



大家樂集團有限公司
CAFÉ DE CORAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)



2001

INTERIM REPORT 中期報告

CAFÉ DE CORAL HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)

大家樂集團有限公司

INTERIM REPORT TO SHAREHOLDERS
FOR THE YEAR ENDING 31ST MARCH, 2002

HIGHLIGHTS

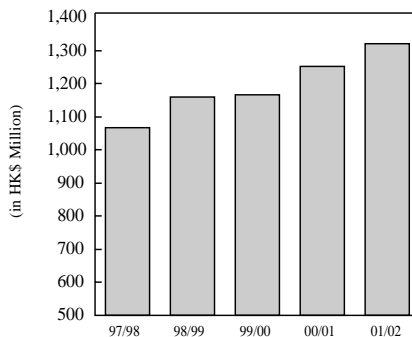
- Our long term shareholders' value enhancement is achieved through targeted business management, clear business strategies and disciplined capital efficiencies.
- Half-year Group profit again recorded an encouraging gain of 12%, being the sixth straight consecutive year of double-digit operating profit growth.
- Manchu Wok delivered cash profit result as budgeted and established a valuable business platform for the Group to continue widening its business horizon in North America.
- We are honoured that the Group was once again recognized by *Forbes Global*, for the fourth consecutive year, as one of "World's 200 Best Small Companies".
- With a net cash surplus of more than HK\$400 million, the Group is of sound and strong financial position to search for good investment opportunity at home and abroad.

CAFÉ DE CORAL HOLDINGS LIMITED

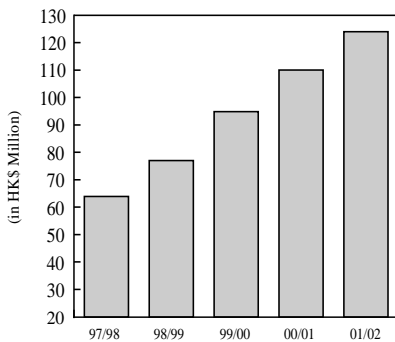
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大家樂集團有限公司

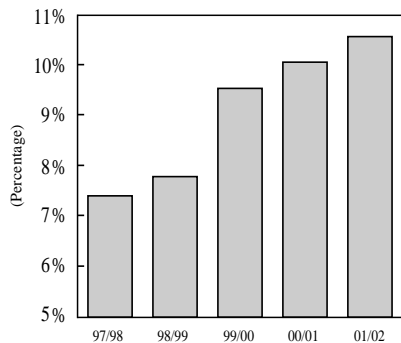
INTERIM RESULTS (FIVE YEARS RECORD)



Turnover



Profit After Taxation



Operating Profit Margin
(Profit before Exceptional Item & Taxation)

CAFÉ DE CORAL HOLDINGS LIMITED

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大家樂集團有限公司

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	<i>Note(s)</i>	For the six months ended 30th September		Growth
		2001	2000	
		<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note 15)</i>	
Turnover	2, 3	1,318,533	1,250,290	+5.5%
Cost of sales		(1,153,584)	(1,086,580)	
Gross profit		164,949	163,710	
Administrative expenses		(52,393)	(49,589)	
Other revenue, net		37,715	23,905	
Profit from operations	3	150,271	138,026	
Finance costs		(12,878)	(12,342)	
Profit before share of an associate and a jointly controlled entity		137,393	125,684	
Share of profit of an associate		689	110	
Share of profit of a jointly controlled entity		1,311	—	
Profit before taxation		139,393	125,794	
Taxation	4	(15,773)	(15,440)	
Profit attributable to shareholders		123,620	110,354	+12%
Dividend	5	(82,479)	(70,272)	
Retained profit for the period		41,141	40,082	
Basic earnings per share	6	22.61 cents	20.05 cents	+13%
Diluted earnings per share	6	22.34 cents	20.02 cents	

