



INTRODUCTION

With improved economic conditions at the back of active property and stock markets in Hong Kong, we witnessed a gradual return of the spending sentiment as evidenced by an increase in local restaurant spending from HK\$53 billion in 2004 to HK\$56.2 billion in 2005. Our Group has once again registered an impressive result for the year by delivering a record high turnover of HK\$3.4 billion, with profit attributable to shareholders of HK\$320 million, representing an increase of 12.5% and 12.3% over those of last year, respectively.

The Group's encouraging performance demonstrated again its ability to successfully execute defined strategic imperatives on our businesses across different geographical regions.

FAST FOOD BUSINESS

Café de Coral continued its momentum and led the Chinese Quick Service Restaurants segment in Hong Kong. During the year, 7 shops were opened, increasing the total number of **Café de Coral** fast food restaurants in Hong Kong to 124 as at 31st March, 2006. Among those opened during the year, two were strategically located in Central. The one located at Hong Kong Station offered only take-away service for busy office workers and travelers, whereas the second was located in a Grade A office building - Cheung Kong Centre - under a new brand concept named "Café de Central".

Subsequent to year end, we successfully secured another two strategic locations: at Hong Kong Wetland Park, where we opened in May this year and have been offering fast food services since, and at Skyplaza, a newly

developed retail and entertainment complex located at the Hong Kong International Airport. With the opening of the Skyplaza outlet towards the end of 2006, our presence in the Hong Kong International Airport would increase to 6 restaurants carrying different house-owned brands.

To raise the bar on dining experience, we undertook a program to refresh our stores on an on-going basis. During the year, we invested over HK\$41 million to renovate 20 **Café de Coral** shops. The intention was for our stylish restaurant image to continue to make **Café de Coral** the preferred choice to our customers for casual dining. To further distinguish ourselves from our competitors, we ushered in our shops **Café de Coral's** 4th Generation post-modern design concept. The result was that our 'up-market' restaurant environment set new standards for dining experience for the industry.

Apart from improving our restaurant environment, we also made every effort to enhance the quality of our products and services in order to exceed the expectation of our valued customers. Signatures products such as Spicy Curry, Shanghai Spare Rib Rice with Vegetables and BBQ Pork Combo Dish, were further improved and repackaged with higher quality utensils. They were well received by our customers. The installation of LED display panels at all our branches allowed us to respond to customers' orders more efficiently. We conducted intensive and on-going customer-centered training programs to our frontline staff to ensure continuous quality service standard for our stores. With the above, we were able to improve the entire rather than any single aspect of our dining experience.



FAST FOOD BUSINESS *(Continued)*

Following a very successful “See You at **Café de Coral**” series of TV commercials in 2005, our proactive marketing strategy led us to another advertising campaign in February, 2006 with the theme of “A Beautiful Day”. Coupled with thematic television commercials, this campaign vividly projected the energetic, happy, positive and youthful mood of our brand.

With the introduction and successful launch of “Club 100” VIP program, which was the first of its kinds in the market, we once again pioneered the Hong Kong Fast Food Industry. This program enabled its members to accumulate bonus points every time they made a purchase using their registered Octopus card. These bonus points could then be redeemed for special rewards all year round.

On the production side, we continued to upgrade our food processing facilities in Hong Kong and Dongguan, the PRC, so as to enhance our product quality and operational efficiency. During the year, our smooth running operations at Dongguan plant complemented well our established production facility in Hong Kong. In order to realize further cost savings in material, labor and land, we are looking to further expand our food manufacturing facilities in the PRC.

Super Super Congee & Noodles is another strategic brand for our fast food business in Hong Kong. During the year, this brand contributed a stable return to the Group. As at 31st March, 2006, there were 5 outlets of **Super Super Congee & Noodles** operating in Hong Kong. We are ready to expand this business into another restaurant chain at the opportune time.

Oliver's Super Sandwiches, our well-known brand in the sandwich market recorded a satisfactory performance for the year. Consistent and dedicated effort was made in its offering of high quality and fresh products as it fine tuned its business models, product mix and shop image since our acquisition in June, 2003.

