



Interim Report 2003 中期報告



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



35th
ANNIVERSARY

三五知己 大家樂見

Interim Report To Shareholders

For the Six Months Ended 30th September, 2003

HIGHLIGHTS

- The sudden outbreak of SARS has taken a heavy toll on our hospital and student catering business but did not deter the Group from delivering a stable sales performance of approximately HK\$1.3 billion for this half year.
- In addition to the consistent interim dividend, the Board of Directors also recommended to double the dividend payment with a special dividend of 6.4 cents per share to mark the Group's 35th Anniversary celebration.
- The acquisition of *Oliver's Super Sandwiches* restaurant chain further solidifies the Group's business position in the Hong Kong quick service restaurant industry.
- The acquisition of a 50% stake in *New Asia Dabao*, the largest Chinese quick service restaurant network in Shanghai, has established a dominant foothold for the Group in the PRC market.
- We are honoured that the Group was awarded the "2003 Best Employers in Hong Kong" while our Group's Chairman was also personally awarded the "Directors of the Year Award".
- Joining hands with all our shareholders in saluting the heroic performance and undaunted spirit of our 8,500 employees during the SARS outbreak.

Consolidated Profit and Loss Account

	Note	Unaudited Six months ended 30th September,	
		2003 HK\$'000	2002 HK\$'000 (Note 1)
Turnover	2, 3	1,293,571	1,305,136
Cost of sales		(1,127,141)	(1,107,763)
Gross profit		166,430	197,373
Administrative expenses		(57,254)	(56,221)
Other income		16,298	25,017
Profit from operations		125,474	166,169
Provision for impairment in value of investments		–	(12,174)
Finance costs		(158)	(8,751)
		125,316	145,244
Share of profit/(loss) of			
– An associated company		575	288
– Jointly controlled entities		(13,377)	(2,476)
Profit before taxation		112,514	143,056
Taxation	4	(17,303)	(18,137)
Profit attributable to shareholders	5	95,211	124,919
Dividends	6		
– Interim		33,996	34,425
– Special		33,996	–
		67,992	34,425
Basic earnings per share	7	17.95 cents	22.89 cents
Diluted earnings per share	7	17.63 cents	22.39 cents

Consolidated Balance Sheet

	<i>Note</i>	Unaudited 30th September, 2003	Audited 31st March, 2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Note 1)</i>
Non-current assets			
Fixed assets	8	890,085	901,124
Goodwill	8	1,295	–
Trademarks	8	21,402	22,754
Investment in an associated company	9	792	838
Investment in jointly controlled entities	10	64,980	28,257
Other investments		5,825	6,357
Held-to-maturity securities		212,563	85,979
Other non-current assets		2,071	–
Deferred tax assets		2,873	3,769
		1,201,886	1,049,078
Current assets			
Stocks, at cost		55,538	52,966
Prepayments and deposits		148,088	103,870
Trade and other debtors	11	31,757	26,586
Short-term investments		15,722	7,365
Cash and bank balances		362,723	733,281
		613,828	924,068
Current liabilities			
Short-term bank loans		10,000	220,000
Trade creditors	11	75,242	61,365
Other creditors and accrued liabilities		238,956	198,796
Taxation payable		27,092	14,109
		351,290	494,270

Consolidated Balance Sheet (Cont'd)

<i>Note</i>	Unaudited 30th September, 2003	Audited 31st March, 2003
	HK\$'000	HK\$'000
		<i>(Note 1)</i>
Net current assets	262,538	429,798
Total assets less current liabilities	1,464,424	1,478,876
Non-current liabilities		
Deferred tax liabilities	15,695	15,728
Net assets	1,448,729	1,463,148
Capital and reserves		
Share capital	53,115	53,364
Reserves (including interim dividend and special dividend declared of HK\$67,992,000; 31st March, 2003; final dividend declared of HK\$95,515,000)	1,395,614	1,409,784
Shareholders' equity	1,448,729	1,463,148