CAFÉ DE CORAL HOLDINGS LIMITED

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大家樂集團有限公司

CONSOLIDATED BALANCE SHEET

	<i>Note(s)</i>	As at 30th September, 2001 (UNAUDITED) <i>HK\$'000</i>	As at 31st March, 2001 (AUDITED) <i>HK\$'000 (Note 15)</i>
ASSETS			
Non-current assets			
Fixed assets	7	923,521	890,154
Trademarks		26,810	28,162
Investment in an associate	8	1,047	1,614
Investment in a jointly controlled entity	9	15,078	14,339
Other investments		18,534	18,547
		984,990	952,816
Current assets			
Stocks		55,137	49,375
Prepayments and deposits		148,217	122,154
Trade and other debtors	10	33,273	25,475
Short-term investments		13,466	9,169
Cash and bank deposits		837,074	681,313
		1,087,167	887,486
Current liabilities			
Short-term bank borrowings		290,848	236,541
Trade creditors	10	63,752	58,198
Other creditors and accrued liabilities		247,037	153,232
Taxation payable		14,548	12,428
		616,185	460,399
Net current assets		470,982	427,087
Total assets less current liabilities		1,455,972	1,379,903

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CONSOLIDATED BALANCE SHEET (CONT'D)

	<i>Note(s)</i>	As at 30th September, 2001 (UNAUDITED) <i>HK\$'000</i>	As at 31st March, 2001 (AUDITED) <i>HK\$'000 (Note 15)</i>
Non-current liabilities			
Non-current bank loans		135,000	100,000
Deferred taxation		15,229	11,379
		150,229	111,379
NET ASSETS		<u>1,305,743</u>	<u>1,268,524</u>
CAPITAL AND RESERVES			
Share capital	<i>11</i>	54,621	54,689
Reserves	<i>1, 12</i>	<u>1,251,122</u>	<u>1,213,835</u>
Shareholders' equity		<u>1,305,743</u>	<u>1,268,524</u>

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CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended
30th September

	2001		2000
	HK\$'000	HK\$'000	HK\$'000 (Note 15)
Operating activities			HK\$'000 (Note 15)
Profit before taxation	139,393		125,794
Interest expense	12,821		12,264
Interest income	(18,972)		(19,813)
Depreciation of fixed assets	58,825		56,148
Net (gain) loss on disposals of fixed assets	(13,150)		2,934
Amortisation of trademark	1,352		1,352
Share of profit of an associate	(689)		(110)
Share of profit of a jointly controlled entity	(1,311)		—
Unrealised loss on short-term investments	2,981		—
Gain on disposals of other investments	(1)		—
Gain on disposals of short-term investments	(949)		—
Increase in stocks	(5,762)		(5,225)
Increase in prepayments and deposits	(26,063)		(61,924)
Increase in trade and other debtors	(7,798)		(9,981)
Increase in trade creditors	5,554		10,598
Increase in other creditors and accrued liabilities	93,805		61,549
		240,036	173,586
Returns on investments and servicing of finance			
Interest received	18,972		19,813
Interest paid	(12,821)		(12,264)
Dividend received from an associate	1,120		—
Dividends paid	(82,479)		(70,272)
		(75,208)	(62,723)
Taxation			
Hong Kong profits tax refunded	—		1
Hong Kong profits tax paid	(8,953)		(6,392)
Overseas profits tax paid	(142)		(107)
		(9,095)	(6,498)
Cash inflow before investing activities		155,733	104,365

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CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) (CONT'D)

For the six months ended
30th September

	2001		2000	
	HK\$'000	HK\$'000	HK\$'000 (Note 15)	HK\$'000 (Note 15)
Cash inflow before investing activities		155,733		104,365
Investing activities				
Proceeds from disposals of fixed assets	33,918		—	
Additions of fixed assets	(112,960)		(92,577)	
Proceeds from disposals of other investments	14		—	
Proceeds from disposals of short-term investments	33,533		—	
Additions of construction in progress	—		(4,403)	
Purchase of short-term investments	(39,862)		—	
Increase in short-term bank deposits with maturity of more than three months	(200,000)		—	
		(285,357)		(96,980)
Cash (outflow) inflow before financing		(129,624)		7,385
Financing (Note 13)				
Net proceeds from issue of shares on exercise of share options	2,573		1,276	
Payment for repurchase of shares	(6,492)		(6,483)	
Net proceeds from bank loans	144,307		94,382	
		140,388		89,175
Increase in cash and cash equivalents		10,764		96,560
Effect of foreign exchange rate changes		(3)		(1)
Cash and cash equivalents, beginning of period		536,313		459,714
Cash and cash equivalents, end of period		547,074		556,273
Analysis of cash and cash equivalents				
Cash and bank deposits		637,074		721,273
Bank overdrafts and loans		(90,000)		(165,000)
		547,074		556,273

