

The directors herein present their first annual report and the audited financial statements of Hon Po Group (Lobster King) Limited (“the Company”) for the period from 4 April 2001 (date of incorporation) to 31 December 2001 which include supplementary pro forma combined financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) (legally created after 31 December 2001) for the year ended 31 December 2001.

GROUP REORGANISATION, SUBSIDIARIES AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 April 2001 under the Companies Law of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of other companies now comprising the Group on 17 January 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto as well as the basis of presentation of the financial statements are set out in notes 1, 14 and 21 to the financial statements.

The Company obtained listing for its shares on the Stock Exchange on 18 February 2002.

In order to apprise the Company’s shareholders of the pro forma combined financial results and position of the Group, as if the Group had been in existence throughout the year ended 31 December 2001, supplementary financial information comprising the pro forma combined profit and loss account, statement of recognised gains and losses, balance sheet and cash flow statement are included in this annual report. The basis of preparing the aforesaid supplementary financial information, which is detailed in note 1 to the financial statements, is consistently applied for presenting information relating to the Group in this report of the directors.

PRINCIPAL ACTIVITIES

As at 31 December 2001, the Company had not yet commenced business and the Group was not in existence. Had the Group Reorganisation been completed on 31 December 2001, the principal activity of the Company would have been investment holding. The principal activity of the Company’s subsidiaries is in the operation of a chain of Chinese restaurants in Hong Kong. The nature of those principal activities have not changed during the year.

SEGMENT INFORMATION

All the Group’s pro forma combined turnover and contribution to results are derived in Hong Kong from restaurant operations for the two years ended 31 December 2001 and is set out in note 5 to the financial statements.

Report of the Directors

RESULTS AND DIVIDENDS

The Group's pro forma combined profit for the year ended 31 December 2001 and its pro forma combined state of affairs as at that date, together with the state of affairs of the Company as at 31 December 2001, are set out in the financial statements on pages 24 to 60.

Prior to the Group Reorganisation, the Company did not have any distributable reserves at the balance sheet date.

Subsequent to 31 December 2001, on 28 January 2002, written resolutions were passed pursuant to which, a special dividend of HK\$224,600,000 was declared and approved by the directors of the Company. After the Company's shares were listed on the Stock Exchange, such special dividend had been fully paid to Hon Po Holdings Limited ("Hon Po Holdings"), at the direction of Hon Po Investment Limited ("Hon Po Investment"), the sole shareholder of the Company registered in the register of members of the Company on 17 January 2002.

The directors of the Company proposed the payment of a special dividend of HK\$7,560,000, representing HK1.2 cents per share of the Company, out of the Company's distributable reserves for the year ending 31 December 2002, to the shareholders of the Company whose names appear on the register of members of the Company on 4 June 2002. Subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting to be held on 4 June 2002, this special dividend will be paid on 28 June 2002.

SUMMARY FINANCIAL INFORMATION

A summary of the pro forma combined financial results and assets, liabilities and minority interests of the Group for the last four financial years, prepared on the basis set out in note 1 to the financial statements, is set out on page 65. This summary does not form part of the pro forma combined financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 13 to the financial statements. Further details of the Group's investment properties are set out on page 61.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's issued share capital since its incorporation on 4 April 2001, together with the reasons therefor, and of the share options, are set out in note 21 to the financial statements.

RESERVES

The Group did not exist as at 31 December 2001. Details of the movements in the reserves of the Group during the year on pro forma basis are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company did not have any distributable reserves.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

The Group did not exist at 31 December 2001. Had the Group Reorganisation been completed, the turnover attributable to the five largest customers of the Group accounted for less than 30% of the total Group's pro forma combined turnover for the year.

The purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the total Group's pro forma combined purchases for the year.

DIRECTORS

The directors of the Company for the period from 4 April 2001 (date of incorporation) to the date of this report were as follows:

Executive directors

Mr. Cheung To Sang	(appointed on 11 May 2001)
Mr. Chan Nun Chiu	(appointed on 11 May 2001)
Mrs. Cheung Lim Mai Tak, Grace	(appointed on 11 May 2001)
Mr. She Hing Chiu	(appointed on 11 May 2001)

Non-executive directors

Mr. Cheung Sik Pang	(appointed on 11 May 2001)
Mr. Ng Wing Po	(appointed on 11 May 2001)

Independent non-executive directors

Ms. Lee Sin Mei, Olivia	(appointed on 30 January 2002)
Mr. Mak Siu Cheung, Bernard Jaun	(appointed on 30 January 2002)
Ms. Chan Choi Har, Ivy	(appointed on 30 January 2002)

Report of the Directors

DIRECTORS (Continued)

In accordance with article 87(1) of the Company's articles of association, Mr Chan Nun Chiu will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with Article No. 86(3) of the Company's Articles of Association, Ms Lee Sin Mei, Olivia, Mr. Mak Siu Cheung, Bernard Jaun and Ms. Chan Choi Har, Ivy who were appointed as Directors of the Company after last annual general meeting of the Company will hold office until the forthcoming annual meeting and being eligible, offer themselves for re-election at the meeting.

