

ANNUAL REPORT 2011-12



Serving the global indian gourmet



SPECIALITY
RESTAURANTS LTD.

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Our mission

2011-12



To consistently provide world class cuisine and experience at an affordable price.

To create a dining experience whose uniqueness lies in its elegance and refinement which is brought alive by caring and personalized service in a warm and vibrant environment.

Chairman's message

There is probably no restaurant chain in India that has blazed such an astonishing trail of innovation and growth as Speciality Restaurants. From its humble beginnings as Only Fish, a parlour in Mumbai's Dadar area, specializing in fish entrées, to one of India's best known and best-loved fine dining chains, Speciality Restaurants history is a record of its ability to build compelling gourmet brands and turn them into household names over time. Speciality Restaurants IPO in

May 2012, was oversubscribed 2.54 times during adverse economic situations, attests to investors' perception about the company's solidity, strengths and vision.



By the end of June, 2012, after 20 years of steady and remarkable growth, Speciality Restaurants' portfolio stood at 55 owned and operated restaurants, 19 franchisees and 12 confectionary outlets spread across 22 cities in India and one city in Bangladesh. Speciality Restaurants' flagship brand is Mainland China, with 42 outlets serving Chinese cuisine in a fine dining setting. Our other high profile core brand, Oh! Calcutta, encompasses seven restaurants across India and one in Bangladesh, and is built around the exquisite cooking of West Bengal, including Bengali, Nawabi, British and Continental cuisines. The other fast-growing restaurant chains are Sigree, Flame & Grill, Haka, Just Biryani, Kibbeh, Kix, Machaan, Shack, as well as the popular confectionary brand, Sweet Bengal.

Introducing the Global Indian Gourmet

In parallel with Speciality Restaurants' trend-setting growth in India, the Indian gourmet has evolved in pace with India's emergence as a global economic powerhouse and its open embrace and assimilation of a global culture. This has raised the bar, changed customer expectations of high quality and service and also created new sensibilities about cuisines, what constitutes genuine innovation, and what is acceptable on the plate as truly gourmet in a fine dining setting. A significant part of Speciality Restaurants' success has been its ability to anticipate this trend and stay one step ahead of the global Indian customer.

The company's motto, Atithi Devo Bhava (the Customer is God), has given it a single-minded focus and rationale, and re-envision its administrative and service structure to guarantee the same

world-class standards whether it be in a major Indian metropolis like Mumbai, a state capital like Hyderabad or an economic hub like Nashik. Every Speciality restaurant serves quality food, backed by cutting edge food preparation technology and storage and cold chain facilities. The freshest of ingredients are sourced from a carefully vetted, select pool of suppliers to ensure full flavors, freshness, nutrition and taste. This meticulous attention to the quality of what reaches the customer on the plate has been acknowledged again and again in the innumerable awards won by the company.

From time to time, the company engages a third party auditor to anonymously inspect the restaurants' premises and make recommendations for improvements. Food samples from each restaurant and confectionary are routinely sent to third party laboratories for microbiological testing to ensure exacting hygiene standards.

Personal touch and attentiveness by every staff member of our restaurants ensures a brand loyalty amongst our customers and in turn leads to addition of new visitors.

Institutionalizing global standards

Speciality Restaurants enjoyed steady growth in sales during 2012 despite an economic climate that was overall unfavorable. Part of this may be attributed to higher same-restaurant sales growth and the launch of rapidly growing new restaurants. But even more than these, Speciality Restaurants success is a testimonial to a vast and surging base of loyal return customers who attest to the high global standards of quality, hygiene, customer care and good taste that the company has now institutionalized in every one of its outlets. Speciality Restaurants today is perhaps one of the pioneers in the forefront of bringing global cuisine and service standards to the Indian gourmet.

The journey is just beginning. By 2015, Speciality Restaurants intends to expand to over 45 new restaurants. Such scaling up is unprecedented in India, especially in hand-made cuisines where there is a limit to mechanization and where the chef is still king. The challenges to such growth are well known. In today's environment, competition comes not only from local restaurants from the unorganized sector but also from diverse cuisines. Other key challenges include obtaining regulatory permissions in a climate marked by food price fluctuations, high cost of real estate and lack of skilled manpower.

Two decades of experience have taught Speciality Restaurants how to tailor menus to suit the tastes of guests in diverse cultural and geographical settings, who come rightfully expecting variety, value and freshness to match their culinary preferences. The art of Speciality Restaurants has been in knowing when to curb adaptation in order to preserve the unique essence of the cuisine, be it Chinese, Grill or Bengali.

