

REPORT OF THE DIRECTORS

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the operation of Chinese restaurants in Hong Kong which specialise in Chiu Chow Cuisine and the manufacture and sales of environmental friendly paper tableware.

RESULTS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 22.

MAJOR SUPPLIERS AND CUSTOMERS

The aggregate purchases attributable to the largest supplier and five largest suppliers of the Group were 8.1% and 32.7% respectively, of the Group's purchases for the year under review.

The aggregate turnover attributable to the five largest customers of the Group was less than 30% of the Group's turnover for the year under review.

SHARE CAPITAL

Details of the Company's share capital are set out in note 25 to the consolidated financial statements. There were no movements in the Company's share capital during the year.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the year, the Group spent approximately HK\$1,642,000 in the acquisition of property, plant and equipment which mainly comprised building premises, furniture and restaurant equipment, plant and machinery and motor vehicles. The investment properties held by the Group were revalued at 31 March 2006, resulting in a net decrease in fair value of HK\$1,450,000 which has been charged directly to the consolidated income statement.

Details of the movement of property, plant and equipment and investment properties of the Group during the year are set out in notes 15 and 16 respectively to the consolidated financial statements.

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DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Cheng Hop Fai (*Chairman and Managing Director*)

Mrs. Cheng Kwok Kwan Yuk

Ms. Cheng Pak Ming, Judy

Miss Cheng Pak Man, Anita

Mr. Chan Ming Fai (resigned on 1 April 2006)

Independent non-executive directors:

Ms. Kan Lai Kuen, Alice

Mr. Law Toe Ming

Mr. Mark Yiu Tong, William

In accordance with Clauses 86(1) and 87(1) of the Company's Bye-laws, Mr. Cheng Hop Fai, Mr. Law Toe Ming and Mr. Mark Yiu Tong, William retire and, being eligible, offer themselves for re-election.

Each of Miss Cheng Pak Man, Anita and Mr. Chan Ming Fai has entered into a service contract with the Company for a fixed term of two years from 30 September 2004. Mr. Chan Ming Fai has terminated the employment with the Company with effect from 1 April 2006.

Other than as disclosed above, no directors proposed for re-election has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Ms. Kan Lai Kuen, Alice has been appointed for a term of three years. The term of office of other non-executive directors is the period up to their retirement by rotation in accordance with the Company's Bye-laws.

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2006, the interests of the directors and the chief executives in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions

- (1) Ordinary shares of HK\$0.10 each of the Company:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cheng Hop Fai	Beneficiary of trusts (<i>note</i>)	339,397,470	70%
Mrs. Cheng Kwok Kwan Yuk	Beneficiary of trusts (<i>note</i>)	339,397,470	70%
Ms. Cheng Pak Ming, Judy	Beneficiary of trusts (<i>note</i>)	339,397,470	70%
Miss Cheng Pak Man, Anita	Beneficiary of trusts (<i>note</i>)	339,397,470	70%
Mr. Law Toe Ming	Beneficial owner	500,000	0.1%

Note: Golden Toy Investments Limited ("Golden Toy") and Kong Fai International Limited ("Kong Fai") held 43,217,445 shares (or 8.91% interest) and 296,180,025 shares (or 61.09% interest) of the Company, respectively. Golden Toy and Kong Fai are wholly-owned by two discretionary trusts of which family members of Mr. Cheng Hop Fai, including Mr. Cheng Hop Fai, Mrs. Cheng Kwok Kwan Yuk, Ms. Cheng Pak Ming, Judy and Miss Cheng Pak Man, Anita, are discretionary objects.

