

To Our Shareholders,

The Group was successfully listed on the main board of The Stock Exchange of Hong Kong Limited on 18 February 2002. It indicates that the leading position of the Group is further acknowledged by all parties and the Group will develop and expand with an increasing pace.

Entering into the year 2002, the Group will continue its pragmatic way of operation in its restaurant and food production businesses, whilst ensuring that the same is developing in a stable manner. To show our gratitude to those who give support to the Group, we shall strive to maximize our returns.

With the surge of the economy of mainland China, the disposable income of the Chinese people increases quickly. We believe that the expansion into the market of mainland China will speed up the growth of the Group. Initially, we plan to open a restaurant as a flagship in a region of high population density and high consumption power. On the other hand, we will also strengthen the promotion of the brand name of “Hon Po”. To capture the benefit from this long established and well known brand name, we will commence the food production business. With the extensive network of our restaurants, we will also commence our retail business.

Looking forward to the coming year, the Group would still need to confront the challenges of the economic environment. To overcome the hurdles, we need the co-operation of the management, foresighted and prudent strategies, the bravery to conquer the challenges and the support of the investors and bankers. Fortunately, the Group is now equipped with all these prerequisites. The Company has proposed to declare a special dividend of HK1.2 cents per share to thank the support of our shareholders.

BUSINESS REVIEW

Review of Operation

For many business sectors, 2001 was a difficult year, and it was also true for the food and beverage industry in general. According to the Census and Statistics Department of Hong Kong, the total revenue of restaurant business in Hong Kong for 2001 was HK\$56.4 billion, representing a decline of approximately 3% over 2000, in which total revenue of Chinese restaurants has also declined by 3%. This shows that the competition of the Chinese restaurants was keen during 2001 and only the stronger players manage to survive. As the Group builds on a firm financial foundation, we strongly believe that this is a good opportunity to expand our business and increase our market share.

Chairman Statement

The pro forma combined turnover of the Group for 2001 was HK\$798,644,000, representing a decline of 8.4% as compared with 2000. The pro forma combined net profit from ordinary activities attributable to shareholders was HK\$22,153,000, representing a decrease of 13.7% as compared with 2000. The pro forma combined basic earnings per share was HK4.9 cents, representing a decrease of 12.5% as compared with 2000.

Despite the tough economic climate in Hong Kong, the Group has achieved a pro forma combined net profit from ordinary activities attributable to shareholders of HK\$22,153,000. If the outlay of mandatory provident fund, which commenced in December 2000, for the period 2001 and 2000 were added back, our Group's adjusted profit in the year 2001 could have reached HK\$34,341,000, representing a significant growth when compared with the Group's adjusted profit of HK\$26,769,000 in the year 2000. Such an encouraging result is brought by the Group's adoption of a central purchasing strategy, allowing a more effective cost control. Together with the expertise of the management of the Group, the management system has been improved continually and other costs are under strict control as well.

Staff and Compensation Policy

As at the end of 2001, the Group had a total workforce of 1,919 (2000: 2,125). The salaries and wages of our employees are generally commensurated with their duties and performance.

FINANCIAL REVIEW

Capital Structure

As at 31 December 2001, the Group had bank loans and finance lease payables denominated in Hong Kong dollars totalling HK\$37,936,000 (2000: HK\$41,501,000). The cash and bank balances of the Group denominated in Hong Kong dollars amounted to HK\$39,793,000 (2000: HK\$22,526,000).

The short term borrowings of the Group accounted for 2.0% (2000: 22.0%) of the total borrowings.

The pro forma combined interest expenses in 2001 were HK\$3,365,000 (2000: HK\$4,357,000). The interest earnings multiple of 8.8 times (2000: 7.0 times) was satisfactory.

As at 31 December 2001, the ratio of total liabilities to total assets of the Group was 28.0%, showing a slight increase over the figure of 25.9% as at 31 December 2000.

As a conclusion, the Group is strong and it is financially healthy.

Pledge of Assets

As at 31 December 2001, leasehold land and buildings and investment properties of the Group with an aggregated net book value of HK\$56,900,000 (2000: HK\$19,773,000) were pledged as securities for its bank loans.

Use of Proceeds of New Issue

The Company placed and issued 175,000,000 shares on 18 February 2002 and the ultimate holding company of the Company had also placed 75,000,000 shares at a price of HK\$0.2 per share.

As at 23 April 2002, the net proceeds of share offer, after deduction of related expenses, were approximately HK\$19,635,000, out of which HK\$5,247,000 has been utilized for the establishment of a food manufacturing factory in Hong Kong.

The balance of approximately HK\$14,388,000 was placed into short term fixed deposit and savings account and will be used for the Group's restaurants in accordance with the intended usages as stipulated in the prospectus dated 31 January 2002.

Foreign Exchange Exposure

Since most of our activities such as sales, purchases of raw materials and bank loans were denominated in Hong Kong dollars during 2001, the exposure to the fluctuation in foreign exchange rates is considered insignificant.

Capital Commitments

As at 31 December 2001, there was no material capital commitment for the Group and the Company.

Contingent Liabilities

As at 31 December 2001, if the termination of all employees meet the circumstances required by the Employment Ordinance in Hong Kong, the Group's contingent liabilities in respect of long service payments would be HK\$25,864,000 (2000: HK\$22,212,000). As at 31 December 2001, the Company had no significant contingent liabilities.

PROSPECTS

Optimism to Confront Challenges

Looking forward to 2002, it will also be full of challenges. With the gradual improvement of the global economic environment motored by the USA, the opportunity of the rebound of the Hong Kong economy also increases. Though the unemployment rate is still high and may rise further in the near future, the rate of increment is nevertheless slowing down. The above symptoms indicate that the Hong Kong economy has already hit the bottom and the Chinese restaurant business will benefit immediately as the Hong Kong economy. Therefore, we are very optimistic about the future.

In order to maintain its leading position in the Chinese restaurant industry, the Group will continue to uphold its image for the general public, provide quality food at competitive prices to customers and adopt strict control in operating costs. Henceforth, by increasing the income and reducing the costs, the competitiveness of the Group will be strengthened.

EXPANDING STRATEGIES

Standing Firm in Hong Kong whilst Expanding into China

It is generally believed that the operation of Chinese restaurants in Hong Kong is difficult. However, with its extensive experience and expertise in operating Chinese restaurants, the Group is confident with the prospect of Chinese restaurant business, provided that there are effective cost control, together with an appropriate choice of restaurant locations. Being a Group founded in Hong Kong, the management is actively looking for a prime location to set up a new Chinese restaurant in Hong Kong in order to explore more business opportunities in the economic downturn and increase the market share.

Meanwhile, our another objective is to fully utilize the brand name of Hon Po Group and its extensive restaurant network to open up more business opportunities. This includes the production of a series of profitable festive food products (such as moon cake, New Year cake and rice dumping). Accordingly, the Group has leased a property from an independent third party for setting up a food manufacturing factory in April 2002 and the factory premise is now under installation. It is expected to be ready for production in June 2002. It will certainly provide the Group with stable and considerable amount of income.

In mainland China, the management is now under intense preparation and is carrying out site visits for the purpose of establishing a Chinese restaurant in an area of high population density and high consumption power.

CONCLUSION

On behalf of the Board of Directors, I would like to extend sincere gratitude towards our staff for their effort and contribution during last year. I am also deeply thankful for the continuous support from our shareholders, customers and suppliers.

By the order of the Board

Cheung To Sang
Chairman and Managing Director

Hong Kong, 23 April 2002