Consolidated Statement of Changes in Equity

	Unaudited	
	Six months ended	
	30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at beginning of period, as previously reported	1,456,418	1,410,268
Change in accounting policy with respect to deferred tax (<i>Note 1</i>)	6,730	9,192
Total equity at beginning of period, as restated	1,463,148	1,419,460
Exchange differences arising on consolidation	2,793	(105)
Net gains or losses not recognised in the consolidated profit and loss account	2,793	(105)
Profit attributable to shareholders	95,211	124,919
Reserves transferred to the consolidated profit and loss account upon disposal of an investment property	-	(448)
Dividends	(95,586)	(93,336)
Issue of shares under share option scheme	10,266	223
Repurchase of shares	(27,103)	-
Total equity at end of period	1,448,729	1,450,713

Consolidated Cash Flow Statement

Unaudited

Six months ended 30th September,

2003

2002

	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities				
Profit before taxation	112,514		143,056	
Interest expense	158		8,751	
Interest income	(5,721)		(13,560)	
Depreciation of fixed assets	68,556		60,268	
Amortisation of goodwill	44		-	
Amortisation of trademarks	1,352		1,352	
Net loss/(gain) on disposals of fixed assets other than investment property	662		(8,341)	
Net gain on disposal of an investment property	(150)		(554)	
Provision for impairment in value of other investments	-		12,174	
Unrealised (gain)/loss of short-term investments	(1,599)		4,243	
Gain on disposals of other investments	(931)		(1)	
Gain on disposals of short-term investments	(66)		(25)	
Share of results of an associated company	(575)		(288)	
Share of results of jointly controlled entities	13,377		2,476	
	<hr/>		<hr/>	
Operating profit before working capital changes	187,621		209,551	
Increase in stocks	(2,572)		(3,144)	
Increase in prepayments and deposits	(44,218)		(2,110)	
(Increase)/decrease in trade and other debtors	(5,171)		2,218	
Increase in amount due from a jointly controlled entity	(146)		-	
Increase in trade creditors	13,877		2,927	
Increase in other creditors and accrued liabilities	21,924		20,856	
	<hr/>		<hr/>	
Cash generated from operations	171,315		230,298	
Hong Kong profits tax paid	(8,643)		(9,923)	
Overseas taxation paid	(214)		-	
	<hr/>		<hr/>	
Net cash from operating activities		162,458		220,375

Consolidated Cash Flow Statement (Cont'd)

	Unaudited			
	Six months ended 30th September,			
	2003	2002		2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash flows from investing activities				
Additions of fixed assets	(58,033)		(65,196)	
Proceeds from disposals of fixed assets	2,004		17,077	
Acquisition of a business	(3,339)		-	
Acquisition of a jointly controlled entity	(20,000)		-	
Investment in a jointly controlled entity	-		(944)	
Advance to a jointly controlled entity	(4,173)		(3,901)	
Dividend received from an associated company	520		120	
Proceeds from redemption of				
held-to-maturity securities	74,257		3,892	
Purchase of held-to-maturity securities	(200,841)		(50,807)	
Proceeds from disposals of other investments	4,052		3	
Purchase of other investments	(2,589)		-	
Proceeds from disposals of short-term investments	1,103		4,023	
Purchase of short-term investments	(7,795)		(15,901)	
Increase in other non-current assets	(2,071)		-	
Interest received	5,721		13,560	
	<u> </u>		<u> </u>	
Net cash used in investing activities		(211,184)		(98,074)
Cash flows from financing activities				
Net proceeds from issue of shares on				
exercise of share options	10,266		223	
Payment for repurchase of shares	(27,103)		-	
New bank borrowings	10,000		325,000	
Repayment of bank borrowings	(220,000)		(495,000)	
Interest paid	(158)		(8,751)	
Dividends paid	(95,586)		(93,336)	
	<u> </u>		<u> </u>	
Net cash used in financing activities		(322,581)		(271,864)
Decrease in cash and bank balances		(371,307)		(149,563)
Effect of foreign exchange rate changes		749		2
Cash and bank balances, beginning of period		733,281		650,981
		<u> </u>		<u> </u>
Cash and bank balances, end of period		362,723		501,420
		<u> </u>		<u> </u>

