BUSINESS REVIEW

The local food industry continued to suffer from declining consumer spending during the period under review. The ongoing sluggish economy, together with the trend of deflation and high unemployment rate, have an aggravated impact on the industry. However, the Group managed to improve its net margin during the period by having further reduced its operating costs through a series of cost restructuring and consolidation measures, including the contract out of its logistics operations and relocation of part of its back office operations to the PRC.

Lower rental cost has benefited the Group in its opening of new outlets. During the period, the Group opened 5 new outlets and closed 5 under-performing outlets. At the same time, the Group also renovated and upgraded 15 existing stores to provide a more comfortable and pleasant dining environment for customers.

Through improved menus and with full attention to freshness and nutrition, the Group recorded an encouraging growth in its school catering business during the period.

Over the years, fast food home delivery service in Hong Kong has always been dominated by Western fast food operators. To explore and capture the potential market for Chinese cuisine delivery service, the Group started home delivery service from its fast food outlets in Lam Tin and Tuen Mun where large residential complexes are situated.

During the review period, the Group opened its second Café Oasis and Café Porto, targeting at the white-collar and Mediterranean cuisine patrons respectively.

The PRC operations continued to perform satisfactorily and obtained 2 new institutional catering contracts during the review period. Sales increased by 17% to HK$16,819,000 for the six months ended 30 September 2002.

As at 30 September 2002, the Group operated a total of 92 outlets including 67 fast food outlets in Hong Kong, 2 Café Oasis, 5 institutional catering outlets, 7 Buddies Café, 5 specialty restaurants as well as 3 fast food and 3 institutional catering outlets in the PRC.

PROSPECTS

Under the current deflationary economic conditions, management foresees another difficult year ahead. It is expected that food price and the industry's profitability will come under further pressure due to competitions from Chinese restaurants and Hong Kong style café coupled with supermarkets and convenience stores that offer lunch boxes at low prices. However, the Group believes that it will be able to weather the storm with its commitment to quality and its solid operation foundation in the industry. Despite the fierce market, the Group foresees opportunities to optimize its capacity and achieve economy of scale through opening of new outlets, taking advantage of the lower rental, labour costs and commodity prices under the current sluggish economy.

In the second half of the fiscal year, the Group is committed to develop a wider range of value-added menus as well as to enhance its store décor. It plans to open 2 more fast food outlets. The Group will also continue to renovate its existing stores to improve dining environment.

Further growth is expected in school catering business, particularly as more schools are being converted into full day classes. Given the market potential, management will continue to review the opportunities of increasing the Group's fast food delivery services in the second half of the fiscal year.

The Group is optimistic about its PRC business development and is currently in talks with potential partners to extend its fast food and institutional catering operations in the PRC. Management plans to expand business within Guangdong Province through the opening of self-operated fast food and institutional catering outlets. For establishment of business outside Guangdong Province, the Group will develop through strategic alliance. A franchise recently granted by the Group to an enterprise in Shandong Province for fast food operation can be seen as the Group's first franchising move in the mainland.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2002, the Group had total assets of HK$395,738,000 (at 31 March 2002: HK$388,234,000) which were mainly financed by current liabilities of HK$143,323,000 (at 31 March 2002: HK$124,715,000), non-current liabilities of HK$32,735,000 (at 31 March 2002: HK$46,558,000) and shareholders' fund of HK$211,796,000 (at 31 March 2002: HK$209,077,000). The current ratio was approximately 1.0 (at 31 March 2002: 1.1). The gearing of the Group was 15% (at 31 March 2002: 22%), which was calculated based on the long term borrowings of HK$32,735,000 (at 31 March 2002: HK$46,558,000) and the shareholders' fund of HK$211,796,000 (at 31 March 2002: HK$209,077,000).

The Group generally finances its business with internally generated cash flows and banking facilities. At 30 September 2002, the Group had cash balance of HK$77,531,000 (at 31 March 2002: HK$68,825,000) and total bank borrowings of HK$47,964,000 (at 31 March 2002: HK$61,690,000). The Directors believe that the Group has maintained sufficient working capital for its operation. The Group's cash deposits and bank balance is in either Hong Kong Dollars or Renminbi. The exposure to exchange rate fluctuation is minimal.

EMPLOYEE INFORMATION

As at 30 September 2002, total number of employees of the Group was approximately 2,400 in Hong Kong and in the PRC. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. The Group continued to remain committed to its staff training and development programme.

The Company operates a share option scheme under which the Directors may, at their discretion, invite employees of the Company or its wholly-owned subsidiaries, including Directors, to take up options to subscribe for shares in the Company. The subscription price and the exercisable period is determined in accordance with prescribed formula and terms.