CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th January, 2003 (Wednesday) to 16th January, 2003 (Thursday) (both days inclusive) during which period no transfers of shares will be effected. To rank for the aforesaid interim dividend, 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 14th January, 2003.

BUSINESS REVIEW AND PROSPECTS

Results

I am pleased to report that the Group's half-year profit attributable to shareholders have continued with its sixth consecutive year of growth to HK$126 million.

This half-year's result of continuous profit growth was no easy task. The first half of year 2002 was not without its formidable challenges. Continuous deflation, persistently high unemployment, corporate retrenchment, coupled with the global economic uncertainties, continue to impact on the already sluggish consumer market locally. Not since the early 1980's have so many business sectors been simultaneously impacted by the depth and breadth of such a lengthy economic downturn.

While the eating-out industry has not been growing for years, we also saw severe pricing competitions coming from even non-traditional players such as supermarkets and convenience stores. Having said that however, we believe an industry consolidation is on the horizon, where only the leading players like ourselves, through effective management and efficiency measures would continue to reinforce our market leadership position and benefit from the consolidation process. So far, the Group managed to continuously improve on its net profit margin for the sixth consecutive year. While our business management strength was historically proven, the breadth of this economic downturn has been exceptional, which requires exceptional measures in setting new growth platforms, breaking new development frontiers, embracing new business processes and returning enhanced shareholders' value.

Setting New Growth Platforms

While our competitors resorted to price reduction measures, **Café de Coral** fast food focused on a strategy that would continue to strengthen customer value and brand building. During the period, the Group adhered to its aggressive store opening program and a total of 16 stores have been added to the different strategic business units of our Group. In addition, we have been persistently and vigorously implementing the face-lift program and have renovated 10 of our outlets with a well-received design image and shop ambience during the period. With these two programs, we ploughed back over HK$50 million into the existing business for further enhancing our competitive edge. In the second half of this year, **Café de Coral** fast food intends to continue with its aggressive growth plan to add another 6 more new restaurants.

On another front, **Asia Pacific Catering** continued to expand its client portfolio. Its clientele during the period was further expanded by our recent new institutional and commercial catering contracts with Open University of Hong Kong, Queen Elizabeth Hospital, Hong Kong Science Park, Sogo Hong Kong Co., Ltd. and Aviation Security Hong Kong Ltd., bringing our total operating units to 48, further reinforcing our leadership position in this specialized sector in the local catering scene.

At the same time, **The Spaghetti House** restaurant chain performed well within management expectation regardless of the toughest operating environment the chain has ever encountered. With one new flagship outlet opened at the arrival hall of the Hong Kong International Airport in September this year, **The Spaghetti House** planned to open another 2 new additional outlets in the second half of this year.

Following the acquisition of **China Inn** early this year with a chain of 21 outlets readily in operation, the existing **Manchu Wok** business in North America fared satisfactorily. These jointly controlled entities generated systemwide sales of approximately HK$379 million. While the post-acquisition of **China Inn** triggered a one-off restructuring cost to integrate the **China Inn** into the **Manchu Wok** system, the development and pre-opening cost was also expensed in the first half of this year for rolling out the various new concept restaurants in North America. All these non-recurrent expenses were reflected in this first half results for our overseas operation. Going forward, the management is confident that this sizeable platform of over 206 restaurant units in North America would be a meaningful profit generator to the Group, complemented by the development of multiple restaurant concepts and brands for expansion in this overseas market in the future.

Breaking New Development Frontiers

Despite the global economic uncertainties, the Group is committed to pilot-test various business concepts with an endeavour to tap the potential of both the local and overseas market for long-term benefits of the Group.

China

With accumulated experience in fine-tuning its business model in the PRC market, **Café de Coral** fast food is now well-positioned to fuel its engine for opening new outlets again in China for the upcoming years. The first new outlet is located in Zhongshan, Guangdong which is scheduled to be in operation before the end of this year. Two to three new stores are planned to be opened in the next 12 months.

Teaming up with a state-owned enterprise, **Café de Coral Group** also ventured into **The Spaghetti House** franchise in Beijing, the PRC. This joint venture not only expands the strategic franchise business overseas, but also enhances the Group's growing presence in China. Being located at the internationally renowned shopping district of Wangfujing, Beijing, this new restaurant has commenced operation since September, 2002. With this new opening, **The Spaghetti House** is now having 6 franchise restaurants in operation overseas, of which 5 are located in Indonesia.

North America

In the U.S.A., a brand new fast-casual restaurant **Fan Ting** was launched in May this year as a pilot-run in Ventura, California, riding on a cook-to-order concept. Since its opening, this restaurant has been performing well within management's expectation, and highly popular among the locals. The management anticipates that there is further room to roll out this quick service restaurant concept in various regions in North America.

The Group has also initiated another new restaurant concept in its Chinese quick-service restaurant business in Canada by opening a **Manchu Wok** free-standing street-site restaurant with drive-through and dine-in facility in New Market of Toronto. We believe this well-accepted concept, being not confined to a shopping center environment, will provide new avenues of growth for our Chinese quick-service restaurant business in North America.

Hong Kong

Well into its third year of operation, our student catering business **Luncheon Star** has established a solid and viable business model, and has already built up its market position. Being one of the largest players in the market, **Luncheon Star** is now ready to capture a bigger market share to reinforce its leading position.