The non-executive directors are appointed for a period of three years commencing from 1 February 2002 in accordance with service contracts.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Cheung To Sang and Mrs. Cheung Lim Mai Tak, Grace, being the directors of Hop Shing Sucking Pig & Roast Meat Company Limited and To Sang Management Company Limited ("To Sang Management"), were interested in the supplies of foodstuff to the Group up to February 2001 and a lease of staff quarter to the Group respectively. Further details of the transactions undertaken in connection therewith are included in note 27 to the financial statements.

Mr. Cheung Sik Pang and Mr. Ng Wing Po, being the shareholders of Kung Ping Investments Limited ("Kung Ping Investments") and N.W.P. Investments Limited ("N.W.P. Investments") respectively, of which are the directors of Tsin Tao Enterprises Limited, were interested in the supplies of lotus seed paste to the Group. Further details of the transactions undertaken in connection therewith are included in note 27 to the financial statements.

Mr. Cheung Sik Pang, being a partner and a beneficial shareholder of Tung Cheong Hong and Pacific Good Trading Limited respectively, was interested in the supplies of tea leaves and seafood to the Group respectively. Further details of the transactions undertaken in connection therewith are included in note 27 to the financial statements.

Ms. Lam Mei Wah, being a sibling of Mrs. Cheung Lim Mai Tak, Grace and a sole proprietor of Ching Wah Trading Company, was interested in the supplies of seafood to the Group. Further details of the transactions undertaken in connection therewith are included in note 27 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS (Continued)

Ms. Lam Mei Wah, a shareholder of Hollimax Limited, was interested in the supplies of vegetables to the Group up to June 2001. Further details of the transactions undertaken in connection therewith are included in note 27 to the financial statements.

Mr. Ng Wing Po, being the director of N.W.P. Investments, was interested in a lease of staff quarter to the Group. Further details of the transactions undertaken in connection therewith are included in note 27 to the financial statements.

Save as the transactions inherited to the Group Reorganisation as disclosed above, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive and non-executive directors has a service contract with the Company for an initial term of three years commencing from 1 February 2002, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Save as disclosed above, no director 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.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

Subsequent to the balance sheet date, on 18 February 2002, the Company was listed on the Stock Exchange. Accordingly, at the date of this report, the interests of the directors in the listed share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were set out below:

Number of shares held and nature of interest in Hon Po Holdings, an associated corporation.

	Personal interest	Family interest	Corporate interest	Total interests
Mr. Cheung To Sang		(Note 1)	73,996,437 (Note 2)	17.51%
Mr. Chan Nun Chiu			53,963,137 (Note 3)	12.77%
Mrs. Cheung Lim Mai Tak, Grace		(Note 1)	43,762,162 (Note 4)	10.35%
Mr. She Hing Chiu	5,152,338		7,821,000 (Note 5)	3.07%
Mr. Ng Wing Po			45,913,287 (Note 6)	10.86%
Mr. Cheung Sik Pang		56,037,637 (Note 7)		13.26%

Notes:

1. Interests in shares of his/her spouse are excluded in accordance with Section 31(1)a of SDI Ordinance.
2. The shares are held by To Sang Management, a company which is controlled indirectly by a discretionary trust of which Mr. Cheung To Sang and certain of his children are beneficiaries.

DIRECTORS' INTERESTS IN SHARES (Continued)

3. The shares are held by Nun Chiu Investments Limited, a company in which both Mr. Chan Nun Chiu and his wife each has a controlling interest.
4. Shares of 4,700,750 are held by Tabo Development Limited, a company in which Mrs. Cheung Lim Mai Tak Grace owns approximately 74% of the issued capital. Shares of 39,061,412 are held by Lim Mai Tak Consultants and Investments Limited, a company which is controlled indirectly by a discretionary trust of which Mrs. Cheung Lim Mai Tak and certain of her children are beneficiaries.
5. The shares are held by Tread Wood Investment Limited, a company in which Mr. She Hing Chiu owns approximately 50% of the issued capital.
6. The shares are held by N.W.P. Investments, a company which is controlled indirectly by a discretionary trust of which Mr. Ng Wing Po's wife and certain of his children are beneficiaries.
7. The shares are held by Kung Ping Investments, a company which is deemed to be controlled by Mr. Cheung Sik Pang and his wife.

Save as disclosed above, as at the date of this report, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of a share option scheme (the "Scheme") adopted conditionally by the Company on 28 January 2002, the board of directors of the Company may, at its discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. Further details of the Scheme are disclosed in the section "Share option scheme" below. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 18 February 2002. Up to the date of this report, no options have been granted to any director or employee under the Scheme.

