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Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr. Chan Wai Cheung, Glenn, *Chairman*
Mr. Shum Wing Hon, *Deputy-chairman*
Mrs. Chan Wong Man Li, Carrina, *Managing Director*
Mr. Chan Ka Shun, Raymond
Mr. Wong Chung Piu, Billy

Non-executive directors

Mr. Chan Ka Lai, Joseph
Mrs. Chan King Catherine

Independent non-executive directors

Dr. Cheung Wai Lam, William
Dr. Ho Sai Wah, David
Mr. Bingley Wong

AUDIT COMMITTEE

Dr. Cheung Wai Lam, William, *Committee Chairman*
Mr. Chan Ka Lai, Joseph
Dr. Ho Sai Wah, David
Mr. Bingley Wong

COMPANY SECRETARY

Ms. Wong Tsui Yue, Lucy

AUTHORIZED REPRESENTATIVES

Mrs. Chan Wong Man Li, Carrina
Ms. Wong Tsui Yue, Lucy

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F., Express Industrial Building
43 Heung Yip Road
Wong Chuk Hang
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-6
17/F., Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

SOLICITORS

Sidley Austin Brown & Wood
Conyers Dill & Pearman

AUDITORS

PricewaterhouseCoopers

STOCK CODE

192

WEBSITE

<http://www.sthonore.com>

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

Management Discussion and Analysis of the Operations

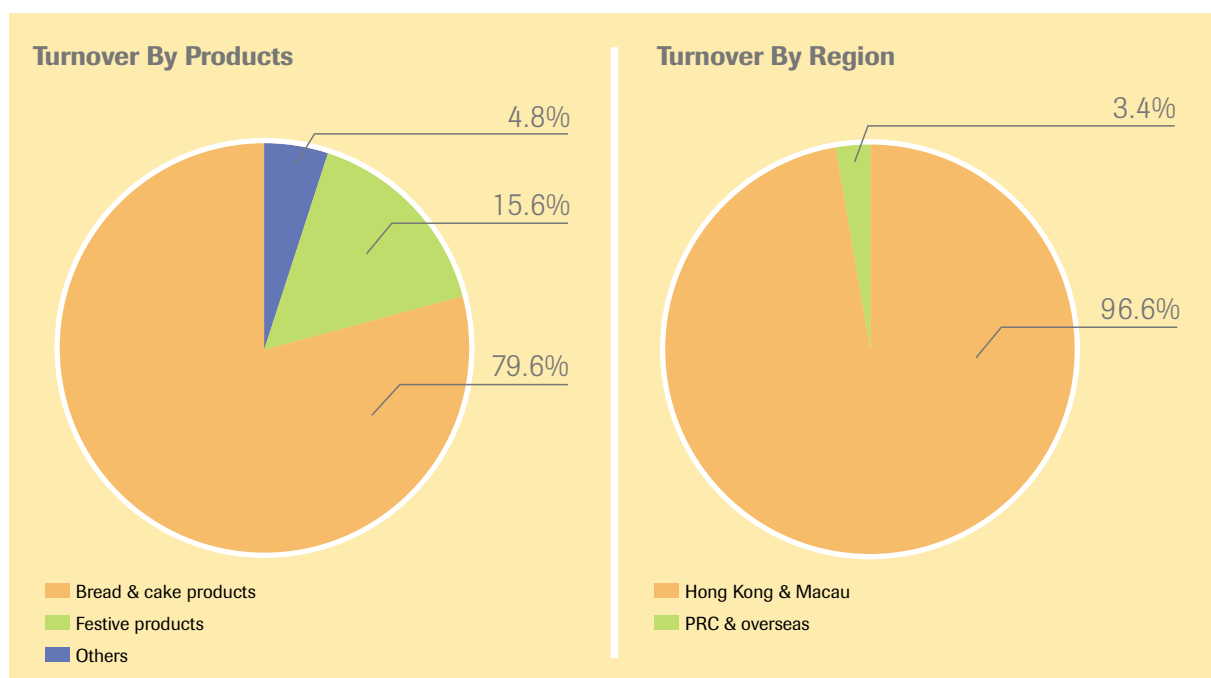
SAINT HONORE CAKE SHOP

We are enjoying the full year effect of the migration of certain production lines to Shenzhen which have lowered our production costs yet without foregoing our product quality. Our production capacity has been considerably expanded to support on-going large scale promotion campaigns which were interrupted by SARS during when we had to postpone our schedule, while effort was diverted to implement various hygienic measures to maintain public confidence on open shelved food products. We deliberately packed all cake and bread products individually as well as tightened up the hygiene standard at our production plants.

When we resumed our marketing campaigns, we invited a few well-known brands to be our joint promotion partners in order to create a higher noise level for our campaigns as well as opening up cross-selling opportunity to each other. The results were encouraging with sales growth enjoyed by both parties while there were savings in the promotion expenses. Our annual turnover in cake and bread products increased by 11%.

During the year, we replaced four loss-making outlets and relocated them to other residential areas. We have also renovated eight outlets to improve our image.

We continue to introduce new product lines of improved quality. After the launch of our 'Natural Yeast' bread products, we had brought in from Japan the 'Soup-based' technique and marketed it under a new bread product line which was well received by our customers. Our bread turnover increased by 13%. We also regularly push out new cake and bread items for our conventional lines to sustain their product lives. In deed "St Honore" is now recognized as one of the 'Hong Kong Superbrands' well accepted among the local consumers.





Our Managing Director, Mrs. Carrina Chan, receiving the "Superbrands" award

We only recorded a moderate growth of 5% for festive products sales in Hong Kong as the consumers are still reluctant to increase their spending on luxury products. Contrast to this, mooncake turnover in the PRC increased substantially with a booming economy there and our overall PRC turnover increased by 70% as a result. To prepare for an expanding market, we replaced a small outlet with two bigger and more lavishly decorated ones which were opened respectively in April and May 2004.

BREAD BOUTIQUE

Despite the replacement of our top sale outlet at Kowloon Bay by a smaller one, Bread Boutique still managed to maintain a moderate sales growth of 2% as occupancy rate continued to improve at the public estate at Lung Cheung where sales at this outlet was doubled. In order to enrich the product variety to customers, we have split certain premises and added "St Honore" to these shops in the past years. This strategy has been quite successful and our overall sales after the split improved and offset the impact of rising material costs to certain extent. Though we enjoyed rent concession during SARS period, the savings were more or less offset by increase in staff costs. As a result, our overall bottom line decreased by about 7%.



The newly opened Guangzhou Dong Chuan outlet



"Famous Mooncake" Award

EC EATERY

Our eatery business was able to recover the sales loss during the first quarter as a result of the outbreak of SARS to record a full year sales growth of 5%. Although the economy has recovered to some extent, consumers are still very cautious in spending and they keep looking out for creativity in the dining arena. To live up to their expectation, we are now changing our menu on a quarterly basis so as to preserve originality



New Designed Crunchy Nuts Waffles Gift Box



Chinese New Year Gold Pudding Gift Set



“Soup-based” Bread

EC EATERY (cont'd)

to our customers. We also upgraded the ingredients used in our menu. Our gross profit margin has been slightly affected in the second half of the year but our net profit has increased by 24% from the sales increment.

LIQUIDITY AND CAPITAL RESOURCES

Our freely-held cash on hand increased from approximately HK\$92.2 million as at 31 March 2003 to about HK\$131.0 million as at 31 March 2004 even though we have spent approximately HK\$37.1 million on new capital expenditure. The Group's financial position stays healthy with zero gearing. The Group plans to invest about HK\$45.0 million mainly to expand and upgrade the outlet network and production capacity. These projects will be financed internally and we do not have any need for external fund raising.

EMPLOYEES

At 31 March 2004, the Group had a total of 1,748 (2003: 1,670) full time employees. Employees are remunerated based on basic salaries and sales incentives which are only payable to some operational staff. Bonuses were discretionary in nature and were based on the performance of the employees and the Group. The Company has adopted a share option scheme to provide incentive to working staff. During the year, the employees of the Company exercised most of their share options granted under the share option scheme. Details of the scheme and the exercise are set out in the section headed "Share Options" in the report of the directors.

PLEDGE OF ASSETS

No assets were pledged as at 31 March 2004.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group conducts most of its business transactions in currencies of Hong Kong dollars and Renminbi ("RMB"). To reduce the Group's exposure to the recent speculation of a revaluation of RMB, we have taken out forward contracts on a running twelve months basis to cover regular payments in this currency. As at 31 March 2004, the Group has committed in RMB forward exchange contracts which amounted to HK\$23 million and expiring within the next financial year (2003: Nil).

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 March 2004.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chan Wai Cheung, Glenn, *Chairman Aged 70*

Mr. Chan worked for the Hong Kong Government for more than 10 years in the then Urban Services Department. In 1972, he left the public sector and joined a catering group in Hong Kong. Approximately two years later, he co-founded Hong Kong Catering Management Limited (“HKCM”) which obtained a listing status on the Hong Kong Stock Exchange Limited in 1990. He is now the chairman of HKCM. He is the spouse of Mrs. Chan King Catherine and the father of Mr. Chan Ka Lai, Joseph and Mr. Chan Ka Shun, Raymond, all of them are directors of the Company.

Mr. Shum Wing Hon, *Deputy-chairman Aged 62*

Mr. Shum is a founder of Saint Honore Cake Shop Limited (“St Honore”) and possesses more than 39 years of experience in the bakery industry. Mr. Shum was appointed the deputy-chairman of the Company in July 2000. He is responsible for production and quality control of the bakery operation of the Group. He is also an executive director of HKCM.

