

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and elsewhere in the People's Republic of China (the "PRC") which specialise in Chiu Chow cuisine, and in the operation of a hotel in the PRC.

SEGMENT INFORMATION

Details of segment information are set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 20.

No dividend was paid during the year. The directors do not recommend the payment of a final dividend for the year.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 10% and 31%, respectively, of the Group's purchases for the year under review.

The aggregate turnover attributable to the five largest customers of the Group was less than 30% of the Group's turnover for the year under review.

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owns more than 5% of the Company's share capital has a beneficial interest in the Group's five largest suppliers.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 56.

SHARE CAPITAL

Details of the Company's share capital are set out in note 20 to the financial statements. There were no movements in the Company's share capital during the year.

RESERVES

The movements in the reserves of the Group and of the Company during the year are set out in note 22 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$5.4 million on plant and machinery and approximately HK\$1.9 million on constructions in progress. Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were valued at 31 March 2002 by RHL Appraisal Ltd., a firm of independent professional property valuers, on an open market existing use basis, and the resulting deficit of HK\$1,655,000 was charged to income statement. Details of the valuation and of the investment properties at 31 March 2002 are set out in note 12 to the financial statements.

PRINCIPAL SUBSIDIARIES

The details of the Company's principal subsidiaries at 31 March 2002 are set out in note 14 to the financial statements.

ASSOCIATES

The details of the Group's associates at 31 March 2002 are set out in note 15 to the financial statements.

BORROWINGS AND INTEREST CAPITALISED

Bank borrowings which are repayable within one year or on demand are classified as current liabilities. Repayment schedules of the Group's bank borrowings are set out in note 19 to the financial statements. No interest was capitalised by the Group during the year.

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DIRECTORS

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

Executive directors:

Mr. Cheng Hop Fai (*Chairman and Managing Director*)

Mrs. Cheng Kwok Kwan Yuk

Ms. Cheng Pak Ming, Judy

Independent non-executive directors:

Mr. Law Toe Ming

Mr. Tse Tai Lam

Non-executive director:

Mr. Mark Yiu Tong, William

In accordance with Clause 87(1) of the Company's Bye-laws, all directors retire and, being eligible, offer themselves for re-election.

None of the directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors and their associates in the shares of the Company and its associated corporations as recorded in the register maintained under Section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Cheng Hop Fai	–	–	–	339,397,470 (Note)
Mrs. Cheng Kwok Kwan Yuk	–	–	–	339,397,470 (Note)
Ms. Cheng Pak Ming, Judy	–	–	–	339,397,470 (Note)
Mr. Law Toe Ming	500,000	–	–	–
Mr. Tse Tai Lam	–	–	–	–
Mr. Mark Yiu Tong, William	–	–	–	–

Note: Golden Toy Investments Limited ("Golden Toy") and Kong Fai International Limited ("Kong Fai") held 43,217,445 and 296,180,025 shares of the Company, respectively. Golden Toy and Kong Fai are wholly-owned by two discretionary trusts of which family members of Mr. Cheng Hop Fai, including Mr. Cheng Hop Fai, Mrs. Cheng Kwok Kwan Yuk and Ms. Cheng Pak Ming, Judy, are discretionary objects.

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DIRECTORS' INTERESTS IN SHARES (continued)

Save as disclosed above, at 31 March 2002, none of the directors or their associates had any interests in the shares or any securities of the Company and its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses the following entity as having an interest of 10% or more of the issued share capital of the Company:

Name of shareholder	Number of shares held	Percentage of shares held
Kong Fai	296,180,025	61.09%

Save as disclosed above, the Company has not been notified of any other interest representing 10% or more of the Company's issued share capital as at 31 March 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme approved on 14 October 1992, options may be granted to executive directors of the Company to subscribe for shares in the Company. The purpose of the scheme is to recognise the contribution of the executive directors of the Company. No consideration is payable on grant of option. The subscription price will be determined by the Company's board of directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option. The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time.

Details of share options held by the Company's directors under the share option scheme during the year are as follows:

Director	Exercisable period	Exercise price HK\$	Number of option shares outstanding at beginning and at end of the year
Mr. Cheng Hop Fai	19.3.2001 to 13.10.2002	0.10	12,100,000
Mrs. Cheng Kwok Kwan Yuk	19.3.2001 to 13.10.2002	0.10	12,100,000
Ms. Cheng Pak Ming, Judy	19.3.2001 to 13.10.2002	0.10	12,100,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (continued)

No share options have been granted to or exercised by the directors during the year.

Details of the Company's share option scheme are set out in note 21 to the financial statements.

Save as disclosed above:

- (a) None of the directors, their spouses or children under the age of 18, had any right to subscribe for shares of the Company, or had exercised any such right during the year; and
- (b) At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

- (a) On 14 May 1999, the Group entered into a tenancy agreement with Homley Development Limited ("Homley"), a company in which Mr. Cheng Hop Fai, Mrs. Cheng Kwok Kwan Yuk and Ms. Cheng Pak Ming, Judy are deemed to be beneficially interested, for leasing of Homley's premises for certain of the Group's restaurant operations for a period of three years commencing 1 May 1999 at a monthly rental of HK\$350,000 (exclusive of rates, management fees and air-conditioning charges) and a rental deposit of HK\$700,000. Details of the arrangement are set out in the circular dated 19 April 1999 issued by the Company. Rentals charged by Homley during the year under this tenancy agreement amounted to HK\$4,200,000. At 31 March 2002, accrued rental payable to Homley amounted to HK\$350,000.

