

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity for the year ended 31 March 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 16 to 54.

The directors do not recommend the payment of any dividend in respect of the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 55 of the Annual Report. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the Company's share capital, share options and warrants are set out in note 24 to the 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 its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

REPORT OF THE DIRECTORS (CONTINUED)

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$52,754,000. In addition, the Company's share premium account, in the amount of HK\$37,272,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers of the Group accounted for less than 30% of the Group's total sales for the year. Purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

DIRECTORS

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

Executive directors:

Chan Shu Kit
Kung Wing Yiu
Ng Wai
Chan Leung Huen

Independent non-executive directors:

Kung Fan Cheong
Chan Ka Ling, Edmond

In accordance with the Company's bye-laws, all directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are not appointed for specific terms and are subject to retirement and re-election at each annual general meeting of the Company in accordance with the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 March 2002, the interests of the directors in the share capital and warrants of the Company and its subsidiaries, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(i) The Company

Name of director	Number of ordinary shares held and nature of interest		Number of warrants held and nature of interest	
	Personal	Corporate	Personal	Corporate
Chan Shu Kit	–	114,240,000 (note 1)	–	22,848,000 (note 1)
Kung Wing Yiu	7,802,000	–	1,560,400	–
Ng Wai	658,000	5,847,000 (note 2)	131,600	1,169,400 (note 2)
Chan Leung Huen	1,350,000	5,530,000 (note 3)	270,000	3,106,000 (note 3)

(ii) Subsidiaries

(a) Long Yuet Investment Limited

Name of director	Nature of interest	Number of non-voting deferred shares held
Chan Shu Kit	Personal	5,000
Kung Wing Yiu	Personal	5,000

(b) Conyick Investments Limited

Name of director	Nature of interest	Number of non-voting deferred shares held
Chan Shu Kit	Personal	400,000
Kung Wing Yiu	Personal	50,000

Notes:

1. These shares and warrants are held through Hoylake Holdings Limited, a company wholly-owned by Chan Shu Kit.
2. These shares and warrants are held through Kemma Investment Limited, a company wholly-owned by Ng Wai and his family.
3. These shares and warrants are held through Loong Yip Shing Investment Company Limited, a company wholly-owned by Chan Leung Huen and his wife.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS IN SHARES AND WARRANTS (Continued)

In addition to the above, a director has non-beneficial personal equity interests in a subsidiary held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares and warrants" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Summary of the Company's share option scheme (the "Scheme") adopted on 18 January 1993 is as follows:

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|---|---|
| (1) Purpose of the Scheme | To provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. |
| (2) Participants of the Scheme | Directors or employees of the Company or a subsidiary. |
| (3) The total number of securities available for issue under the Scheme together with the percentage of the issued share capital that it represents | The maximum number of share options may be granted under the Scheme shall not exceed 10% of the shares of the Company in issue from time to time. |
| (4) The maximum entitlement of each participant under the Scheme | 25% of the maximum number of shares in respect of which options may be granted under the Scheme. |
| (5) The period within which the securities must be taken up under an option | Within two years commencing from the first anniversary of the date of grant of the option. |
| (6) The amount payable on acceptance of the option | Nil. |

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEME (Continued)

- (7) The basis of determining the exercise price The exercise price is equal to the higher of:
- (a) 80% of the average closing price of the shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the grant of the option; and
 - (b) the nominal value of the Company's shares.
- (8) The remaining life of the Scheme The Scheme will remain in force until 17 January 2003.

No share option had been granted at 31 March 2002.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of share held	Percentage of the Company's share capital
Hoylake Holdings Limited	114,240,000	38

This interest has also been disclosed as an interest of Chan Shu Kit under the section "Directors' interests in shares and warrants" above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and warrants" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section "Connected Transactions" below, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

REPORT OF THE DIRECTORS (CONTINUED)