Notes to the Accounts

1. Basis of preparation and accounting policies

The interim accounts have not been audited by the auditors of Café de Coral Holdings Limited (the “Company”) and its subsidiaries (the “Group”) but have been reviewed by the Group’s Audit Committee.

These unaudited consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (the “HKSA”). These accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st March, 2003 except that the Group has changed its accounting policy with respect to deferred taxation following the adoption of SSAP 12 (revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003.

In accordance with SSAP 12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As a result of the retrospective application of SSAP 12 (revised), the retained profits of the Group as at 1st April, 2002 and 1st April, 2003 were increased by HK\$9,192,000 and HK\$6,730,000 respectively, which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and a decrease in deferred tax liabilities as at 31st March, 2003 by HK\$3,769,000 and HK\$2,961,000 respectively. In addition, such change in the accounting policy has resulted in a reduction of the profit attributable to the shareholders for the six months ended 30th September, 2002 by HK\$1,231,000.

Notes to the Accounts (Cont'd)

2. Turnover

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

3. Segment information

No segment information is provided 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 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended	
	30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Note 1)</i>
Current taxation:		
– Hong Kong profits tax	20,822	14,365
– Overseas taxation	1,018	1,534
Deferred taxation relating to the origination and reversal of temporary differences	863	3,006
	22,703	18,905
Share of taxation attributable to:		
– Associated company	101	46
– Jointly controlled entities	(5,501)	(814)
	17,303	18,137

Notes to the Accounts (Cont'd)

5. Profit attributable to shareholders

The consolidated profit attributable to shareholders was arrived at after charging cost of stocks sold, depreciation of fixed assets and amortisation of goodwill and trademark of approximately HK\$392,406,000 (2002: HK\$397,736,000), HK\$68,556,000 (2002: HK\$60,268,000) and HK\$1,396,000 (2002: HK\$1,352,000) respectively.

6. Dividends

	Six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Dividends proposed		
– Interim, 6.4 cents (2002: 6.4 cents) per share	33,996	34,425
– Special, 6.4 cents (2002: Nil) per share	33,996	–
	67,992	34,425

Notes:

- (a) At a meeting held on 8th July, 2003, the directors proposed a final dividend of 18 cents per share for the year ended 31st March, 2003 and has been reflected as an appropriation of retained profits for the six months ended 30th September, 2003.
- (b) At a meeting held on 16th December, 2003, the directors declared an interim dividend of 6.4 cents per share and a special dividend of 6.4 cents per share for the year ending 31st March, 2004. These proposed dividends are not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March, 2004.

7. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK\$95,211,000 (2002: HK\$124,919,000).

The basic earnings per share are based on the weighted average of 530,368,361 (2002: 545,782,864) ordinary shares in issue during the period. The diluted earnings per share is based on 540,130,179 (2002: 557,971,462) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the effect of dilutive potential ordinary shares of 9,761,818 (2002: 12,188,598) ordinary shares if all outstanding share options had been exercised.

Notes to the Accounts (Cont'd)

8. Fixed assets, goodwill and trademarks

	Fixed assets	Goodwill	Trademarks
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value, 1st April, 2003	901,124	–	22,754
Acquisition of a business	2,000	1,339	–
Additions	58,033	–	–
Disposals	(2,516)	–	–
Depreciation/Amortisation	(68,556)	(44)	(1,352)
Net book value, 30th September, 2003	<u>890,085</u>	<u>1,295</u>	<u>21,402</u>

9. Investment in an associated company

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment in unlisted shares, at cost	200	200
Share of retained profits	532	578
Due from the associated company	60	60
	<u>792</u>	<u>838</u>

The amount due from the associated company is unsecured, non-interest bearing and has no fixed repayment terms. The Group's share of net profit from the associated company during the period was approximately HK\$474,000 (2002: HK\$242,000). The Group also received a dividend of approximately HK\$520,000 (2002: HK\$120,000) from the associated company during the period.