On 6 May 2002, the Group renewed the tenancy agreement with Homley for leasing the same premises for a further period of three years commencing 1 May 2002 at a monthly rental of HK\$250,000 (exclusive of rates, management fees and air-conditioning charges) and a rental deposit of HK\$750,000. The monthly rental was negotiated with Homley with reference to the market rent as at 23 April 2002 as advised by RHL Appraisal Ltd., a firm of independent professional property valuers.

- (b) On 16 March 2001, the Company entered into a tenancy agreement with Hover City Industrial Limited ("Hover City"), a company in which Mr. Cheng Hop Fai, Mrs. Cheng Kwok Kwan Yuk and Ms. Cheng Pak Ming, Judy are deemed to be beneficially interested, for leasing from Hover City a unit of commercial building for a period of two years commencing from 1 April 2001 to 31 March 2003 at a monthly rental of HK\$20,000 and a rental deposit of HK\$40,000. Rental charged by Hover City during the year under the agreement amounted to HK\$240,000. The monthly rental was determined by both parties with reference to market rent.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS (continued)

- (c) On 13 June 2001, the Group entered into a sub-tenancy agreement with Hung Yick Metal Company Limited (“Hung Yick”) for sub-leasing from Hung Yick several units of a commercial building for a period of two years commencing 9 April 2001 at a monthly rental of HK\$57,937.50 (exclusive of rates, air-conditioning and management fees) with the rent-free periods from 9 April 2001 to 8 June 2001 and from 22 February 2003 to 8 April 2003, and a rental deposit of HK\$173,812.50. Rental charged by Hung Yick during the year under this sub-tenancy agreement amounted to HK\$563,925.

The monthly rental was determined by both parties with reference to the rental charged by Hung Yick’s landlord and the approximate floor area occupied by Hung Yick and the Group.

Mr. Cheng Hop Fai, Mrs. Cheng Kwok Kwan Yuk and Ms. Cheng Pak Ming, Judy, are deemed to be beneficially interested in Hung Yick.

- (d) During the year, the Group paid HK\$701,000, comprising a retainer fee of HK\$240,000 and reimbursement of disbursements of HK\$461,000, to Advance Leader Company Limited, a company in which Mr. Mark Yiu Tong, William has beneficial interests, for advertising and marketing services.
- (e) During the year, the Group made rental payments of HK\$593,000, under the joint venture agreement, to the PRC joint venture partner of an indirect non wholly-owned subsidiary of the Company, 惠州君豪大酒店.
- (f) During the year, shareholders’ loans of a subsidiary were waived by its shareholders. The amount attributable to the minority shareholder amounted to HK\$4,500,000.

In the opinion of the independent non-executive directors of the Company, these transactions were carried out on normal commercial terms and in the ordinary course of business of the Group.

Other than as disclosed above, there was no other contract of significance, to which the Company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company’s shares by the Company or any of its subsidiaries and fellow subsidiaries during the year.

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CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

AUDITORS

A resolution will be submitted at the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheng Kwok Kwan Yuk
DIRECTOR

Hong Kong, 18 July 2002

DETAILS OF EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

EXECUTIVE DIRECTORS

Mr. Cheng Hop Fai, aged 58, is the Chairman and Managing Director of the Company. He is one of the founders of the Group and has over 15 years' experience in the restaurant business. He has been instrumental in the formulation and implementation of the business policies of the Group and is responsible for the general management and strategic planning of the Group.

Mrs. Cheng Kwok Kwan Yuk, aged 56, is the wife of Mr. Cheng and an Executive Director of the Company. She is one of the founders of the Group and has over 15 years' experience in the restaurant business. She is, with Mr. Cheng, responsible for the general management of the Group.

Ms. Cheng Pak Ming, Judy, aged 31, is a daughter of Mr. and Mrs. Cheng. She holds a Bachelor degree in Economics from the University of Sydney. She is a Certified Practising Accountant of CPA Australia and an Associate Member of the Hong Kong Society of Accountants. She is an Executive Director of the Company and oversees the accounting functions of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Law Toe Ming, aged 60, was appointed as Non-executive Director of the Group on 1 December 1994. He is also a director of Texful Textile Limited.

Mr. Tse Tai Lam, aged 53, was appointed as Non-executive Director of the Group on 25 August 1997. He is also director of Best Focus Limited and Crown Rising Industries Limited.

NON-EXECUTIVE DIRECTOR

Mr. Mark Yiu Tong, William, aged 66, is a renowned food critic and a regular contributor to many newspapers and magazines in Hong Kong and overseas. He writes under the pen name of “唯靈” in Chinese newspapers and magazines and is the author of several books on Chinese cookery. He holds many awards in the food industry and has been acting as an adviser to the Group's restaurants since the establishment of its first restaurant in 1984.

SENIOR MANAGEMENT

Miss Cheng Pak Man, Anita, aged 30, is a daughter of Mr. and Mrs. Cheng. She holds a Bachelor of Commerce degree from the University of New South Wales and a Master of Applied Finance degree from Macquarie University, Sydney. She is a Certified Practising Accountant of CPA Australia and an Associate Member of the Hong Kong Society of Accountants. She has over 5 years experience in the banking and accounting field in Hong Kong. She is responsible for the business development and the marketing function of the Group.

Mr. Cheng Kwun Hung, Peter, aged 28, is a son of Mr. and Mrs. Cheng. He holds a Bachelor degree in Commerce and a Bachelor degree in Laws from the University of New South Wales and is an Associate member of CPA Australia. He is responsible for the strategic planning and financial functions of the Group.

Ms. Chu Ka Yee, aged 35, is the Chief Financial Officer and Company Secretary of the Group. She holds a Bachelor degree in Business Administration from the Chinese University of Hong Kong and is a Fellow Member of the Association of Chartered Certified Accountants. She is responsible for the financial and company secretarial functions of the Group.