

Report of the Directors



CAFÉ DE CORAL HOLDINGS LIMITED

The directors are pleased to present their annual report together with the audited accounts 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, 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. 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. The activities of the principal subsidiaries are set out on pages 82 to 86.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 36.

The details of dividends for the year ended 31st March, 2004 are set out in Note 9 to the accounts. An interim dividend of 6.4 cents per share and a special dividend of 6.4 cents per share, totalling approximately HK\$67,992,000 was paid on 13th January, 2004. The directors recommend the payment of a final dividend of 18 cents per share and a special dividend of 6.55 cents per share, totalling approximately HK\$131,292,000.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 27 to the accounts.

Distributable reserves of the Company at 31st March, 2004 amounted to approximately HK\$159,871,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 13 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on page 87.

BANK LOANS

Particulars of bank loans as at 31st March, 2004 are set out in Note 22 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 25 to the accounts.

FIVE-YEAR 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 89 to 92.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws and there is no restriction against such rights under the laws of Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company purchased and cancelled 5,966,000 shares of HK\$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) HK\$ '000
		Highest price paid HK\$	Lowest price paid HK\$	
April 2003	<u>5,966,000</u>	4.700	4.350	<u>27,103</u>

An amount of approximately HK\$27,103,000 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 during the year.

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.

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 another 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. No options had been granted under the Scheme since its adoption.

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, advisors, 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.

Summary of details of the New Scheme is as follows:

Purpose

To grant incentive for retaining and rewarding eligible participants who contribute to the business and development of the Group

Participants

Employees (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company or any of its subsidiaries, suppliers and customers of the Group and consultants, advisors, managers, officers and corporations that provided research, development or other technical support to the Group to subscribe for ordinary shares in the Company

Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at 13th July, 2004

53,103,403 ordinary shares representing 9.93% of the issued share capital as at 13th July, 2004

Maximum entitlement of each participant

In any 12-month period shall not exceed 1% of the shares in issue

SHARE OPTION SCHEMES (Cont'd)

<i>Period within which the securities must be taken up under an option</i>	5 years commencing on the date on which an option becomes exercisable and expiring on the last day of the 5 year period save that such period shall not expire later than 10 years from the date on which the option is deemed to be granted and accepted in accordance with the New Scheme
<i>Minimum period for which an option must be held before it can be exercised</i>	Not applicable
<i>Amount payable on acceptance of the option</i>	HK\$1.00
<i>Basis of determining the exercise price</i>	Not less than the highest of (i) the closing price of the Shares as stated in the SEHK's daily quotations sheet on the date of grant, which must be a business day or (ii) the average of the closing prices of the Shares as stated in the SEHK's daily quotations sheet for the five business days immediately preceding the date of grant or (iii) the nominal value of a share
<i>The remaining life of the scheme</i>	The New Scheme remains in force until 23rd September, 2013 unless otherwise terminated under terms of the New Scheme

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SHARE OPTION SCHEMES (Cont'd)

Details of the share options outstanding as at 31st March, 2004 which have been granted under the Previous Scheme are as follows:

Type of grantees		Options outstanding at 1st April, 2003	Options exercised during the year	Options lapsed on expiry	Options cancelled as a result of termination of employment	Options outstanding at 31st March, 2004	
<i>Executive directors</i>							
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	
<i>Continuous contract employees</i>							
	(i)	19,750,000	(3,520,000)	(ii)	–	(340,000)	15,890,000
		<u>23,500,000</u>	<u>(3,520,000)</u>		<u>–</u>	<u>(340,000)</u>	<u>19,640,000</u>

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 year was HK\$7.00.

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

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DIRECTORS

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 to 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, Ms. Lo Pik Ling, Anita and Mr. Li Kwok Sing, Aubrey retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



CAFÉ DE CORAL HOLDINGS LIMITED

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

On 11th April, 2000, Weli Company Limited (“Weli”), an indirectly wholly-owned subsidiary of the Company, as tenant entered into a tenancy agreement with Tinway Investments Limited (“Tinway”) as landlord in respect of Shop G50 on the Ground Floor, Shops Nos. 116, 117, 124-149, 165, 173 and 174 on the First Floor of Man On House, Nos. 151-163 Wan Chai Road, Nos. 12A-C Burrows Street and Nos. 17-27 Cross Lane, Wanchai, Hong Kong for the operation of a Café de Coral restaurant. Tinway is a company jointly owned by Ms. Lo Pik Ling, Anita, a director of the Company, an associate of Mr. Chan Yue Kwong, Michael, the Chairman of the Company and Ardley Enterprises Limited, a company wholly and beneficially owned by the family members of Mr. Lo Hoi Kwong, Sunny, a director of the Company. Under the tenancy agreement, Weli was required to pay a monthly rental of HK\$170,000 from 12th April, 2000 to 11th April, 2003.

On 29th August, 2003, Weli renewed the tenancy agreement mentioned in the above paragraph with Tinway for a term of three years from 12th April, 2003 to 11th April, 2006 at a monthly rental of HK\$138,000. Tinway is a connected person within the meaning of the Listing Rules. Accordingly, the renewal of the tenancy agreement constituted a connected transaction. Details of this transaction were announced on 29th August, 2003.

