On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Hong Kong Catering Management Limited (the "Company") and its subsidiaries (collectively called the "Group") for the year ended 31 March 2006.

RESULTS

Our consolidated turnover increased marginally by 0.71% to HK$987.5 million (2005: HK$980.5 million). The exceptional gain from disposal of properties during the year amounted to HK$10.5 million as compared to HK$50.3 million last year. Profit attributable to shareholders reduced correspondingly from HK$55.3 million to HK$39.7 million this year.

The Group has changed certain of its accounting policies following its adoption of the new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively refer to as the new "HKFRS") which are effective for all accounting periods after 31 March 2005. None of these changes affects the Group's underlying business operations or cash flow. Comparative figures in 2005 have been restated as required to conform with the new HKFRS.

DIVIDENDS

On 25 January 2006, the Company paid out an interim dividend of HK1 cent (2005: HK1 cent) plus a special dividend of HK2 cents (2005: HK4 cents) per ordinary share out of the exceptional gain from property disposals recognized in the first half of the fiscal year. In view of the cash position, the directors recommend a final dividend of HK8 cents (2005: HK5 cents) per ordinary share for the year ended 31 March 2006 to be payable to shareholders whose names appear in the register of members of the Company on 21 September 2006. The shareholders will be given an option to elect to receive shares of the Company credited as fully paid in lieu of cash in respect of part or all of the proposed dividend ("Scrip Dividend Scheme").

The Scrip Dividend Scheme will be subject to (i) the approval of the proposed final dividend at the annual general meeting to be held on 21 September 2006; and (ii) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares to be allotted thereunder. For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the 3 trading days prior to and including the Record Date. Full detail of the Scrip Dividend Scheme will be set out in a circular to shareholders. New shares certificates will be posted on or about 27 October 2006.

BUSINESS REVIEW

Restaurant Operation

We did not expand aggressively in the past year as we were operating against the odds. Escalating rental for commercial shops, rising oil and commodities prices were adding cost pressure to us.

Majority of our restaurants are serving the public at large. The effect of recovery was felt largely among people in financial related industries and had not turned around our performance profoundly. Our customers were still quite resistant to price increases especially when the choices of cuisine and restaurant were mounting.

Rental for commercial premises had skyrocketed since early 2005 speculating on the Disneyland effect. The completion of the disposal of the shop premises at Sceneway Plaza in May 2005 and the subsequent lease-back of the property for self-use had led to a further increase in rental which jumped by an average of 6.9% year-on-year. We managed to contain other operating expenses and rationalized the headcount of our production staff through sub-contracting the work to our People's Republic of China ("PRC") food factory within the Group. Excluding the gain on property sale of HK$10.8 million (2005: HK$24.2 million), we turned around with an operating profit of HK$6.1 million (2005: operating loss of HK$3.1 million).

Bakery Operation
Attributable turnover increased marginally by 3.6% while operating profit before taking into effect the gain on disposal of properties and the amortization of trademarks was HK$50 million (2005: HK$50.2 million).

The Hong Kong market which used to be our major revenue center has reached saturation while sales of traditional mooncakes were also showing a decline trend as competitors were luring customers away with bigger discounts. To hold our market share, we continue introducing innovative products to differentiate us from our competitors. We also have to divert into new markets in the PRC and Macau for further sales growth.

The increase in commodity prices and the inability to increase retail price have eaten into our gross margin. Other than adopting further cost control measures to make it up, we have invested in an Enterprise Resouces Planning System at our Shenzhen plant which should enhance our operational efficiency. The implementation of the system is expect to be completed by end 2006.

PROSPECT

Looking ahead, we expect commodity prices to stabilize but pressure from other operating expenses such as rent and wages will intensify. We will put more efforts into buying raw materials at their origins especially for major ingredients. The Group will explore possible cost savings from outsourcing certain support functions to competent third parties whereby benefiting from their economy of scale and specialization.

The Board will expand new restaurants with cautiousness. The pilot shop featuring our new dinning concept that targeting customers of a younger age group will be opened at Gateway, Tsim Sha Tsui in the coming August.

We will continue to develop our bakery business in the PRC and Macau market. We commissioned a new marketing team in PRC to promote our products through established distribution network apart from our own retail chain. We have also started a corporate sales team focusing on the OEM market in Macau. We have taken full possession of the factory block in Shenzhen acquired previously which when fitted will double our production capacity to support the aforesaid expansion.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to sincerely express our wholehearted gratitude to all our fellow staff and business partners for their unfailing support over the past year.

Chan Wai Cheung, Glenn
Chairman

Hong Kong, 17 July 2006