



The directors submit their report together with the audited accounts for the year ended 31st March 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is engaged in investment holding as well as the operation and management of restaurants. Its subsidiaries are engaged in the operation of restaurants and bakeries and property investment.

An analysis of the Group's performance for the year by business segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 27.

The directors have declared an interim dividend of HK1.5 cents (2001: HK3 cents) per ordinary share, totalling HK\$4,692,054, which was paid on 29th January 2002.

The directors recommend the payment of a final dividend of HK3.5 cents (2001: HK4 cents) per ordinary share, totalling HK\$10,948,126 (2001: HK\$12,512,144) to be payable to shareholders whose names appear in the register of members of the Company on 29th August 2002. Subject to the passing of the necessary resolutions at the forthcoming annual general meeting, such dividend will be payable on or about 10th September 2002.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in note 22 to the accounts.

Distributable reserves of the Company at 31st March 2002, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$241,949,157 (2001 restated: HK\$243,272,899).

FIXED ASSETS

Details of the movements in fixed assets of the Company and of the Group are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

SHARE OPTIONS

A new share option scheme was adopted by the Company on 13th March 2000 ("HKCM Scheme") which was effective until 20th November 2010. SHHL, a subsidiary of the Company, also adopted a share option scheme ("SHHL Scheme") on 25th October 2000, which was effective for 10 years expiring on 24th October 2010. Both schemes were adopted for the purpose of providing staff incentives. Under these schemes, directors may, at their discretion, invite employees of respective companies and their subsidiaries, including executive directors, to take up options to subscribe for shares of its own company which, in aggregate may not exceed 10% of the issued share capital of the company, excluding for this purpose the shares issued pursuant to the respective schemes. The maximum number of shares in respect of which options may be granted to any one full time employee or executive director shall not exceed 25% of the maximum number of share in respect of which options may be granted under the schemes.



REPORT OF THE DIRECTORS

SHARE OPTIONS (cont'd)

According to both schemes, the exercise price per share was set at not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the grant of the options.

(1) Share option scheme of Hong Kong Catering Management Limited ("HKCM")

On 30th August 2001, the Company granted an aggregate of 30,810,000 share options to executive directors and employees of the Company and its subsidiaries to subscribe for shares of the Company ("HKCM Options") while a total of 1,700,000 HKCM Options issued under the old scheme but remained unexercised were cancelled on the same day.

The details of the movements of HKCM Options during the year are as follows:

Participants	Grant date	Exercise period		Exercise price HK\$	Number of HKCM Options				As at 31st Mar. 2002
		From	To		As at 1st Apr. 2001	Cancelled during the year	Granted during the year	Lapsed during the year	
Directors									
Chan Ka Lai, Joseph	16th Sept. 1997	16th Sept. 1999	15th Sept. 2007	1.64	1,000,000	(1,000,000)	—	—	—
	30th Aug. 2001	1st Oct. 2001	30th Sept. 2011	0.48	—	—	1,000,000	—	1,000,000
	30th Aug. 2001	1st Mar. 2002	30th Sept. 2011	0.48	—	—	1,000,000	—	1,000,000
	30th Aug. 2001	1st Sept. 2002	30th Sept. 2011	0.48	—	—	1,000,000	—	1,000,000
			Total		1,000,000	(1,000,000)	3,000,000	—	3,000,000
Chiu Wai	30th Aug. 2001	1st Mar. 2002	30th Sept. 2011	0.48	—	—	600,000	—	600,000
	30th Aug. 2001	1st Sept. 2002	30th Sept. 2011	0.48	—	—	600,000	—	600,000
			Total		—	—	1,200,000	—	1,200,000
Ng Sai Hung	30th Aug. 2001	1st Mar. 2002	30th Sept. 2011	0.48	—	—	200,000	—	200,000
	30th Aug. 2001	1st Sept. 2002	30th Sept. 2011	0.48	—	—	200,000	—	200,000
			Total		—	—	400,000	—	400,000
Wong Tsui Yue, Lucy	16th Sept. 1997	16th Sept. 1999	15th Sept. 2007	1.64	700,000	(700,000)	—	—	—
	30th Aug. 2001	1st Oct. 2001	30th Sept. 2011	0.48	—	—	700,000	—	700,000
	30th Aug. 2001	1st Mar. 2002	30th Sept. 2011	0.48	—	—	400,000	—	400,000
	30th Aug. 2001	1st Sept. 2002	30th Sept. 2011	0.48	—	—	280,000	—	280,000
			Total		700,000	(700,000)	1,380,000	—	1,380,000
Continuous contract employees	30th Aug. 2001	1st Mar. 2002	30th Sept. 2011	0.48	—	—	12,415,000	(550,000)	11,865,000
	30th Aug. 2001	1st Sept. 2002	30th Sept. 2011	0.48	—	—	12,415,000	(550,000)	11,865,000
			Total		—	—	24,830,000	(1,100,000)	23,730,000
			Grand total		1,700,000	(1,700,000)	30,810,000	(1,100,000)	29,710,000



SHARE OPTIONS *(cont'd)*

(1) Share option scheme of HKCM *(cont'd)*

At 31st March 2002, the number of unexercised HKCM Options granted under HKCM Scheme was 29,710,000, representing 9.5% of the shares of the Company in issue at that date.

