INTERIM DIVIDEND

The Directors have recommended that no dividend be paid for the six months ended 30 September 2003 (2002: HK$ Nil).

BUSINESS REVIEW

Deflation and high unemployment rate in Hong Kong continued to depress business conditions at the beginning of the year. The outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the first quarter of the financial year further dampened market sentiment. Under these difficult conditions, the Group's turnover for the first quarter has decreased by approximately 15%. Despite a mild recovery in the second quarter of the year, the Group's turnover for the period under review still recorded a decline of 6% to HK$354,681,000 and a net loss of HK$2,642,000 for the six months ended 30 September 2003.

In response to the adverse situations brought along by SARS, the Group implemented various extra stringent measures and staff training to ensure the provision of a safe and clean dining environment for customers. The measures enabled the Group's fast food outlets in the estates of Tin Wan, Kwong Yuen, Wan Tau Tong, Sau Mau Ping and King Lam as well as its Buddies Café in Lei Tung Commercial Centre and Kwong Yuen Shopping Centre to receive the Cleanest Restaurant Award from the Hong Kong Housing Authority, a recognition of the Group's commitment to enhancing its dining environment over the year.

During the period affected by SARS, orders for school lunch box were cancelled with subsequent fall in sales revenues for the Group's school catering business. With most people tended to eat at home during the SARS outbreak, sales at the Group's specialty restaurants had also declined.

Despite the plunge of customer flow at fast food outlets in the Mainland during the SARS epidemic, business gradually regained its momentum in the second quarter as the impact of SARS subsided. With the introduction of stringent cost controls, the Group's Mainland operations were able to report a profit for the six months ended 30 September 2003.

During the period under review, the Group opened 2 new stores and renovated 14 existing stores while it also closed 2 under-performing outlets to improve its cost structure and shop portfolio.

As at 30 September 2003, the Group operated a total of 94 outlets, including 67 fast food outlets, 2 Café Oasis, 4 institutional catering outlets, 7 Buddies Cafés, 6 specialty restaurants in Hong Kong and 4 fast food outlets and 4 institutional catering outlets in the Mainland.

PROSPECTS

In Hong Kong, the Group will continue to focus on its fast food business and remains cautiously optimistic towards the development in the industry. In recent months, market sentiment has become more favourable with signs of restoration of consumer confidence and improvement in unemployment rate. The improving market sentiment, coupled with the increasing number of individual travelers from the Mainland, will directly help the overall economy and benefit the Group's business.

The launch of a re-branding campaign in November 2003 was a milestone in the Group's history. The modernized logo, symbolizing a casual, vivid and happy lifestyle, will be applied throughout the Group's fast food chain for a consistent corporate image. Fairwood is also the first Chinese fast food chain to implement a non-smoking policy at all its outlets and to introduce freshly-brewed premium coffee. Management is confident that the whole re-branding campaign will reposition the Fairwood brand, thus enhancing market competitiveness and appealing to modern and younger customers. A new flagship store with contemporary interior design in line with the new image has just been opened in Causeway Bay in November.

The Group will continue to improve quality, service and cleanliness. To boost sales and market awareness, a series of aggressive marketing plans and promotions will be launched in the next few months. The Group plans to open 6 fast food outlets at prime areas in Hong Kong within the next 12 months and to renovate existing stores over the next few months for more pleasant dining environment and delivery of a consistent brand message.

Since the start of the school year in September, the Group recorded satisfactory growth in the school catering business.

Across the border, the Group anticipates that the rising living standards and growing fast food culture in the Mainland will offer increasing opportunities for business. The Group will continue to monitor the market closely, and seek opportunities to further expand its fast food and institutional catering outlets in Guangdong province.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business with internally generated cash flows and banking facilities. At 30 September 2003, the Group had cash balance of HK$81,798,000 (31 March 2003: HK$72,287,000) and total bank borrowings of HK$52,953,000 (31 March 2003: HK$57,046,000). The gearing of the Group was 18% (31 March 2003: 20%), which was calculated based on the long term borrowings over shareholders' fund. The Directors believe that the Group has maintained sufficient liquidity to finance its working capital and investment needs. The Group's cash deposits and bank balance is in either Hong Kong Dollars or Renminbi. The exposure to exchange fluctuation is minimal.

EMPLOYEE INFORMATION

At 30 September 2003, total number of employees of the Group was approximately 2,800 (31 March 2003: 2,600) in Hong Kong and 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.