or decline in turnover, gross profit and net profit for the six months ended 30 September 2006 and 2005 are calculated based on the turnover, gross profit and net profit of the corresponding period in the prior year.



(a) **Analysis of turnover and gross profit margin**

*Turnover*

As illustrated in the table above, the Saint Honore Group's turnover demonstrated a consistent upward trend for the past three financial years and registered a compound average growth rate ("CAGR") of approximately 5% per annum.

For the year ended 31 March 2004, the Saint Honore Group's turnover reached approximately HK\$537.5 million, equivalent to a growth rate of approximately 9%. For the year ended 31 March 2005, the turnover generated from sales of the core cake and bread products only increased slightly by approximately 3% due to intense market competitions. Turnover generated from sales of mooncakes declined as a result of competitors offering bigger discounts. The Saint Honore Group however achieved a 6% growth in turnover, which was mainly due to the introduction of new festive products. The turnover for the year ended 31 March 2006 marginally increased by 4% due to saturation in supply and escalated competition in the Hong Kong market. The decrease in turnover for the six months ended 30 September 2006 as compared to the corresponding period in the prior year was mainly attributable to (i) the gradual closure of eatery outlets; and (ii) a portion of mooncake sales was recognised in the second half of the financial year as the Mid-autumn festival in 2006 fell in October, as opposed to September in 2005.

The turnover attributable to eatery operation for the years ended 31 March 2004, 2005 and 2006 was approximately HK\$29.1 million, HK\$29.5 million and HK\$20.2 million respectively. The substantial decline in turnover in 2006 for the eatery operation as compared to previous years was because of the closure of one of the restaurants upon the expiration of its lease.

*Gross profit margin*

Despite the turnover for the year ended 31 March 2004 increased by approximately 9%, the gross profit margin fell slightly to 71% due to greater sale discounts given to boost sales. The gross profit margin for the year ended 31 March 2005 further eroded from 71% to 69%. The management attributed the narrowed margin to (i) price increases in main ingredients like flour, sugar and dairy products; and (ii) inability to pass on the increased costs to customers who were price sensitive to bakery products. The Saint Honore Group continued to suffer from diminishing gross profit margin as raw material costs continued to increase in 2006. For the year ended 31 March 2006 and for the six months ended 30 September 2006, the gross profit margin further decreased to 67%.



**(b) Operating results and the net profit attributable to the Saint Honore Shareholders**

For the year ended 31 March 2004, the Saint Honore Group achieved HK\$52.9 million profit before income tax. After adjustment for the one-off gain on the disposal of an investment property of HK\$7.1 million, the profit before income tax and net profit were HK\$45.8 million and HK\$38.2 million respectively, representing the adjusted operating profit margin and the adjusted net profit margin of approximately 9% and 7% respectively. For the year ended 31 March 2005, the Saint Honore Group recorded a profit before income tax of HK\$71.7 million, including a HK\$26.1 million gain (before tax) on disposal of a shop. After adjustment for such windfall gain, the adjusted profit before income tax and the adjusted net profit were HK\$45.6 million and HK\$37.2 million respectively, representing the adjusted operating profit margin and the adjusted net profit margin of 8% and 7% respectively. The decline in operating profit margin, as compared to previous year, was mainly due to cessation of the rental concession granted by landlords to the Saint Honore Group after the outbreak of Severe Acute Respiratory Syndrome ("SARS") in 2003. For the year ended 31 March 2006, the Saint Honore Group succeeded in controlling staff costs and rental expenses in spite of inflation pressure. Consequently, the operating profit margin and net profit margin were successfully maintained at 8% and 7% respectively. The net profit margin for the six months ended 30 September 2006 dropped slightly from that of the corresponding period in prior year. The management attributed the decrease to the shift of the Mid-autumn festival from September in 2005 to October in 2006, which resulted in reduction in turnover in September 2006, and the major fixed operating expenses such as staff costs and rentals.

The CAGR of the net profit (after adjustment for one-off items, if any) of the Saint Honore Group for the three years ended 31 March 2006 was approximately 4% per annum.

In summary, for the three and a half years we have reviewed, the Saint Honore Group achieved growth in turnover and gross profit. However, the rate of such growth was diminishing due to the escalated market competition and rising production and operating costs. If keen competition persists and the production and operating costs remain at high level, the existing net profit margin, which is chiefly attributable to the successful implementation of stringent cost control measures, may not be sustainable.





#### 4. Financial position of the Saint Honore Group

Set out below is a summary of the consolidated balance sheets of Saint Honore as at 30 September 2006, 31 March 2006 and 31 March 2005 as extracted from the published unaudited financial statements of the Saint Honore Group for the six months ended 30 September 2006 and the published audited financial statements of the Saint Honore Group for the year ended 31 March 2006:

##### Consolidated balance sheets of Saint Honore

	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000	As at 31 March 2005 HK\$'000
<b>Non-current assets</b>			
Trademarks	27,600	27,600	27,600
Property, plant and equipment	138,535	142,092	136,354
Leasehold land and land use rights	73,297	74,154	74,398
Others	28,139	16,261	17,500
	<u>267,571</u>	<u>260,107</u>	<u>255,852</u>
<b>Current assets</b>			
Inventories	19,328	11,566	10,105
Trade and other receivables	35,952	21,218	19,465
Cash and cash equivalents	161,295	145,543	129,558
	<u>216,575</u>	<u>178,327</u>	<u>159,128</u>
<b>Total assets</b>	<u>484,146</u>	<u>438,434</u>	<u>414,980</u>
<b>Less:</b>			
<b>Current liabilities</b>			
Trade and other payables	112,749	66,564	72,163
Cake coupon liabilities	127,059	132,010	116,491
	<u>239,808</u>	<u>198,574</u>	<u>188,654</u>
<b>Net current liabilities</b>	<u>(23,233)</u>	<u>(20,247)</u>	<u>(29,526)</u>
<b>Total assets less current liabilities</b>	<u>244,338</u>	<u>239,860</u>	<u>226,326</u>
<b>Non-current liabilities</b>	7,845	7,665	8,261
<b>Net assets/Equity</b>	<u>236,493</u>	<u>232,195</u>	<u>218,065</u>



(a) **Assets**

(i) *Cash and cash equivalents*

Similar to other retail business operators, cash and cash equivalents form a substantial part of the Saint Honore Group's assets. As at 30 September 2006 and 31 March 2006, the Saint Honore Group held cash and cash equivalents of approximately HK\$161.3 million and HK\$145.5 million respectively. Based on the cash position of the Saint Honore Group of HK\$161.3 million as at 30 September 2006 and 214,157,000 Saint Honore Shares in issue as at the Latest Practicable Date, cash and cash equivalents per Saint Honore Share was approximately HK\$0.75. We have been informed by the management of the Saint Honore Group that the significant cash balance is reserved for operating purpose, as well as for a more aggressive business expansion ahead in the PRC. The Saint Honore Group is currently considering different growth strategies in the PRC including acquisition of or cooperation with other bakery chains or expansion of its production facilities.

(ii) *Trade and other receivables*

The trade and other receivables of the Saint Honore Group largely consisted of trade receivables, deposits, prepayments and other receivables, representing approximately 16.6% and 11.9% of the Saint Honore Group's total current assets as at 30 September 2006 and 31 March 2006 respectively.

The majority of the Saint Honore Group's sales are conducted in cash or through redemption of cake coupons. Consequently, the trade receivables balance to total current assets or total assets of the Saint Honore Group was relatively lower than other types of business. Credit sales are provided mainly to corporate customers for purchases of bakery products, cake coupons or festive products. The credit granted to these corporate customers were for the terms of 30 days or 61 to 120 days. Based on the 2006/07 interim results announcement and the 2005/06 annual report of the Saint Honore Group, the ageing of the trade receivables balance as at 30 September 2006 and 31 March 2006 were largely in line with the credit policies of the Saint Honore Group with over 94% and 83% of the balances respectively being current or due within 30 days from the respective balance sheet dates.

(iii) *Intangible assets*

As set out in the unaudited pro forma statements of assets and liabilities and the statement of adjusted net tangible assets of the Enlarged Group in Appendix III to the Document, the CRA Directors have estimated the fair value of the Saint Honore Group's intangible assets, comprising trademarks and distribution network, to be HK\$110 million assuming that the Proposal was completed on 30 June 2006. This represents an increase of HK\$82.4 million as compared to the carrying value of the intangible assets in the financial statements of the Saint Honore Group as at 30 September 2006.



(iv) *Property, plant and equipment, leasehold land and land use rights*

Property, plant and equipment of the Saint Honore Group mainly comprise various manufacturing plants, production workshops, warehouse, outlets and staff quarter located in Hong Kong, Macau and Shenzhen, the PRC. The aggregate value of property, plant and equipment, leasehold land and land use rights of the Saint Honore Group was approximately HK\$211.8 million and HK\$216.2 million as at 30 September 2006 and 31 March 2006 respectively, representing approximately 43.8% and 49.3% of the Saint Honore Group's total assets.