During the year, 2 new outlets were opened: one at Cheung Kong Center and one at the campus of the Hong Kong Polytechnic University, increasing the total number of **Oliver's Super Sandwiches** outlets to 12 as at 31st March, 2006. The outlet at the Hong Kong Polytechnic University was particularly noteworthy as it was the first freestanding store in this chain.

Recognizing the increased sophistication of our coffee-drinking customers, we phased in the introduction of the famous Italian coffee ‘illy’ to the entire chain of **Oliver's Super Sandwiches** during the year. With its leisure settings, we intend for **Oliver's Super Sandwiches** to become another preferred meeting place for friends or individuals to relax while enjoying the coffee culture.

Oliver's Super Sandwiches' long-recognized excellent services was reaffirmed in the year when it won the “**2005 Service & Courtesy Award**” as well as the “**2006 1st Quarter Mystery Shopper Program**”. Both awards were organized by the *Hong Kong Retail Management Association*.



INSTITUTIONAL CATERING

Asia Pacific Catering is our business arm for institutional catering. It recorded an increase in terms of both clientele and operating units for the year. We were particularly encouraged to see the effort made by **Asia Pacific Catering** in the PRC market bear fruit. It successfully added six new catering contracts, taking its number of operating units in the PRC to 20 as at 31st March, 2006. The PRC market will be a new venue of business growth for **Asia Pacific Catering** in coming years. Management is committed to explore further opportunities to better serve this market.

In addition to expansions outside Hong Kong, **Asia Pacific Catering** demonstrated its competitive edge within Hong Kong by further establishing three new operating units in the year. As of today, it has a total of 79 operating units, of which 57 are in Hong Kong and 22 are in the PRC market. These units are spread across various sectors including health-care, education, commerce, manufacturing, hospitality and financial institution.

Luncheon Star, our student catering business, is another promising business of the Group. We established this business arm several years ago to capture the opportunities offered to meal caterers when most of the primary schools in Hong Kong switched from a half-day to a full-day program. We are proud to report that **Luncheon Star** is now the market leader in this sector. With a wide selection of healthy and hygienic food backed by international accredited food safety and monitoring standard (HACCP), **Luncheon Star** gained the confidence of parents and teachers alike. We are also confident that our market share in the school catering business will continue to expand.

SPECIALTY RESTAURANT

Market competition intensified during the year with numerous new brands emerging in the mid-priced specialty restaurants sector in Hong Kong. Riding on its strong brand recognition, **The Spaghetti House** continued to meet management expectation and outperformed its peers. During the year, one more restaurant was opened in Whampoa Garden, Hung Hom, taking the total number of stores to 25 as at 31st March, 2006, with 24 in Hong Kong and 1 in Shenzhen, the PRC.

Our image uplift program continued during the year, further strengthening the trendy and stylish brand image of **The Spaghetti House**. Coupled with our launch of a brand new TV commercial last year featuring the theme 'Godfather', we successfully reinforced **The Spaghetti House** as "Pasta Expert" and differentiated ourselves from our competitors.

We continued to improve our value proposition through innovative products to meet the rising demand of our customers. The resulting products won the support of our customers as evidenced by an increase in turnover and number of revisits by our customers. **The Spaghetti House** is well poised to overcome the fierce competition in the marketplace and capture a larger market share in the mid-priced specialty restaurant sector.

Despite the overwhelming response to its pilot entry to the PRC market in Shenzhen in December, 2004, the second **The Spaghetti House** was opened in June, 2006 in Guangzhou, another first tier city of China, to further validate the success of this concept in the PRC. Plans are now underway to open another store in Shenzhen in the near future to capture the fast growing eating-out market in the PRC.



SPECIALTY RESTAURANT *(Continued)*

For the strategic franchise business, **The Spaghetti House** had 2 franchise restaurants in operation overseas, both located in Indonesia.

In recognition of its service excellence, **The Spaghetti House** received the “**Best Continual Improvement – Airport Environment Best Practice Competition Award 2005/2006**” and the “**2005 Airport Customer Services Excellence Award**”. Both awards were organized by *Hong Kong Airport Authority*.