Mrs. Chan Wong Man Li, Carrina, *Managing Director Aged 41*

Mrs. Chan holds a master degree in business administration jointly conferred by the J.L. Kellogg Graduate School of Management, Northwestern University in the United States and the Hong Kong University of Science and Technology. Mrs. Chan also holds a bachelor degree in administrative studies from the Trent University in Canada. Mrs. Chan joined Saint Honore in 1986 and is now the managing director of the Group.

Mr. Chan Ka Shun, Raymond *Aged 40*

Mr. Chan obtained his master degree in business administration from the University of South Australia and a bachelor of science degree from the University of Denver in the United States. He joined St Honore in 1992 and was appointed a director of the Company in July 2000. He is in charge of logistics and China operations. Mr. Chan is the son of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine as well as the brother of Mr. Chan Ka Lai, Joseph.

Mr. Wong Chung Piu, Billy *Aged 45*

Mr. Wong joined Bread Boutique Limited (“BBL”) in 1990 after working for a reputable bakery chain for 10 years. He is in charge of the Group’s Bread Boutique bakery chain. He was appointed a director of the Company in July 2000.

NON-EXECUTIVE DIRECTORS

Mrs. Chan King Catherine *Aged 70*

Mrs. Chan is the co-founder and an executive director of HKCM. She now assists the overall management and control of HKCM. She is the spouse of Mr. Chan Wai Cheung, Glenn and the mother of Mr. Chan Ka Shun, Raymond and Mr. Chan Ka Lai, Joseph.

Mr. Chan Ka Lai, Joseph *Aged 38*

Mr. Chan graduated from the McGill University in Canada with a degree in chemical engineering. He is the Deputy Managing Director of HKCM and is responsible for the overall management of the restaurant operation of HKCM. He was appointed a director of the Company in July 2000. Mr. Chan is the son of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine as well as the brother of Mr. Chan Ka Shun, Raymond.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheung Wai Lam, William *Aged 45*

Dr. Cheung is a medical professional and has worked in the public hospital for 7 years before he started his own practice specializing in surgery. He has also been actively involved in applying information technology to improve the quality of medical practice and is currently the CEO of Fosson Limited.

Dr. Ho Sai Wah, David *Aged 46*

Dr. Ho obtained his medical degree and PhD degree from the University of Sydney, Australia. He is a registered medical practitioner in Hong Kong, Australia, the United Kingdom and the United States. A renowned cardiologist, Dr. Ho has made numerous worldwide presentations and publications about his research in this field. He had taught in the University of Sydney and the University of Hong Kong before he started his own practice.

Mr. Bingley Wong *Aged 74*

Mr. Wong has over 41 years extensive experience in accounting, auditing and taxation. He is a fellow member of a number of professional bodies: Hong Kong Society of Accountants, CPA Australia, Association of International Accountants, Institute of Chartered Secretaries and Administrators, Hong Kong Institute of Company Secretaries, Hong Kong Institute of Directors Limited and The Australian Institute of Company Directors and is also a member of Hong Kong Securities Institute. Mr. Wong is a certified public accountant and established Bingley Wong & Co., CPA after working over 20 years in the Inland Revenue Department and he is the managing directors of Bingley Consulting Limited and BW Nominee Limited. Mr. Wong is also an independent non-executive director of Northern International Holdings Limited. He renders public services as a Director of the Hong Kong Chiu Chow Chamber of Commerce Limited and Yan Oi Tong in 1983. He was appointed as independent non-executive director of the Company in July 2003.

SENIOR MANAGEMENT

Ms. Wong Tsui Yue, Lucy *Aged 43*

Ms. Wong is the company secretary of both the Company and HKCM. She graduated from the Victoria University of Wellington in New Zealand with a bachelor degree in commerce. She is a fellow member of the Hong Kong Society of Accountants and an associate member of the Institute of Chartered Accountants in Australia. She has been an executive director of HKCM since 1997.

Mr. Chan Kin Kong, Allan *Aged 40*

Mr. Chan is the financial controller of the Group. He joined the Group in 1996 and has over 15 years of experience in accounting and financial management. Mr. Chan obtained his master degree in business administration from the City University of Hong Kong. Mr. Chan also holds a bachelor of social science degree from the University of Hong Kong. He is currently a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. Cheng Kwok Hung, Terrence *Aged 40*

Mr. Cheng is the sales and training manager of Saint Honore. Mr. Cheng obtained a higher diploma in institutional management and catering studies from the Hong Kong Polytechnic University. He joined the Group in 1996 and has more than 16 years of sales and operational experience in the food and catering industry.

Mr. Wu Kwok Leung, Eddie *Aged 42*

Mr. Wu is the senior production manager of Saint Honore. He received a master degree in business administration, a certificate in quality management and a diploma in hotel management respectively from the University of South Australia, the City University of Hong Kong and Les Roches, Switzerland. Mr. Wu joined Saint Honore in 1995 and has 18 years of experience in catering operation.

Mr. Sham Cheong *Aged 58*

Mr. Sham is the purchasing manager of Saint Honore. Mr. Sham joined Saint Honore in 1976. He has 35 years of experience in the food industry. Before joining the Group, he earned 8 years of experience in production and management in the food industry.

Ms. Shiu Man Shan, Cathy *Aged 38*

Ms. Shiu is the marketing manager of Saint Honore. She holds a bachelor degree of arts from the University of Hong Kong. Ms. Shiu joined the Group in 1999 and has 13 years of experience in marketing and public relations field in different commercial sectors.

Ms. Cheng Wai Fun, Linda *Aged 35*

Ms. Cheng is the human resources and administration manager of Saint Honore. She joined the Group in 2003 and has 10 years of experience in human resources and administration. Ms. Cheng holds a bachelor degree in business administration from the Open University of Hong Kong. She is an associate member of the Hong Kong Institute of Human Resources Management.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company is engaged in investment holding and its subsidiaries are engaged in bakery and eatery businesses.

An analysis of the Group's performance for the year by business segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 24.

The Company has paid an interim dividend of HK4.0 cents (2003: HK2.0 cents) per ordinary share, totalling HK\$8,311,080 (2003: HK\$3,924,580) on 28 January 2004.

The directors recommend the payment of a final dividend of HK9.0 cents (2003: HK3.5 cents) per ordinary share totalling HK\$19,031,130 (2003: HK\$6,868,015) to be payable to shareholders whose names appear in the register of members of the Company on 26 August 2004. Subject to the passing of the necessary resolutions at the forthcoming annual general meeting, such dividend will be payable on or about 7 September 2004.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 23 to the accounts.

Distributable reserves of the Company at 31 March 2004, calculated under the Companies Act of Bermuda, amounted to HK\$224,056,008 (2003: HK\$211,856,177).

DONATIONS

Donations made for charitable purposes by the Group during the year amounted to HK\$88,000 (2003: HK\$128,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the law in Bermuda.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 March 2004 are set out in note 30 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

SHARE OPTIONS

The Company's share option scheme adopted on 25 October 2000 (the "Share Option Scheme") does not fulfil certain requirements laid down in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") on share option scheme which became effective on 1 September 2001. No further share option has been granted since then. There remained 2,840,000 share options as at 31 March 2004 being held by a director and three employees and out of which 2,030,000 share options are exercisable up to 31 May 2010 at HK\$0.50 per share and 810,000 share options are exercisable up to 30 September 2011 at HK\$0.55 per share.

Further details of the Share Option Scheme as required to be disclosed under Rule 17.09 of the Listing Rules have not been included as in the opinion of the board of directors (the "Board"), the information is obsolete and of no more value.

The details of movements of the options issued under the Share Option Scheme ("Share Options") during the year are summarized below:

Participants	Grant date	Exercise period		Exercise price HK\$	Number of Share Options				
		From	To		As at 1 Apr. 2003	Exercised during the year <i>(Note a)</i>	Lapsed during the year	Cancelled during the year <i>(Note b)</i>	As at 31 Mar. 2004
Directors									
Chan Ka Shun,	15 Jan. 2001	1 May 2001	31 May 2010	0.50	1,000,000	-	-	-	1,000,000
Raymond	15 Jan. 2001	1 May 2002	31 May 2010	0.50	1,000,000	-	-	-	1,000,000
	31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	300,000	-	-	-	300,000
	31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	300,000	-	-	-	300,000
				Total	<u>2,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,600,000</u>
Shum Wing Hon	15 Jan. 2001	1 May 2001	31 May 2010	0.50	1,000,000	(1,000,000)	-	-	-
	15 Jan. 2001	1 May 2002	31 May 2010	0.50	1,000,000	(1,000,000)	-	-	-
	31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	300,000	(300,000)	-	-	-
	31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	300,000	(300,000)	-	-	-
				Total	<u>2,600,000</u>	<u>(2,600,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>

SHARE OPTIONS (cont'd)