All freehold and leasehold land, buildings and land use rights of the Saint Honore Group were revalued on 31 October 2006 by an independent professional valuer. The valuation report, as set out in Appendix IV to the Document, indicates that the latest valuation exceeds the book value as at 30 September 2006 by approximately HK\$99.3 million.

(b) **Liabilities**

(i) *Borrowing*

The Saint Honore Group did not have any outstanding borrowings as at 30 September 2006 and 31 March 2006.

(ii) *Current liabilities*

Saint Honore has been in net current liability position as at the respective balance sheet dates mainly due to significant cake coupon liabilities. Cake coupon liabilities accounted for approximately 51.3% and 64.0% of the total liabilities of the Saint Honore Group as at 30 September 2006 and 31 March 2006 respectively.

Cake coupons allow holders thereof to redeem and exchange for the Saint Honore Group's products. Based on our review of the management accounts for each of the three years ended 31 March 2006, we note that the amount of redemption in each year was less than half of the opening balance of cake coupon liabilities of the same year, which suggests that a majority of the cake coupon liabilities would only be required to be settled at least one year after the year end date. In other words, a certain portion of current liabilities is, in substance, of long-term nature. This also implies that the liquidity of the Saint Honore Group would be improved if we have taken into consideration such effect.

(iii) *Non-current liabilities*

The non-current liabilities comprised provision for long service payments, deferred income tax liabilities and rental deposits received.

(c) **Net asset value and net tangible asset value**

The consolidated net asset value ("NAV") of the Saint Honore Group remained stable as at 31 March 2006 and 30 September 2006. As at 30 September 2006, the NAV and the consolidated net tangible asset value ("NTAV") of the Saint Honore Group were approximately HK\$236.5 million and HK\$208.9 million respectively. Based on 214,157,000 Saint Honore Shares in issue as at the Latest Practicable Date and after adjustments for (i) the revaluation surpluses of HK\$99.3 million in respect of land, buildings and land use rights; and (ii) the fair value of HK\$82.4 million for intangible assets (as assessed by the CRA Directors and set out in Appendix III to the Document), the adjusted NAV per Saint Honore Share and adjusted NTAV per Saint Honore Share were approximately HK\$1.95 and HK\$1.44 respectively.



**(d) Prospects of the Saint Honore Group**

The future prospects of the Saint Honore Group will, to a certain degree, hinge on the success of, among other things, (i) achieving expansion in the Macau and PRC markets; and (ii) containing the rising raw materials and operating costs.

*(i) Expansion plan*

As stated in Saint Honore's 2005/06 annual report, the Hong Kong market has reached saturation and the competition has led to price cut in order to maintain the turnover. Sales of mooncakes also showed a declining trend in 2006 due to price competition. The management of the Saint Honore Group expects the growth in turnover will be restrained in the Hong Kong market in the foreseeable future.

To overcome the limited growth in the Hong Kong market and the diminishing profit margin, Saint Honore has been looking for opportunities to expand its business in other markets, primarily Macau and the PRC.

Saint Honore resumed its expansion in Macau in 2004 as the local economy was expected to flourish from the booming casino business. The chain had expanded from two outlets as at 31 March 2004 to six outlets and one centralised factory as at 30 September 2006. The turnover from the Macau market grew from HK\$19.2 million for the year ended 31 March 2004 to HK\$32.7 million for the year ended 31 March 2006. However, the acute labor shortage recently experienced has held back further expansion in Macau.

Saint Honore has not been proactively expanding its retail operation in the PRC domestic market after its first outlet opened in Guangzhou in 2002. Since then, the Saint Honore Group had opened five more outlets in Guangzhou up to 30 September 2006. Although the turnover generated from the PRC operation grew significantly from HK\$8.9 million for the year ended 31 March 2003 to HK\$31 million for the year ended 31 March 2006, both turnover and net profit contribution of the PRC operation remained insignificant and represented less than 5% of those of the Saint Honore Group for the year ended 31 March 2006. A sales and marketing team has been set up in the latter half of 2006 to further develop the PRC domestic market, its contribution to the Saint Honore Group's revenue and profit is still uncertain to date. In our opinion, the Saint Honore Group is yet to exploit its presence in the PRC market to reap the benefits of the growing economy and purchasing power in order to gain an additional source of income and profit from the PRC market, which has not been a material contribution to the Saint Honore Group.

*(ii) Cost controls*

Raw materials, labour costs and rental expenses have been the major cost drivers of the Saint Honore Group's operations. As discussed in the Saint Honore Group's 2005/06 annual report, the Saint Honore Group has suffered from erosion of gross margin as direct food costs were bidden up along with world commodity prices. In addition, the hike in the property price in Hong Kong, due to recovery of the economy, has driven up



the rental as well as wages, which are expected to further pressurise the already diminishing margins.

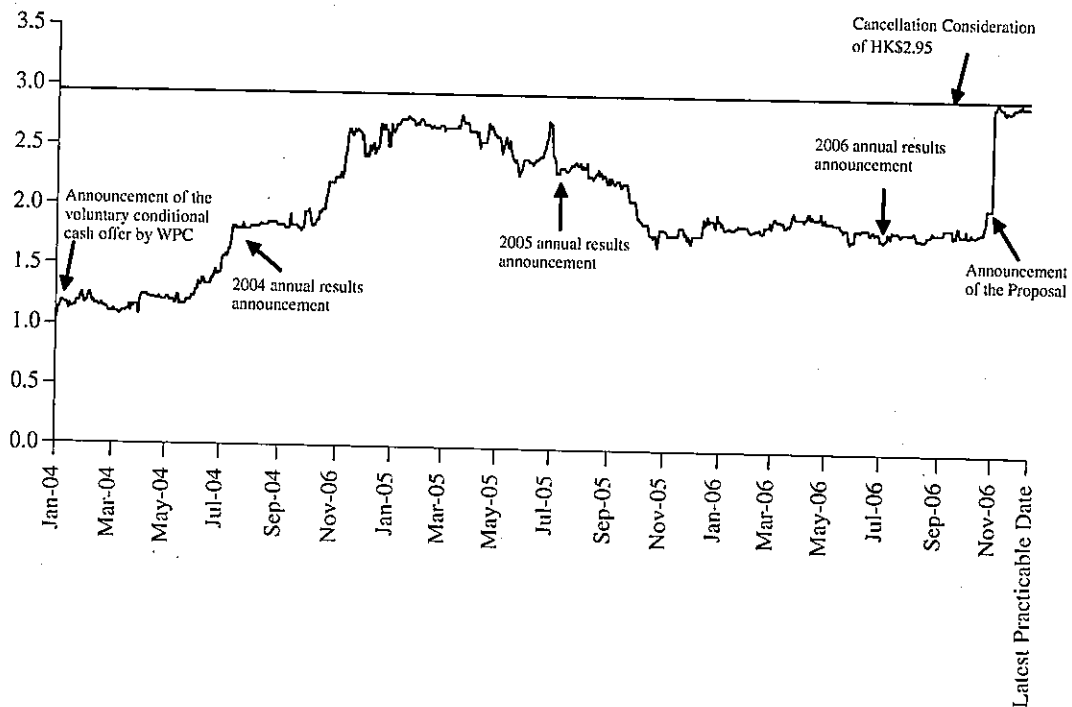
In Macau, the new casinos and hotels had put pressure on the relatively limited labour market. Consequently, the labour cost was driven up. During the year ended 31 March 2006, the labour costs already had a double-digit rise. The Saint Honore Group planned to relocate part of the production processes to its PRC factories as well as to import PRC labour to its Macau operations in order to alleviate the impact of the rising labour cost.

In summary, the Saint Honore Group's growth in turnover and profit margin has been diminishing due to intensified competition, rising production, operation and administrative costs, and saturation in the Hong Kong market. Despite its strong balance sheet, i.e. abundant cash reserve and no borrowings, the PRC market has not been fully exploited and is yet to generate any material contribution to the Saint Honore Group. As a result, the performance of the Saint Honore Group has been declining.

## 5. Trading performance of Saint Honore Shares

### (a) Price performance of Saint Honore Shares

The chart below illustrates the daily closing prices per Saint Honore Share from 1 January 2004 up to and including the Latest Practicable Date (the "Review Period"). The period selected is reflective of the consolidation of control in Saint Honore subsequent to the voluntary conditional cash offer made by WPC in January 2004, which we consider significant in the financial and share price performance of Saint Honore in recent years.