SCANFOODS

Our food processing and distribution business, **Scanfoods**, continued to contribute meaningful profit to the Group. Our ham and sausage products, under the brand of “Viking Boat”, have become popular products in the institutional market because of their high quality. Capitalizing on the extensive marketing and distribution channels of its products to institutional clients, **Scanfoods** has been able to increase its market share in Hong Kong and continued to deliver an encouraging business performance.

In the PRC, we have widened our distribution network to cover the Pearl River Delta region. Our products are now available in the major supermarkets and other retail channels in the region. Moving forward, **Scanfoods** will further penetrate this market and demonstrate its competitive edge over others by taking advantage of its fully automated manufacturing plant in Dongguan, the PRC.

After years of operation, **Scanfoods** had evolved into an established and solid business supported by proven management strength and diversified distribution networks. To further develop its business, **Scanfoods** would explore other food processing opportunities in other regions of the PRC with the aim to open up another area of growth for the Group.

CAFÉ DE CORAL IN THE PRC AND MACAU

Encouraged by the remarkable performance in this fast growing market, we continued to pursue our active branch development program in Southern China we set out to achieve two years ago. In a record-breaking year, we opened another eight stores in Southern China, bringing our store count to a total of 22 in the region, one of which in Macau, as at 31st March, 2006.

The pace of our expansion moved in tandem with the positive response and recognition received from the local community on the quality of our food and dining environment. Moreover, it again demonstrated the significance of the maturity and competence of our local management team and their ability to fit our business model into different geographical areas in Southern China. However, such encouraging performance is not a gift of luck. Over the years, we have spent tremendous effort on staff training, production process development and information technology enhancement. We also learnt from our past experience. All these contributed to our success in the Southern China market.



Managing Director's Operational Review

CAFÉ DE CORAL IN THE PRC AND MACAU *(Continued)*

Strategic alliance with major retail business partners was another strategy we adopted in our active store-opening program in Southern China. By establishing our reputation and business relationships with them, we were able to secure prime locations for our shops in the Southern China. I am glad to report that, as of today, 2 more shops have been opened since year-end, 1 in Guangzhou and 1 in Foshan. All 5 stores in Guangzhou are strategically located at major transportation hubs, and their business benefited from the high pedestrian flow of this first tier city. To accommodate the fast growing business expansion in Southern China, we are diligently looking for a suitable food processing plant to supplement our expansion.

We do not expect recent introduction of certain austerity measures on the overheated economy in the PRC to have any significant impact on the retail market in the PRC. Subject to no unforeseeable circumstances, our pace of expansion will continue as planned. We firmly believe that **Café de Coral** fast food restaurant in Southern China will become the main driver for the Group's business growth in the years to come.

MANCHU WOK

In September, 2005, we reached an agreement with our overseas partner to acquire 100% ownership of Manchu Wok in October, 2005. We immediately implemented a series of measures to improve the financial position and business performance of **Manchu Wok**. They included financial restructuring, closing down of

non-performing corporate stores and reducing corporate overheads. We witnessed immediate improvement as a result.

While **Manchu Wok's** business at traditional shopping malls remained very competitive, expansion was constrained by the availability and rising occupancy costs of quality shopping malls in the regions. In response, we have devoted more resources to fine tune the business growth potential in our 'Street Concept' where our existing 3 stores have shown notable improvement during the year. We also focused on upgrading our food quality and offerings to our customers to enhance competitiveness.

Business development on non-traditional locations such as casinos, airports and military bases, progressed well during the year. The openings of 3 outlets at Chicago O'Hare Airport brought the total number of outlets at international airports to 17 across the regions.

Acquiring the remaining interests in **Manchu Wok** represents our confidence in our management strength to run a sizeable chain overseas, and our belief on the promising outlook of the Asian cuisine market in the Western setting. This strategic move also demonstrated our commitment to globalize our business platform of balanced growth, thereby creating value to our shareholders.

As at 31st March, 2006, **Manchu Wok** had a total of 201 restaurants operating in North America, including 1 **Dai Bai Dang** and 2 **Fan Ting** in the United States.