Participants	Grant date	Exercise period		Exercise price HK\$	Number of Share Options				
		From	To		As at 1 Apr. 2003	Exercised during the year <i>(Note a)</i>	Lapsed during the year	Cancelled during the year <i>(Note b)</i>	As at 31 Mar. 2004
Directors (cont'd)									
Chan Wong Man	15 Jan. 2001	1 May 2001	31 May 2010	0.50	1,000,000	(1,000,000)	-	-	-
Li, Carrina	15 Jan. 2001	1 May 2002	31 May 2010	0.50	1,000,000	(1,000,000)	-	-	-
	31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	300,000	(300,000)	-	-	-
	31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	300,000	(300,000)	-	-	-
				Total	2,600,000	(2,600,000)	-	-	-
Wong Chung	15 Jan. 2001	1 May 2001	31 May 2010	0.50	750,000	(750,000)	-	-	-
Piu, Billy	31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	375,000	(375,000)	-	-	-
	31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	375,000	(375,000)	-	-	-
				Total	1,500,000	(1,500,000)	-	-	-
Continuous contract employees	15 Jan. 2001	1 May 2001	31 May 2010	0.50	2,070,000	(1,958,000)	(2,000)	(80,000)	30,000
	31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	3,640,000	(3,215,000)	(265,000)	(55,000)	105,000
	31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	3,640,000	(3,215,000)	(265,000)	(55,000)	105,000
				Total	9,350,000	(8,388,000)	(532,000)	(190,000)	240,000
				Grand total	18,650,000	(15,088,000)	(532,000)	(190,000)	2,840,000

SHARE OPTIONS (cont'd)

Note:

(a) There were 15,088,000 Share Options exercised during the year and the details are summarised below:

Month	Number of Share Options exercised			Proceeds from exercise of Share Options HK\$
	Exercisable at HK\$0.50	Exercisable at HK\$0.55	Total	
August 2003	80,000	-	80,000	40,000
September 2003	328,000	380,000	708,000	373,000
October 2003	2,620,000	620,000	3,240,000	1,651,000
November 2003	490,000	1,800,000	2,290,000	1,235,000
December 2003	1,090,000	2,380,000	3,470,000	1,854,000
January 2004	40,000	1,720,000	1,760,000	966,000
February 2004	2,060,000	710,000	2,770,000	1,420,500
March 2004	-	770,000	770,000	423,500
Total	6,708,000	8,380,000	15,088,000	7,963,000

The weighted average closing prices of the Company's shares immediately before the dates of exercise were:

Participants	Weighted average closing price before the dates of exercise HK\$
Shum Wing Hon	1.36
Chan Wong Man Li, Carrina	1.13
Wong Chung Piu, Billy	1.35
Continuous contract employees	1.09
Average	1.17

(b) The 190,000 Share Options were cancelled upon the optionholders accepted the cash offer of Well-Positioned Corporation ("Well-Positioned") which was opened over the period from 12 February 2004 to 30 March 2004.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Neither the Company nor the Group had any outstanding bank loans, overdrafts and other borrowings subsisted as at 31 March 2004 and 31 March 2003.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 59 and 60.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The directors during the year were:

Executive directors

Mr. Chan Wai Cheung, Glenn
Mr. Shum Wing Hon
Mrs. Chan Wong Man Li, Carrina
Mr. Chan Ka Shun, Raymond
Mr. Wong Chung Piu, Billy

Non-executive directors

Mr. Chan Ka Lai, Joseph
Mrs. Chan King Catherine

Independent non-executive directors

Dr. Cheung Wai Lam, William
Dr. Ho Sai Wah, David
Mr. Bingley Wong (appointed on 7 July 2003)

In accordance with Bye-law 87 of the Company's Bye-laws, Mrs. Chan King Catherine and Dr. Cheung Wai Lam, William retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr. Bingley Wong was appointed as an independent non-executive director on 7 July 2003 with a service contract signed on that date. The service contracts of all other non-executive directors expired on 28 September 2002 and have been renewed. These service contracts would continue unless terminated by either party with one month prior written notice.

No director has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Separate annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules have been received from all the independent non-executive directors.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in section headed "Connected Transactions" below, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2004, the following directors and chief executives of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

Name of company	Name of director	Number of ordinary shares held			Number of underlying ordinary shares held under equity derivatives	Total number of share interested or deemed to be interested (long position)	Percentage of shareholding %
		Personal interest <i>(Note b)</i>	Family interest	Trust interest			
The Company	Chan Wai Cheung, Glenn	-	-	146,485,250 <i>(Note a)</i>	-	146,485,250	69.32
	Chan King Catherine	-	146,485,250 <i>(Note a)</i>	-	-	146,485,250	69.32
	Chan Ka Lai, Joseph	182,000	-	146,485,250 <i>(Note c)</i>	-	146,667,250	69.41
	Chan Ka Shun, Raymond	162,500	-	146,485,250 <i>(Note c)</i>	2,600,000 <i>(Note d)</i>	149,247,750	70.63
	Chan Wong Man Li, Carrina	968,000	-	-	-	968,000	0.46
HKCM	Chan Wai Cheung, Glenn	-	-	183,658,609 <i>(Note e)</i>	-	183,658,609	55.83
	Chan King Catherine	-	183,658,609 <i>(Note e)</i>	-	-	183,658,609	55.83
	Chan Ka Lai, Joseph	1,200,000	-	183,658,609 <i>(Note c)</i>	3,000,000 <i>(Note f)</i>	187,858,609	57.11
	Chan Ka Shun, Raymond	650,000	-	183,658,609 <i>(Note c)</i>	-	184,308,609	56.03

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (cont'd)

Notes:

- (a) These shares are held by Well-Positioned, a company beneficially owned by a trust established for the benefit of the family members of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine, in the following manner:

	Number of ordinary shares held
Shares held by Well-Positioned as beneficial owner	28,457,152
Shares held by Well-Positioned through HKCM's wholly owned subsidiary, Albion Agents Limited ("Albion")	118,028,098
	<u>146,485,250</u>

Mr. Chan Wai Cheung, Glenn is interested in these shares in the capacity as founder of the trust and Mrs. Chan King Catherine, being the spouse of Mr. Chan Wai Cheung, Glenn is also deemed to be interested in these shares.

- (b) These shares are held by the directors as beneficial owners.
- (c) Mr. Chan Ka Lai, Joseph and Mr. Chan Ka Shun, Raymond, being the eligible beneficiaries of the family trust established by Mr. Chan Wai Cheung, Glenn, are also deemed to be interested in these shares held by Well-Positioned.
- (d) These are underlying shares in respect of share options granted under the Share Option Scheme. The aforesaid interests are held by Mr. Chan Ka Shun, Raymond as beneficial owner.
- (e) These shares are held by Well-Positioned and being the founder of the trust, Mr. Chan Wai Cheung, Glenn has the trust interest in HKCM, Mrs. Chan King Catherine, being the spouse of Mr. Chan Wai Cheung, Glenn, is also deemed to be interested in these shares.
- (f) These are underlying shares in respect of share options granted under the share option scheme of HKCM adopted on 13 March 2000. The aforesaid interests are held by Mr. Chan Ka Lai, Joseph as beneficial owner.

The details of Share Options granted to directors during the year are disclosed in the section headed "Share Options" above. In addition, one director of the Company is holding share options in HKCM and there was no movement in such share options during the year. The outstanding number of such share options are summarized below:

Name of director	Grant date	Exercise period		Exercise price HK\$	Number of HKCM share options at 1 April 2003 and 31 March 2004
		From	To		
Chan Ka Lai, Joseph	30 Aug. 2001	1 Oct. 2001	30 Sept. 2011	0.48	1,000,000
	30 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.48	1,000,000
	30 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.48	1,000,000
					<u>3,000,000</u>

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (cont'd)

Save as disclosed above, as at 31 March 2004, none of the directors or chief executives of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them was taken or deemed to have under the provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the directors or chief executives of the Company, the following persons, other than directors or chief executives of the Company, had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

Name of substantial shareholders	Number of shares held	Percentage of shareholding %
Albion	118,028,098	55.85
HKCM (note a)	118,028,098	55.85
Well-Positioned (note b)	146,485,250	69.32

Notes:

- (a) Albion was wholly owned by HKCM, hence HKCM has a deemed interest in 118,028,098 shares by virtue of its interest in the shares of Albion.
- (b) It included the interest held by HKCM through its wholly owned subsidiary, Albion, so Well-Positioned also had a deemed interest in 118,028,098 shares by virtue of its interest in the shares of HKCM. Together with the interest in 28,457,152 shares directly held by Well-Positioned as beneficial owner, Well-Positioned has a total interest of 146,485,250 shares in the Company.

Save as disclosed above, as at 31 March 2004, the directors and the chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or any share options in respect of such capital.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Board, there are 25% or more of the listed issued share capital of the Company being held in public hands as at 13 July 2004, being the latest practicable date prior to printing of this report.

CONNECTED TRANSACTIONS

(a) The continuing connected transactions between the Group and HKCM and its subsidiaries excluding the Group (“HKCM Group”) as listed below (the “Transactions”) have been exempted by the Stock Exchange in 2000 from strict compliance with the provisions of Chapter 14 of the then Listing Rules, provided that certain conditions as set out by the Stock Exchange are fulfilled.

(b) During the year, the Group had the following Transactions with the HKCM Group:

	2004	2003
	HK\$	HK\$
Sales of bakery and related products <i>(note (i))</i>	5,716,289	6,009,508
Rental expenses in respect of land and buildings <i>(note (ii))</i>	1,723,735	2,130,174
Management fees paid <i>(note (iii))</i>	4,164,493	4,064,947

(i) Sales of bakery and related products were charged at prices and terms determined by reference to those charged to independent customers of the Group.

(ii) Rental expenses were reimbursed at costs in respect of certain shared and leased premises.

(iii) Pursuant to the service sharing agreement entered into between BBL, a wholly owned subsidiary of the Company and HKCM, HKCM was engaged to provide management and administration services to BBL. Management fees were charged on a monthly basis and were calculated at a certain percentage on the monthly gross turnover of BBL.