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(2) Share options

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

Details of movements in the share options granted to the directors under the Company's share option scheme for the year ended 31 March 2006 are set out below:

Directors	Date of grant	Exercisable period	Exercise price per share ⁽ⁱ⁾	Number of share options		
				Outstanding as at 1.4.2005	Granted during the year	Outstanding as at 31.3.2006
Mr. Cheng Hop Fai	12 May 2005	12 May 2005 – 12 May 2011	HK\$0.10	–	4,848,535	4,848,535
Mrs. Cheng Kwok Kwan Yuk	12 May 2005	12 May 2005 – 12 May 2011	HK\$0.10	–	4,848,535	4,848,535
Ms. Cheng Pak Ming, Judy	12 May 2005	12 May 2005 – 12 May 2011	HK\$0.10	–	4,848,535	4,848,535
Miss Cheng Pak Man, Anita	12 May 2005	12 May 2005 – 12 May 2011	HK\$0.10	–	4,848,535	4,848,535
Mr. Chan Ming Fai ⁽ⁱⁱ⁾	12 May 2005	12 May 2005 – 12 May 2011	HK\$0.10	–	4,848,535	4,848,535

(i) The closing price of the share of the Company immediately before the date on which the options were granted on 12 May 2005 was HK\$0.099.

(ii) Resigned on 1 April 2006.

Save as disclosed above, as at 31 March 2006, none of the directors and the chief executives of the Company were, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in the Model Code.

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ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following persons had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long positions

Ordinary shares of HK\$0.10 each of the Company:

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Golden Toy	Beneficial owner	43,217,445 ⁽¹⁾	8.91%
Kong Fai	Beneficial owner	296,180,025 ⁽¹⁾	61.09%
Trustcorp Limited	Trustee of trusts	339,397,470 ⁽¹⁾	70.00%
Newcorp Ltd.	Interest of controlled corporation	339,397,470 ⁽²⁾	70.00%
Newcorp Holdings Limited	Interest of controlled corporation	339,397,470 ⁽²⁾	70.00%
David William Roberts	Interest of controlled corporation	339,397,470 ⁽³⁾	70.00%
David Henry Christopher Hill	Interest of controlled corporation	339,397,470 ⁽³⁾	70.00%
Rebecca Ann Hill	Interest of spouse	339,397,470 ⁽⁴⁾	70.00%

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SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

- (1) Trustcorp Limited is deemed under the SFO to have an interest in the same 339,397,470 shares, in aggregate, beneficially owned by the Golden Toy and Kong Fai by virtue of it being the trustee of two discretionary trusts which own 100% of the shares of Golden Toy and Kong Fai.
- (2) The corporate substantial shareholder notices filed by Newcorp Ltd. and Newcorp Holdings Limited indicated that Trustcorp Limited was wholly-owned by Newcorp Ltd. which in turn was wholly-owned by Newcorp Holdings Limited. Therefore, Newcorp Holdings Limited and Newcorp Ltd. are deemed to have interest in the 339,397,470 shares under the SFO.
- (3) The individual substantial shareholder notices filed by David William Roberts and David Henry Christopher Hill indicated that they are deemed to be interested in the 339,397,470 shares under the SFO by virtue of their interests held in Newcorp Holdings Limited.
- (4) The individual substantial shareholder notice filed by Rebecca Ann Hill indicated that her deemed interest in the 339,397,470 shares represents the interest of her spouse, David Henry Christopher Hill.

Save as disclosed above, the directors are not aware of any other persons who, as at 31 March 2006, had interests or short positions in the shares, underlying shares or debentures of the Company that were required to be entered into the register kept by the Company pursuant to section 336 of the SFO.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers that all of the independent non-executive directors are independent.

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DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

- (a) On 19 May 2003, the Group entered into a sub-tenancy agreement with Hung Yick Metal Company Limited ("Hung Yick") for sub-leasing from Hung Yick several units of a commercial building for a period of two years commencing 9 April 2003 to 8 April 2005 at a monthly rental of HK\$42,487.50 (exclusive of rates, air-conditioning and management fees) with the rent-free period from 9 April 2003 to 22 April 2003 and a rental deposit of HK\$127,462.50.