Source: Bloomberg

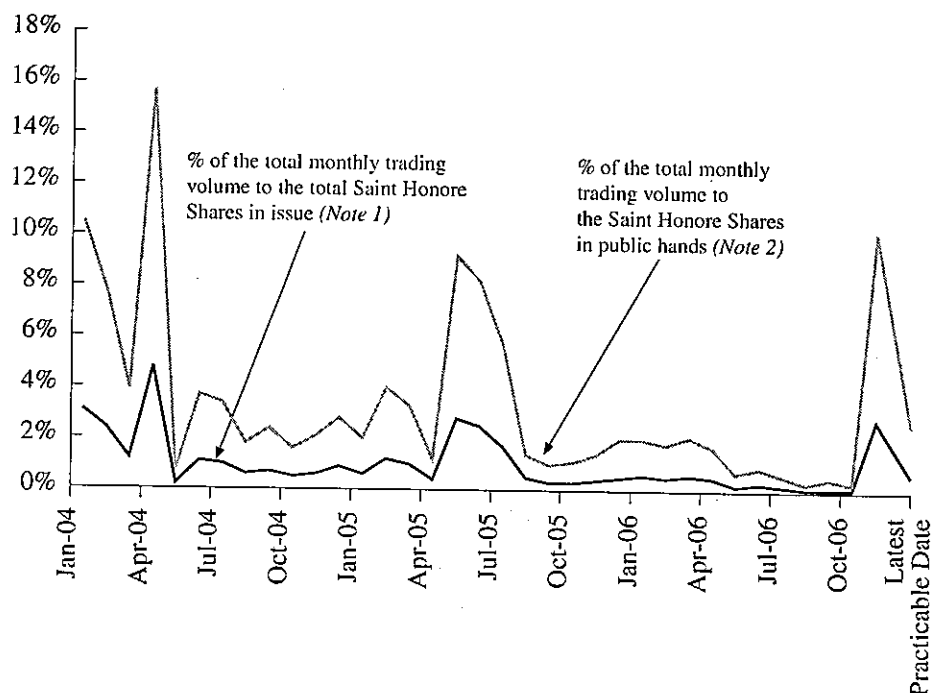


The price of Saint Honore Share showed an upward trend during 2004. It rose from HK\$1.10 at the beginning of 2004 to HK\$2.688 as at 29 December 2004. During the first half of 2005, the price of Saint Honore Share fluctuated in the range between HK\$2.279 and HK\$2.780. After the Saint Honore Group announced its results for the year ended 31 March 2005 in July 2005, the price of Saint Honore Share began to fall and dropped below HK\$2.0 in October 2005. Since then, the price of Saint Honore Share remained at below HK\$2.0 before the Saint Honore Last Trading Day.

The price of Saint Honore Share rose from HK\$2.05 on the Saint Honore Last Trading Day to HK\$2.90 on the Announcement Date. In our opinion, such increment in Saint Honore Share price was mainly due to the Proposal. Since the publication of the Announcement, the price of Saint Honore Share has fluctuated within a narrow range between HK\$2.86 and HK\$2.95. The closing price of Saint Honore Share on the Latest Practicable Date was HK\$2.91. Given the price of Saint Honore Share had been traded at substantial discount to the Cancellation Consideration of HK\$2.95 for most of the time during the year preceding the Saint Honore Last Trading Day, we consider that the price of Saint Honore Share is unlikely to sustain at the current level if the Proposal is withdrawn or lapses.

#### (b) Trading volume of Saint Honore Shares

The following chart sets out the percentages of the total monthly trading volume of Saint Honore Shares to the total number of the Saint Honore Shares in issue and the number of Saint Honore Shares in public hands during the Review Period:



Source: Bloomberg and information provided by Saint Honore



*Notes:*

1. The percentages are calculated based on the trading volume of Saint Honore Shares and the number of Saint Honore Shares in issue as at the end of the respective months provided by Saint Honore.
2. The number of Saint Honore Shares in public hands is calculated from the then total number of Saint Honore Shares in issue less the number of Saint Honore Shares held by WPC and Hong Kong Catering.

As illustrated in the above chart, trading in Saint Honore Shares had been active during early 2004 when the voluntary conditional cash offer made by WPC was announced on 2 January 2004. Except for mid-2005, the monthly trading volume of Saint Honore Shares had been kept at below 4% of Saint Honore Shares in public hands. Given the relatively thin trading volume of Saint Honore Shares, it may be difficult for the Saint Honore Shareholders with significant holdings in Saint Honore Shares to realise their investment in the market without putting pressure on the market price of Saint Honore Shares. In this regard, we concur with the Saint Honore Board and the CRA Directors' view that the Proposal, in particular the Cash Alternative, represents a good opportunity for the Saint Honore Shareholders to realise their investments.

**(c) Historical market price compared to fully diluted NAV per Saint Honore Share**

We have compared the prices of Saint Honore Share against the fully diluted NAV per Saint Honore Share since 8 July 2004, being the date of the first results announcement during the Review Period. We have assumed that the fully diluted NAV per Saint Honore Share was available to the market from the respective dates of release of the relevant annual or interim results announcements although such figures might not have been explicitly stated in those announcements.

Period (Note 1)	Fully diluted NAV per Saint Honore Share (Note 2) HK\$	Closing price per Saint Honore Share		Premium over fully diluted NAV per Saint Honore Share	
		High HK\$	Low HK\$	High %	Low %
8 July 2004 – 8 December 2004	0.87	2.643	1.545	203.8	77.6
9 December 2004 – 12 July 2005	0.97	2.780	2.279	186.6	134.9
13 July 2005 – 12 December 2005	1.01	2.712	1.701	168.5	68.4
13 December 2005 – 17 July 2006	1.02	2.000	1.730	96.1	69.6
18 July 2006 – Saint Honore Last Trading Day	1.08	2.050	1.773	89.8	64.2

*Source: Bloomberg and Saint Honore's respective annual and interim reports*



*Notes:*

1. The beginning date of the relevant period represents the date on which Saint Honore released its annual or interim results.
2. The fully diluted NAV figures are calculated based on the NAV of Saint Honore and the number of Saint Honore Shares in issue as at the relevant year or period end date as disclosed in Saint Honore's corresponding annual or interim reports adjusted for the exercise of share options of Saint Honore on the assumption that the share options of Saint Honore had been fully exercised as at the respective year or period end date.

During the period from 8 July 2004 to the Saint Honore Last Trading Day, Saint Honore Shares had been consistently traded at premium over the fully diluted NAV per Saint Honore Share. As set out above, the premium of the closing price of Saint Honore Share over the fully diluted NAV per Saint Honore Share ranged from 64.2% to 203.8%.

**(d) Dividend yields**

During the three years ended 31 March 2004, 2005 and 2006, Saint Honore paid dividends to its shareholders in the amounts of approximately HK\$27.3 million (HK\$0.13 per Saint Honore Share), HK\$29.6 million (HK\$0.14 per Saint Honore Share) and HK\$23.6 million (HK\$0.11 per Saint Honore Share) respectively. These dividends represented a yield of approximately 8.3%, 5.7% and 6.2% for the respective years based on the closing price of Saint Honore Share on the respective dates of publication of the annual results announcements.

**6. Value implied by the Proposal**

The Proposal involves the cancellation of each Scheme Share for the Cancellation Consideration. We set out below the comparison of certain valuation parameters based on the value of the Cancellation Consideration:

**(a) Price-to-earnings ("P/E") multiples**

The Saint Honore Group reported a net profit of approximately HK\$41.0 million for the year ended 31 March 2006. The basic earnings per share ("EPS"), based on 214,157,000 Saint Honore Shares in issue as at the Latest Practicable Date, would be HK\$0.191. The P/E multiple per Saint Honore Share at the closing price of HK\$2.05 on the Saint Honore Last Trading Day, based on 214,157,000 Saint Honore Shares as at the Latest Practicable Date, would be approximately 10.7 times. The P/E multiple per Scheme Share as implied by the Cancellation Consideration is approximately 15.4 times.





(b) Comparison to NAV and NTAV

Set out below are comparisons between the Cancellation Consideration and (i) the unaudited unadjusted NAV per Saint Honore Share; and (ii) the unaudited adjusted NAV and NTAV per Saint Honore Share as at 30 September 2006:

	As at 30 September 2006		
	Unaudited unadjusted NAV per Saint Honore Share HK\$	Unaudited adjusted NAV per Saint Honore Share (Note) HK\$	Unaudited adjusted NTAV per Saint Honore Share (Note) HK\$
On the basis of 214,157,000 Saint Honore Shares in issue as at the Latest Practicable Date	1.10	1.95	1.44
Premium of the Saint Honore Share price of HK\$2.05 as at the Saint Honore Last Trading Day over the respective NAV or NTAV	86.4%	5.1%	42.4%
Premium of the Cancellation Consideration over the respective NAV or NTAV	168.2%	51.3%	104.9%

*Note:* The unaudited adjusted NAV and NTAV per Saint Honore Share have been adjusted for the revaluation surpluses in respect of land, buildings and land use rights and fair values of intangible assets of the Saint Honore Group of approximately HK\$99.3 million and HK\$82.4 million (as assessed by the CRA Directors and set out in Appendix III to the Document) respectively.

Based on the table above, the Cancellation Consideration represents a significant premium of approximately 168.2% over the unaudited unadjusted NAV per Saint Honore Share, which was within the range of the historical market prices to NAV per Saint Honore Share between 64.2% and 203.8% as set out in sub-section 5(c) above.

Having taken into account the adjustments for the revaluation surpluses of land, buildings and land use rights and the fair values of intangible assets (as assessed by the CRA Directors and set out in Appendix III to the Document) of the Saint Honore Group, the Cancellation Consideration still represents a substantial premium over the NAV and NTAV of the Saint Honore Group as compared to the premium represented by the Saint Honore Share price of HK\$2.05 as at the Saint Honore Last Trading Day.



