

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 its subsidiaries (together with the Company hereinafter as the “Group”) for the year ended 31st March, 2002.

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 the results for the year is as follows:

	Turnover	Profit before
	<i>\$’000</i>	<i>taxation</i>
		<i>\$’000</i>
Hong Kong	2,565,996	304,574
The People’s Republic of China (the “PRC”)	47,551	11,181
The United States and Canada (See Notes below)	–	6,948
	<u>2,613,547</u>	<u>322,703</u>

Notes:

- (a) Manchu Wok Enterprises, Inc (“MWEI”), a 48%-owned jointly controlled entity acquired in 2001, generated systemwide sales of approximately \$654,572,000 in the United States and Canada. The earnings before interest, tax, depreciation and amortisation of MWEI amounted to approximately \$35,957,000.
- (b) During the year, the Group acquired an approximately 48% equity interest in Manchu Wok Enterprises II Inc (“MWEII”), a jointly controlled entity. Since the date of acquisition, MWEII has generated systemwide sales of approximately \$49,898,000 in the United States. The earnings before interest, tax, depreciation and amortisation of MWEII amounted to approximately \$7,252,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2002, the percentage of sales or purchases attributable to the Group’s five largest customers or suppliers was less than 30%.

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RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the year ended 31st March, 2002 and the state of affairs of the Company and of the Group as at 31st March, 2002 are set out on pages 30, 32 and 33 of the accompanying financial statements.

The details of dividends for the year ended 31st March, 2002 are set out in Note 9 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 17.1 cents per share.

The increase in retained profits of the Company amounted to \$107,004,000 for the year ended 31st March, 2002. Other movements in the reserves of the Group and the Company are shown in Note 23 to the accompanying financial statements.

As at 31st March, 2002, reserves of approximately \$182,605,000 of the Company were available for distribution to shareholders.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st March, 2002 are set out on pages 66 to 69.

ASSOCIATE

Particulars of the Company's associate as at 31st March, 2002 are set out in Note 14 to the accompanying financial statements.

JOINTLY CONTROLLED ENTITIES

Particulars of the Company's jointly controlled entities as at 31st March, 2002 are set out in Note 15 to the accompanying financial statements.

FIXED ASSETS

Details of the movements in fixed assets are set out in Note 11 to the accompanying financial statements.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31st March, 2002 are set out in Notes 19 and 20 to the accompanying financial statements.

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SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 22a to the accompanying financial statements.

SHARE OPTIONS

Details of the share options of the Company are set out in Note 22b to the accompanying financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company purchased and cancelled 2,622,000 shares of \$0.10 each in the Company on The Stock Exchange of Hong Kong Limited ("SEHK") 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 \$	
July 2001	1,592,000	3.850	3.825	6,155
September 2001	84,000	4.000	4.000	337
November 2001	166,000	4.500	4.500	750
December 2001	778,000	4.500	4.500	3,516
January 2002	2,000	4.500	4.500	9
	<u>2,622,000</u>			<u>10,767</u>

Therefore, an amount of approximately \$10,767,000 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, 2002.

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

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PRE-EMPTIVE RIGHTS

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

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, Mr. Lo Tang Seong, Victor, Mr. Lo Hoi Chun and Mr. Choi Ngai Min, Michael 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).

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DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st March, 2002, interest of directors of the Company in the equity and debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and SEHK pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were shown below. Details of the interests of the directors of the Company in respect of share options granted under the Company's share option schemes are set out in the "Share Option Schemes" section below.

	Personal	Family	Corporate	Other
Mr. Chan Yue Kwong, Michael	3,121,407	1,189,400	–	(a)
Mr. Lo Hoi Kwong, Sunny	3,120,000	–	–	(a) & (b)
Ms. Lo Pik Ling, Anita	10,606,339	–	–	(a)
Mr. Lo Tak Shing, Peter	–	–	–	(c)
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	–	–	–

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) 31,911,701 shares were held under a family trust of which Mr. Lo Hoi Chun and his associates were the beneficiaries.
- (e) 35,969,133 shares were held under a family trust of which associates of Mr. Lo Hoi Chun were the beneficiaries.

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

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

Save as otherwise disclosed in this report, the Company has no notice of any interests to be recorded under Section 29 of the SDI Ordinance as at 31st March, 2002 or as otherwise notified to the Company and the SEHK pursuant to Section 28 of the SDI Ordinance and the Model Code, 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, their respective spouse or 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' INTERESTS

As at 31st March, 2002, 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	16.06%
GZ Trust Corporation (b)	117,680,834	21.56%

(a) It held the shares for the family trust disclosed in Note (c) under "Directors' Interests in Shares and Share Options" section (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 Notes (a), (d) and (e) under "Directors' Interests in Shares and Share Options" section.

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, 2002.