Rental charged by Hung Yick during the year under this agreement amounted to HK\$11,330. The monthly rental was determined by both parties with reference to the rental charged by Hung Yick's landlord and the approximate floor area occupied by Hung Yick and the Group.

Mr. Cheng Hop Fai, Mrs. Cheng Kwok Kwan Yuk, Ms. Cheng Pak Ming, Judy and Miss Cheng Pak Man, Anita are deemed to be beneficially interested in Hung Yick.

- (b) On 6 May 2002, the Group entered into a tenancy agreement with Homley Development Limited ("Homley") for leasing of Homley's premises for certain of the Group's restaurant operations for a period of three years commencing 1 May 2002 to 30 April 2005 at a monthly rental of HK\$250,000 (exclusive of rates, management fees and air-conditioning charges) and a rental deposit of HK\$750,000. The monthly rental was negotiated with Homley with reference to the market rent as at 23 April 2002 as advised by RHL Appraisal Ltd., a firm of independent professional property valuers.

On 15 April 2005, the Group renewed the tenancy agreement with Homley for a further period of three years commencing 1 May 2005 to 30 April 2008 at a monthly rental of HK\$270,000 (exclusive of rates, management fees and air-conditioning charges) and a rental deposit of HK\$810,000. The monthly rental was negotiated with Homley with reference to the market rents as at 11 April 2005 as advised by RHL Appraisal Limited, a firm of independent professional property valuers. Details of the arrangement are set out in the announcement dated 15 April 2005 issued by the Company. Rentals charged by Homley during the year under the above tenancy agreements amounted to HK\$3,220,000. At 31 March 2006, accrued rental payable to Homley amounted to HK\$810,000.

Mr. Cheng Hop Fai, Mrs. Cheng Kwok Kwan Yuk, Ms. Cheng Pak Ming, Judy and Miss Cheng Pak Man, Anita are deemed to be beneficially interested in Homley.

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DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

- (c) On 25 April 2003, the Group entered into a loan agreement with Hover City for a loan facility to the extent of HK\$10,000,000 offered to the Group by Hover City. The sum drawn down by the Group will bear interest at 3% below the best lending rate quoted by a bank in Hong Kong and shall be repaid in one lump sum (including accrued interest) by 24 April 2005. On 9 July 2004, the Group renewed the terms of the loan agreement with Hover City. The loan facility was extended to HK\$15,000,000 and the final repayment date to 30 June 2006. On 7 January 2005, the Group further renewed the terms of the loan agreement. The loan facility was further extended to HK\$25,000,000 and the final repayment date to 31 December 2006. On 7 March 2006, the final repayment date was further extended to 31 December 2008. Interest expense charged to the consolidated income statement during the year amounted to HK\$681,430. At 31 March 2006, accrued interest payable to and the principal sum outstanding of the loans from Hover City amounted to HK\$1,052,488 and HK\$18,803,216, respectively.
- (d) On 31 January 2005, the Group entered into a tenancy agreement with Hover City for leasing from Hover City a unit of residential building for a period of one year commencing 1 February 2005 to 31 January 2006 at a monthly rental of HK\$50,000 and a rental deposit of HK\$100,000.

On 23 January 2006, the Group renewed the tenancy agreement with Hover City for a further period of one year commencing 1 February 2006 to 31 January 2007 at a monthly rental of HK\$50,000 and a rental deposit of HK\$100,000.

Rental charged by Hover City during the year under the above agreements amounted to HK\$600,000. The monthly rental was determined by both parties with reference to market rental.

In the opinion of the independent non-executive directors of the Company, the above transactions were conducted on normal commercial terms, in the ordinary course of the Group's business and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Other than as disclosed above, there was no other contract of significance, to which the Company, its holding company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year.

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EMOLUMENT POLICY

The remuneration of all directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Regarding to the employees, the remuneration policy of the Group is based on their merit, qualifications and competence.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2006.

AUDITORS

A resolution will be submitted at the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheng Kwok Kwan Yuk

DIRECTOR

Hong Kong

14 July 2006