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CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES (UNAUDITED)

	<i>Note</i>	For the six months ended 30th September	
		<u>2001</u> <i>HK\$'000</i>	<u>2000</u> <i>HK\$'000</i> (Note 15)
Exchange differences arising on consolidation		<u>(3)</u>	<u>(1)</u>
Net losses not recognised in the consolidated income statement		<u>(3)</u>	<u>(1)</u>
Net profit for the period (2000: As reported)		123,620	111,706
Prior year adjustment	<i>1</i>	<u>—</u>	<u>(1,352)</u>
Net profit for the period (2000: As restated)		<u>123,620</u>	<u>110,354</u>
Net recognised gains		<u>123,617</u>	<u>110,353</u>

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NOTES TO THE FINANCIAL STATEMENTS

As at 30th September, 2001

(Amounts expressed in Hong Kong dollars)

1. PRINCIPAL ACCOUNTING POLICIES

The interim financial statements have not been audited by the Auditors of Café de Coral Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) but have been reviewed by the Group’s Audit Committee.

The interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) Number 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (the “HKSA”), and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The interim financial statements should be read in conjunction with the 2001 Annual Report. The accounting policies and the basis of preparation adopted are consistent with those followed in the 2001 Annual Report for the year ended 31st March, 2001, except for the adoption of certain new SSAPs issued by the HKSA as described below:

In the current period, the Group has adopted, for the first time, the following SSAPs issued by the HKSA:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities & contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

In accordance with the revised SSAP 9 (revised) “Events after the balance sheet date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date. This change has increased retained profits at 31st March, 2000 and 2001 by approximately \$70,547,000 and \$82,690,000 respectively. The amount of dividends for each of the six months ended 30th September, 2000 and 2001 was adjusted by the same amount less an adjustment of approximately \$275,000 and \$211,000 respectively to reflect the final dividends on share options and shares repurchased.

In accordance with the new SSAP 29 “Intangible assets”, trademarks are considered intangible assets and are amortised over their estimated useful lives. This change has decreased the retained profits at 31st March, 2000 and 2001 by approximately \$32,760,000 and \$34,112,000 respectively and the profit attributable to shareholders for each of the six months ended 30th September, 2000 and 2001 of approximately \$1,352,000.

In accordance with the new SSAP 30 “Business combinations”, goodwill on acquisitions occurring on or after 1st January, 2001 is being reported in the balance sheet as a separate asset or, as applicable, included within investments in associates and jointly controlled entity, and is amortised using the straight line method over its estimated useful life. This is a change in accounting policy as in previous years goodwill on acquisitions was written off directly to reserves in the year of acquisition. In accordance with a transitional provision under SSAP 30, no retrospective adjustment to the goodwill written off directly to reserves is required.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

As at 30th September, 2001

(Amounts expressed in Hong Kong dollars)

1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

The adoption of SSAP 26, SSAP 28, SSAP 31 and SSAP 32 have no material impact on the reported financial results of the Group.

2. TURNOVER

Turnover comprises (i) the value of sales in the normal course of business and (ii) rental income.

3. SEGMENT INFORMATION

No segment information is necessary as over 90% of the turnover and contribution to the Group's results are attributable to the restaurants and catering services in Hong Kong.

4. TAXATION

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16% (2000 - 16%) on the estimated assessable profits for the period. Overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions of countries in which the Group operated.