Embracing New Business Processes

To ride out the economic storm of persistent deflation, I believe that the key for any business enterprise is its adaptability to changes, and to enhance its efficiency in the quickest manner in various business aspects, so that it can come out stronger and more resilient when the economy rebounds. We are well prepared to deal with these changes and challenges by timely executing and implementing such efficiency enhancement programs.

Operational Efficiency

The implementation of a computerized Point of Sales System and Business Management System, in which we have committed HK$65 million, are smoothly completed during the year. These installed systems have already begun to deliver enhanced operational efficiencies and product delivery time at the shop level in meeting the sophisticated customers' needs. At the same time, the Business Management System also enhance our marketing effectiveness by pioneering a series of customer loyalty program on a smart-card infrastructure, which is a first of its kind in the fast food sector. Furthermore, the systems would help to expedite more effective strategic planning, more timely information update and more powerful data analysis, with substantial savings delivered in manpower and administrative expenses at the back office.

Production Efficiency

On another front, the construction work of a new food processing plant adjacent to our existing premises of **Scanfoods** in Dongguan, PRC, has now been completed and commenced operation in October this year. Labour intensive food processing procedures have been gradually reallocated from Hong Kong to the new plant. We strongly believe that these efficiency measures and economies of scale derived from such reallocation of some of our production base would eventually translate into margin improvement in the not so distant future.

Capital Efficiency

As at 30th September, 2002, the Group's financial position continued to be very strong, with a net cash about HK$450 million and available banking facilities of approximately HK$951 million.

To leverage our potent cash position and enhance our shareholders' value, the Group bought back a cumulative total of 32,772,000 shares at an average cost of about HK$2.9 per share since the Asian financial crisis in 1997. In the same period, we have also taken advantage of the depressed market at the time to acquire a small equity interest in a locally listed Chinese fast food company as a long term strategic holding investment. We believed that the consumer sentiment at the time would be to the favour of such recession-proof sector of the industry. However, given the continuous impairment of the value of such investment, the Group has decided to take on a prudent approach, in the long term interest of our shareholders, to write down the value of the securities to reflect their diminution in value.

As at 30th September, 2002, the Group's net asset value amounted to approximately HK$1.45 billion, with net asset value of HK$2.6 per share. The Group's ratio of total liabilities to shareholders' equity and liabilities is 19.8% as at 30th September, 2002. The ratio improved by 23.8% as compared with 26% as at 31st March, 2002. There are no material changes in contingent liabilities, charges on assets and exposure to fluctuation in exchange rates.

As at 30th September, 2002, the Group had employed over 8,300 employees in Hong Kong and PRC, an increase of 300 employees over last year in line with opening of new shops. The Group's remuneration package and benefits for the employees are essentially the same as that disclosed in the most recent published annual report.

Returning Enhanced Shareholders' Value

Under a global recession sentiment, the Group maintained a prudent financial strategy with reliable liquidity on the one hand and a demanding financial discipline with respect to return on shareholders' equities on the other. With this, we ploughed back substantial investment into our existing businesses and operating systems for further enhancing our competitive advantages.

Given our balance sheet and cash flow position keep growing stronger year on year, we reckoned that we need to review our dividend policy to strike a balance between the Group's working capital and shareholders' return. Insofar that our current and prospective earning continue to grow as we go forward, and that the Group maintains a healthy net cash position for funding future developments, I would recommend to the Board to consider adopting a more generous dividend policy in returning value to our shareholders, as reflected in this year's interim dividend increase to gradually assume a larger proportion of the whole year's payout.

Challenges and Opportunities

Year 2002 was among the most challenging year in the Group's long history. It is an increasingly enormous challenge for management to consistently deliver continuous and consecutive profit growth in such tough economic times especially on an enlarged profit base. However, we as a group are not deterred by the present economic woes, but are committed to make use of the present window of opportunities to build up the best possible competitive strength to capture further business growth when the economy rebounds.

For the same strategic business reasoning, the Group would also proactively search for a viable development platform in China as a springboard for a more dominant play in this market of tremendous potential, particularly in view of the impending China's accession into the World Trade Organization. I am energized by the opportunities ahead, and our management team is committed to convert these opportunities into increased growth and shareholders' value, with the globalization strategy to build the Group as the world's largest and leading Chinese quick service restaurant group across the continents.

Recognition

The Group continues to receive recognition for our management excellence on a local and international level. I myself am particularly gratified and honoured for being awarded the **"Bauhinia Cup Outstanding Entrepreneur Awards"** by *The Hong Kong Polytechnic University* in December this year. At the same time, our Group was awarded the **"Business Awards 2002 – Business Excellence Award"** by the highly regarded *The Canadian Chamber of Commerce*. In addition, for the fifth consecutive year, our group was being honoured in 2002 as one of the World's **"Best Under a Billion"** by *Forbes Global*.

Locally, our **Café de Coral** fast food has been awarded a Bronze Prize for **"Marketing Excellence 2002"** by *Hong Kong Management Association* and *Television Broadcasts Limited*, and **The Spaghetti House** has been awarded the **"Service Category Leader of Catering / Food"** by *Hong Kong Retail Management Association*.

As always, our people are key to deliver these business excellence and they are rising to the challenges of a promising future. I applaud the efforts of our entire organization for delivering these results in a tough economic environment.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 30th September, 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 The Stock Exchange of Hong Kong Limited (the "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.

	Number of shares			
	Personal interests	**Family interests**	**Corporate interests**	**Other interests**
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	1,320,000	–	–	–
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	–	–	–