SHARE OPTION SCHEMES

Pursuant to a share option scheme adopted by the Company on 30th January, 1991 (the "Previous Scheme"), the Company has granted certain options to executives and employees of the Group including executive directors employed by the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. The Previous Scheme was terminated upon the passing of a shareholders' resolution for adoption of a new share option scheme on 19th September, 2000 (the "Scheme"). Accordingly, no options can be granted under the Previous Scheme as at the date of this report. However, for the outstanding options granted and yet to be exercised under the Previous Scheme, the existing rights of the grantees are not affected.

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SHARE OPTION SCHEMES (Cont'd)

Pursuant to the Scheme, the Company may grant options to executive directors and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein.

Summary of details of the Scheme is as follows:

Purpose	To give incentive and retain eligible participants who contribute to the business and development of the Group
Participants	Full-time employees (including full-time executive directors) of the Company or any of its subsidiaries
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	54,582,603 ordinary shares and 10% of the issued share capital
Maximum entitlement of each participant	25% of the aggregate number of shares for the time being issued and issuable under the Scheme
Period within which the securities must be taken up under an option	5 years commencing on the date on which an option becomes exercisable and expiring on the last day of the 5 years period save that such period shall not expire later than 10 years from the commencement date on which the option is deemed to be granted and accepted in accordance with the Scheme
Minimum period for which an option must be held before it can be exercised	Not applicable
Amount payable on acceptance of the option	\$1.00
Period within which payments/calls/loans must be made/repaid	28 days from the date of the offer
Basis of determining the exercise price	The higher of (i) the nominal value of a share or (ii) an amount which is not less than 80% nor more than 100% of the average of the closing price of the shares as stated in the SEHK's daily quotations sheets for the 5 business days immediately preceding the date of offer of the option
The remaining life of the Scheme	The Scheme remains in force until 18th September, 2010 unless otherwise terminated under terms of the Scheme

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SHARE OPTION SCHEMES (Cont'd)

The SEHK has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1st September, 2001. No share options have been granted by the Company under the Scheme since its adoption on 19th September, 2000. However, any option to be granted under the Scheme shall be subject to the new rules which include, inter alia, the following:

- (a) The maximum number of shares issuable upon the exercise of the options granted to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting;
- (b) The exercise price of the share options is determined by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the SEHK's daily quotations sheets on the date of grant; and (ii) the average closing price of the Company's shares as stated in the SEHK's daily quotations sheets for the 5 business days immediately preceding the date of grant.

Details of the movements of share options granted under the Previous Scheme are as follows:

Type of grantees		Options held at 1st April, 2001	Options exercised during the year	Options lapsed on expiry	Options cancelled as a result of termination of employment	Options outstanding at 31st March, 2002
Executive directors						
Mr. Chan Yue Kwong, Michael	(i)	1,500,000	–	–	–	1,500,000
Mr. Lo Hoi Kwong, Sunny	(i)	1,500,000	–	–	–	1,500,000
Ms. Lo Pik Ling, Anita	(i)	400,000	–	–	–	400,000
Mr. Lo Tak Shing, Peter	(i)	350,000	–	–	–	350,000
Continuous contract employees						
	(i)	21,750,000	–	–	(1,100,000)	20,650,000
	(ii)	820,000	(720,000) (iv)	–	–	100,000
	(iii)	740,000	(740,000) (v)	–	–	–
		<u>27,060,000</u>	<u>(1,460,000)</u>	<u>–</u>	<u>(1,100,000)</u>	<u>24,500,000</u>

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SHARE OPTION SCHEMES (Cont'd)

Notes:

- (i) The share options were granted on 4th November, 1999 and are exercisable at \$2.950 per share during the period from 1st April, 2003 to 31st March, 2013.
- (ii) The share options were granted on 1st November, 1994 and are exercisable at \$2.232 per share during the period from 3rd November, 1997 to 23rd November, 2006.
- (iii) The share options were granted on 1st August, 1992 and are exercisable at \$2.820 per share during the period from 8th August, 1995 to 7th August, 2002.
- (iv) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year was \$4.234.
- (v) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year was \$4.098.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled during the year.

DIRECTORS' INTERESTS IN CONTRACTS

On 11th April, 2000, Weli Company Limited ("Weli"), a wholly-owned subsidiary of the Company, as tenant entered into a tenancy agreement with Tinway Investments Limited ("Tinway") as landlord in respect of a premises for the operation of a fast food restaurant. 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. Under the tenancy agreement, Weli was required to pay a monthly rental of \$170,000 from 12th April, 2000 to 11th April, 2003.

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. 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 any of the Company's directors or members of its management had a material interest subsisted at the end of the year or at any time during the year.

None of the directors have interests in a competing business.

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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 SEHK throughout the year ended 31st March, 2002.

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.

AUDITORS

Arthur Andersen & Co. acted as auditors of the Company up to and including the year ended 31st March, 2001. Arthur Andersen & Co. resigned during the year and the directors appointed PricewaterhouseCoopers to fill the casual vacancy. A resolution for the reappointment of PricewaterhouseCoopers 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

Hong Kong, 9th July, 2002