10. Investment in jointly controlled entities

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment in unlisted shares, at cost	56,250	18,014
Share of accumulated losses	(11,578)	(2,236)
Due from jointly controlled entities	15,524	9,739
Cumulative translation differences	4,784	2,740
	<u>64,980</u>	<u>28,257</u>

The amounts due from the jointly controlled entities are unsecured, non-interest bearing and not repayable within the next twelve months. The Group's share of net loss from the jointly controlled entities during the period was approximately HK\$7,876,000 (2002: HK\$1,662,000).

Notes to the Accounts (Cont'd)

11. 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.

At 30th September, 2003, approximately 92% (31st March, 2003: 86%) of the Group's trade debtors were aged less than 60 days and over 99% (31st March, 2003: 99%) of the trade creditors were aged less than 60 days.

12. Share capital and share options

(a) Share capital

	30th September, 2003		31st March, 2003	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each				
Beginning and end of period/year	<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	533,640	53,364	545,726	54,573
Shares issued under share option scheme (Note 12(b))	3,480	348	100	10
Shares purchased and cancelled by the Company	(5,966)	(597)	(12,186)	(1,219)
End of period/year	<u>531,154</u>	<u>53,115</u>	<u>533,640</u>	<u>53,364</u>

(b) Share options

Details of executive share options were as follows:

Date of grant	Subscription price	Number of shares	
		As at 1st April, 2003	Exercised during the period
4th November, 1999	HK\$2.95	<u>23,500,000</u>	<u>(3,480,000)</u>
			<u>As at 30th September, 2003</u>
			<u>20,020,000</u>

The outstanding share options are exercisable during the period from 1st April, 2003 to 31st March, 2013.

Notes to the Accounts (Cont'd)

13. Commitments and contingent liabilities

(a) Operating lease commitments

At 30th September, 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings		
– Not later than one year	243,657	236,747
– Later than one year and not later than five years	320,595	335,340
– Later than five years	20,088	14,791
	584,340	586,878

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rentals payable, if any, when turnover of individual restaurants exceeds a pre-determined level as it is not possible to determine in advance the amount of such additional rentals.

(b) Capital commitments

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Acquisition of fixed assets		
– Contracted but not provided for	2,795	4,700
– Authorised but not contracted for	102,356	142,919
	105,151	147,619

(c) Guarantees

As at 30th September, 2003, the Company has given guarantees totaling approximately HK\$960,558,000 (31st March, 2003: HK\$950,296,000) to financial institutions in connection with loans granted to its subsidiaries and jointly controlled entities. In addition, the Group's interests in the issued shares of the jointly controlled entities are pledged as securities against the bank loans of the jointly controlled entities.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the operation of quick service restaurants, fast casual dining, institutional catering and specialty restaurant chains, and the food processing and distribution business.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th September, 2003, the Company purchased and cancelled 5,966,000 shares of HK\$0.10 each in the Company at a prices ranging from HK\$4.35 to HK\$4.70 on The Stock Exchange of Hong Kong Limited (“the Exchange”). The total cash outlay was approximately HK\$27,103,000 for the shares repurchased during the period.

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

DIVIDENDS

In acknowledging continuous supports from our shareholders, the Directors have declared the payment of an interim dividend of 6.4 cents (2002: 6.4 cents) per share and a special dividend of 6.4 cents (2002: Nil) per share in respect of the year ending 31st March, 2004, payable on 13th January, 2004 to those persons registered as shareholders on 5th January, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 5th January, 2004 (Monday) to 6th January, 2004 (Tuesday) (both days inclusive) during which period no transfers of shares will be effected. To rank for the aforesaid dividends, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company’s Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 2nd January, 2004.