(c) The independent non-executive directors of the Company have reviewed the Transactions and have confirmed that the Transactions have been entered into:

(i) in the ordinary and usual course of its business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(d) On 9 June 2004, the Group entered into new supply agreement, sub-leasing agreement, distribution agreement and administration agreement with HKCM to formalize the above Transactions in compliance with the new requirements of Chapter 14A of the Listing Rules. Major terms and conditions remained materially unchanged except that all the new agreements now carry a fixed term of three years and deemed to have commenced on 1 April 2004.

MANAGEMENT CONTRACTS

Save as disclosed in note 28 to the accounts, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except in relation to guideline No. 7 that the service contracts of non-executive directors were renewed with no specific tenure, but they are determinable by either party with at least one month written notice in advance.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee (the "Committee") were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The Committee comprises three independent non-executive directors, namely Dr. Cheung Wai Lam, William, Dr. Ho Sai Wah, David and Mr. Bingley Wong and also one non-executive director, Mr. Chan Ka Lai, Joseph.

The Committee is responsible for reviewing the Group's financial reporting process, internal controls and risk evaluation and two meetings were held during the year. The Committee had reviewed the Group's results for the year ended 31 March 2004 before they were tabled for the Board's review and approval.

SUBSEQUENT EVENTS

Details of the subsequent events are set out in note 31 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Chan Wai Cheung, Glenn

Chairman

Hong Kong, 8 July 2004

Report of the Auditors



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAINT HONORE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 24 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 8 July 2004

Consolidated Profit and Loss Account

For the year ended 31 March 2004

	Note	2004 HK\$	2003 HK\$
Turnover	3	537,515,842	494,492,281
Other revenues	3	1,702,219	1,639,167
Costs of inventories consumed		(158,126,574)	(143,508,125)
Staff costs	9	(170,162,610)	(155,765,271)
Operating lease rentals		(48,542,062)	(50,091,067)
Depreciation of fixed assets		(29,823,206)	(28,623,123)
Other operating expenses		(82,192,512)	(83,531,899)
Amortization of intangible assets		(4,600,000)	(4,600,000)
Gain on disposal/(deficit on revaluation) of an investment property		7,159,160	(4,585,970)
Profit before taxation	4	52,930,257	25,425,993
Taxation	5	(7,571,286)	(6,897,028)
Profit attributable to shareholders		45,358,971	18,528,965
Dividends	7	27,342,210	10,792,595
Earnings per share	8		
Basic		22.6 cents	9.4 cents
Diluted		21.9 cents	9.2 cents

Consolidated Balance Sheet

As at 31 March 2004

	Note	2004 HK\$	2003 HK\$
Non-current assets			
Intangible assets	12	32,200,000	36,800,000
Fixed assets	13	177,543,241	181,235,317
Rental deposits paid		10,397,239	11,456,101
Deferred tax assets	24	999,639	-
		221,140,119	229,491,418
Current assets			
Inventories	15	8,045,478	7,698,058
Trade receivables	16	2,713,071	2,103,878
Deposits, prepayments and other receivables		7,621,382	7,243,030
Taxation recoverable		343,027	-
Bank balances and cash		130,957,570	92,169,440
		149,680,528	109,214,406
Current liabilities			
Amount due to a holding company	18	3,509,647	66,647
Trade payables	19	10,328,860	8,483,758
Other payables and accrued charges		42,169,042	42,144,514
Taxation payable		1,305,616	4,461,996
Cake coupon liabilities - current portion		43,096,520	39,846,547
		100,409,685	95,003,462
Net current assets		49,270,843	14,210,944
Total assets less current liabilities		270,410,962	243,702,362

Consolidated Balance Sheet

As at 31 March 2004

	Note	2004 HK\$	2003 HK\$
Financed by:			
Share capital	21	21,131,700	19,622,900
Reserves	23	146,486,889	122,018,728
Dividend reserve	23	19,031,130	6,868,015
Shareholders' funds		186,649,719	148,509,643
Non-current liabilities			
Cake coupon liabilities – non-current portion		76,162,303	87,518,566
Rental deposits received		401,000	239,355
Provision for long service payments – non-current portion	20	6,159,294	6,175,268
Deferred tax liabilities	24	1,038,646	1,259,530
		83,761,243	95,192,719
		270,410,962	243,702,362

On behalf of the Board

Chan Wai Cheung, Glenn
Chairman

Chan Wong Man Li, Carrina
Managing Director

Balance Sheet

As at 31 March 2004

	Note	2004 HK\$	2003 HK\$
Investments in subsidiaries	14	196,687,872	196,687,880
Current assets			
Amounts due from subsidiaries	17	33,412,079	28,198,305
Deposits, prepayments and other receivables		153,040	187,622
Dividend receivable		19,031,130	6,868,015
Taxation recoverable		5,194	–
Bank balances and cash		2,971,299	14,206
		55,572,742	35,268,148
Current liabilities			
Other payables and accrued charges		618,706	476,951
Net current assets		54,954,036	34,791,197
Total assets less current liabilities		251,641,908	231,479,077
Financed by:			
Share capital	21	21,131,700	19,622,900
Reserves	23	211,479,078	204,988,162
Dividend reserve	23	19,031,130	6,868,015
Shareholders' funds		251,641,908	231,479,077

On behalf of the Board

Chan Wai Cheung, Glenn

Chairman

Chan Wong Man Li, Carrina

Managing Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2004

	Note	2004 HK\$	2003 HK\$
Net cash inflow from operating activities	25	64,733,663	49,764,825
Investing activities			
Purchase of fixed assets		(37,135,523)	(28,432,208)
Proceeds from sale of fixed assets		17,816,848	8,313
Interest income		592,037	703,167
Net cash outflow from investing activities		(18,726,638)	(27,720,728)
Net cash inflow before financing activities		46,007,025	22,044,097
Financing activities			
Release of bank deposits pledged		-	1,212,472
Issue of shares upon the exercise of share options		7,963,000	-
Dividends paid		(15,181,895)	(10,792,595)
Net cash outflow from financing activities		(7,218,895)	(9,580,123)
Increase in cash and cash equivalents		38,788,130	12,463,974
Cash and cash equivalents at 1 April 2003/2002		92,169,440	79,705,466
Cash and cash equivalents at 31 March 2004/2003		130,957,570	92,169,440
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		130,957,570	92,169,440

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2004

	Share capital HK\$	Share premium HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Retained earnings HK\$	Dividend reserve HK\$	Total HK\$
At 1 April 2002	19,622,900	-	104,929,484	69,124	9,283,750	6,868,015	140,773,273
Profit for the year	-	-	-	-	18,528,965	-	18,528,965
2001/02 final dividend paid	-	-	-	-	-	(6,868,015)	(6,868,015)
2002/03 interim dividend proposed	-	-	-	-	(3,924,580)	3,924,580	-
2002/03 interim dividend paid	-	-	-	-	-	(3,924,580)	(3,924,580)
2002/03 final dividend proposed	-	-	-	-	(6,868,015)	6,868,015	-
At 31 March 2003	19,622,900	-	104,929,484	69,124	17,020,120	6,868,015	148,509,643
At 1 April 2003	19,622,900	-	104,929,484	69,124	17,020,120	6,868,015	148,509,643
Issue of shares upon exercise of share options	1,508,800	6,454,200	-	-	-	-	7,963,000
Profit for the year	-	-	-	-	45,358,971	-	45,358,971
Underprovision of dividend in previous year	-	-	-	-	(2,800)	2,800	-
2002/03 final dividend paid	-	-	-	-	-	(6,870,815)	(6,870,815)
2003/04 interim dividend proposed	-	-	-	-	(8,176,280)	8,176,280	-
2003/04 interim dividend paid	-	-	-	-	(134,800)	(8,176,280)	(8,311,080)
2003/04 final dividend proposed	-	-	-	-	(19,031,130)	19,031,130	-
At 31 March 2004	21,131,700	6,454,200	104,929,484	69,124	35,034,081	19,031,130	186,649,719

Notes to the Accounts

1. BASIS OF PREPARATION

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") No.12 "Income Taxes" (Revised) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current and prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly controls more than one half of the voting power; has the power to govern the financial and operating policies to appoint or remove a majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortized goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognized in the consolidated profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(a) Group accounting *(cont'd)*

(i) Consolidation *(cont'd)*

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as movements in reserves.

(b) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 April 2001 is included in intangible assets and is amortized using the straight-line method over its estimated useful life of not more than 20 years.

Goodwill on acquisitions that occurred prior to 1 April 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 such that goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with the policy set out below.

The gain or loss on disposal of an entity includes the unamortized balance of goodwill relating to the entity disposed of or, for pre 1 April 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realized in the profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(b) Intangible assets *(cont'd)*

(ii) Trademarks

Expenditures on acquired trademarks are capitalized at cost and amortized using the straight-line method over their useful lives of not more than 20 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount. Such impairment losses are recognized in the profit and loss account.

(c) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment property revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating results. Any subsequent increases are credited to operating results up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realized in respect of previous valuations is released from the investment property revaluation reserve to the profit and loss account.

(d) Fixed assets

(i) Other properties

Other properties are interests in land and buildings other than investment properties and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Depreciation on other properties is calculated to write off their costs less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group on a straight-line basis, whichever is shorter. The expected useful life used for this purpose is 50 years.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(d) Fixed assets *(cont'd)*

(ii) Leasehold improvements

Leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Depreciation on leasehold improvements is calculated to write off their costs less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group on a straight-line basis. The annual rate used for this purpose is 15%.

(iii) Other tangible fixed assets

Other tangible fixed assets, comprising air-conditioning plant, furniture, fixtures and equipment, and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation on other tangible fixed assets is calculated to write off their costs less accumulated impairment losses over their expected useful lives to the Group on a straight-line basis. The annual rates used for this purpose range from 10% to 25%.