## 7. Comparison with comparable companies

The Saint Honore Group is principally engaged in the manufacture, distribution and sale of cakes, breads and other festive food products, including mooncakes, Chinese New Year fortune products and rice dumplings, with integrated operation of a retail chain of bakeries. Based on our review of all companies listed on the Stock Exchange, we did not identify any other listed companies which are principally engaged in similar business. For illustration purpose, we have selected companies listed on the Stock Exchange which (i) are principally engaged in food and beverage business with retail chains; and (ii) have profitable operations in their latest financial year. Based on these criteria, we have reviewed all companies listed on the Stock Exchange and identified Café de Coral Holdings Limited (“Café de Coral”, stock code: 341); Fairwood Holdings Limited (“Fairwood”, stock code: 52); Chevalier iTech Holdings Limited (“Chevalier iTech”, stock code: 508) and Hong Kong Catering (stock code: 668) as comparable companies (collectively the “Comparable Companies”).

Café de Coral and Fairwood both are primarily engaged in the operation of fast food chain. Chevalier iTech acquired the operation of “Pacific Coffee” chain, which should be a closer comparable to the business of the Saint Honore Group. However, Chevalier iTech is also engaged in information system related operation with asset base largely different from companies in the catering business, therefore we have not included Chevalier iTech in our comparison below. Hong Kong Catering is principally engaged in restaurant business and, through Saint Honore, operates a bakery retail chain.

### (a) Comparison of closing price to NAV per share

The table below illustrates the closing share prices of the Comparable Companies and Saint Honore to their respective underlying NAV per share:

	Closing share price as at the Latest Practicable Date HK\$ (Note 1)	NAV per share HK\$ (Note 2)	Premium of closing share price over NAV per share %
Café de Coral	13.20	3.31	298.8%
Fairwood	9.30	2.45	279.6%
Hong Kong Catering (Note 3)	1.44	1.13	27.4%
Saint Honore (Note 3)	2.05	1.10	86.4%
<b>The Cancellation Consideration</b>	<b>2.95</b>	<b>1.10</b>	<b>168.2%</b>

#### Notes:

1. The closing share prices of Café de Coral and Fairwood are sourced from Bloomberg.
2. The NAV per share are calculated based on the NAV (less minority interests, if any) and the weighted average number of shares in issue as stated in the latest published interim results announcement of the respective companies. As for Saint Honore and the Cancellation Consideration, the NAV per share is calculated based on the NAV as stated in the 2006/07 interim results announcement of Saint Honore and the number of Saint Honore Shares in issue as at the Latest Practicable Date.



3. We have taken the closing prices of the Saint Honore Share and the share of Hong Kong Catering (“Hong Kong Catering Share”) on the Saint Honore Last Trading Day. We have not referred to the closing prices of Saint Honore Share or Hong Kong Catering Share on the Latest Practicable Date because, in our opinion, it is unlikely that the recent significantly higher price levels of Saint Honore Share or Hong Kong Catering Share will be sustained if the Proposal is withdrawn or lapses.

All Comparable Companies were traded at premium over their respective NAV per share in the range of 27.4% to 298.8%.

The premium of approximately 86.4% represented by the closing price of Saint Honore Share on the Saint Honore Last Trading Day falls within the above range. At the Cancellation Consideration, Saint Honore Share is rated at a more significant premium of 168.2%. In the absence of the Proposal and having taken into consideration the past financial performance of the Saint Honore Group and the historical pattern of Saint Honore Shares as discussed in sub-section 5(c) above, in our opinion, it is unlikely that the premium over the underlying NAV of 168.2% as implied by the Cancellation Consideration could be achieved.

**(b) Comparison of P/E multiple**

	P/E multiple (times)
Café de Coral (Note 1)	22.2
Fairwood (Note 1)	15.5
Hong Kong Catering (Note 2)	11.9
Saint Honore (Note 3)	10.7
<b>The Cancellation Consideration (Note 3)</b>	<b>15.4</b>

*Notes:*

1. The P/E multiples above are calculated based on the audited basic EPS of the Café de Coral and Fairwood as published in their latest respective annual reports for the year ended 31 March 2006 and the respective closing share prices on the Latest Practicable Date.
2. The P/E multiples of Hong Kong Catering is calculated by reference to its closing price of HK\$1.44 on the Saint Honore Last Trading Day and based on the audited basic EPS of Hong Kong Catering as published in its latest annual report for the year ended 31 March 2006.
3. The P/E multiples of Saint Honore and the Cancellation Consideration are calculated by reference to the closing price of HK\$2.05 per Saint Honore Share, the value of the Cancellation Consideration, the net profit of the Saint Honore Group of approximately HK\$41.0 million for the year ended 31 March 2006 and the 214,157,000 Saint Honore Shares in issue as at the Latest Practicable Date.



As shown above, the P/E multiples of the Comparable Companies ranged from 11.9 times to 22.2 times. The P/E multiple of Saint Honore Share as at the Saint Honore Last Trading Day was 10.7 times. The value implied by the Cancellation Consideration again is rated at a higher P/E multiple of 15.4 times.

## **8. Considerations in relation to CRA**

The Share & Cash Alternative under the Proposal will result in the Scheme Shareholders receiving cash of HK\$2.95 and one CRA Share for their holdings of every two Scheme Shares. Therefore, it is important for the Scheme Shareholders to evaluate the business and prospects of the CRA Group and the performance of price and trading volume of CRA Shares when considering the Proposal.

### **(a) Business operations of the CRA Group**

The CRA Group is principally engaged in the operation of a chain of convenience stores under the tradename of Circle K in Hong Kong, the PRC and Macau. Circle K is one of the leading convenience store chains in Hong Kong. At the time of its listing, Circle K store chain of the CRA Group comprised 124 stores in Hong Kong. As a result of its rapid expansion plan, the number of stores increased by 2.5 times in about six years. As at 30 September 2006, the CRA Group operates 249 stores in Hong Kong, 47 stores in Guangzhou, the PRC, seven stores in Dongguan, the PRC, and two stores in Shenzhen, the PRC. In addition, there are six franchised stores in Zhuhai, the PRC and 15 franchised stores in Macau.

Apart from conventional items such as cigarettes, packaged drinks, confectionary, grocery, magazines and newspapers, Circle K stores also offer a wide range of fast-food products which include chilled meal boxes under the house brands of “一叮飯” and “飯飯店”, sandwiches, fresh fruit juice, hot dogs and hot drinks. In addition, Circle K stores also offer in-store bakery products. Other products available in Circle K stores include phone cards, online game cards and media products such as video compact discs and digital video discs.



(b) **Historical financial performance of the CRA Group**

The following table summarises the audited consolidated profit and loss accounts of CRA for the last three financial years and the unaudited consolidated profit and loss accounts of CRA for the nine months ended 30 September 2005 and 2006 respectively:

**Consolidated profit and loss accounts of CRA**

	For the nine months ended 30 September		For the year ended 31 December		
	2006 HK\$'000	2005 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	1,665,016	1,471,018	1,995,206	1,736,491	1,526,099
<i>Growth in turnover</i>	<i>13%</i> <i>(Note)</i>	<i>14%</i> <i>(Note)</i>	<i>15%</i>	<i>14%</i>	<i>10%</i>
Cost of sales	(1,252,617)	(1,114,839)	(1,509,403)	(1,312,920)	(1,141,575)
Gross profit	412,399	356,179	485,803	423,571	384,524
<i>Gross profit margin</i>	<i>25%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>25%</i>
Other revenues	146,442	131,365	187,901	146,084	120,111
Store expenses	(406,191)	(354,056)	(488,364)	(402,155)	(354,832)
Distribution costs	(29,155)	(25,483)	(34,625)	(29,128)	(24,548)
Administrative expenses	(59,628)	(49,441)	(69,053)	(63,454)	(56,409)
Profit before income tax	63,867	58,564	81,662	74,918	68,846
Income tax expenses	(12,670)	(10,047)	(14,048)	(13,673)	(12,769)
Profit for the period/year	<u>51,197</u>	<u>48,517</u>	<u>67,614</u>	<u>61,245</u>	<u>56,077</u>
Profit attributable to:					
CRA Shareholders	55,579	52,640	73,578	66,276	60,707
<i>Growth in net profit attributable to the CRA Shareholders</i>	<i>6%</i> <i>(Note)</i>	<i>12%</i> <i>(Note)</i>	<i>11%</i>	<i>9%</i>	<i>1%</i>
<i>Net profit margin (based on profit attributable to the CRA Shareholders)</i>	<i>3%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>
Minority interests	(4,382)	(4,123)	(5,964)	(5,031)	(4,630)
	<u>51,197</u>	<u>48,517</u>	<u>67,614</u>	<u>61,245</u>	<u>56,077</u>
Dividends	<u>10,138</u>	<u>10,091</u>	<u>40,483</u>	<u>33,590</u>	<u>26,772</u>
EPS for profit attributable to the CRA Shareholders					
Basic EPS	<u>HK8.2 cents</u>	<u>HK7.8 cents</u>	<u>HK10.9 cents</u>	<u>HK9.9 cents</u>	<u>HK9.1 cents</u>
Diluted EPS	<u>HK8.2 cents</u>	<u>HK7.8 cents</u>	<u>HK10.9 cents</u>	<u>HK9.8 cents</u>	<u>HK9.0 cents</u>

Note: The growth in turnover and net profit attributable to the CRA Shareholders for the nine months ended 30 September 2006 and 2005 are calculated based on the turnover and net profit attributable to the CRA Shareholders of the corresponding period in the prior year.



