



Report of the Directors

(Amounts expressed in Hong Kong dollars)

The directors are pleased to present their annual report together with the audited financial statements of Café de Coral Holdings Limited (the “Company”) and Subsidiaries (the “Group”) for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the operation of quick service restaurants, fast casual dining, institutional catering and specialty restaurant chains, and the food manufacturing business.

An analysis of the Group’s turnover by geographical area together with their respective contributions to trading results for the year is as follows:

	Turnover \$’000	Profit before taxation \$’000
Hong Kong	2,496,216	285,512
The People’s Republic of China (“the PRC”)	44,110	3,595
The United States, Canada and Poland (<i>See Note below</i>)	—	3,141
	<u>2,540,326</u>	<u>292,248</u>

Note:

During the year, the Group acquired an approximately 48% equity interest in Manchu Wok Enterprises, Inc (“MWEI”), a jointly controlled entity. Since the date of acquisition, MWEI has generated systemwide sales of approximately \$350,242,000 in the United States, Canada and Poland and earnings before interest, tax, depreciation and amortisation of approximately \$21,985,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2001, the percentage of sales or purchases attributable to the Group’s five largest customers or suppliers was less than 30%.





Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st March, 2001 and the state of affairs of the Company and of the Group as at 31st March, 2001 are set out on pages 37, 39 and 40 of the accompanying financial statements.

The details of dividends for the year ended 31st March, 2001 are set out in Note 6 to the accompanying financial statements. An interim dividend of 4.4 cents per share was paid, and the directors recommend the payment of a final dividend of 15.1 cents per share.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st March, 2001 are set out on pages 66 to 69.

FIXED ASSETS

Details of the movement in fixed assets are set out in Note 8 to the accompanying financial statements.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31st March, 2001 are set out in Notes 15 and 16 to the accompanying financial statements.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in Note 18.a to the accompanying financial statements.

SHARE OPTIONS

Details of the share option schemes of the Company are set out in Note 18.b to the accompanying financial statements.





Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 19 to the accompanying financial statements. As at 31st March, 2001, reserves of approximately \$193,201,000 of the Company were available for distribution to shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company purchased and cancelled 6,210,000 shares of \$0.10 each in the Company on The Stock Exchange of Hong Kong Limited with details as follows:

Month and year of purchase	Number of shares purchased	Price per share		Total cash paid (Including related expenses) \$'000
		Highest price paid \$	Lowest price paid \$	
August 2000	2,194,000	2.975	2.900	6,483
October 2000	1,894,000	3.000	2.800	5,554
November 2000	756,000	3.000	2.850	2,242
December 2000	750,000	3.250	3.100	2,428
January 2001	148,000	3.250	3.250	483
February 2001	468,000	3.250	3.250	1,528
	6,210,000			18,718

Therefore, an amount of approximately \$18,718,000 was transferred from contributed surplus to capital redemption reserve.

Other than the above purchase of shares, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company for the year ended 31st March, 2001.

The directors considered that the purchase of shares would be to the benefit of the Company and would lead to an enhancement of the net assets, earnings per share and liquidity of shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws and the laws in Bermuda.



Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr. Chan Yue Kwong, Michael (*Chairman*)

Mr. Lo Hoi Kwong, Sunny (*Managing Director*)

Ms. Lo Pik Ling, Anita

Mr. Lo Tak Shing, Peter

Non-executive directors

Mr. Lo Tang Seong, Victor

Mr. Lo Hoi Chun

Ms. Leung Sau Lai, Kathy

Mr. Hui Tung Wah, Samuel

Independent non-executive directors

Mr. Choi Ngai Min, Michael

Mr. Li Kwok Sing, Aubrey

All non-executive directors and independent non-executive directors have been appointed for a term of 2-3 years subject to retirement by rotation as required by the Company's Bye-Laws.

In accordance with Section 109(A) of the Company's Bye-Laws, Ms. Lo Pik Ling, Anita, Mr. Lo Tak Shing, Peter and Mr. Li Kwok Sing, Aubrey retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

None of the directors has an unexpired service contract with the Company which cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation).





Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

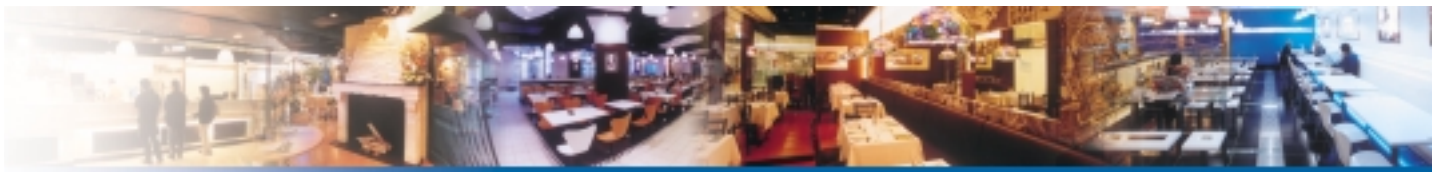
DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st March, 2001, the following directors of the Company had or were deemed to have interests under the provisions of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") in the Company or any associated corporations thereof (within the meaning of the SDI Ordinance) as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

	Personal	Family	Corporate	Other
Mr. Chan Yue Kwong, Michael	3,121,407	1,189,400	—	(a) & (f)
Mr. Lo Hoi Kwong, Sunny	3,120,000	—	—	(a), (b) & (f)
Ms. Lo Pik Ling, Anita	12,104,339	—	—	(a) & (f)
Mr. Lo Tak Shing, Peter	—	—	—	(c) & (f)
Mr. Lo Tang Seong, Victor	1,520,000	—	—	—
Mr. Lo Hoi Chun	132,000	—	—	(d) & (e)
Ms. Leung Sau Lai, Kathy	3,257,000	—	—	—
Mr. Hui Tung Wah, Samuel	25,837	—	—	—
Mr. Choi Ngai Min, Michael	—	—	—	—
Mr. Li Kwok Sing, Aubrey	55,000	—	—	—

Notes:

- 49,800,000 shares were held under a family trust of which the beneficiaries included associates of Mr. Chan Yue Kwong, Michael, Mr. Lo Hoi Kwong, Sunny and his associates, Ms. Lo Pik Ling, Anita and her associates.
- 37,383,394 shares were held under a family trust of which associates of Mr. Lo Hoi Kwong, Sunny were the beneficiaries.
- 87,626,213 shares were held under a family trust of which Mr. Lo Tak Shing, Peter and his associates were the beneficiaries.
- 35,997,701 shares were held under a family trust of which Mr. Lo Hoi Chun and his associates were the beneficiaries.
- 36,169,133 shares were held under a family trust of which associates of Mr. Lo Hoi Chun were the beneficiaries.



Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (Cont'd)

(f) During the year, the movements of the executive share options of the directors were as follows:

Name	Note	Number of shares included in executive share options		
		Beginning of year	Exercised during the year	End of year
Mr. Chan Yue Kwong, Michael	(i)	1,500,000	—	1,500,000
	(ii)	600,000	(600,000)	—
Mr. Lo Hoi Kwong, Sunny	(i)	1,500,000	—	1,500,000
	(ii)	500,000	(500,000)	—
Ms. Lo Pik Ling, Anita	(i)	400,000	—	400,000
	(ii)	300,000	(300,000)	—
Mr. Lo Tak Shing, Peter	(i)	350,000	—	350,000
		<u>5,150,000</u>	<u>(1,400,000)</u>	<u>3,750,000</u>

Notes:

- (i) As at 31st March, 2001, the executive share options, which were granted on 4th November, 1999, are exercisable at \$2.95 per share during the period from 1st April, 2003 to 31st March, 2013.
- (ii) The executive share options, which were granted on 21st February, 1991, were brought forward from the prior year and fully exercised during the year.

Other than certain nominee shares in subsidiaries held by directors in trust for the Company or the intermediate holding companies, no directors held any interest in the share capital of the Company's subsidiaries.

Save as disclosed above, the Company has no notice of any interests to be recorded under Section 29 of the SDI Ordinance as at 31st March, 2001 and at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.





Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st March, 2001, the following entities had or were deemed to have interests in the Company under the provisions of the SDI Ordinance as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

	Number of shares held in the Company	Percentage of holding
Wandels Investment Limited (a)	87,626,213	16.02%
GZ Trust Corporation (b)	121,966,834	22.30%

(a) It held the shares for the family trust disclosed in Note (c) under Directors' Interests in Shares and Share Options (with Barclays Private Bank & Trust Limited, the trustee of the said family trust, holding the entire share capital of Wandels Investment Limited).