(iv) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account.

(v) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Assets under operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account over the lease periods on a straight-line basis.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(f) Inventories

Inventories comprise raw materials, packing materials, work-in-progress and finished goods, and are stated at the lower of cost and net realizable value. Cost is calculated on a first-in, first-out basis. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from the date of investment.

(i) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Group recognizes a provision for long service payments for existing employees which are payable upon termination of their employment in accordance with statutory requirements. The provision is calculated with reference to the statutory requirements, the employees' turnover statistics, the employees' remuneration and their age profile.

(j) Cake coupon liabilities

Cake coupons are recorded as liabilities when sold. Cake coupons surrendered in exchange for products during the year are recognized as sales and transferred to the profit and loss account using the weighted average cake coupon sale value. The estimated value of the cake coupons which are expected to be redeemed in the next twelve months is classified as current liabilities at the end of the year.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (Revised) represents a change in accounting policy, which has no material effect on the results of the Group for the current and prior years.

(l) Revenue recognition

Revenue from the sale of bakery products is recognized on the transfer of ownership, which generally coincides with the time of delivery.

Sales revenue from eatery operations are recognized as revenue when services are rendered to customers.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognized on an accrual basis over the lease period.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlement to annual leave is recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(m) Employee benefits *(cont'd)*

(ii) Pension obligations

The Group operates the following principal defined contribution pension schemes:

Schemes established under Mandatory Provident Fund Schemes Ordinance (“MPF Schemes”)

Contributions to MPF Schemes by the Group are calculated as a percentage of employees’ basic salaries but subject to a cap in accordance with the statutory requirements except for some managerial staff. The Group’s contributions are charged to the profit and loss account when incurred.

Schemes established under Occupational Retirement Schemes Ordinance (“ORSO Schemes”)

The Group has discontinued all contributions to the ORSO Schemes when it joined the MPF Schemes. For those group companies who opted not to transfer the accrued benefits of the employees in the ORSO Schemes as voluntary contributions to MPF Schemes, such benefits are retained and their investment returns are accumulated. The contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution are credited to the profit and loss account when refunded.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(iii) Equity compensation benefits

Share options are granted to executive directors and to full-time employees at the discretion of directors. No employee benefit cost is recognized when options are granted. When the options are exercised, the proceeds received are credited to share capital and share premium.

(n) Segment reporting

In accordance with the Group’s internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated revenue represents rental income from properties and gain on disposal of an investment property, while unallocated expense represents deficit on revaluation of an investment property. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash and exclude items such as taxation recoverable, deferred tax assets and investment property. Segment liabilities comprise operating liabilities and exclude items such as taxation payable and deferred tax liabilities. Capital expenditure comprises additions to intangible assets and fixed assets.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(n) Segment reporting (cont'd)

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the operation of bakery and eatery. Turnover comprises takings and service charges less discounts and credit card commission from bakery and eatery operations. Revenues recognized during the year were as follows:

	Group	
	2004	2003
	HK\$	HK\$
Turnover		
Bakery operation	508,385,481	466,793,409
Eatery operation	29,130,361	27,698,872
	537,515,842	494,492,281
Other revenues		
Interest income	592,037	703,167
Rental income from an investment property	541,471	936,000
Rental income from other properties	568,711	-
	1,702,219	1,639,167
Total revenues	539,218,061	496,131,448

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

Primary reporting format – business segments

For management purpose, the Group is currently organized into two main business segments – bakery and eatery. These segments are the basis on which the Group reports its primary segment information.

- Bakery – manufacturing and retailing of bakery products
- Eatery – operating eateries

There are no significant sales between the business segments.

An analysis of the Group's turnover and results by business segments is as follows:

	2004			2003		
	Bakery HK\$	Eatery HK\$	Group HK\$	Bakery HK\$	Eatery HK\$	Group HK\$
Turnover	508,385,481	29,130,361	537,515,842	466,793,409	27,698,872	494,492,281
Segment results	42,981,964	1,678,951	44,660,915	27,724,367	1,351,596	29,075,963
Unallocated revenue			8,269,342			936,000
Unallocated expense			-			(4,585,970)
Profit before taxation			52,930,257			25,425,993
Taxation			(7,571,286)			(6,897,028)
Profit attributable to shareholders			45,358,971			18,528,965
Segment assets	361,588,986	7,888,995	369,477,981	320,349,681	7,856,143	328,205,824
Unallocated assets			1,342,666			10,500,000
Total assets			370,820,647			338,705,824
Segment liabilities	178,694,221	3,132,445	181,826,666	179,472,890	5,001,765	184,474,655
Unallocated liabilities			2,344,262			5,721,526
Total liabilities			184,170,928			190,196,181
Capital expenditure	36,458,025	677,498	37,135,523	28,201,718	230,490	28,432,208
Depreciation	27,786,918	2,036,288	29,823,206	26,943,616	1,679,507	28,623,123
Amortization charge	4,600,000	-	4,600,000	4,600,000	-	4,600,000

Unallocated revenue included a gain on disposal of an investment property amounting to HK\$7,159,160.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)**Secondary reporting format – geographical segments**

No geographical analysis is provided as less than 10% of the Group's turnover and less than 10% of the consolidated results of the Group are attributable to markets outside Hong Kong and Macau.

4. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	Group	
	2004	2003
	HK\$	HK\$
Auditors' remuneration	733,197	744,838
Non-audit service fees paid to the Company's auditors	213,626	152,087
Loss on disposal of other fixed assets	346,705	80,981
Net exchange losses	511,716	678,907
	<u>511,716</u>	<u>678,907</u>

5. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2004	2003
	HK\$	HK\$
Current taxation		
Hong Kong profits tax	6,418,826	6,576,068
Overseas taxation	2,422,127	639,601
Overprovision in prior years	(49,144)	(354,699)
Deferred taxation (note 24)	(1,220,523)	36,058
	<u>7,571,286</u>	<u>6,897,028</u>
Taxation charge		

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits for the year. In 2003, the Hong Kong Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

5. TAXATION (cont'd)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Group	
	2004	2003
	HK\$	HK\$
Profit before taxation	52,930,257	25,425,993
Calculated at a taxation rate of 17.5% (2003: 16%)	9,262,795	4,068,159
Effect of different taxation rates in other countries	(350,539)	(8,477)
Income not subject to taxation	(1,464,779)	(114,353)
Expenses not deductible for taxation purposes	939,073	1,777,878
Overprovision in prior years	(49,144)	(354,700)
Unrecognized temporary differences	(914,230)	1,295,181
Tax losses not recognized	65,158	184,852
Increase in opening net deferred tax liabilities resulting from an increase in taxation rate	80,178	-
Others	2,774	48,488
	7,571,286	6,897,028
Taxation charge	7,571,286	6,897,028

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$27,381,726 (2003: HK\$17,835,897).

7. DIVIDENDS

	Group	
	2004	2003
	HK\$	HK\$
Interim, paid, of HK4.0 cents (2003: HK2.0 cents) per ordinary share	8,311,080	3,924,580
Final, proposed, of HK9.0 cents (2003: HK3.5 cents) per ordinary share (note 23(a))	19,031,130	6,868,015
	27,342,210	10,792,595

At a meeting held on 8 July 2004 the directors declared a final dividend of HK9.0 cents per ordinary share for the year ended 31 March 2004. This proposed dividend is not reflected as a dividend payable in these accounts. It is reflected as an appropriation of retained earnings and is presented as a dividend reserve in the balance sheet.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share are based on the following:

	2004	2003
	HK\$	HK\$
Earnings		
Earnings for the purpose of the calculation of basic and diluted earnings per share	45,358,971	18,528,965
Number of shares	2004	2003
Weighted average number of ordinary shares for the purpose of the calculation of basic earnings per share	200,753,104	196,229,000
Effect of dilutive potential ordinary shares	6,181,846	4,672,171
Weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share	206,934,950	200,901,171

9. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	Group	
	2004	2003
	HK\$	HK\$
Wages and salaries, including directors' fees	155,281,949	140,448,802
Termination benefits	88,729	424,628
(Reversal of)/provision for unused annual leave	(47,126)	1,015,351
Retirement benefit costs – defined contribution scheme (note 10)	6,651,483	6,261,964
Provision for long service payments (note 20)	518,262	119,215
Other staff costs	7,669,313	7,495,311
	170,162,610	155,765,271

10. RETIREMENT BENEFIT COSTS

The Group participates in MPF Schemes and the Group's contributions to MPF Schemes are set at 5% of employees' relevant income up to a maximum of HK\$1,000 per employee per month ("Mandatory Contributions") except for some managerial staff whose monthly contributions are not capped at that absolute amount. The Mandatory Contributions to MPF Schemes are fully and immediately vested on the employees as accrued benefits once they are paid. The Group's contributions in excess of the Mandatory Contributions are voluntary contributions which are subject to a vesting scale.

Since 1 December 2000, the Group had discontinued all contributions to the ORSO Schemes when it joined the MPF Schemes. For those group companies which opted not to transfer the accrued benefits of the employees in the ORSO Schemes as voluntary contributions to MPF Schemes, such benefits are retained and their investment returns are accumulated. Employees can withdraw their accrued benefits upon termination of their employment.

Both funds are established under trust with the assets of the funds held separately from those of the Group by independent trustees.