Save as the transactions inherited to the Group Reorganisation as disclosed above, at no time since its incorporation were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group and sub-contractors of the Group. The Scheme became effective on 18 February 2002 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. At the date of this report, the Company had no share option outstanding under the Scheme and accordingly, no shares issuable under share options granted under the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be notified by the directors to each grantee which shall not be more than 10 years from the date on which the option is deemed to be granted and accepted. According to the Scheme, there is no provision requiring a minimum holding period before an option may be exercised. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option under the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

CONTRACTS OF SIGNIFICANCE

Pursuant to various agreements entered into during the year between the Group and Hon Po Holdings, the ultimate holding company of the Group, certain properties beneficially owned by Hon Po Holdings are leased to the Group for the Group's operations. During the year, the pro forma rental expense payable to Hon Po Holdings amounted to HK\$14,620,000 (2000: HK\$15,792,000). Further details of the transactions undertaken in connection therewith are included in note 27 to the financial statements and in the Company's prospectus dated 31 January 2002.

SUBSTANTIAL SHAREHOLDERS

At the date of this report, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's issued share capital
Hon Po Holdings	380,000,000	60.32
Hon Po Investment	380,000,000	60.32

Note:

In accordance with the provisions of the SDI Ordinance, the interest of Hon Po Investment in the shares of the Company is also attributed to Hon Po Holdings on the bases that Hon Po Investment is wholly owned by Hon Po Holdings, a company incorporated in Hong Kong.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

RELATED PARTY AND CONNECTED TRANSACTIONS

Details of significant related party and connected transactions of the Group under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) are set out in note 27 to the financial statements.

With respect to the ongoing connected transactions entered into by the Group as set out in note 27 to the financial statements, the Stock Exchange, on application by the Company, granted the Company a waiver from strict compliance with the connected transaction requirements as set out in the Listing Rules. In the opinion of the independent non-executive directors, the ongoing connected transactions were:

- (i) approved by the board of directors;
- (ii) in accordance with the pricing policies as stated in the Company’s financial statements;
- (iii) in accordance with the terms of the agreements governed; and
- (iv) within the relevant annual cap amounts as agreed by the Stock Exchange.

Save as transactions inherited to the Group Reorganisation and as disclosed in note 27 to the financial statements, there were no other transactions required to be disclosed as connected transactions in accordance with the Listing Rules.

DIRECTORS’ INTERESTS IN A COMPETING BUSINESS AND CONFLICT OF INTERESTS

During the year and up to the date of this report, the following directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules, as set out below:

- (i) **Mrs. Cheung Lim Mai Tak, Grace**, an executive director, is interested in approximately 74% of the issued share capital of Tabo Development, a shareholder of Hon Po Holdings, which in turn is interested in approximately 39.13% of the issued share capital of Golden Jumbo Thai Restaurant Limited (“Golden Jumbo”). Golden Jumbo operates a Thai restaurant in Hong Kong. As (a) Golden Jumbo is principally engaged in the provision of Thai food while the Group is principally engaged in the provision of Chinese food; (b) the Group and Golden Jumbo target different customer groups; and (c) apart from Mrs. Cheung Lim Mai Tak, Grace, Golden Jumbo is operated by management different from that of the Group, the Group is capable of carrying out its business independently of, and at arm’s length from, the business of Golden Jumbo.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS AND CONFLICT OF INTERESTS (Continued)

- (ii) **Mr. Cheung Sik Pang**, a non-executive director, through his own and his family interests in Kung Ping Investments, a substantial shareholder of Hon Po Holdings, and Mr. Ng Wing Po, a non-executive director, through his and his family interests in N.W.P. Investments, a substantial shareholder of Hon Po Holdings, are deemed to be indirectly interested in approximately 36.36% and 18.18% of the issued share capital of Very Good Restaurant Limited (“Very Good”), respectively. Very Good operates a Chinese restaurant in Hong Kong. As both Mr. Cheung Sik Pang and Mr. Ng Wing Po are non-executive directors and are not involved in the daily management of the Group; and Very Good is a single restaurant operator, the Group is capable of carrying on its business independently of, and at arm’s length from, the business of Very Good.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Since the listing of the Company’s shares on the Stock Exchange on 18 February 2002 and up to the date of this report, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 28 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that all independent non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code because they are subject to retirement by rotation and re-election at annual general meetings in accordance with the articles of association of the Company.

Report of the Directors

AUDIT COMMITTEE

The Company has set up an audit committee on 30 January 2002 which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls with written terms of reference. The audit committee (the "Committee") comprises all of the three independent non-executive directors of the Company. The Group's pro forma combined financial statements as at and for the year ended 31 December 2001 and the Company's balance sheet as at 31 December 2001 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and the Stock Exchange and legal requirements, and that adequate disclosures have been made.

AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the period ended 31 December 2001.

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheung To Sang

Chairman and Managing Director

Hong Kong

23 April 2002