BUSINESS REVIEW AND PROSPECTS

Introduction

The months under review was unfortunately among the most tumultuous period in the Group's 35 years long history. Few can be compared to the present one in terms of the depth and breath of the adversity occurred during this six months period. Not only do so many business sectors have to continuously endure the persistent economic doldrums, but the sudden outbreak of SARS during the first quarter of the fiscal year has also been most challenging to the overall business community, and proven particularly disastrous to the restaurant and catering sectors.

Riding out the storm

We were no exception to this sudden impact, and have taken the hardest hit in our institutional catering business where we have 25 restaurant units operating in the major hospitals in Hong Kong. Sales of our *Luncheon Star* student catering during the SARS period has also dissipated because of mandatory school closures. We responded to this exceptionally challenging moments with a number of proactive measures including introduction of take-away dishes, operational staff redeployment, and escalating our renovation program during this down time. The viral epidemic has unfortunately disrupted our recovery on yearly profit growth, but at least the second quarter performance has given us a glimmer of hope.

Since July, the retail industry has taken a turn for the better. As a result of the Closer Economic Partnership Arrangement (CEPA) and the influx of Mainlanders as individual tourists, our restaurant units in traditional shopping districts have been particularly benefited. For the whole of this half year, the Group still managed to deliver a stable sales performance of approximately HK\$1,294 million. However, our net earnings do not fare as well, with a drop of 24% to HK\$95 million. The better than expected performance of our *Café de Coral* fast food restaurants simply cannot make up the substantial loss incurred by *Asia Pacific Catering* business and *Luncheon Star* student catering business. The only redeeming feature is that both *The Spaghetti House* restaurants and *Café de Coral* restaurants in Southern China were still able to come up with profit growth during this difficult time.

BUSINESS REVIEW AND PROSPECTS (Cont'd)

Solidifying the growth platforms

In my previous statements to the shareholders over the past few years, I have emphasized the need to establish new growth platforms outside Hong Kong as being essential for the Group's long term growth, even though it might depress the short term performance of the Group. With the impact of the 911 incident still lingering on and the US market remaining sluggish and uncertain, our Group's business in North America has not yet regained its momentum during the past six months. Aside from carrying the substantial lending interest cost, the performance of our chain of 202 restaurants also fared below expectation, partly because of the one-off restructuring cost incurred in the recent management reshuffle and the development cost associated with the various new concept initiatives, and partly because of the exchange loss generated by the inter-company loan between our US and Canadian companies. We believe it is for the best of our shareholders' long term interest to take on these development initiatives and undertake further financial and operational restructuring, and over time, we are confident of a business turn-around of this sizable platform to eventually become a meaningful profit contributor to the Group.

Closer to home, the performance of *Café de Coral* quick service restaurant business in PRC market has been most encouraging. During the past months, three new outlets were opened in Zhongshan and Dongguan, bringing our total number of restaurant outlets in the Pearl River Delta region to 9. With the satisfactory performance of these new openings together with our stepped up confidence in the market, we planned to open another two to three new outlets in the second half of this year.

Furthermore, in view of the tremendous potential in the PRC market after China's accession into the WTO, the Group made an exciting and important strategic move by establishing a sizable foothold in the very important part of Eastern China. In March this year, our strategic acquisition of a 50% stake in a 90 stores restaurant chain of *New Asia Dabao*, which is the largest Chinese quick service restaurant network by stores in Shanghai Municipal, has given us a meaningful presence in this market of tremendous potential. Since July 2003, our Group assumed the management control of the restaurant chain and has embarked on a series of value-added initiatives in areas of operation management, marketing, and menu innovation.