(i) *Analysis of turnover and gross profit margin*

Turnover

As illustrated in the table above, the CRA Group's turnover continued growing in the last three financial years and achieved a CAGR of approximately 14% per annum.

Despite the outbreak of the SARS, the CRA Group recorded a turnover of approximately HK\$1,526.1 million for the year ended 31 December 2003, representing an increase of 10% as compared with approximately HK\$1,393.5 million for the prior year. Although the sales of food items were affected by the SARS outbreak, the CRA Group compensated such sales loss by timely introduction of protective products such as facemasks, antiseptic wipes and hand sanitizers. In addition, several new stores were opened in the third and fourth quarters to take advantage of the fall on retail rental subsequent to the SARS. For the year ended 31 December 2004, the CRA Group recorded a 14% increase in turnover, which was attributed to the increase in number of new stores in both Hong Kong and Guangzhou, the PRC and the increase in sales of the existing stores. Turnover of the CRA Group for the year ended 31 December 2005 further increased by 15%. Once again, such sales growth was attributed to the increase in number of new stores in both Hong Kong and Southern China and the increase in sales of the existing stores.

Turnover of the CRA Group for the nine months ended 30 September 2005 and 2006 demonstrated a consistency in growth and recorded an increase of 14% and 13% respectively as compared with the corresponding period in prior year.

Gross profit margin

During the periods under review, the CRA Group recorded gross profit margins ranging from 24% to 25%. The gross profit margins remained stable due to the effective control on cost of sales.



(ii) *Operating results and net profit attributable to the CRA Shareholders*

	For the nine months ended		For the year ended		
	30 September		31 December		
	2006	2005	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>1,665,016</u>	<u>1,471,018</u>	<u>1,995,206</u>	<u>1,736,491</u>	<u>1,526,099</u>
Store expenses	406,191	354,056	488,364	402,155	354,832
% of turnover	24%	24%	24%	23%	23%
Distribution costs	29,155	25,483	34,625	29,128	24,548
% of turnover	2%	2%	2%	2%	2%
Administrative expenses	59,628	49,441	69,053	63,454	56,409
% of turnover	4%	3%	4%	4%	4%

Store expenses, distribution costs and administrative expenses

Despite the escalating retail rental and the increased spending on marketing and promotion to maintain competitiveness, the CRA Group was able to keep its operating expenses under control by implementing various cost saving measures including, among others, optimisation of delivery frequency, closing down of operations of distribution centre and warehouse on Sundays and minimisation of store renovation costs. As a percentage to turnover, store expenses and administrative expenses varied within a narrow range of 23% to 24% and 3% to 4% respectively and distribution costs remained stable at around 2% during the periods under review. In general, the increase in operating expenses during the periods under review was in line with the growth in turnover and increase in number of stores.

Net profit

As compared with the net profit attributable to the CRA Shareholders of approximately HK\$60.7 million for the year ended 31 December 2003, the net profit attributable to the CRA Shareholders of approximately HK\$73.6 million for the year ended 31 December 2005 represented a CAGR of approximately 10% per annum. The net profit attributable to the CRA Shareholders for the nine months ended 30 September 2006 of approximately HK\$55.6 million also showed an increase of approximately 6% as compared with that for the nine months ended 30 September 2005 of approximately HK\$52.6 million. With consistent growth in turnover and effective cost control measures, the CRA Group maintained a net profit margin ranging from 3% to 4%.



(c) **Financial position of the CRA Group**

Set out below is a summary of the consolidated balance sheets of CRA Group as at 30 June 2006, 31 December 2005 and 31 December 2004 as extracted from the published unaudited financial statements of the CRA Group for the six months ended 30 June 2006 and the published audited financial statements of the CRA Group for the year ended 31 December 2005:

**Consolidated balance sheets of CRA**

	As at 30 June 2006		As at 31 December 2005		As at 31 December 2004	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Non-current assets</b>						
Intangible assets	-	-	-	-	19	0.1
Fixed assets	95,620	10.5	89,827	10.2	81,339	10.4
Other assets	43,967	4.8	42,026	4.8	39,514	5.1
	<u>139,587</u>	<u>15.3</u>	<u>131,853</u>	<u>15.0</u>	<u>120,872</u>	<u>15.6</u>
<b>Current assets</b>						
Inventories	82,030	9.0	79,065	9.0	67,361	8.6
Rental deposits	13,947	1.5	11,680	1.3	8,672	1.1
Trade and other receivables, deposits and prepayments	49,567	5.4	59,116	6.7	50,433	6.4
Lease premium for land	426	0.1	425	0.1	422	0.1
Bank balances and cash	625,899	68.7	597,310	67.9	531,360	68.2
	<u>771,869</u>	<u>84.7</u>	<u>747,596</u>	<u>85.0</u>	<u>658,248</u>	<u>84.4</u>
Total assets	<u>911,456</u>	<u>100.0</u>	<u>879,449</u>	<u>100.0</u>	<u>779,120</u>	<u>100.0</u>
<b>Less:</b>						
<b>Current liabilities</b>						
Amount due to immediate holding company	879		177		676	
Trade payables, accruals and other payables	415,554		389,825		333,766	
	<u>416,433</u>		<u>390,002</u>		<u>334,442</u>	
<b>Non-current liabilities</b>						
Long service payment liabilities	7,967		7,862		7,721	
Deferred tax liabilities	1,632		-		1,065	
	<u>9,599</u>		<u>7,862</u>		<u>8,786</u>	
Net assets	<u>485,424</u>		<u>481,585</u>		<u>435,892</u>	
<b>Attributable to:</b>						
CRA Shareholders	491,219		484,497		442,505	
Minority interests	(5,795)		(2,912)		(6,613)	
	<u>485,424</u>		<u>481,585</u>		<u>435,892</u>	





(i) *Fixed assets*

Fixed assets mainly comprise equipment, furniture and fixtures, leasehold improvements and motor vehicles. The increase in fixed assets over the periods under review was mainly attributable to the increase in number of new stores. In addition, a new food factory producing food items such as fish balls for sale in Circle K stores was completed in Guangzhou, the PRC in the last quarter of 2005. In percentage terms, the fixed assets balances remained stable and represented approximately 10% of the CRA's total assets over the the periods under review.

(ii) *Other assets*

Other assets largely comprise lease premium for land and rental deposits. For the periods under review, the balances were maintained at around 5% of the CRA Group's total assets.

(iii) *Inventories*

Inventories of the CRA Group primarily represent merchandises for sale in the stores. The increase in inventories over the periods under review was in line with the increase in turnover and increase in number of stores. In percentage terms, the inventories balances were fairly stable and remained at about 9% of the CRA Group's total assets over the periods under review.

(iv) *Trade and other receivables, deposits and prepayments*

The majority of the balances represent trade receivables. Given the CRA Group's turnover was primarily generated from cash sales, trade receivables therefore represented a relatively small percentage of the CRA Group's total assets. According to the ageing analysis of the CRA Group, over 95% of its trade receivables fall into the range of 30 days to 60 days, which is the normal credit terms of the CRA Group. The CRA Group has not experienced any significant recoverability problem in respect of its trade receivables in the past years. For the periods under review, the balances varied between 5% and 7% of the total assets of the CRA Group.

(v) *Bank balances and cash*

Bank balances and cash were maintained at about 68% of the CRA Group's total assets over the periods under review. The strong cash position of the CRA Group was largely due to the fact that the business kept generating free cash to the CRA Group.



(vi) *NAV*

As disclosed in the half-yearly report 2006 of CRA, the CRA Group did not have any balance of intangible assets. The unaudited NAV, attributable to the CRA Shareholders as at 30 June 2006 having taken into account the interim dividend of HK\$10.1 million which has been paid out as at the Latest Practicable Date, was approximately HK\$491.2 million. This represents approximately HK\$0.73 per CRA Share based on approximately 677.1 million CRA Shares in issue as at the Latest Practicable Date.

In general, the CRA Group has a strong financial position with significant net assets and net current assets and no bank borrowings.

(d) **Prospects of the CRA Group**

(i) *Hong Kong*

The sustained economic revival during 2006 provided a favourable market environment for the CRA Group's operations in Hong Kong. The CRA Group's financial performance improved both in terms of turnover and net profit attributable to its shareholders.

Traditionally, the competitors of Circle K stores in Hong Kong were other convenience stores which also offered 24-hour convenient shopping. However, with an increasing number of supermarkets switching to 24-hour operations, competition faced by the CRA Group has become more intense. In particular, the CRA Group is often facing head-on confrontations with its competitors both in close proximity of geographical store sites and co-incidental timing of promotional activities. To increase its competitiveness, the CRA Group will continue to improve its core competencies, upgrade all aspects of the Circle K shopping experience and steadily increase the number of Circle K stores.

