1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company

The Company was incorporated in the Cayman Islands on 4 April 2001 as an exempted company with limited liability under the Companies Law of the Cayman Islands. On incorporation, the Company had an authorised share capital of HK$10,000,000 divided into 1,000,000,000 shares of HK$0.01 each, of which one subscriber share was subsequently transferred to and held by Hon Po Investment Limited ("Hon Po Investment") on 4 May 2001. The directors consider Ho Po Investment, a company incorporated in the British Virgin Islands (the "BVI"), to be the Company's immediate holding company. On 11 October 2001, the authorised share capital of the Company was increased to HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each by the creation of an additional 9,000,000,000 new shares of HK$0.01 each. Apart from the aforesaid shares issued, no other transactions were carried out by the Company during the period from 4 April 2001 to 31 December 2001. Accordingly, the Company did not have any results, cash flows or recognised gains or losses for the period ended 31 December 2001.

Since the Company was incorporated on 4 April 2001, no comparative amounts for 31 December 2000 have been presented in the Company's balance sheet.

Group reorganisation

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as 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") in February 2002, the Company became the holding company of the companies now comprising the Group on 17 January 2002. This was accomplished by acquiring the entire issued share capital of Hon Po International Limited ("Hon Po International"), a company incorporated in the BVI and the then holding company of the other subsidiaries as set out in note 14 to the financial statements, in consideration and in exchange for the allotment and issue of a total of 99 shares of HK$0.01 each in the share capital of the Company, credited as fully paid, to Hon Po Investment, the former shareholder of Hon Po International.

As further detailed in the Company's prospectus dated 31 January 2002, the ongoing business concerns relating to the sourcing of food and beverage operations (the "Sourcing Business") operated by Hon Po Holdings Limited ("Hon Po Holdings") were transferred to Hon Po Management Limited, a wholly-owned subsidiary of the Company, effective from 26 October 2001. Since then, Hon Po Holdings discontinued its activities of the Sourcing Business. Hon Po Holdings is the ultimate holding company of the Company and is incorporated in Hong Kong with limited liability.

The ongoing business concerns relating to the restaurant operations (the "Restaurant Business") operated by certain non-Group companies beneficially held by Hon Po Holdings (the "Non-Group Companies") were transferred to certain subsidiaries of the Company, effective from 15 November 2001 and 11 January 2002. The Restaurant Business includes the leasehold land and buildings and investment properties owned by Chinese King's Development Limited, one of the Non-Group Companies. Since the date of the transfer, the Non-Group Companies discontinued their activities of operating restaurants.

1. **GROUP REORGANISATION AND BASIS OF PRESENTATION** (Continued)

Group reorganisation (Continued)

On 5 January and 14 April 1999, the Group acquired 99% interests of the ongoing business concerns relating to the restaurant operations (the "Acquired Business") operated by a non-Group company (the "Non-Group Company") and 99% equity interests in Harmony Sky Investment Limited ("Harmony Sky"), respectively from certain shareholders of Hon Po Holdings for cash. The Non-Group Company discontinued its activities of operating restaurant business since the date of the acquisition.

During the years ended 31 December 2001 and 2000, Hon Po Holdings, the Non-Group Companies and the Non-Group Company (collectively referred to as the "Landlords") provided certain premises for the use by the Group on a rent-free basis. These premises continued to be utilised by the Group after the Company's shares are listed on the Stock Exchange and rent was charged by the Landlords based on amounts assessed by FPDSavills (Hong Kong) Limited ("FPDSavills"), professional qualified valuers. Had rental expenses been charged by the Landlords, based on assessments made by FPDSavills, the charges would have been HK$14,620,000 and HK$15,792,000 for the years ended 31 December 2001 and 2000, respectively. For the purpose of these pro forma combined financial statements, these rental charges have been reflected in the results of the Group for the years ended 31 December 2001 and 2000 on a pro forma basis.

The pro forma combined financial statements include the pro forma combined results, statement of recognised gains and losses, cash flows and balance sheets of the companies now comprising the Group as if the current Group structure had been in existence throughout the years ended 31 December 2001 and 2000, or since the respective dates of their incorporation or acquisition by the Group where this is a shorter period. In particular, the Sourcing Business and the Restaurant Business have been included in the pro forma combined financial statements as if they had been transferred to the Group from Hon Po Holdings and the Non-Group Companies, respectively, as at the beginning of the earliest period presented. The Acquired Business and Harmony Sky have been included in the pro forma combined financial statements since the dates of their acquisition by the Group.

Basis of presentation

The Group Reorganisation involved companies under common control. For accounting purposes, the Company and its subsidiaries will be regarded and accounted for as a continuing group when the Company prepares its financial statements for the next year ending 31 December 2002. Accordingly, for the benefit of shareholders, pro forma combined financial statements and related notes thereto have been presented as supplementary information of the current year on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of acquisition of the subsidiaries as is required by Statement of Standard Accounting Practice 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants. The pro forma combined results of the Group for the years ended 31 December 2001 and 2000 and the pro forma combined balance sheets as at 31 December 2001 and 2000 have been prepared on the basis that the current Group structure was in place for the two years ended 31 December 2001.