Aggregate amount of unvested benefits accrued to the Group during the year amounted to HK\$80,641 (2003: HK\$113,229). The aggregate amount of unvested benefits refunded to the Group was HK\$11,986 (2003: HK\$37,375). At 31 March 2004, the aggregate amount of unvested benefits not yet refunded was HK\$149,902 (2003: HK\$81,247).

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year were as follows:

	Group	
	2004	2003
	HK\$	HK\$
Directors' Fees	237,500	120,000
Other emoluments:		
Basic salaries and benefits in kind	5,451,087	5,425,900
Performance related bonuses	1,826,947	714,000
Pension contributions	184,669	185,442
	7,700,203	6,445,342

For both years, all of the above were paid to executive directors except for the directors' fees amounting to HK\$237,500 (2003: HK\$120,000) which were paid to five (2003: four) non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
Nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	3
HK\$2,000,001 – HK\$2,500,000	2	–
	10	9

No directors have waived emoluments in respect of the two years ended 31 March 2004 and 2003. No share options were granted to the directors during the year. The details of share options exercised by the directors are set out in section headed "Share Options" in the report of the directors.

(b) Five highest paid individuals

During the year, the five individuals whose emoluments were the highest in the Group were also executive directors of the Company. Their aggregate emoluments during the year are disclosed in the directors' other emoluments above (the directors' fees are payable to non-executive directors only).

12. INTANGIBLE ASSETS**Trademarks**

	Group HK\$
Net book value, 1 April 2003	36,800,000
Amortization charge	<u>(4,600,000)</u>
Net book value, 31 March 2004	<u>32,200,000</u>
Cost	92,000,000
Accumulated amortization	<u>(59,800,000)</u>
Net book value, 31 March 2004	<u>32,200,000</u>
Cost	92,000,000
Accumulated amortization	<u>(55,200,000)</u>
Net book value, 31 March 2003	<u>36,800,000</u>

At 31 March 2004, the remaining amortization period of trademarks was 7 years.

Goodwill on acquisition occurring prior to 1 April 2001 was written off against the Group's contributed surplus. At 31 March 2004, such goodwill amounted to HK\$75,101,546 (2003: HK\$75,101,546).

13. FIXED ASSETS**Group**

	Investment property HK\$	Other properties HK\$	Leasehold improve- ments HK\$	Air- conditioning plant HK\$	Furniture, fixtures, and equipment HK\$	Motor vehicles HK\$	Total HK\$
Cost or valuation							
At 1 April 2003	10,500,000	115,774,545	108,564,320	5,017,639	117,255,139	10,725,698	367,837,341
Additions	-	21,420,173	9,066,332	336,414	4,075,753	2,236,851	37,135,523
Disposals	(10,500,000)	-	(14,147,973)	(412,284)	(1,593,701)	(480,465)	(27,134,423)
At 31 March 2004	-	137,194,718	103,482,679	4,941,769	119,737,191	12,482,084	377,838,441
Accumulated depreciation							
At 1 April 2003	-	18,758,459	81,275,658	3,495,816	7,729,815	5,779,276	186,602,024
Charge for the year	-	2,436,692	14,074,716	508,985	11,390,850	1,411,963	29,823,206
Disposals	-	-	(13,991,694)	(360,554)	(1,297,318)	(480,464)	(16,130,030)
At 31 March 2004	-	21,195,151	81,358,680	3,644,247	8,738,634	6,710,775	200,295,200
Net book value							
At 31 March 2004	-	115,999,567	22,123,999	1,297,522	32,350,844	5,771,309	177,543,241
At 31 March 2003	10,500,000	97,016,086	27,288,662	1,521,823	39,962,324	4,946,422	181,235,317

The analysis of the cost or valuation of the above assets is as follows:

At cost, at							
31 March 2004	-	137,194,718	103,482,679	4,941,769	119,737,191	12,482,084	377,838,441
At cost	-	115,774,545	108,564,320	5,017,639	117,255,139	10,725,698	357,337,341
At professional valuation, 2003	10,500,000	-	-	-	-	-	10,500,000
At 31 March 2003	10,500,000	115,774,545	108,564,320	5,017,639	117,255,139	10,725,698	367,837,341

13. FIXED ASSETS (cont'd)

The Group's interests in investment property and other properties at their net book values are analysed as follows:

	Group	
	2004	2003
	HK\$	HK\$
In Hong Kong, held on:		
Leases of over 50 years	7,820,833	18,520,833
Leases of between 10 to 50 years	77,330,591	57,394,258
Outside Hong Kong, held on:		
Leases of over 50 years	19,609,191	20,097,710
Leases of between 10 to 50 years	11,238,952	11,503,285
	<u>115,999,567</u>	<u>107,516,086</u>

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	193,687,880	193,687,888
Loan to a subsidiary	2,999,992	2,999,992
	<u>196,687,872</u>	<u>196,687,880</u>

The loan to a subsidiary is unsecured, interest-free and has no fixed terms of repayment. The details of principal subsidiaries are set out in note 30.

15. INVENTORIES

	Group	
	2004	2003
	HK\$	HK\$
Raw materials	3,891,643	3,377,511
Packing materials	3,240,926	3,411,707
Work in progress	459,387	347,848
Finished goods	453,522	560,992
	<u>8,045,478</u>	<u>7,698,058</u>

At 31 March 2004, all inventories were stated at cost.

16. TRADE RECEIVABLES

At 31 March 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004	2003
	HK\$	HK\$
Current to 30 days	2,438,389	1,515,709
31 to 60 days	151,403	451,006
Over 60 days	123,279	137,163
	<hr/> 2,713,071 <hr/>	<hr/> 2,103,878 <hr/>

Sales are normally conducted by cash and through redemption of cake coupons. Credit sales are made to local and overseas corporate customers who are normally granted with respective credit terms of 30 days and 61 to 120 days. Overseas corporate customers are required to pay a deposit in the amount of 20% to 30% of their estimated purchase values.

17. AMOUNTS DUE FROM SUBSIDIARIES

The balances are unsecured, interest-free and have no fixed terms of repayment.

18. AMOUNT DUE TO A HOLDING COMPANY

The balance is unsecured, interest-free and has no fixed terms of repayment.

19. TRADE PAYABLES

At 31 March 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK\$	HK\$
Current to 30 days	6,409,102	5,108,702
31 to 60 days	3,521,327	3,207,199
Over 60 days	398,431	167,857
	<hr/> 10,328,860 <hr/>	<hr/> 8,483,758 <hr/>

20. PROVISION FOR LONG SERVICE PAYMENTS

The movements in provision for long service payments for the Group during the year are as follows:

	Group HK\$
At 1 April 2003	6,175,268
Provision for the year (Note 9)	518,262
Less: Amounts utilized	<u>(534,236)</u>
At 31 March 2004	<u>6,159,294</u>

The provision for long service payments relates to the Group's net obligation to the long service payments liable to employees in accordance with the statutory requirements. The provision is reduced by the amount of employees' entitlements under the Group's retirement schemes.

21. SHARE CAPITAL

	Company	
	2004 HK\$	2003 HK\$
Authorised		
400,000,000 ordinary shares of HK\$0.10 each	<u>40,000,000</u>	<u>40,000,000</u>
Issued and fully paid		
211,317,000 (2003:196,229,000) ordinary shares of HK\$0.10 each	<u>21,131,700</u>	<u>19,622,900</u>

The movements in the share capital during the year are as follows:

	Number of shares	
	2004	2003
Ordinary shares of HK\$0.10 each		
At 1 April 2003/2002	<u>196,229,000</u>	196,229,000
Issue of shares upon exercise of share options	<u>15,088,000</u>	-
At 31 March 2004/2003	<u>211,317,000</u>	<u>196,229,000</u>

22. SHARE OPTIONS

The share option scheme adopted by the Company no longer fulfils the requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which has become effective since 1 September 2001, the share option scheme had become invalid and no further share option can be granted under this scheme.

The details of movements of share options previously granted under the share option scheme during the year are as follows:

	Number of share options	
	2004	2003
At 1 April 2003/2002	18,650,000	19,280,000
Exercised (note a)	(15,088,000)	-
Lapsed	(532,000)	(630,000)
Cancelled (note b)	(190,000)	-
At 31 March 2004/2003 (note c)	2,840,000	18,650,000

(a) The details of share options exercised during the year are as follows:

Month	Number of share options exercised			Proceeds from exercise of share options HK\$
	Exercisable at HK\$0.50	Exercisable at HK\$0.55	Total	
August 2003	80,000	-	80,000	40,000
September 2003	328,000	380,000	708,000	373,000
October 2003	2,620,000	620,000	3,240,000	1,651,000
November 2003	490,000	1,800,000	2,290,000	1,235,000
December 2003	1,090,000	2,380,000	3,470,000	1,854,000
January 2004	40,000	1,720,000	1,760,000	966,000
February 2004	2,060,000	710,000	2,770,000	1,420,500
March 2004	-	770,000	770,000	423,500
Total	6,708,000	8,380,000	15,088,000	7,963,000

22. SHARE OPTIONS (cont'd)

- (b) In December 2003, Well-Positioned Corporation (“Well-Positioned”) made a cash offer to acquire all the shares and the Company’s outstanding share options not being then held by the offeror and/or its concert parties. Upon the lapse of the offer on 30 March 2004, there were 190,000 share options tendered by the optionholders which were cancelled upon their acceptance.
- (c) Share options outstanding at the end of the year have the following terms:

Grant date	Exercise period		Exercise price HK\$	Number of share options	
	From	To		2004	2003
Directors					
15 Jan. 2001	1 May 2001	31 May 2010	0.50	1,000,000	3,750,000
15 Jan. 2001	1 May 2002	31 May 2010	0.50	1,000,000	3,000,000
31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	300,000	1,275,000
31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	300,000	1,275,000
			Total	2,600,000	9,300,000
Other employees					
15 Jan. 2001	1 May 2001	31 May 2010	0.50	30,000	2,070,000
31 Aug. 2001	1 Mar. 2002	30 Sept. 2011	0.55	105,000	3,640,000
31 Aug. 2001	1 Sept. 2002	30 Sept. 2011	0.55	105,000	3,640,000
			Total	240,000	9,350,000
			Grand total	2,840,000	18,650,000

23. RESERVES

- (a) The reserves of the Group and of the Company as at 31 March 2004 are analysed as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Reserves	146,486,889	122,018,728	211,479,078	204,988,162
Dividend reserve (note 7)	19,031,130	6,868,015	19,031,130	6,868,015
Total reserves (note 23(b) & (c))	165,518,019	128,886,743	230,510,208	211,856,177

23. RESERVES (cont'd)**(b) Group**

	Share premium HK\$	Contributed surplus (note (d)) HK\$	Exchange fluctuation reserve HK\$	Retained earnings HK\$	Dividend reserve HK\$	Total HK\$
At 1 April 2002	-	104,929,484	69,124	9,283,750	6,868,015	121,150,373
Profit for the year	-	-	-	18,528,965	-	18,528,965
2001/02 final						
dividend paid	-	-	-	-	(6,868,015)	(6,868,015)
2002/03 interim						
dividend proposed	-	-	-	(3,924,580)	3,924,580	-
2002/03 interim						
dividend paid	-	-	-	-	(3,924,580)	(3,924,580)
2002/03 final dividend						
proposed	-	-	-	(6,868,015)	6,868,015	-
	<u>-</u>	<u>104,929,484</u>	<u>69,124</u>	<u>17,020,120</u>	<u>6,868,015</u>	<u>128,886,743</u>
At 31 March 2003	-	104,929,484	69,124	17,020,120	6,868,015	128,886,743
At 1 April 2003	-	104,929,484	69,124	17,020,120	6,868,015	128,886,743
Premium on issue of shares upon the exercise of share options	6,454,200	-	-	-	-	6,454,200
Profit for the year	-	-	-	45,358,971	-	45,358,971
Underprovision of dividend in previous year	-	-	-	(2,800)	2,800	-
2002/03 final						
dividend paid	-	-	-	-	(6,870,815)	(6,870,815)
2003/04 interim						
dividend proposed	-	-	-	(8,176,280)	8,176,280	-
2003/04 interim						
dividend paid	-	-	-	(134,800)	(8,176,280)	(8,311,080)
2003/04 final						
dividend proposed	-	-	-	(19,031,130)	19,031,130	-
	<u>6,454,200</u>	<u>104,929,484</u>	<u>69,124</u>	<u>35,034,081</u>	<u>19,031,130</u>	<u>165,518,019</u>
At 31 March 2004	6,454,200	104,929,484	69,124	35,034,081	19,031,130	165,518,019

23. RESERVES (cont'd)**(c) Company**

	Share premium HK\$	Contributed surplus (note (d)) HK\$	Retained earnings HK\$	Dividend reserve HK\$	Total HK\$
At 1 April 2002	-	180,031,060	17,913,800	6,868,015	204,812,875
Profit for the year	-	-	17,835,897	-	17,835,897
2001/02 final dividend paid	-	-	-	(6,868,015)	(6,868,015)
2002/03 interim dividend proposed	-	-	(3,924,580)	3,924,580	-
2002/03 interim dividend paid	-	-	-	(3,924,580)	(3,924,580)
2002/03 final dividend proposed	-	-	(6,868,015)	6,868,015	-
	<u>-</u>	<u>180,031,060</u>	<u>24,957,102</u>	<u>6,868,015</u>	<u>211,856,177</u>
At 31 March 2003	-	180,031,060	24,957,102	6,868,015	211,856,177
At 1 April 2003	-	180,031,060	24,957,102	6,868,015	211,856,177
Premium on issue of shares upon the exercise of share options	6,454,200	-	-	-	6,454,200
Profit for the year	-	-	27,381,726	-	27,381,726
Underprovision of dividend in previous year	-	-	(2,800)	2,800	-
2002/03 final dividend paid	-	-	-	(6,870,815)	(6,870,815)
2003/04 interim dividend proposed	-	-	(8,176,280)	8,176,280	-
2003/04 interim dividend paid	-	-	(134,800)	(8,176,280)	(8,311,080)
2003/04 final dividend proposed	-	-	(19,031,130)	19,031,130	-
	<u>-</u>	<u>180,031,060</u>	<u>24,993,818</u>	<u>19,031,130</u>	<u>230,510,208</u>
At 31 March 2004	6,454,200	180,031,060	24,993,818	19,031,130	230,510,208

(d) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of its direct subsidiaries, and the cost of investment in these subsidiaries. The contributed surplus of the Group represents the difference between the nominal value of the Company's shares issued in connection with the Group reconstruction and the fair value of the underlying subsidiaries at the time of their initial acquisition by Hong Kong Catering Management Limited ("HKCM").

(e) Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realizable value of the Company's assets would thereby not be less than the aggregate of its liabilities, its issued share capital and its share premium.

24. DEFERRED TAXATION

Deferred taxation is calculated on temporary differences under the liability method using a principal taxation rate of 17.5% (2003:16%).

The movements in the net deferred tax liabilities are as follows:

	Group	
	2004	2003
	HK\$	HK\$
At 1 April 2003/2002	1,259,530	1,223,472
(Credited)/charged to profit and loss account (note 5)	(1,220,523)	36,058
At 31 March 2004/2003	39,007	1,259,530
It was analysed as:		
Deferred tax assets	(999,639)	-
Deferred tax liabilities	1,038,646	1,259,530
Net deferred tax liabilities	39,007	1,259,530

The deferred tax assets and liabilities represent the taxation effect of the accelerated depreciation allowances for taxation purposes.

25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash inflow from operating activities:

	2004	2003
	HK\$	HK\$
Profit before taxation	52,930,257	25,425,993
Amortization of intangible assets	4,600,000	4,600,000
Gain on disposal of an investment property	(7,159,160)	-
Loss on disposal of other fixed assets	346,705	80,981
Depreciation of fixed assets	29,823,206	28,623,123
Deficit on revaluation of an investment property	-	4,585,970
Interest income	(592,037)	(703,167)
Operating profit before working capital changes	79,948,971	62,612,900
Cash inflow from sales of cake coupons	41,355,062	56,763,738
Cake coupons redeemed as sales	(49,461,352)	(64,567,675)
Decrease/(Increase) in rental deposits paid	1,058,862	(321,677)
Increase in inventories	(347,420)	(2,912,994)
(Increase)/decrease in trade receivables, deposits, prepayments and other receivables	(987,545)	3,480,165
Increase/(decrease) in trade payables, other payables and accrued charges	1,869,630	(736,211)
Increase/(decrease) in amount due to a holding company	3,443,000	(388,434)
Decrease in provision for long service payments	(15,974)	(675,732)
Increase in rental deposits received	161,645	-
Net cash inflow generated from operations	77,024,879	53,254,080
Hong Kong profits tax paid	(11,271,659)	(2,845,896)
Overseas taxation paid	(1,019,557)	(643,359)
Net cash inflow from operating activities	64,733,663	49,764,825

26. COMMITMENTS**(a) Capital commitments for leasehold improvements, furniture, fixtures and equipment**

	Group	
	2004	2003
	HK\$	HK\$
Contracted but not provided for	1,000,000	282,139
Approved but not contracted for	44,000,000	10,185,090
	45,000,000	10,467,229

(b) Commitments under operating leases

At 31 March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004	2003
	HK\$	HK\$
Within one year	37,682,306	38,174,504
In the second to fifth year inclusive	28,882,265	36,754,126
After the fifth year	2,335,174	2,387,576
	68,899,745	77,316,206

The actual payments in respect of certain operating leases are calculated at the higher of the minimum commitments as noted above and the amounts determined based on a percentage of the sales of the related outlets.

- (c)** The Company did not have any capital or operating leases commitments at 31 March 2004 (2003: Nil).
- (d)** At 31 March 2004, the Group had commitment in respect of Renminbi forward exchange contracts amounting to HK\$23,000,000 expiring within the next financial year (2003: Nil).

27. FUTURE OPERATING LEASE ARRANGEMENTS

At 31 March 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	2004	2003
	HK\$	HK\$
Within one year	1,701,333	936,000
In the second to fifth year inclusive	16,500	31,200
	<u>1,717,833</u>	<u>967,200</u>

28. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant related party transactions with HKCM and its subsidiaries other than the Group:

	Group	
	2004	2003
	HK\$	HK\$
Sales of bakery and related products (note (a))	5,716,289	6,009,508
Rental expenses in respect of land and buildings (note (b))	1,723,735	2,130,174
Management fees paid (note (c))	4,164,493	4,064,947

- (a) Sales of bakery and related products were charged at prices and terms determined by reference to those charged to independent customers of the Group.
- (b) Rental expenses were reimbursed at costs in respect of certain shared and leased premises.
- (c) Pursuant to the service sharing agreement entered into between Bread Boutique Limited ("BBL"), a wholly owned subsidiary of the Company, and HKCM, HKCM was engaged to provide management and administration services to BBL. Management fees were charged on a monthly basis and were calculated at certain percentage on the monthly gross turnover of BBL.