Taxation in the consolidated income statement comprised:

	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>
Company and subsidiaries:—		
Hong Kong profits tax	11,073	14,402
Overseas tax	142	117
Deferred taxation	3,850	910
	<u>15,065</u>	<u>15,429</u>
Associate:—		
Current taxation	136	—
Deferred taxation	—	11
Jointly controlled entity:—		
Overseas tax	572	—
	<u>15,773</u>	<u>15,440</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

As at 30th September, 2001

(Amounts expressed in Hong Kong dollars)

5. DIVIDEND

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
Final dividend paid: 15.1 cents per share (2000 - 12.8 cents per share)	<u>82,479</u>	<u>70,272</u> (Note 15)

6. EARNINGS PER SHARE

Basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the period of approximately \$123,620,000 (2000 as restated - \$110,354,000) and the weighted average number of 546,810,503 shares (2000 - 550,522,492 shares) during the period.

Diluted earnings per share was calculated based on the consolidated profit attributable to shareholders and the weighted average number of shares in issue plus the weighted average number of ordinary shares which would be issued on the exercise of all the dilutive potential ordinary share options. The dilutive potential ordinary shares are calculated on the assumption that all outstanding options had been exercised at the beginning of the period or the date of issue. The weighted average number of dilutive potential ordinary shares is the difference between the number of potential shares issued and the number of potential shares that would have been issued at fair value. Adjusted weighted average number of shares was 553,320,651 shares (2000 - 551,288,191 shares).

7. FIXED ASSETS

	<u>As at 30th</u> <u>September, 2001</u>	<u>As at 31st</u> <u>March, 2001</u>
	\$'000	\$'000
Net book value, beginning of period/year	890,154	861,413
Revaluation	—	(705)
Additions	112,960	164,216
Disposals	(20,768)	(20,246)
Depreciation	<u>(58,825)</u>	<u>(114,524)</u>
Net book value, end of period/year	<u>923,521</u>	<u>890,154</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

As at 30th September, 2001

(Amounts expressed in Hong Kong dollars)

8. INVESTMENT IN AN ASSOCIATE

	<u>As at 30th September, 2001</u>	<u>As at 31st March, 2001</u>
	<i>\$'000</i>	<i>\$'000</i>
Share of net assets of the associate	247	814
Loan to the associate	800	800
	<u>1,047</u>	<u>1,614</u>

The loan to the associate was unsecured, bore interest at commercial bank rate and was not repayable within the next twelve months. The Group's share of net profit from the associate during the period was approximately \$553,000 (2000 - \$99,000). The Group also received a dividend of approximately \$1,120,000 (2000 - Nil) from the associate during the period.

9. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	<u>As at 30th September, 2001</u>	<u>As at 31st March, 2001</u>
	<i>\$'000</i>	<i>\$'000</i>
Share of net assets of the jointly controlled entity	14,288	13,549
Due from jointly controlled entity	790	790
	<u>15,078</u>	<u>14,339</u>

The amount due from the jointly controlled entity was unsecured, non-interest bearing and not repayable within the next twelve months. The Group's share of net profit from the jointly controlled entity during the period was approximately \$739,000 (2000 - Nil).

10. TRADE DEBTORS AND CREDITORS — CREDIT POLICY AND AGING ANALYSIS

The Group's sales to customers are mainly on a cash basis. The Group also grants a credit period which is usually less than 90 days to certain customers for the sales of the Group's institutional catering services and food manufacturing businesses.

As at 30th September, 2001, approximately 91% of the Group's trade debtors were aged less than 60 days and over 98% of the trade creditors were aged less than 60 days.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

As at 30th September, 2001

(Amounts expressed in Hong Kong dollars)

11. SHARE CAPITAL AND SHARE OPTIONS

a. Share capital

	As at 30th September, 2001		As at 31st March, 2001	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000	\$'000	'000	\$'000
Authorised				
Ordinary shares of \$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid				
Beginning of period/year	546,888	54,689	550,658	55,066
Shares issued under the share option schemes (Note 11.b)	1,000	100	2,440	244
Shares purchased and cancelled by the Company	<u>(1,676)</u>	<u>(168)</u>	<u>(6,210)</u>	<u>(621)</u>
End of period/year	<u>546,212</u>	<u>54,621</u>	<u>546,888</u>	<u>54,689</u>

b. Share options

Details of executive share options were as follows:

Date of grant	Subscription price	Number of shares			
		As at 1st April, 2001	Exercised during the period	Cancelled as a result of termination of employment	As at 30th September, 2001
1st August, 1992	\$2.820	740,000	(580,000)	—	160,000
1st November, 1994	\$2.232	820,000	(420,000)	—	400,000
4th November, 1999	\$2.950	<u>25,500,000</u>	—	<u>(300,000)</u>	<u>25,200,000</u>
		<u>27,060,000</u>	<u>(1,000,000)</u>	<u>(300,000)</u>	<u>25,760,000</u>

The share options are exercisable during the period from 8th August, 1997 to 31st March, 2013.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

As at 30th September, 2001

(Amounts expressed in Hong Kong dollars)

12. RESERVES

Except for the reserve movements mentioned in “PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES”, there were no transfers to or from reserves of the Group during the six months ended 30th September, 2001.

13. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Analysis of changes in financing during the year was as follows:

	As at 30th September, 2001			As at 31st March, 2001
	Share capital and share premium	Bank loans with maturity over three months	Total	Total
	\$'000	\$'000	\$'000	\$'000
Beginning of period/year	167,021	191,541	358,562	368,838
Issue of shares upon exercise of share options	2,573	—	2,573	4,715
Repurchase of shares	(6,492)	—	(6,492)	(18,718)
Net proceeds from bank loans	—	144,307	144,307	3,727
End of period/year	<u>163,102</u>	<u>335,848</u>	<u>498,950</u>	<u>358,562</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

As at 30th September, 2001

(Amounts expressed in Hong Kong dollars)

14. COMMITMENTS

a. Lease commitments

The Group's total future minimum lease payments commitments under operating leases were as follows:

	<u>As at 30th September, 2001</u>	<u>As at 31st March, 2001</u>
	\$'000	\$'000
Land and buildings		
— Not later than one year	250,711	238,857
— Later than one year and not later than five years	335,628	337,906
— Later than five years	7,371	16,945
	<u>593,710</u>	<u>593,708</u>

The above lease commitments only included commitments for basic rentals, and did not include commitments for additional rentals payable, if any, when turnover of individual restaurants exceeds a predetermined level as it was not possible to determine in advance the amount of such additional rentals.

b. Capital commitments

The Group had the following capital commitments which have not been provided for in the Group's financial statements:

	<u>As at 30th September, 2001</u>	<u>As at 31st March, 2001</u>
	\$'000	\$'000
Authorised and contracted for	11,353	6,336
Authorised but not contracted for	55,061	149,934
	<u>66,414</u>	<u>156,270</u>

15. COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified or restated to conform to the current period's presentation due to the effect of adjustments resulting from the adoption of new accounting policies as described in Note 1.

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PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th September, 2001, the Company purchased and cancelled 1,676,000 shares of HK\$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) (HK\$'000)
		Highest Price Paid (HK\$)	Lowest Price Paid (HK\$)	
July 2001	1,592,000	3.850	3.825	6,155
September 2001	84,000	4.000	4.000	337
	<u>1,676,000</u>			<u>6,492</u>

Therefore, an amount of approximately HK\$6,492,000 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 six months ended 30th September, 2001.

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

INTERIM DIVIDEND

In acknowledging continuous supports from our shareholders, the Directors have declared the payment of an interim dividend of 4.4 cents (2001: 4.4 cents) per share in respect of the year ending 31st March, 2002, payable on 4th January, 2002 to those persons registered as shareholders on 27th December, 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27th December, 2001 (Thursday) to 28th December, 2001 (Friday) (both days inclusive) during which period no transfers of shares will be effected. To rank for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrars, Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 24th December, 2001.