The reason why I believe Speciality Restaurants faces a bright future is that in the future as in its past, the company's focus and strength will remain in beating and besting the very same

benchmarks it has introduced to the industry. Nothing is more important than delighting the gourmet global customer in India, a vast base that has now expanded to include our shareholders and the international Indian in India.

I take this opportunity to thank each and every one of our stakeholders who have placed their faith in us and look forward to making our future one filled with — Speciality.

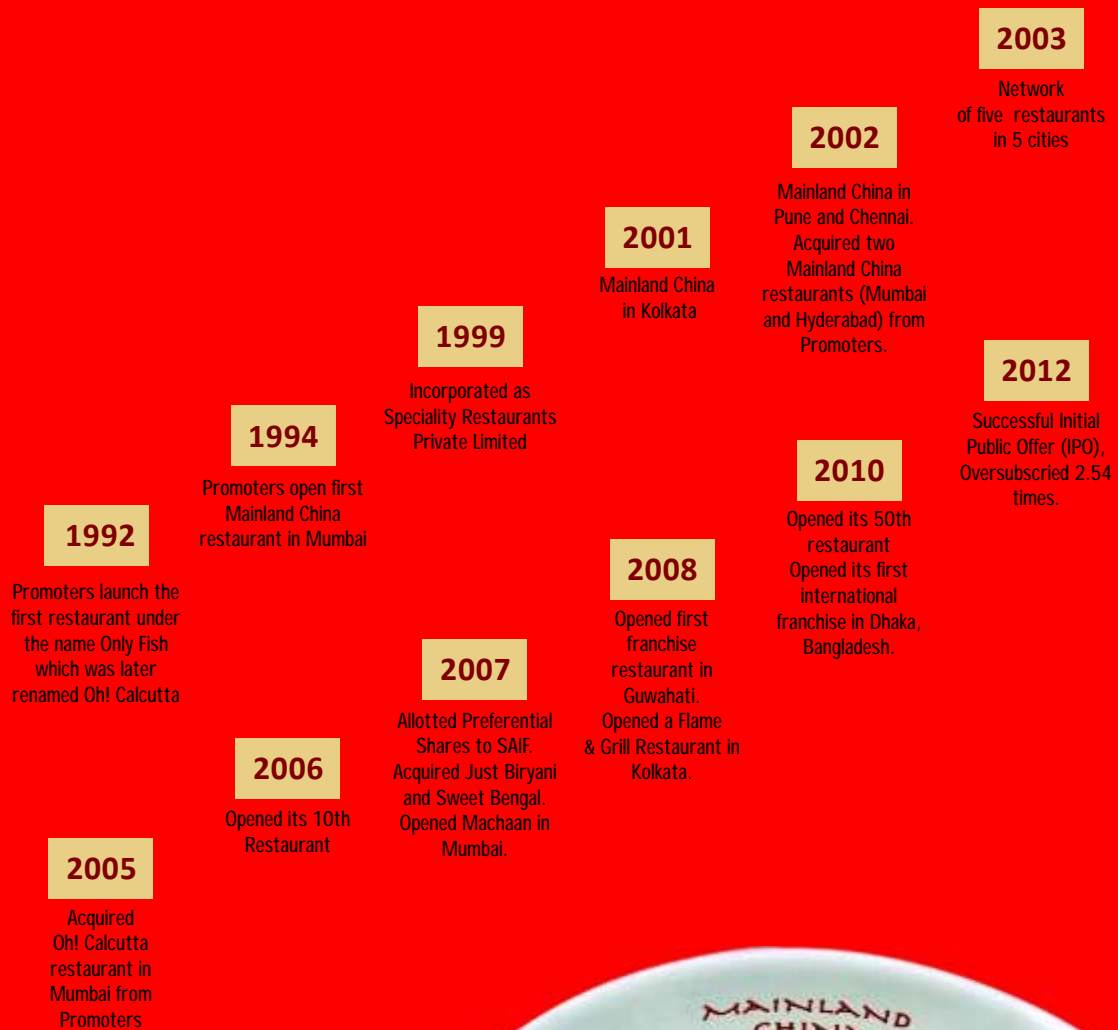


Susim Mukul Datta
Chairman





Milestones



From the Managing Director's desk

The Legacy of Atithi Devo Bhava

The Indian spirit and heritage of Atithi Devo Bhava is translated into the food, service and warm hospitality that Speciality Restaurants provides to each and every customer who visits us at over 83 of the company-owned and franchised restaurants and confectionaries every day.



Dear fellow shareholders

As we have entered FY 2013 buoyed by the momentum created by success of our Initial Public Offering earlier this year, I thank every applicant and subsequent investor who has reposed faith in our Business Model and shares our drive for delivering excellence.