NEW ASIA DABAO

This had been the 3rd year of operation under our management since we acquired a 50% stake in **New Asia Dabao**. Over the years, we have acquired better understanding of this market, which enabled us to work more closely with our partner in developing this brand. We are now better able to respond to our customers' needs by revamping the product mix and adopting various renovation initiatives. During the year, we continued to roll out different initiatives to improve product quality and service standard of the entire chain. We undertook an on-going facelift program to renovate 36 shops the result of which was a promising increase in turnover. We also decisively closed down some loss-making stores so as to maintain a healthy and solid store portfolio.

To explore other new markets in the outer regions of Shanghai and nearby provinces, we looked into opening a new shop in Jiaxing, a major city on the fringe of Shanghai. While working on improving the business performance of **New Asia Dabao**, we endeavoured to tap into the mid-priced fast casual dining segment. Following the opening of the first **Café de Coral** fast food restaurant in Shanghai two years ago, we opened another **Café de Coral** fast food restaurant at a commercial complex in Pudong during the year. Our confidence in this market is evidenced by our plan to convert some of the "**New Asia Dabao**" stores to "**Café de Coral**" stores, widening the revenue stream for this joint venture. As at 31st March, 2006, **New Asia Dabao** had a total of 72 stores, of which 2 were operated under the brand of "**Café de Coral**".

Given the sizeable business platform of **New Asia Dabao**, this business has immense potential for meaningful contribution to the Group in the near future.

NEW BUSINESS PROCESSES

Information technology has become another strategic tool for us to differentiate ourselves from our rivals. Following full implementation of the Business Management System to all operating units in Hong Kong last year, we plan to implement the system to our PRC operating units in the coming year. This will increase our business efficiency and shorten our response time to market changes. Our "Club 100" VIP program is another example of applying information technology in the way we do business. By making use of IT infrastructure already put in place, we can have our marketing strategy tailor-made to specific classes of customers in a more efficient and cost effective manner.

To take advantage of potential cost savings in manpower, we are also planning to set up a data center in Shenzhen, PRC, to handle manual data entry work currently performed in Hong Kong. Once the plan materializes, it is expected that our cost structure will be further improved. We recognize IT to be another important area where there are opportunities to sharpen our competitive edge.

FINANCIAL REVIEW

The Group's financial position, as at 31st March, 2006, continues to be very strong, with a net cash of close to about HK\$560 million and available banking facilities of HK\$836 million.



Managing Director's Operational Review

FINANCIAL REVIEW *(Continued)*

As at 31st March, 2006, the Group did not have any external borrowing (2005: Nil) and maintained a healthy gearing (being total borrowings over shareholders' funds) of Nil (2005: Nil). There has been no material change in contingent liabilities or charges on assets since 31st March, 2005.

As at 31st March, 2006, the Company has given guarantees approximately HK\$836,000,000 (2005: HK\$836,000,000) to financial institutions in connection with the banking facilities granted to its subsidiaries.

Regarding foreign exchange fluctuations, the Group earned revenue and incurred costs and expenses are mainly denominated in Hong Kong dollars, while those of our North America and PRC subsidiaries and jointly controlled entities are denominated in United States dollars, Canadian dollars and Renminbi respectively. While foreign currency exposure did not pose significant risk for the Group, we will continue to take proactive measures and monitor closely of our exposure to such currency movement.

HUMAN RESOURCES

As at 31st March, 2006, the Group (other than associated companies and jointly controlled entities) employed approximately 12,000 employees. Remuneration packages are generally structured by reference to market terms as well as individual qualifications and

experience. With a unique Share Option Scheme, together with profit sharing bonus and performance incentive system, employees were entitled to participate in the growth of the Group.

During the year, various training activities have been conducted to improve the front-end quality of services as well as to ensure the smooth and effective installation of the Group's business systems.

CONCLUSION

While we are glad to see a continuous growth of our business in Hong Kong at the back of improved spending sentiment, China market presents the Group with tremendous growth potential. However, penetrating overseas markets is not without challenges, in particular those we have to face in North America. Given our proven management strength in overcoming different challenges encountered in the past, it is management's belief that such challenges will only mark another milestone for the Group to overcome, and to move from to excel itself for further success.

Lo Hoi Kwong, Sunny
Managing Director

Hong Kong, 11th July, 2006