The CRA Group's management notes that shopping behaviour and retail outlet selection are largely promotion-driven in the retail market, with the proven success of its chain-wide thematic promotions in 2005 and 2006 which generated substantial incremental sales to the CRA Group, the CRA Group will allocate more resources in the planning and implementation of non-stop marketing and promotional activities to promote customer loyalty and increase frequency of purchases and average transactional value.

(ii) *The PRC*

At present, Guangzhou is the base camp of the CRA Group's PRC operations with 47 stores as at 30 September 2006. As disclosed in the CRA Group's 2005 annual report, key players in the convenience store business in Guangzhou, the PRC include 7-Eleven, Quik, C-store and Kedi. Despite the competitors in the convenience store market in the PRC have become more rational and conservative in opening of new stores and therefore store numbers for competitive chains are expected to remain fairly stable, the major



challenge for all these chain operators is to achieve store profitability because of the inherent price sensitive nature of the Chinese consumers and the extending operating hours of mega stores. Nevertheless, the CRA Group's management believes that lifestyle changes resulting from urbanisation and an increasingly hectic pace of living offer great opportunity for retail outlets offering location convenience.

The CRA Group opened its first Circle K store in Shenzhen, the PRC in May 2006 and established an infrastructure support team, which will take the form of a local market office. The Shenzhen office is set up ready for a higher level of operational activity and may serve as a service support centre for the Circle K chain in Hong Kong. The CRA Group also ventured into Dongguan, the PRC by an acquisition of 60% in DG Sun-High, a franchised convenience store chain in Dongguan, the PRC, with the intention of developing franchising in the area. The completion of the acquisition of DG Sun-High is pending the relevant approval from the local government.

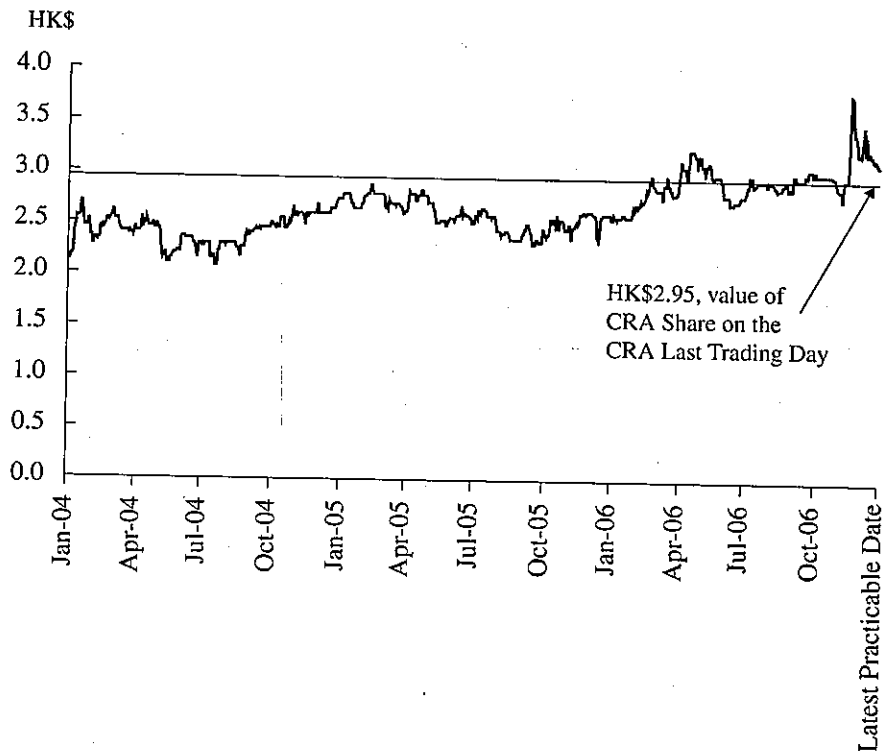
*(iii) Other countries*

Apart from investments in the PRC, the CRA Group also pursued investment opportunities in other countries in Asia. In November 2006, the CRA Group entered into a share purchase and shareholders agreement and an option agreement with COFOX B.V. to acquire an approximately 2.5% equity interest in Korea Retail Holdings B.V., the indirect holding company of Buytheway Inc., which ranks number four in the convenience store market in South Korea, for a cash consideration of approximately US\$2.97 million (equivalent to approximately HK\$23.2 million), with an option to acquire an additional approximately 30.5% equity interest over a two-year period. The CRA Group also provides management consultancy services to Korea Retail Holdings B.V. for a term of one year. The arrangements with Korea Retail Holdings B.V. enable the CRA Group to closely evaluate the market opportunities and growth potential of the business in South Korea for the consideration of possible further investment in the future. The CRA Group intends to continue developing its convenience store business in Hong Kong and will further explore new business opportunities in other countries.



(e) Price performance of CRA Share

The chart below illustrates the daily closing prices of CRA Shares during the Review Period.



Source: Bloomberg

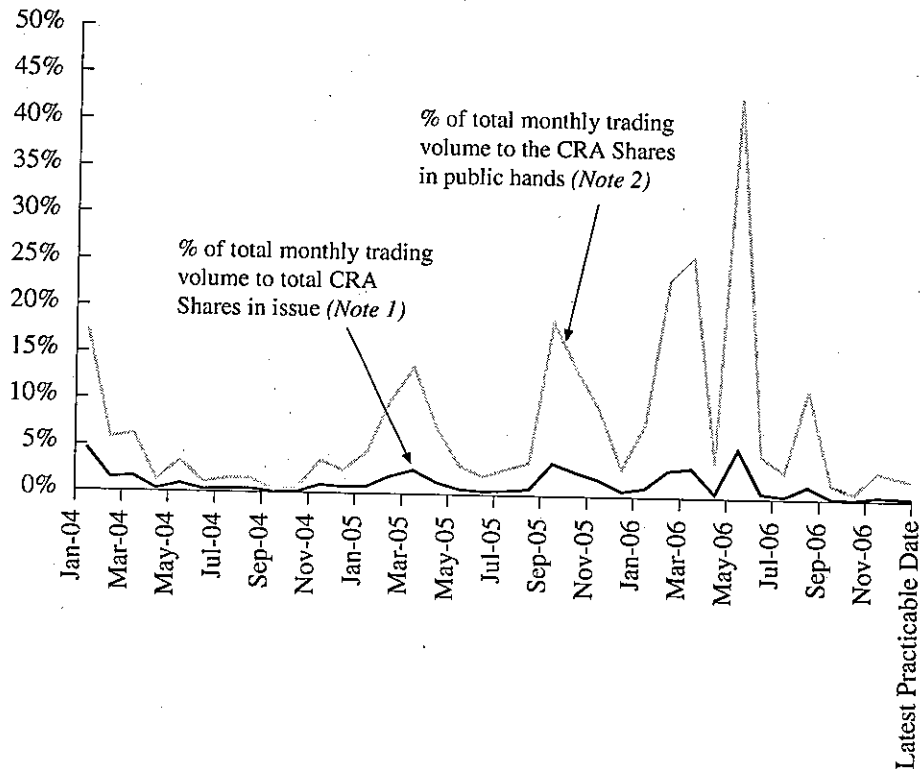
During the two years ended 31 December 2005, the closing price of CRA Share fluctuated in the range between HK\$2.081 and HK\$2.886. Since the beginning of 2006, the closing price of CRA Share gradually increased from around HK\$2.50 to near HK\$3.00 in March 2006 prior to the announcement of the annual results of CRA for the year ended 31 December 2005 on 9 March 2006. Subsequent to such results announcement, the closing price of CRA Share continued to climb and reached its historical peak of HK\$3.233 on 26 April 2006. However, the increase in the closing price of CRA Share was not sustainable, and the closing price of CRA Share dropped to around HK\$2.7 in June 2006 and remained close to HK\$3.00 before the publication of the Announcement.

The closing price of CRA Share surged, from HK\$2.95 on the CRA Last Trading Day to HK\$3.08 or by 4.4% after the publication of the Announcement on 20 November 2006. The closing price of CRA Share went up further to HK\$3.78 on 22 November 2006, representing an increase of approximately 28.1% from the CRA Last Trading Day. In our opinion, the significant increase in the closing price of CRA Share was mainly due to the market anticipation of favourable effects on CRA following the completion of the Scheme. From the Announcement Date to the Latest Practicable Date, the closing price of CRA Share fluctuated within a range of HK\$3.08 to HK\$3.78. As at the Latest Practicable Date, the price of CRA Share closed at HK\$3.11.



(f) Trading volume of CRA Shares

The following chart sets out the percentages of the total monthly trading volume of CRA Shares to the total number of CRA Shares in issue and the number of CRA Shares in public hands during the Review Period:



Source: Bloomberg

Notes:

1. The percentages are calculated based on the trading volume of CRA Shares and the number of CRA Shares in issue as at the end of each month.
2. The number of the CRA Shares in public hands is calculated from the then total number of CRA Shares in issue less the number of CRA Shares held by the CRA Directors and substantial CRA Shareholders.