CAFÉ DE CORAL HOLDINGS LIMITED

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BUSINESS REVIEW AND PROSPECTS

Results

This is the sixth straight consecutive year of double-digit operating profit growth to be reported in our interim report to shareholders. This half-year's result of continuous profit growth was no easy task.

The local business operating environment was deeply embedded in the grip of greater business uncertainties and a lack of consumer confidence. The economic impact of the Mandatory Provident Fund has also gradually started to filter down to all walks of life. Contracted purchasing power together with high unemployment rate during the period have all worked against a speedy economic recovery.

Notwithstanding however, the Board and management have committed themselves to ride through this economic adversity and are determined to deliver the value that our shareholders have expected of us. As a result, I am pleased to report again that the Group is delivering another encouraging 12% profit growth in the first half of this year.

As I mentioned to all shareholders before, enhancement in our shareholders' value could not have been materialized in today's result, had it not been our persistent drive in targeted business management, clear business strategies and disciplined capital efficiencies.

Targeted Business Management

With intensifying falling price pressures in the prevailing deflated economy for the past years, it has been a tough and challenging first quarter for our **Café de Coral** fast food in this fiscal year. Nevertheless, the management responded timely and decisively to these challenges with clear business direction and effective strategies.

New product development was offered, new advertising campaigns were launched, and HK\$28 million was also effectively deployed for shop renovation, bringing in immediate results and encouraging returns on investment. The results of implementing these measures were reflected in the satisfactory performance in the second business quarter.

At the same time, **The Spaghetti House** restaurant chain has been sustaining its growth impetus and performing well along with management's expectation. With a clear market positioning, effective advertising campaigns, and continuous efforts in new product innovation, sales and profitability of **The Spaghetti House** chain have continued with its admirable year-on-year unabated growth.

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On another front, **Asia Pacific Catering** remained a stable profit contributor and its business portfolio was further expanded by our recent success in winning two new catering contracts with two major educational institutions during the period.

Well into its second year of business, **Luncheon Star** has been aggressively building its branding and business base in the student catering service, confirming its viable business potentials. In coping with its solid rapid growth, **Luncheon Star** recently opened 2 new re-heating centers for extending the geographical coverage in the territory.

I am also pleased to report that both **Asia Pacific Catering** and **Luncheon Star** have been internationally accredited with the “**ISO 9001**” and “**HACCP Integrated System**” awards simultaneously in the first half of the year.

Clear Business Strategies

A full year after **Manchu Wok**'s acquisition, this 191 stores Chinese Quick Service Restaurant chain in North America has proven to become the next engine of future growth for the Group. During the period, **Manchu Wok** delivered an encouraging budgeted cash profit result, and demonstrated its business resilience, in face of the economic slowdown and the recent September incident in United States. Although its turnover is not reflected in the current consolidated income statement of the Group, this jointly controlled entity generated systemwide sales of approximately HK\$315 million.

More importantly, the existing **Manchu Wok** business size and scale has presented to the Group an extremely valuable business platform to pursue further mergers and acquisitions in widening its business horizon in North America in the forthcoming years.

For the same strategic business reasoning, the Group would also proactively search for a viable development platform in China as a springboard for a more dominant play in this market of tremendous potential, particularly in view of the impending China's accession into the World Trade Organization. In this regard, we hope to explore acquisition opportunities with a readily respectable presence in the fast food market in China.

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Disciplined Capital Efficiency

Under a global recession sentiment, the Group maintained a prudent financial strategy with reliable liquidity on the one hand and a demanding financial discipline with respect to return on equities on the other. With this, we ploughed back substantial investment into the existing business and operating systems for further enhancing our competitive advantages.

As at 30th September, 2001, the Group continued to maintain a strong financial position with a net cash of more than HK\$400 million and available banking facilities of approximately HK\$865 million. Certain properties were pledged to banks as collateral security for banking facilities to the extent of HK\$179 million.