HKCM Options granted on 30th August 2001 carry an exercise price of HK\$0.48 per share as compared to the closing price of HK\$0.61 per share on the date before the grant of HKCM Options. No consideration is payable for the grant of share option.

Using the Black Scholes option pricing model (note), the fair value of HKCM Options granted during the current year is estimated to be approximately HK\$10,167,300. The following significant assumptions were used to derive the fair value:

- (a) an expected volatility of 6.16%; and
- (b) the corresponding 3 years Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 4.99%.

The value of HKCM Options granted to the respective parties during the year is as follows:

	HK\$
Directors	1,973,400
Continuous contract employees	<u>8,193,900</u>
	<u>10,167,300</u>

Note: The Black Scholes option pricing model is one of the commonly used models developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. Any changes in the assumptions adopted may materially affect the estimation of the value of an option.

(2) Share option scheme of SHHL

On 31st August 2001, SHHL granted a further 10,310,000 share options to executive directors and full time employees of SHHL and its subsidiaries ("SHHL Group") to subscribe for SHHL shares ("SHHL Options") at an exercise price of HK\$0.55 per share. Mr. Shum Wing Hon, an executive director of HKCM and of SHHL, received a further 600,000 SHHL Options.



SHARE OPTIONS *(cont'd)*

(2) Share option scheme of SHHL *(cont'd)*

The details of the movement of SHHL Options during the year are summarised below.

Participants	Grant date	Exercise period		Exercise price HK\$	As at 1st Apr. 2001	Number of SHHL Options		As at 31st Mar. 2002
		From	To			Granted during the year	Lapsed during the year	
Director								
Shum Wing Hon	15th Jan. 2001	1st May 2001	31st May 2010	0.50	1,000,000	—	—	1,000,000
	15th Jan. 2001	1st May 2002	31st May 2010	0.50	1,000,000	—	—	1,000,000
	31st Aug. 2001	1st Mar. 2002	30th Sept. 2011	0.55	—	300,000	—	300,000
	31st Aug. 2001	1st Sept. 2002	30th Sept. 2011	0.55	—	300,000	—	300,000
			Total		<u>2,000,000</u>	<u>600,000</u>	<u>—</u>	<u>2,600,000</u>
Other directors of SHHL and continuous contract employees	15th Jan. 2001	1st May 2001	31st May 2010	0.50	5,190,000	—	(220,000)	4,970,000
	15th Jan. 2001	1st May 2002	31st May 2010	0.50	2,000,000	—	—	2,000,000
	31st Aug. 2001	1st Mar. 2002	30th Sept. 2011	0.55	—	4,855,000	—	4,855,000
	31st Aug. 2001	1st Sept. 2002	30th Sept. 2011	0.55	—	4,855,000	—	4,855,000
			Total		<u>7,190,000</u>	<u>9,710,000</u>	<u>(220,000)</u>	<u>16,680,000</u>
			Grand total		<u>9,190,000</u>	<u>10,310,000</u>	<u>(220,000)</u>	<u>19,280,000</u>

At 31st March 2002, the number of unexercised options granted under the SHHL Scheme was 19,280,000, representing 9.8% of the issued shares of SHHL.

The exercise price of the SHHL Options granted on 31st August 2001 was HK\$0.55 per share as compared to the closing price of HK\$0.69 per share at the date before the grant of options. No consideration is payable for the grant of share option.

Using the Black Scholes option pricing model, the fair value of SHHL Options granted during the current year is estimated to be approximately HK\$3,711,600. The following significant assumptions were used to derive the fair value:

- (a) an expected volatility of 6.16%; and
- (b) the corresponding 3 years Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 4.99%.



SHARE OPTIONS *(cont'd)*

(2) Share option scheme of SHHL *(cont'd)*

The value of SHHL Options granted to the respective parties during the year is as follows:

	HK\$
Director of HKCM	216,000
Other directors of SHHL and continuous contract employees	<u>3,495,600</u>
	<u>3,711,600</u>

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's principal subsidiaries and associated companies as at 31st March 2002 are set out in note 28 to the accounts.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Neither the Company nor the Group had any outstanding bank loans, overdrafts and other borrowings subsisted as at 31st March 2002.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 10 and 11.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DONATIONS

Donations made for charitable purposes by the Group during the year amounted to HK\$545,000 (2001: HK\$1,051,370).