As illustrated in the above chart, trading in CRA Shares usually became active during the period near to the announcement of CRA's annual results, which was around March every year. For the rest of the times, trading of the CRA Shares remained relatively thin except for May 2006, during which the significant increase in trading volume was not resulted from any corporate exercises. The sudden surge in the trading volume in November 2006, in our opinion, was likely due to the release of the Announcement on 20 November 2006.



**(g) Dividend yields**

During the three years ended 31 December 2003, 2004 and 2005, CRA paid dividends to its shareholders in the amounts of approximately HK\$26.8 million (HK\$0.04 per CRA Share), HK\$33.6 million (HK\$0.05 per CRA Share) and HK\$40.5 million (HK\$0.06 per CRA Share) respectively. These dividends represented a yield of 1.5%, 1.8% and 2.1% for the respective years based on the closing prices of CRA Shares on the respective dates of publication of the annual results announcements.

**(h) P/E multiples of CRA**

The CRA Group recorded net profits attributable to its shareholders of HK\$73.6 million for the year ended 31 December 2005. Based on approximately 677.1 million CRA Shares in issue as at the Latest Practicable Date, the EPS would be approximately HK\$0.109. Based on the closing price of HK\$2.95 per CRA Share on the CRA Last Trading Day, the P/E multiple of CRA Shares as at the CRA Last Trading Day would be approximately 27.1.

**(i) Comparison with comparable companies**

The structure of the Share & Cash Alternative in essence offers the Scheme Shareholders to acquire one CRA Share at a consideration of HK\$2.95. To assess such offer, we have reviewed companies listed on the Stock Exchange and have tried to identify companies that are also principally engaged in the operation of a chain of convenience stores in Hong Kong like the CRA Group. We are unable to identify any listed companies on the Stock Exchange that satisfy the aforesaid criteria. However, we identify three companies with their H Shares listed on the Stock Exchange, which are engaged in the operation of a chain of retail outlets including supermarkets and convenience stores in China (the "CRA Comparable Companies"). Given the CRA Group also has operations in China, we consider the CRA Comparable Companies are the closest available comparables for our comparison purpose. The CRA Comparable Companies include:

- Lianhua Supermarket Holdings Co. Ltd. ("Lianhua", stock code: 980) – H Shares;
- Beijing Jingkelong Co. Ltd. ("Jingkelong", stock code: 8245) – H Shares; and
- Wumart Stores, Inc. ("Wumart", stock code: 8277) – H Shares.



(i) *Comparison of closing price to NAV per share*

The table below illustrates the comparison of the share price of the CRA Comparable Companies and CRA to their respective underlying NAV per share:

	Closing share price as at the Latest Practicable Date HK\$ (Note 1)	NAV per share HK\$ (Note 2)	Premium of closing share price over NAV per share %
Lianhua	9.30	2.98	212.1%
Jingkelong	6.11	2.39	155.6%
Wumart (Note 3)	6.88	4.42	55.7%
<b>CRA (Note 4)</b>	<b>2.95</b>	<b>0.72</b>	<b>309.7%</b>

*Notes:*

1. Except for CRA, the closing share prices are sourced from Bloomberg.
2. The audited NAV per share for the CRA Comparable Companies (except for Jingkelong) and CRA are derived from their latest published annual reports for the year ended 31 December 2005. Renminbi is translated into Hong Kong dollars at the rate of RMB1.02 = HK\$1.00 for illustrative purpose.  
  
The NAV per share for Jingkelong is derived from the accountants' report of Jingkelong as contained in its prospectus dated 12 September 2006 having taken into account the H Shares were offered at HK\$4.50 each (with net proceeds amounted to approximately HK\$496.8 million) and the over-allotment option was exercised (with net proceeds amounted to approximately HK\$78.2 million).
3. Trading in the H Shares of Wumart has been suspended since 13 November 2006. The closing price of Wumart's H Shares on 13 November 2006 (being the last trading day before suspension) is used in the above analysis for illustrative purpose.
4. We have taken the value of the Cancellation Consideration but have not referred to the closing price of the CRA Shares on the Latest Practicable Date in the above analysis because, in our opinion, it is unlikely that the recent significantly higher price of the CRA Shares will be sustained if the Proposal is withdrawn or lapses.

All of the CRA Comparable Companies were traded at substantial premium over their respective NAV per share ranging from 55.7% to 212.1%. We note that the premium of approximately 309.7% represented by the value of the Cancellation Consideration over the NAV per CRA Share is above this range.



(ii) *Comparison of P/E multiple*

	<b>P/E multiple (times)</b> <i>(Note 1)</i>
Lianhua	24.2
Jingkelong	20.4
Wumart	12.1
<b>CRA (Note 2)</b>	<b>27.1</b>

*Notes:*

1. The P/E multiples for the CRA Comparable Companies are calculated based on the audited EPS of the companies as published in their respective latest annual reports for the year ended 31 December 2005 or prospectus as in the case of Jingkelong and the closing price of their respective shares on the Latest Practicable Date (except for Wumart which is based on the closing price of its shares on 13 November 2006).
2. This P/E multiple is calculated based on the audited EPS as published in CRA's annual report for the year ended 31 December 2005 and the value of the Cancellation Consideration.

As shown above, the P/E multiples of the CRA Comparable Companies range from 12.1 times to 24.2 times. The P/E multiple of CRA is above the high-end of this range.

(iii) *Comparison of dividend yield*

	<b>Dividend yield</b> <i>(%)</i> <i>(Note 1)</i>
Lianhua	1.4
Jingkelong	3.7
Wumart	2.6
<b>CRA (Note 2)</b>	<b>2.0</b>

*Notes:*

1. The dividend yield for the CRA Comparable Companies are calculated based on the dividend per share of the relevant companies as disclosed in their respective latest annual reports for the year ended 31 December 2005 or prospectus as in the case of Jingkelong and the closing price of their respective shares on the Latest Practicable Date (except for Wumart which is based on the closing price of its shares on 13 November 2006).
2. This dividend yield is calculated based on the dividend per CRA Share as disclosed in CRA's annual report for the year ended 31 December 2005 and the value of the Cancellation Consideration.





As shown above, the dividend yields of the CRA Comparable Companies range from 1.4% to 3.7%. The dividend yield of CRA falls within the above range but is closer to the lower end.

**(j) Financial effects of the Proposal on the Enlarged Group**

*Earnings*

As set out in the audited consolidated financial statements of the CRA Group for the year ended 31 December 2005 and the unaudited results of the CRA Group for the nine months ended 30 September 2006 in Appendix II to the Document, the profit attributable to CRA Shareholders was approximately HK\$73.6 million for the year ended 31 December 2005 and approximately HK\$55.6 million for the nine months ended 30 September 2006 respectively.

As set out in the unaudited pro forma financial information on the Enlarged Group in Appendix III to the Document, the pro forma profit attributable to shareholders of the Enlarged Group for the year ended 31 December 2005 would have been increased by approximately HK\$39.3 million to HK\$112.8 million, representing an increase of 53.4%.

*Assets and liabilities*

An unaudited pro forma statement of assets and liabilities of the Enlarged Group is set out in Appendix III to the Document to illustrate the financial effects of the Proposal as if the Proposal had been completed on 30 June 2006.

On the basis of 214,157,000 Saint Honore Shares in issue as at the Latest Practicable Date and that all Saint Honore Shareholders elect the Cash Alternative, upon implementation of the Proposal, the pro forma total assets and total liabilities of the Enlarged Group would have been increased by approximately HK\$260.1 million to HK\$1,171.6 million and by HK\$260.1 million to HK\$686.2 million, respectively.

On the basis of 214,157,000 Saint Honore Shares in issue as at the Latest Practicable Date and that all Scheme Shareholders elect the Share & Cash Alternative, upon implementation of the Proposal, the pro forma total assets and total liabilities of the Enlarged Group would have been increased by approximately HK\$576.0 million to HK\$1,487.5 million and HK\$260.1 million to HK\$686.2 million, respectively. The pro forma net assets of the Enlarged Group as at 30 June 2006 would have been increased from approximately HK\$485.4 million to HK\$801.3 million.

*Gearing position and working capital*

As at 31 October 2006, both the CRA Group and the Saint Honore Group had no outstanding borrowings and were in net cash position.

As stated in Appendix III to the Document, as at 31 October 2006, the Enlarged Group had no outstanding borrowings and was in a net cash position.