BIOGRAPHICAL DETAILS OF DIRECTORS

Name	Age	Position held	Number of years of service	Business experience
Chan Shu Kit	53	Chairman	19	Mr. Chan is a co-founder of the Group and has over 30 years' experience in the catering business. He is responsible for the overall corporate strategy of the Group.
Kung Wing Yiu	50	Deputy chairman	16	Mr. Kung is responsible for business development and restaurant site selection. He has over 25 years' business experience. He joined the Group in 1986.
Ng Wai	85	Executive director	16	Mr. Ng is responsible for the quality control of the Group's food and service, as well as menu planning. He joined the Group in 1986 and has over 60 years' business experience.
Chan Leung Huen	68	Executive director	16	Mr. Chan is in charge of the central purchasing department of the Group. He joined the Group in 1986 and has over 33 years' experience in the catering business.
Kung Fan Cheong	47	Non-executive director	10	Mr. Kung is a partner in the law firm of Remus Wong, Pang, Kung & Co. and is a member of the Law Society of Hong Kong and the Law Society of England & Wales.
Chan Ka Ling, Edmond	43	Non-executive director	10	Mr. Chan is a partner in Chan and Chan, Certified Public Accountants. He is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS (CONTINUED)

CONNECTED TRANSACTIONS

During the year, the Company and its subsidiaries entered into several transactions with certain connected persons. These transactions are considered to be connected transactions under the Listing Rules, which need to be disclosed herein in accordance with the requirements of the Listing Rules.

The independent non-executive directors have confirmed to the board of directors that the connected transactions arose in the ordinary and usual course of the Group's business and they were entered into based on normal commercial terms and in accordance with the terms of the agreements of the underlying transactions.

The connected transactions, which were carried out in the normal course of the Group's business, are as follows:

- a. On 31 December 1999 and 26 April 2000, Tack Hsin Restaurant (Western) Limited and Worlden Industries Limited, two subsidiaries owned as to 80% and 62% by the Company respectively, entered into two separate tenancy agreements with Smart Vantage Investment Limited, pursuant to which Tack Hsin Restaurant (Western) Limited and Worlden Industries Limited agreed to lease certain premises from Smart Vantage Investment Limited. These two tenancy agreements are of the terms of a 2-year period from 1 March 2000 to 28 February 2002 and a 2-year period from 16 April 2000 to 15 April 2002 respectively.
- b. On 22 October 1999 and 18 November 1999, Royal Power Investment Limited, a subsidiary owned as to 51% by the Company, entered into two separate tenancy agreements with Dorshare Development Limited and Mennex Investment Limited respectively, pursuant to which Royal Power Investment Limited agreed to lease certain premises from Dorshare Development Limited and Mennex Investment Limited respectively. These two tenancy agreements are of the terms of a 36-month period from 1 October 1999 to 30 September 2002 and a 34-month period from 1 December 1999 to 30 September 2002 respectively.
- c. On 28 June 2001, Tack Hsin Restaurant (London) Limited, a wholly owned subsidiary of the Company, entered into a tenancy agreement with Chan Shu Kit, an executive director of the Company, pursuant to which Tack Hsin Restaurant (London) Limited agreed to lease a premise from Mr. Chan. This tenancy agreement is of the terms of a 2-year period from 1 July 2001 to 30 June 2003.

During the year, the Group paid rental expenses of HK\$2,916,000 (2001: HK\$2,913,000) in aggregate in respect the tenancy agreements described above. The rentals were determined with reference to open market rentals and the details of which are set out as the follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Rental expenses paid to the landlords:		
Smart Vantage Investment Limited (note i)	1,944	1,941
Dorshare Development Limited (note ii)	624	624
Mennex Investment Limited (note iii)	276	276
Mr. Chan Shu Kit (note iv)	72	72
	2,916	2,913

REPORT OF THE DIRECTORS (CONTINUED)

CONNECTED TRANSACTIONS (Continued)

Notes:

- i. Smart Vantage Investment Limited is owned as to 60% in aggregate by two executive directors of the Company, as to 20% by an executive director of a subsidiary of the Company and as to 20% by an independent third party who are not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates.
- ii. Dorshare Development Limited is owned as to 75% in aggregate by an executive director of the Company and his associate and as to 25% by another executive director of the Company.
- iii. Mennex Investment Limited is owned as to 50% in aggregate by two executive directors of the Company and as to 50% in aggregate by two independent third parties who are not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates.
- iv. Mr. Chan Shu Kit is an executive director of the Company.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement and re-election at each annual general meeting of the Company in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chan Shu Kit

Chairman

Hong Kong

24 July 2002