During FY 2012, the restaurant industry was faced with difficult macroeconomic conditions, flagging consumer confidence and high unemployment rates. Although navigation through this uncertain environment was challenging, Speciality Restaurants ("SRL") has continued to execute multi-dimensional strategies designed to drive better value for shareholders, positively impact the operational results and further improve the overall dining experience of every guest.

Beyond numbers

The Indian restaurant industry is growing at the rate of 5 to 10 percent per annum, and the size of the fine dining segment in India is estimated to be between Rs 7,000 and Rs 8,500 crores. The growing urban class with higher disposable incomes strengthens the prospects of our industry.

In this environment, SRL recorded revenues of Rs. 1,989 million, reflecting growth of 13%. Notably, SRL have increased the number of restaurants and confectionaries to 83 during the year. EBITDA

stood at Rs. 402 million, an increase of 1.27%. Profit after tax was Rs. 172 million, reflecting an increase of 7.61%.

However, these numbers must be seen in light of the fact that we follow stringent accounting norms and the fact that whereas SRL recognize the costs for setting up a new restaurant as soon as we launch it, it takes around four months to launch and another six months to break even thereafter. This leads to a predictable revenue lag effect.

Reaching for the global Indian gourmet

Our brands stand resolute in their desire to drive guest satisfaction, team member engagement, and positive sales and traffic in the upcoming fiscal year and beyond. We believe in the strength of Mainland China, a heavyweight brand in the fine dining Chinese cuisine segment. It pleases me to inform you that FY 2012 also witnessed Oh! Calcutta and Sigree recording fair growth.

In the period from the successful launch of the IPO, upto August 15, 2012 we have launched four Mainland China outlets and one Machaan outlet; three of these are franchisees. Seven more outlets are in the works in different locations in India.

Expanding the Indian gourmet experience

In a step towards further expanding our brand portfolio, we plan to launch our first pilot all-day bar and dining restaurant serving Italian/Mediterranean cuisine in Pune, christened Mizuna.

This restaurant is targeted at an audience in the age group of 19-35 using innovative marketing strategies. We also expect to see higher margins here as 35-40% of the revenue will come from liquor sales.

To ensure smooth execution, we have on board, consultant from UK and recruitments from top Indian hotels. Consistency across brands, in terms of taste, service, décor and the overall experience across locations, whether company-owned or franchised, is one of our key differentiators.



With our increasing brand portfolio, ensuring consistent quality, service and delivery standards in all brands becomes a key area of focus. We place considerable emphasis on procuring high-quality raw materials and equipment, enabling us to provide high quality gourmet products to our guests. We centrally control the supplier selection process to promote consistent quality and timely delivery of raw materials to our restaurants. Our restaurant managers are empowered and authorized to oversee regular restaurant maintenance and maintaining brand standards.

Institutionalizing high quality across brands

At the restaurant level, our staff at all levels maintain and enhance service. At the corporate level, we actively manage our service standards with our strong emphasis on guest reviews and feedback. The company's core values are instilled in all recruited staff through rigorous training at the company's training centre in Kolkata. A newly opened restaurant will generally be manned by staff from existing restaurants to ensure the transfer of our core values from the beginning of operations.

We also place high emphasis on staff welfare including offering our staff regular training and skill enhancement, free meals, housing facilities, transportation to and from work and annual bonuses. In addition, we decided not to implement staff redundancy measures during the recent economic downturn, which we believe has resulted into an increase in our staff retention rates.

To promote guest loyalty, we launched our loyalty programme, Speciality Preferred, in 2008, which had over 97,000 members as of March 31, 2012. Our guest relations team regularly tracks restaurant patronage by our Speciality Preferred members.

Securing our strategies

The main contributor to the brand affinity of our Core Brands has been word of mouth referrals by our guests. Based on the experience in our restaurants, our quality gourmet dishes at affordable prices, the contemporary sophistication of our restaurants and the personal and attentive service of our staff, first-time guests easily convert to repeat visitors, often introducing their friends and relatives to the fine dining experience.

Another core growth strategy includes increasing covers that is the number of rotations of people on our tables. For this, we intend including a snack menu and keeping our restaurants open through the day, especially in Malls. We have successfully offered periodic promotional offers during time slots where footfalls were on a decline and it has worked well for us. Our operational results are monitored using specific operational and financial Key Performance Indicators at restaurant, brand and senior management levels. We use these to check that our restaurants are operating efficiently and minimizing wastage.

Concurrently, we will focus on innovative and emerging trends in the industry like the 'takeaway market' which is one of the fastest growing in the restaurant business segment. Ready to eat and one meal packages will be integrated with our existing business model.