**(k) Risks profile of the CRA Group**

Business of the Saint Honore Group comprises mainly the bakery business while that of the CRA Group comprises primarily the convenience store business. Despite both the Saint Honore Group and the CRA Group operate a chain of retail outlets offering mainly food products, we set out below the additional risks to which the Enlarged Group will be subject after the Scheme becoming effective:

- The trademarks and device of Circle K were licensed to the CRA Group up to March 2025 in accordance with a licence agreement entered into between Circle K (US) and Circle K (HK) in 1985 as amended on 1 July 2000 and 1 December 2000. There is no assurance that such licence arrangement will not be terminated prior to its expiry, although we have confirmed with the management of the CRA Group that they are not aware of any incident that will result in early termination of the licence agreement.
- It is the intention of the CRA Group to further expand both its existing operation and the operation of the Saint Honore Group in the PRC. Upon successful implementation of such expansion plan, the Enlarged Group will be more susceptible to risks associated with the change in economic conditions and regulatory environment in the PRC.
- The nature of businesses of the CRA Group and the Saint Honore Group although complementary may not be compatible in terms of customers, suppliers and targeted market and is subject to different market conditions. There is no assurance of the successful integration of the two businesses and the failure of which may result in adverse impact on the business, operation and results of the Enlarged Group.

**SUMMARY OF DISCUSSION AND ANALYSIS**

**General**

The Saint Honore Group has in recent years achieved growth in turnover, gross profit and net profit, but the rates of such growth are declining. For the three financial years under review, the rate of growth of turnover decrease from 9% in 2004 as compared to 2003, to 4% in 2006 as compared to 2005; the rate of growth of gross profit decreased from 8% in 2004 as compared to 2003, to 1% in 2006 as compared to 2005; and the rate of growth of net profit (after adjustment for one-off items) decreased from 65 % in 2004 as compared to 2003, to 11% in 2006 as compared to 2005. The declines in these rates of growth are reflective of the escalating competition, rising production, operating and administrative costs and saturation in the Hong Kong market, the Saint Honore Group's principal market. The Saint Honore Group has been investing in the PRC market since 2002 and is yet to fully exploit the benefits of the huge consumer market in view of the growing purchasing power. Up to 31 March 2006, the PRC operation remained insignificant to the Saint Honore Group. Given the Saint Honore Group is facing pricing pressure, escalating costs and market saturation in Hong Kong, we consider that in the short run, the Saint Honore Group will be able to maintain its profitability. However, in the long run, the growth in profitability of the Saint Honore Group may be further restricted unless the aforesaid expansion into the PRC could generate a material contribution.



## Cash Alternative

The Cash Alternative values each Scheme Share at HK\$2.95.

Saint Honore Share was traded at a price below the Cash Alternative of HK\$2.95 per Scheme Share at all times during the three years under review and was traded at a price below HK\$2.0 since October 2005 up to and before the Saint Honore Last Trading Day. The monthly trading volume of Saint Honore Shares at most of the time during the same period represented not more than 4% of the Saint Honore Shares in public hands.

The Cash Alternative represents an assured opportunity for the Scheme Shareholders to realise their investments in Saint Honore at a price which is substantially higher than the market prices before the publication of the Announcement.

The Cash Alternative represents a premium of 168.2% over the unaudited unadjusted NAV per Saint Honore Share, which is close to the upper end of the premium of the closing prices over the fully diluted NAV of the Saint Honore Shares ranging between 64.2% and 203.8% during the past three years under review. After adjustments of revaluation surpluses in respect of land, buildings and land use rights and the fair value of the intangible assets (as assessed by the CRA Directors and set out in Appendix III to the Document) of the Saint Honore Group, the Cash Alternative remains substantially above the NAV and the NTAV of the Saint Honore Group. The Cash Alternative represents a P/E multiple of 15.4 times, which is about 43.9% higher than the 10.7 times P/E multiple based on the closing price of Saint Honore Share as quoted on the Saint Honore Last Trading Day. The P/E multiple of 15.4 times and 168.2% premium over the unaudited unadjusted NAV per Saint Honore Share implied by the Cash Alternative are within the range of those of the Comparable Companies. However, given the differences between the principal businesses of the Saint Honore Group and that of the Comparable Companies, we have not put significant weight on this factor.

The price of Saint Honore Share has increased substantially on the date of the publication of the Announcement, and the closing price of Saint Honore Share has been maintained at about HK\$2.90 for most of the time between the date of publication of the Announcement and the Latest Practicable Date. In our opinion, it is not likely that the market price of Saint Honore Share will remain at current level in the short term if the Scheme is withdrawn or lapses.

## Share & Cash Alternative

Under the Share & Cash Alternative, Scheme Shareholders will receive HK\$2.95 in cash and one CRA Share for every two Scheme Shares held. Scheme Shareholders who elect the Share & Cash Alternative are giving up the Cash Alternative for one of every two Scheme Shares they held in exchange for one CRA Share at HK\$2.95. In essence, Scheme Shareholders are buying one CRA Share at HK\$2.95.

Based on approximately 677.1 million CRA Shares in issue as at the Latest Practicable Date, the earnings per CRA Share would be approximately HK\$0.109. The P/E multiple of each CRA Share implied by the Cash Alternative of HK\$2.95 would be 27.1 times, which is higher than the P/E multiples of the CRA Comparables Companies ranging between 12.1 times and 24.2 times. Based on the NAV per CRA Share of HK\$0.72 as at 30 June 2006, the Cash Alternative represents a premium of 309.7% over the NAV per CRA Share, which is also higher than those of the CRA Comparable Companies ranging from 55.7% to 212.1%. Based on the above valuation parameters, the Share & Cash Alternative which values each CRA Share at HK\$2.95 is considered "over-priced". On the assumption that all Scheme Shareholders elect the Share & Cash Alternative, 107,078,500 CRA Shares will be issued, resulting in 784,220,500 CRA Shares in issue after the Scheme becoming effective. On this basis, the P/E multiple of each CRA Share implied by the Cash Alternative based on the pro forma earnings per CRA Share after the Scheme becoming effective would be



20.5 times. On the same basis, the Cash Alternative would represent a premium of 189% over the pro forma NAV per CRA Share after the Scheme becoming effective. Although the valuation parameters fall within those of the CRA Comparable Companies on a pro forma basis, they are closer to the higher end.

The dividend yield of CRA for 2005 was 2.0%. The dividend yield of the CRA Comparable Companies ranged from 1.4% to 3.7%. The dividend yield of CRA falls within the above range but is closer to the lower end.

### **Comparison of the two alternatives**

The Cash Alternative offers the Scheme Shareholders an assured chance to realise their investments in Saint Honore. In contrary to the Share & Cash Alternative, the monetary value of the Cash Alternative will not be subject to fluctuations of the market price of the CRA Shares, which we consider may not be sustainable at current level given its closing price had been below HK\$2.95 for most of the time during 2004 to 2006 and it is considered "over-priced" as compared to the CRA Comparable Companies.

Scheme Shareholders who wish to elect the Cash Alternative are reminded to monitor the price of CRA Shares. In the event that CRA Shares are traded at a price substantially above HK\$2.95 and the Scheme Shareholders are confident that it will maintain at such level until the day the allotment and issue of the CRA Shares pursuant to the Share & Cash Alternative takes place, which is currently expected to be on or before 5 March 2007, such Scheme Shareholders should consider to elect the Share & Cash Alternative and dispose of the CRA Shares at open market subsequently. Scheme Shareholders who consider taking this approach must bear in mind the risks relating to the price volatility and the liquidity of CRA Shares and potentially the odd lots of CRA Shares they may receive and the costs associated with the disposal. This approach however may not be appropriate for Scheme Shareholders who have substantial shareholding in Saint Honore as they may have difficulty in realising their entire interest in CRA Shares without causing a downward pressure on the price of CRA Share.

Based on the closing price of CRA Share of HK\$3.11 as at the Latest Practicable Date, the Share & Cash Alternative values each Scheme Share at HK\$3.03. Scheme Shareholders who are optimistic about the prospects of the Enlarged Group may consider electing the Share & Cash Alternative but should be mindful of:

- (i) their need for cash;
- (ii) the risks involved in holding CRA Shares;
- (iii) the lack of assurance on the sustainability of the price of CRA Share at current level based on its historical price performance up to the CRA Last Trading Day and its pricing as compared to the CRA Comparable Companies;
- (iv) the lack of assurance on the possibility to dispose of their entire holding in CRA Shares in the market without creating a downward pressure on the price of CRA Shares, if they have substantial holding in CRA Shares; and
- (v) the price movement of CRA Shares before the latest time to lodge the Election Form, which is currently expected to be at 4:00 p.m. on 22 February 2007. In the event that CRA Share is traded at a price below HK\$2.95 on or before 22 February 2007, they should consider to elect the Cash Alternative and acquire CRA Shares from open market.

We have not considered the different tax implications on the Scheme Shareholders for electing different alternatives since these depend on their individual circumstances. Scheme Shareholders should consider their own tax position and, if in doubt, consult their professional advisers.



## **OPINION AND RECOMMENDATION**

Based on the above principal factors and reasons, we consider the terms of the Proposal are fair and reasonable so far as the Saint Honore Shareholders are concerned. Accordingly, we recommend the Saint Honore Independent Board Committee to advise the Saint Honore Shareholders to vote in favour of the Scheme to be considered at the Court Meeting and the special resolution to be proposed at the Special General Meeting to approve and implement the Scheme.

We further recommend the Saint Honore Independent Board Committee to advise the Scheme Shareholders to elect the Cash Alternative.

Yours faithfully,  
For and on behalf of  
**SOMERLEY LIMITED**

**Mei H. Leung**  
*Deputy Chairman*