To leverage our potent cash position and enhance our shareholders' value, the Group bought back 1,676,000 shares at an average cost of HK\$3.9 per share during the period making a cumulation of 23,890,000 shares at an average cost of HK\$2.2 per share since the Asian financial crisis in 1997. As at 30th September, 2001, the Group's net asset value amounted to HK\$1,306 million, an increase of 11% compared with that of last corresponding period. Net asset value per share was HK\$2.4, a 11% increase from the last corresponding period.

The Group has also commenced installation of a computerized Point of Sales system in all our restaurant chains. With a total expected investment of HK\$60 million, the Group's Business Process Re-engineering project reached its final phase and will gradually be integrated into our existing operating system in coming months, for enhancing productivity and information efficiency initiatives. We strongly believe these workflow streamlining and efficiency measures would work their way down to profit margin improvement. During the past year, the Group also invested HK\$40 million in new equipment and upgrading of production facilities for improving productivity and the economies of scale in our central processing operation both in Hong Kong and China.

As at 30th September, 2001, the Group had employed over 8,000 employees in Hong Kong and PRC, an increase of 800 employees over last year in line with opening of new shops. The Group's remuneration package and benefits for the employees are essentially the same as that disclosed in the most recent published annual report.

Challenges and Opportunities

It is an enormous challenge for the management to consistently deliver continuous and consecutive profit growth in such tough economic times and on an enlarged profit base. We believe the resilience of our core business together with our strong financial strength and competence in coping with external adversity, have given us the continual confidence to master these massive uncertainties during the period.

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I anticipate the remaining half of the year will impose greater challenges to the local and global economy. Nevertheless, I also firmly believe that business opportunities will present along the way together with these challenges. Management is committed and ready, both financially and operationally, to capture and translate these opportunities into new value growth drivers for the Group.

Recognition

I am honoured that the Group has been once again recognized by *Forbes Global*, for the fourth consecutive year, as one of “**World’s 200 Best Small Companies**” in October this year. With this special honour, I would like to share with and thank the support of our shareholders, customers and business associates and the tireless dedication of all our staff throughout the year.

DIRECTORS’ INTERESTS IN SHARES AND SHARE OPTIONS

As at 30th September, 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:

	<u>Personal</u>	<u>Family</u>	<u>Corporate</u>	<u>Other</u>
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	10,606,339	—	—	(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	3,107,000	—	—	—
Mr. Hui Tung Wah, Samuel	25,837	—	—	—
Mr. Choi Ngai Min, Michael	—	—	—	—
Mr. Li Kwok Sing, Aubrey	55,000	—	—	—

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Notes:

- (a) 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.
- (b) 37,383,394 shares were held under a family trust of which associates of Mr. Lo Hoi Kwong, Sunny were the beneficiaries.
- (c) 87,626,213 shares were held under a family trust of which Mr. Lo Tak Shing, Peter and his associates were the beneficiaries.
- (d) 35,997,701 shares were held under a family trust of which Mr. Lo Hoi Chun and his associates were the beneficiaries.
- (e) 36,169,133 shares were held under a family trust of which associates of Mr. Lo Hoi Chun were the beneficiaries.
- (f) Directors' interests in the executive share options as at 30th September, 2001 were as follows:

	Number of shares comprised in executive share options
Mr. Chan Yue Kwong, Michael	1,500,000
Mr. Lo Hoi Kwong, Sunny	1,500,000
Ms. Lo Pik Ling, Anita	400,000
Mr. Lo Tak Shing, Peter	350,000
	<u>3,750,000</u>

The above executive share options are exercisable at \$2.95 per share during the period from 1st April, 2003 to 31st March, 2013.

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 30th September, 2001 and at no time during the period 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.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 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:

	<u>Number of shares held in the Company</u>	<u>Percentage of holding</u>
Wandels Investment Limited (a)	87,626,213	16.04%
GZ Trust Corporation (b)	121,966,834	22.33%

(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 30th September, 2001.

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 six months ended 30th September 2001.

AUDIT COMMITTEE

The Company has established an audit committee consisting of the two independent non-executive directors of the Company 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.

By order of the Board
Chan Yue Kwong, Michael
Chairman

Hong Kong, 11th December, 2001