BUSINESS REVIEW AND PROSPECTS (Cont'd)

Rise to the occasion

The next twelve months would pose tremendous challenge to management in successfully executing all the strategic management initiatives which are essential for the Group's long term growth. These initiatives would take the form of management consolidation in North America targeting at overhead reduction; fine-tuning our business models and pricing strategy for our joint venture in Shanghai; and aiming at a business turn-around of the newly acquired *Oliver's Super Sandwiches* restaurant chain here at home. We reckoned that these are formidable challenges to be dealt with in the coming months, but we are confident of our management's caliber and experience to sail through the current business woes and uncertainty.

Regarding the foreign exchange fluctuations, the Group earns revenue and incurs costs and expenses mainly in Hong Kong dollars. The Group's jointly controlled entities operate in North America and in the PRC whose major revenue and expenses are denominated in United States dollars, Canadian dollars or Renminbi. As disclosed earlier, exchange losses are nevertheless recognized in our jointly-controlled North American entities and our share of these losses have been included in this interim result. While foreign currency exposure did not pose significant risk for the Group but going forward, we would be taking proactive measures and close monitor of our exposure to such currency movement.

As of 30th September, 2003, the Group had a potent cash position of a net cash of HK\$353 million and available banking facilities of approximately HK\$706 million. It is worth noting that the Group had given guarantees approximately HK\$961 million to financial institutions in connection with their loans granted to the subsidiaries and jointly-controlled entities. Insofar as the Group continue to maintain a healthy net cash position for funding future development, I would recommend to the Board to repatriate certain of these funds to our shareholders, as reflected in this year's more generous dividend payout ratio and special dividend payment. In addition to the consistent interim dividend, the Board of Directors also recommended to double the dividend payment with a special dividend of 6.4 cents per share to mark the Group's 35th Anniversary celebration.

As at 30th September, 2003, the Group's ratio of total liabilities to shareholders' equity and liabilities was 20.2% as compared to 25.8% as at 31st March, 2003. There are no material changes in charges on assets since 31st March, 2003.

BUSINESS REVIEW AND PROSPECTS *(Cont'd)*

Recognition

Over the past 6 months, the Group continued to receive honourable recognition for our management excellence at home and abroad. The “**2003 Best Employers in Hong Kong**” is among the latest ones. Recently, I am particularly gratified that we have also been recognized for our good corporate governance practice, as I am personally bestowed with the honourable “**Directors of the Year Award**” by *The Hong Kong Institute of Directors*.

As of 30th September, 2003, the Group had employed about 8,500 employees in Hong Kong and PRC with essentially the same remuneration and benefits package as disclosed in the latest published annual report. Speaking of them, I would not have discharged my duty properly if I do not pay tribute to the heroic performance and undaunted spirit of our frontline staff during the SARS outbreak. Many of whom were right at the forefront of the epidemic battlefield, particularly the 600 strong hospital catering staff, who persevere in their professional service to maintain uninterrupted catering service to all the medical staff during those critical times. It is gratifying that none of our employees contracted the disease under this life threatening circumstances. They have all risen to the occasion. I would like to take this opportunity to join hands with all our shareholders in saluting them with respect and gratitude.

DIRECTORS' INTERESTS IN SHARES

As at 30th September, 2003, the interests of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company under section 352 of the SFO or notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Director	Note	Number of ordinary shares (long position)					Total interests	% of total issued shares
		Personal interests	Family interests	Corporate interests	Trusts and similar interests	Equity derivatives (Note (f))		
Mr. Lo Hoi Kwong, Sunny	(a) & (b)	3,120,000	–	–	88,503,394	1,500,000	93,123,394	17.53%
Mr. Lo Tak Shing, Peter	(c)	–	–	–	87,626,213	350,000	87,976,213	16.56%
Mr. Lo Hoi Chun	(d)	132,000	–	–	67,880,834	–	68,012,834	12.80%
Ms. Lo Pik Ling, Anita	(a)	10,606,339	–	–	51,120,000	400,000	62,126,339	11.70%
Mr. Chan Yue Kwong, Michael	(a) & (e)	3,121,407	1,189,400	–	51,120,000	1,500,000	56,930,807	10.72%
Ms. Leung Sau Lai, Kathy	–	3,057,000	–	–	–	–	3,057,000	0.58%
Mr. Li Kwok Sing, Aubrey	–	55,000	–	–	–	–	55,000	0.01%
Mr. Hui Tung Wah, Samuel	–	25,837	–	–	–	–	25,837	0.01%
Mr. Lo Tang Seong, Victor	–	–	–	–	–	–	–	–
Mr. Choi Ngai Min, Michael	–	–	–	–	–	–	–	–