29. BANKING FACILITIES

At 31 March 2004, the Group had aggregate banking facilities of HK\$5,000,000 (2003: HK\$5,000,000) for overdrafts and bank guarantees. These facilities were secured by corporate guarantees given by the Company.

At 31 March 2004, the facilities were utilized by the Group to the extent of HK\$3,218,574 (2003: HK\$1,749,199) primarily for bank guarantees granted to third parties in lieu of rental and utility deposits.

30. SUBSIDIARIES

The following is the particulars of the principal subsidiaries as at 31 March 2004:

Name of subsidiaries	Place of incorporation and operation	Particulars of issued share capital/ registered capital	Effective percentage holding attributable to the Group %	Principal activities
Interests held directly:				
Bodega Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Investment holding
Eltham Agents Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100	Investment holding
Interests held indirectly:				
Bliset Investment Limited	Hong Kong	100 ordinary shares of HK\$1 each 102 non-voting deferred shares of HK\$1 each	100	Property holding
Bread Boutique Limited	Hong Kong	3,000,000 ordinary shares of HK\$1 each	100	Bakery operator
Easywin Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Holding of trademarks
Evergain Consultants Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Investment holding

30. SUBSIDIARIES (cont'd)

Name of subsidiaries	Place of incorporation and operation	Particulars of issued share capital/ registered capital	Effective percentage holding attributable to the Group %	Principal activities
Interests held indirectly: (cont'd)				
Great Moment Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property holding
Kingdom Wise Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property holding
@ Saint Anna Cake Shop (Macau) Limited	Macau	MOP100,000	100	Bakery operator
Saint Honore Cake Shop Limited	Hong Kong	5 ordinary shares of HK\$10 each 345,005 non-voting deferred shares of HK\$10 each	100	Bakery operator
@# Saint Honore Cake Shop (Shenzhen) Limited	People's Republic of China	HK\$17,200,000	100	Manufacturing of bakery products
Strong Glory Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Investment holding
Uni-Leptics Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property holding
Zillion Will Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Eatery operator
@# 夢工場美食(廣州)有限公司	People's Republic of China	US\$400,000	100	Manufacturing of bakery products

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

30. SUBSIDIARIES (cont'd)

- # The subsidiaries were established as wholly foreign-owned enterprises in the People's Republic of China.
- @ These subsidiaries have a financial year-end date of 31 December, which is in compliance with the respective local regulations.

31. SUBSEQUENT EVENTS

Subsequent to 31 March 2004, the Group entered into a sale and purchase agreement for disposal of a property in Macau for a total cash consideration of HK\$36.3 million. The disposal will be completed on or before 16 August 2004. The capital gain on disposal of the property is approximately HK\$25 million.

32. ULTIMATE HOLDING COMPANY

The directors regard Well-Positioned, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

33. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 8 July 2004.

Five-Year Financial Information

A CONSOLIDATED PROFIT AND LOSS ACCOUNT – FOR THE YEAR ENDED 31 MARCH

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	537,516	494,492	476,189	448,547	430,126
Operating profit	52,930	25,426	24,479	23,409	24,540
Finance costs	-	-	-	-	(29)
Profit before taxation	52,930	25,426	24,479	23,409	24,511
Taxation	(7,571)	(6,897)	(4,279)	(3,949)	(4,167)
Profit attributable to shareholders	45,359	18,529	20,200	19,460	20,344
Basic earnings per share					
– HK cents	22.6	9.4	10.3	9.9	10.4
Dividend per share					
– HK cents	13.0	5.5	6.0	6.0	N/A

B CONSOLIDATED BALANCE SHEET – AS AT 31 MARCH

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Intangible assets	32,200	36,800	41,400	46,000	50,600
Fixed assets	177,543	181,235	186,101	185,567	165,038
Other current and non-current assets	30,120	28,501	29,481	27,879	27,424
Cash and bank balances	130,958	92,169	80,918	65,330	54,975
Total assets	370,821	338,705	337,900	324,776	298,037
Liabilities					
Cake coupon liabilities					
current	43,097	39,847	45,010	49,553	48,069
non-current	76,162	87,518	90,159	93,006	87,988
Other current and non-current liabilities	64,912	62,831	61,958	44,964	50,153
Total liabilities	184,171	190,196	197,127	187,523	186,210
Shareholders' equity	186,650	148,509	140,773	137,253	111,827

Notes:

The results, assets and liabilities of the Group for each of the two years ended 31 March 2001 have been prepared by regarding the Company as having been the holding company of the Group from the earliest period presented.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members of Saint Honore Holdings Limited (the “Company”) will be held at World Trade Centre Club Hong Kong, 38/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on 26 August 2004 (Thursday) at 3:30 p.m. for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 March 2004.
2. To declare a final dividend for the year ended 31 March 2004.
3. To re-elect directors of the Company (the “Directors”) and to authorize the board of Directors (the “Board”) to fix their remuneration.
4. To appoint auditors for the ensuing year and to authorize the Board to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions:

5. **(1) As Ordinary Resolution No. 5(1):**

“THAT:

- (a) subject to paragraph (c) of this Ordinary Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of the Ordinary Resolution No. 5(2) below) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Ordinary Resolution shall authorize the Directors during the Relevant Period (as defined in paragraph (c) of the Ordinary Resolution No.5(2) below) to make and grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) to subscribe for shares in the Company which would or might require the exercise of such power after the end of the Relevant Period (as defined in paragraph (c) of the Ordinary Resolution No. 5(2) below);

- (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Ordinary Resolution, otherwise than pursuant to (i) a Rights Issue (as defined hereinafter), or (ii) the exercise of the rights of subscription or conversion under the terms of any securities of the Company which carry the right to subscribe or are convertible into shares in the Company, or (iii) the exercise of options which may be granted under any share option scheme of the Company, or (iv) an issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company from time to time, shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Ordinary Resolution and the said approval shall be limited accordingly; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, or in any territory applicable to the Company).”

(2) As Ordinary Resolution No. 5(2):

“THAT:

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) below) of all powers of the Company to repurchase securities of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of securities of the Company repurchased by the Company pursuant to paragraph (a) above during the Relevant Period shall not exceed 5% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the authority pursuant to paragraph (a) above shall be limited accordingly; and

- (c) for the purpose of the Ordinary Resolution Nos. 5(1) and 5(2), “Relevant Period” means the period from the passing of Ordinary Resolutions Nos. 5(1) and 5(2) until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company; or
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or the Companies Act 1981 of Bermuda or any applicable laws of Bermuda to be held; or
 - (iii) the revocation or variation of Resolutions Nos. 5(1) or 5(2) by an ordinary resolution of shareholders of the Company in general meeting.”

(3) As Ordinary Resolution No. 5(3):

“**THAT** conditional upon Resolution No. 5(1) and Resolution No. 5(2) mentioned above being passed, the aggregate nominal amount of the share capital of the Company which shall have been repurchased by the Company under the authority granted to the Directors as mentioned in Resolution No.5(2) above (up to the maximum of 5% of the aggregate nominal amount of the share capital of the Company as stated in Resolution No.5(2) above) shall be added to the aggregate nominal amount of the share capital that may be allotted, issued or otherwise dealt with, or agreed conditionally and unconditionally to be allotted, issued or otherwise dealt with by the Directors pursuant to Resolution No.5(1) above.”

6. As Special Resolution:

“**THAT** the Bye-laws of the Company be and are hereby amended in the following manner:-

- (a) by inserting the following new definitions in Bye-law 1:

““associate” as defined by the rules, where applicable, of the Designated Stock Exchange;”

““Listing Rules” shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and any amendments thereto for the time being in force;”

- (b) by adding the following new Bye-law 77A immediately after the existing Bye-law 77:

“77A. Where the Company has knowledge that any Member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

(c) by deleting the existing Bye-law 88 in its entirety and substituting therefor the following:

“88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

(d) by deleting Bye-law 103 in its entirety and substituting therefor the following:

“103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or any of his associates is/are materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement or proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any contract or arrangement or proposal in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
 - (v) any contract or arrangement or proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company provided that the Director, and any of his associate(s) are, not in aggregate beneficially interested in five per cent. (5%) or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of his associate(s) is derived);
 - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associate and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five per cent. (5%) or more if and so long as (but only if so long as) he and/or his associate(s), (either directly or indirectly) are the holders of or beneficially interested in five per cent. (5%) or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associate(s) is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.
- (3) Where a company in which a Director and/or together with his associate(s) holds five per cent. (5%) or more is materially interested in a transaction, then that Director shall also be deemed materially interested in such transaction.

- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”

By Order of the Board
Wong Tsui Yue, Lucy
Company Secretary

Hong Kong, 8 July 2004

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy or proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or certified by a notary or an official copy of that power of attorney or authority, must be deposited at the Company's principal office at 5/F, Express Industrial Building, 43 Heung Yip Road, Wong Chuk Hang, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
3. The register of members will be closed from 21 August 2004 (Saturday) to 26 August 2004 (Thursday), both days inclusive, during which period no transfers of shares will be effected. To determine entitlement to the recommended final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-6, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 20 August 2004 (Friday).
4. With regard to the business referred to in paragraph 5 above, the Directors wish to state that they have no immediate plans to issue any new shares of the Company or to repurchase any issued shares of the Company.
5. With respect to Resolution No.3 above, Mrs. Chan King Catherine and Dr. Cheung Wai Lam, William will retire at the meeting convened by the above notice, and being eligible, offer themselves for re-election. Details of the abovementioned Directors are set out in the Company's circular in connection with proposals for re-election of Directors, general mandates to issue and repurchase shares and amendments to Bye-laws to be despatched to members of the Company together with the 2004 Annual Report.