DIRECTORS

The directors during the year were:

Executive directors

Mr. Chan Wai Cheung, Glenn

Mrs. Chan King Catherine

Mr. Chan Ka Lai, Joseph

Mr. Chiu Wai

Mr. Ng Sai Hung

Mr. Shum Wing Hon

Ms. Wong Tsui Yue, Lucy

Independent non-executive directors

Mr. Cassam Soliman Gooljarry

Mr. Chan Ip Sing, Evans (appointed on 8th October 2001, alternate to Mrs. Fung Yeh Yi Hao, Yvette)

Mrs. Fung Yeh Yi Hao, Yvette

Dr. Kwok Lok Wai, William

Ms. Woo Lee Wah, Cecilia

In accordance with Articles 77 to 79 of the Company's Articles of Association, Mr. Chan Ka Lai, Joseph, Mr. Ng Sai Hung and Ms. Woo Lee Wah, Cecilia retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

All the independent non-executive directors have signed a letter of appointment with the Company for a term of two years from 1st April 2000. Subsequent to the year end date, the service contracts had been renewed for one year from 1st April 2002.

Save as disclosed above, none of the director has any service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



CONNECTED TRANSACTIONS

(a) The connected transactions between SHHL Group and the Group other than SHHL Group (“HKCM Group”) as listed below (the “Transactions”) have been waived by the Stock Exchange from strict compliance with the provisions of Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), provided that the conditions as set out in the letter from the Stock Exchange dated 5th December 2000 are fulfilled.

(b) During the year, the HKCM Group had the following significant Transactions with the SHHL Group:

	2002	2001
	HK\$	HK\$
Sales of properties	—	11,843,932
Purchases of bakery and related products (<i>note (i)</i>)	4,026,102	3,670,483
Rental income in respect of land and buildings (<i>note (ii)</i>)	754,835	2,664,818
Management fees received (<i>note (iii)</i>)	<u>3,876,760</u>	<u>3,653,162</u>

(i) Purchases of bakery and related products were charged at prices and terms determined by reference to those charged to and contracted with other third party customers of the SHHL Group.

(ii) Rental income were reimbursed at cost in respect of certain shared premises which were determined on the basis of area occupied.

(iii) Pursuant to the service sharing agreement entered into between the Company and Bread Boutique Limited (“Bread Boutique”), a subsidiary of SHHL, the Company was engaged to provide management and administration services to Bread Boutique. Management fees were charged on a monthly basis and were calculated at a certain percentage on the monthly gross turnover of Bread Boutique.

(c) The independent non-executive directors of the Company have reviewed the Transactions and have confirmed that:

(i) the Transactions have been entered into by the Company in the ordinary and usual course of its business;

(ii) the Transactions are either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than those available to or from independent third parties;

(iii) the Transactions are fair and reasonable so far as the shareholders of the Company as a whole are concerned; and

(iv) the aggregate amount of each of the Transactions in notes (b)(i) to (iii) has not exceeded the cap of HK\$10 million.

(d) On 6th May 2002, the Company together with Well-Positioned Corporation (“Well”), a substantial shareholder for both the Company and SHHL and Mr. Chan Wai Cheung, Glenn, who assumed the interest of the minority shareholders, have undertaken to provide in proportion to their respective shareholding in SHHL a standing facility of not more than HK\$73,981,000 in aggregate at the prevailing market interest rate. Accordingly, the Company is required to contribute up to a maximum amount of HK\$44,500,000 should this facility be called upon. The facility is opened for draw down up to a period of three months which can be extended if required. Details of the transaction is set out in the press announcement on the same day.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

At 31st March 2002, the interests of the directors, chief executives and their associates in the shares of the Company and its associated corporations within the meaning of Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of Company	Name of director	Note	Number of shares held	
			Personal interest	Other interest
The Company	Chan Wai Cheung, Glenn	(a)	—	113,742,609
	Chan King Catherine	(a)	—	113,742,609
	Chan Ka Lai, Joseph		728,000	—
	Chiu Wai		112,000	—
SHHL	Chan Wai Cheung, Glenn	(a)	—	28,435,652
		(b)		118,028,098
	Chan King Catherine	(a)	—	28,435,652
		(b)		118,028,098
	Chan Ka Lai, Joseph		182,000	—
	Chiu Wai		28,000	—

Notes:

- (a) These shares are directly held by Well, a company beneficially owned by a trust established for the benefit of the family members of Mr. Chan Wai Cheung, Glenn and Mrs. Chan King Catherine.
- (b) Well also holds indirect interests in SHHL as 118,028,098 shares of SHHL are held by the Company through its wholly owned subsidiary, Albion Agents Limited.

The details of shares options granted to directors during the year are disclosed in the section headed "Share Options" above.

Save as disclosed above, the Company has not received notice of any interests to be recorded under Section 29 of the SDI Ordinance as at 31st March 2002 and at no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable any of the Company's directors and chief executives (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS



At 31st March 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that other than those of the directors and chief executives as disclosed in the section headed "Directors' interests in equity and debt securities" above, the Company had not been notified of any substantial shareholders' interests being 10% or more of the Company's issued share capital.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the audit of the Group. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises four independent non-executive directors, namely Mr. Cassam Soliman Gooljarry, Mrs. Fung Yeh Yi Hao, Yvette, Dr. Kwok Lok Wai, William and Ms. Woo Lee Wah, Cecilia. Two meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Chan Wai Cheung, Glenn

Chairman

Hong Kong, 11th July 2002