(b) It held the shares for the family trusts disclosed in Note (a), (d) and (e) under Directors' Interests in Shares and Share Options.

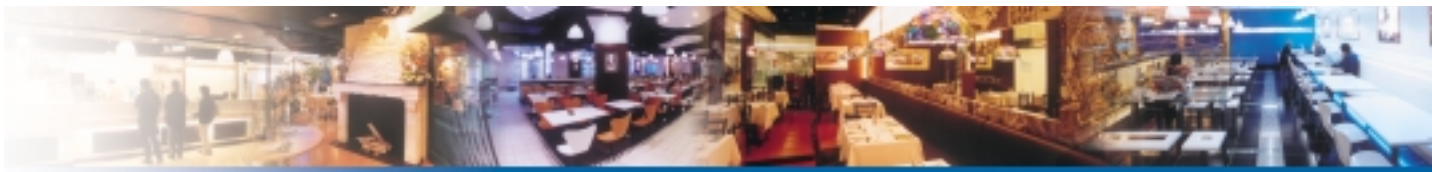
Save as disclosed above, the Company has no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 31st March, 2001.

DIRECTORS' INTERESTS IN CONTRACTS

The Group had two franchise agreements (the "Franchise Agreements") with Furanka Limited ("Furanka"), a company in which Ms. Lo Pik Ling, Anita and an associate of Mr. Chan Yue Kwong, Michael had beneficial interests. Under the Franchise Agreements, the Group has to provide management services to Furanka and has to grant licences to Furanka to operate two restaurants under the name 'Café de Coral' (the "Restaurants"), until 11th April, 2000.

On 11th April, 2000, Weli Company Limited ("Weli"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement and a tenancy agreement with Furanka and Tinway Investments Limited ("Tinway") respectively. Under the sale and purchase agreement, Weli agreed to purchase the assets relating to the operation of the Restaurants at a cash consideration of \$2,572,827. Under the tenancy agreement, Weli agreed to rent the premises at which Furanka operated one of the Restaurants from Tinway for a monthly rental of \$170,000 from 12th April, 2000 to 11th April, 2003. Tinway was controlled by Ms. Lo Pik Ling, Anita, an associate of Mr. Chan Yue Kwong, Michael and Ardley Enterprises Limited, a company wholly and beneficially owned by the family members of Mr. Lo Hoi Kwong, Sunny. Details of the transactions were announced on 11th April, 2000.





Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN CONTRACTS (Cont'd)

On 23rd December, 1999, each of Yumi Yumi Caterers Limited (“Yumi”) and Very Nice Fast Food Limited (“Very Nice”), the two indirect wholly-owned subsidiaries of the Company, as tenants entered into tenancy agreements with LBK Trustee Holding Corporation (“LBK”) as landlord renewing the existing tenancies in respect of two premises at 77 Tung Choi Street and 108 Prince Edward Road West for the operation of fast food restaurants (collectively the “Premises”). LBK was wholly and beneficially owned by the family members of Mr. Lo Hoi Chun, a non-executive director of the Company. Mr. Lo Hoi Chun and his associates were directors of LBK. Mr. Lo Hoi Chun was also a director of Yumi. Under the agreements, Yumi and Very Nice were required to pay a monthly rental of \$61,000 and \$110,000 respectively from 1st January, 2000 to 31st December, 2002.

Except as disclosed above, no contracts of significance in relation to the Group’s business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Other than the operation of Furanka as disclosed above, none of the directors have interests in a competing business.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited for the year ended 31st March, 2001.

AUDIT COMMITTEE

In April 1999, the Company established an audit committee consisting of two independent non-executive directors of the Company, Mr. Choi Ngai Min, Michael and Mr. Li Kwok Sing, Aubrey, with written terms of reference which deal clearly with its authority and duties. Amongst the committee’s principal duties is to review and supervise the Company’s financial reporting process and internal controls.





Report of the Directors (cont'd)

(Amounts expressed in Hong Kong dollars)

AUDITORS

The accompanying financial statements have been audited by Messrs. Arthur Andersen & Co. A resolution for the reappointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors,

CHAN YUE KWONG, MICHAEL

Chairman

36

Hong Kong, 5th July, 2001