On 31st March, 2003, Very Nice Fast Food Limited (“Very Nice”), an indirectly wholly-owned subsidiary of the Company, as tenant entered into a tenancy agreement with LBK Holding Corporation (“LBK”) as landlord in respect of Shops A and B on Ground Floor, Honland Building, Nos. 108-118 Prince Edward Road West, Mong Kok, Kowloon, Hong Kong for the operation of a Café de Coral restaurant. LBK is controlled by the associates of Mr. Lo Hoi Chun, a non-executive director of the Company. Pursuant to the agreement, Very Nice was entitled to one month rent free period in January 2003 and was required to pay a monthly rental of HK\$90,000 from 1st February, 2003 to 31st December, 2003.

On 11th February, 2004, Very Nice renewed the aforesaid tenancy agreement with LBK for a term of 3 years from 1st January, 2004 to 31st December, 2006. Pursuant to the agreement, Very Nice was entitled to one month rent free period in January 2004 and was required to pay a monthly rental of HK\$90,000 from 1st February, 2004 to 31st December, 2006. LBK is a connected person within the meaning of the Listing Rules. Accordingly, the renewal of the tenancy agreement constituted a connected transaction. Details of this transaction were announced on 11th February, 2004.

The Company’s independent non-executive directors had reviewed the above connected transactions and confirmed that the transactions were in the ordinary and usual course of business of the Group, on normal commercial terms and were fair and reasonable as far as the shareholders of the Company were concerned.

Except as disclosed above, no contracts of significance in relation to the Group’s business to which the Company, any of its subsidiaries, 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.

None of the directors have interests in a competing business.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March, 2004, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Director	Note	Number of ordinary shares (long positions)					Equity derivatives (Note (g))	Total interests	% of total issued shares
		Personal interests	Family interests	Corporate interests	Trusts and similar interests				
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)	8,936,339	–	–	51,120,000	400,000	60,456,339	11.38%	
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	–	2,927,000	–	–	–	–	2,927,000	0.55%	
Mr. Li Kwok Sing, Aubrey	(f)	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	–	–	–	–	–	–	–	–	

Notes:

- 51,120,000 shares were held under a family trust of which Mr. Lo Hoi Kwong, Sunny, Ms. Lo Pik Ling, Anita and the associate of Mr. Chan Yue Kwong, Michael were beneficiaries.
- Mr. Lo Hoi Kwong, Sunny was deemed to be interested in 37,383,394 shares held under a family trust in the capacity of founder.
- 87,626,213 shares were held under a family trust of which Mr. Lo Tak Shing, Peter was a beneficiary.
- 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 Mr. Lo Hoi Chun was the founder and associates of Mr. Lo Hoi Chun were beneficiaries.
- Mr. Chan Yue Kwong, Michael was deemed to be interested in 1,189,400 shares through interests of his associates.
- These shares were held by Mr. Li Kwok Sing, Aubrey jointly with his spouse.
- These represented interests of options granted to directors under a share option scheme to subscribe for shares of the Company, further details of which are set out in the section “Share option schemes”.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

All interests in the shares and underlying shares of equity derivatives of the Company are long positions. None of the directors held any short position in the shares, underlying shares of equity derivatives or debentures 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 or short position in any shares, underlying shares of equity derivatives or debentures of the Company or any of its associated corporations within the meaning of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st March, 2004, 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 were in addition to those disclosed above in respect of the directors:

Name of shareholder	Note	Number of ordinary shares (long positions)					Total interests	%
		Personal interests	Family interests	Corporate interests	Trusts and similar interests	of total issued shares		
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%	

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 these shares which were held under a discretionary family trust in the capacity of founder of such 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 interests disclosed in Notes (k) and (l) below.
- (f) Mr. Man Tak Wah was deemed to be interested in these shares through the interests of his spouse, Ms. Lo Pik Ling, Anita.
- (g) These interests were held by NKY Holding Corporation in the capacity of trustee. These interests represented part of the interests held by GZ Trust Corporation and disclosed in Note (a) above.
- (h) Ms. Tso Po Ping was deemed to be interested in these shares through the interests of her spouse, Mr. Lo Hoi Kwong, Sunny.
- (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 these shares through the interests of her spouse, Mr. Lo Hoi Chun.
- (k) These interests were held by LBK Holding Corporation in the capacity of trustee. These interests represented part of the interests held by GZ Trust Corporation and disclosed in Note (a) above.
- (l) These interests were held by MMW Holding Corporation in the capacity of trustee. These interests represented part of the interests held by GZ Trust Corporation and disclosed in Note (a) above.

All interests in the shares and underlying shares of equity derivatives of the Company held by the above persons are long positions.

Save as disclosed above, as at 31st March, 2004, 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.

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

For the year ended 31st March, 2004, the percentage of sales or purchases attributable to the Group's five largest customers or suppliers was less than 30%.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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, 2004.

AUDIT COMMITTEE

In April 1999, the Company has established an audit committee consisting of two independent non-executive directors namely Mr. Li Kwok Sing, Aubrey and Mr. Choi Ngai Min, Michael 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.

AUDITORS

Arthur Andersen & Co acted as auditors of the Company up to and including the year ended 31st March, 2001. Arthur Andersen & Co resigned on 24th June, 2002 and the directors appointed PricewaterhouseCoopers to fill the casual vacancy. PricewaterhouseCoopers audited the accounts for the years ended 31st March, 2002 and 2003.

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

On behalf of the Board of Directors,

CHAN YUE KWONG, MICHAEL

Chairman

Hong Kong, 13th July, 2004