DIRECTORS' INTERESTS IN SHARES *(Cont'd)*

Notes:

- (a) 51,120,000 shares were held under a family trust of which Mr. Lo Hoi Kwong, Sunny, Ms. Lo Pik Ling, Anita and the associates of Mr. Chan Yue Kwong, Michael were beneficiaries.
- (b) Mr. Lo Hoi Kwong, Sunny was interested in 37,383,394 shares held under a family trust in the capacity of founder.
- (c) Mr. Lo Tak Shing, Peter was interested in 87,626,213 shares held under a family trust in the capacity of beneficiaries.
- (d) 31,911,701 shares were held under a family trust of which Mr. Lo Hoi Chun and his associates were beneficiaries. 35,969,133 shares were held under a family trust of which associates of Mr. Lo Hoi Chun were beneficiaries.
- (e) Mr. Chan Yue Kwong, Michael was deemed to be interested in 1,189,400 shares through interests of his associates.
- (f) These represented interests of options granted to Directors under the share option schemes to subscribe for shares of the Company, further details of which are set out in the section "Share Option Schemes".

All interests in the shares and underlying shares of equity derivatives of the Company are long positions. None of the Directors or chief executives held any short position in the shares and underlying shares of equity derivatives of the Company.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company, none of the Directors or their respective associates had any interest in any shares in or debentures of the Company or any of its associated corporations within the meaning of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 2003, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executives:

Name of shareholder	Note	Number of ordinary shares (long position)				Total interests	Percentage of total issued shares
		Personal interests	Family interests	Corporate interests	Trusts and similar interests		
GZ Trust Corporation	(a)	-	-	-	119,000,834	119,000,834	22.40%
Wandels Investment Limited	(b)	-	-	-	87,626,213	87,626,213	16.50%
Barclays Private Bank & Trust Limited	(c)	-	-	-	87,626,213	87,626,213	16.50%
Mr. Lo Kai Tun	(d)	-	-	-	87,626,213	87,626,213	16.50%
Ms. Lo Wong Mei Mui	(e)	-	-	-	67,880,834	67,880,834	12.78%
Mr. Man Tak Wah	(f)	-	62,126,339	-	-	62,126,339	11.70%
NKY Holding Corporation	(g)	-	-	-	51,120,000	51,120,000	9.62%
Ms. Tso Po Ping	(h)	-	42,003,394	-	-	42,003,394	7.91%
Ardley Enterprises Limited	(i)	-	-	-	37,383,394	37,383,394	7.04%
Ms. Man Bo King	(j)	-	36,101,033	-	-	36,101,033	6.80%
LBK Holding Corporation	(k)	-	-	-	35,969,133	35,969,133	6.77%
MMW Holding Corporation	(l)	-	-	-	31,911,701	31,911,701	6.01%
The Capital Group Companies, Inc.	-	-	-	31,280,000	-	31,280,000	5.89%
Fidelity International Limited	-	-	-	26,794,000	-	26,794,000	5.04%

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(Cont'd)*

Notes:

- (a) These interests were held by GZ Trust Corporation in the capacity of trustee.
- (b) These interests were held by Wandels Investment Limited in the capacity of trustee.
- (c) These interests were held by Barclays Private Bank & Trust Limited in the capacity of trustee. These interests were duplicated by the interests disclosed in Note (b) above.
- (d) Mr. Lo Kai Tun was deemed to be interested in those shares held under a family trust in the capacity of founder of a discretionary trust. These interests were duplicated by the interests disclosed in Notes (b) and (c) above.
- (e) These interests were held by Ms. Lo Wong Mei Mui in the capacity of trustee. These interests were the aggregate of the shares disclosed in Notes (k) and (l) below.
- (f) Mr. Man Tak Wah was deemed to be interested in those shares through the interests of his spouse.
- (g) These interests were held by NKY Holding Corporation in the capacity of trustee. These interests formed part of the shares in which GZ Trust Corporation was interested and disclosed in Note (a) above.
- (h) Ms. Tso Po Ping was deemed to be interested in those shares through the interests of her spouse.

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(Cont'd)*

- (i) These interests were held by Ardley Enterprises Limited in the capacity of trustee.
- (j) Ms. Man Bo King was deemed to be interested in those shares through the interests of her spouse.
- (k) These interests were held by LBK Holding Corporation in the capacity of trustee. These interests formed part of the shares in which GZ Trust Corporation was interested and disclosed in Note (a) above.
- (l) These interests were held by MMW Holding Corporation in the capacity of trustee. These interests formed part of the shares in which GZ Trust Corporation was interested and disclosed in Note (a) above.

Save as disclosed above, as at 30th September, 2003, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

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 further options can be granted under the Previous Scheme. However, for the outstanding options previously granted and yet to be exercised under the Previous Scheme, the existing rights of the grantees are not affected.

SHARE OPTION SCHEMES (Cont'd)

On 24th September, 2003, the Scheme was terminated upon the passing of a shareholders' resolution for adoption of a new share option scheme (the "New Scheme"). Pursuant to the New Scheme, the Company may grant options to executive and non-executive directors, employees, suppliers and customers of the Group and consultants, advisers, managers, officers and corporations that provided research, development or other technical support to the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. No options have been granted under the New Scheme since its adoption.

Details of the share options outstanding as at 30th September, 2003 which have been granted under the Previous Scheme are as follows:

Type of grantees		Options outstanding as at 1st April, 2003	Options exercised during the period	Options lapsed on expiry	Options cancelled as a result of termination of employment	Options outstanding as at 30th September, 2003
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)	19,750,000	(3,480,000)(ii)	-	-	16,270,000
		<u>23,500,000</u>	<u>(3,480,000)</u>	<u>-</u>	<u>-</u>	<u>20,020,000</u>

SHARE OPTION SCHEMES *(Cont'd)*

Notes:

- (i) The share options were granted on 4th November, 1999 and are exercisable at HK\$2.95 per share during the period from 1st April, 2003 to 31st March, 2013.
- (ii) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the period was HK\$5.27.

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

CONNECTED TRANSACTION

On 29th August, 2003, Weli Company Limited, an indirectly wholly-owned subsidiary of the Company, has renewed a tenancy agreement with Tinway Investments Limited, a company jointly owned by Ms. Lo Pik Ling, Anita, an executive director of the Company, the associate of Mr. Chan Yue Kwong, Michael, the Chairman of the Company, and Ardley Enterprises Limited, a company wholly beneficially owned by the family members of Mr. Lo Hoi Kwong, Sunny, an executive director of the Company, in respect of Shop G50 on the Ground Floor, Shops Nos. 116, 117, 124-149, 165, 173 and 174 on the First Floor, Man On House, Nos. 151-163 Wan Chai Road, Nos. 12A-C Burrows Street and Nos. 17-27 Cross Lane, Wanchai, Hong Kong for a term of three years from 12th April, 2003 to 11th April, 2006 at a monthly rental of HK\$138,000. The leased area is used to operate a Café de Coral restaurant.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th September, 2003.

AUDIT COMMITTEE

The Company has established an audit committee consisting of 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, 16th December, 2003



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