1. GROUP REORGANISATION AND BASIS OF PRESENTATION (Continued)

Basis of presentation (Continued)

All significant transactions and balances among the companies comprising the Group have been eliminated in the preparation of the pro forma combined financial statements.

Although the Group Reorganisation had not been completed and, accordingly, the Group did not legally exist until 17 January 2002, in the opinion of the directors, the presentation of such supplementary pro forma combined financial statements prepared on the above basis is necessary to apprise the Company's shareholders of the Group's results and its state of affairs as a whole.

2. CORPORATE INFORMATION

As at 31 December 2001, the Company had not yet commenced business and the Group was not in existence as at that date. Had the Group Reorganisation been completed on 1 January 2001, the principal activity of the Company would have been investment holding. The principal activity of the Company's subsidiaries is set out in note 14 to the financial statements. In the opinion of the directors, had the Group Reorganisation been completed on 31 December 2001, the ultimate holding company of the Company would have been Hon Po Holdings. The amount due from Hon Po Holdings was unsecured, interest-free and was repayable on demand. Subsequent to the balance sheet date, the amount due from Hon Po Holdings was partly settled by a special dividend of HK$224,600,000. Further details are also set out in the note 28(d) to the financial statement.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following issued and revised Statements of Standard Accounting Practice ("SSAPs") and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The impact of this SSAP is the inclusion of a dividend declared and approved subsequent to the balance sheet date as a post balance sheet event which is detailed in note 28 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 19 and 25 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. This SSAP has had no major impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The principal impact of this SSAP on these financial statements is the requirement to discount the amounts of provisions to their present value at the balance sheet date, where the effect of discounting is material. This SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements and has had no major impact on these financial statements.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. Negative goodwill is recognised in the profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill and negative goodwill arising from acquisitions in previous years prior to 1 January 2001, which remains eliminated against reserves or credited to the capital reserve, respectively. Further details of the Group's goodwill and negative goodwill are set out in note 22 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. This SSAP has had no major impact on these financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no major impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to SSAP 17 "Property, plant and equipment" are effective for the first time for the current year's financial statements. The adoption of this revised SSAP has had no major impact on the current year's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The pro forma combined financial statements of the Group have been presented on the basis as set out in note 1 above. They have been prepared under the historical cost convention, except for the periodic remeasurement of leasehold land and buildings and investment properties, as further explained below.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) revenue from restaurant operations, when catering services are provided to customers;

(b) handling charges and sundry income, when services are rendered;

(c) rental income, on a straight-line basis over the lease terms; and

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fixed assets and depreciation

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2.5% or over the lease terms, whichever is shorter
Leasehold improvements	15% or over the lease terms, whichever is shorter
Furniture and fixtures	15%
Plant and equipment	15%
Motor vehicles	25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

All of the Group's fixed assets, except for the investment properties, prior to the listing of the Company's shares on the Stock Exchange, were stated at cost less accumulated depreciation. The financial effect arising from the remeasurement of certain of the Group's fixed assets on a valuation basis amounted to a surplus on revaluation in the amount of HK$20,175,000 which was recognised in the fixed assets revaluation reserve. Further details of the changes in accounting policy for the remeasurement of the Group's fixed assets are set out in note 13 to the financial statements.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other assets

Other assets represent utensils, linen and uniforms. No depreciation is provided on the initial purchase of utensils, linen and uniforms which are capitalised at cost. The cost of subsequent replacements of these items is charged directly to the profit and loss account in the year in which such expenditure is incurred.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests/investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years.

In prior years, goodwill arising on acquisitions was eliminated against reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of businesses represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 January 2001, to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of businesses, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Accounts receivable

Accounts receivable, which generally have credit terms ranging from one month to six months, are recognised and carried at original invoiced amount less provision for doubtful debts when collection of full amount is no longer probable. Bad debts are written-off as incurred.

Inventories

Inventories, representing food and beverages, are stated at the lower of cost and net realisable value, after making due allowances for any obsolete or slow-moving items. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to disposal.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Dividends (Continued)

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the pro forma combined cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Pension costs

Certain employees of the Group had completed the required number of years of service under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Ordinance. The Group's contingent liabilities in respect of such payments are set out in note 24 to the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension costs (Continued)

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all its employees. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 to the financial statements.

No separate analysis of segment information is presented as the Group's sole business is engaged in the operation of a chain of Chinese restaurants in Hong Kong.

6. TURNOVER AND OTHER REVENUE

Turnover represents the receipts from restaurant operations. All significant intra-Group transactions have been eliminated on combination. An analysis of the Group's turnover and other revenue is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Turnover		
Receipts from restaurant operations	**798,644**	872,297
Other revenue		
Rental income, gross	**3,900**	3,340
Interest income	**59**	135
Handling charges received from related companies	**–**	126
Sundry income	**2,144**	1,773
	6,103	5,374
Total revenue	**804,747**	877,671

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2001	2000
	HK$'000	*HK$'000*
Cost of inventories consumed	**242,996**	277,039
Depreciation	**21,570**	20,679
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	**270,720**	298,108
Pension costs	**12,188**	1,088
	282,908	299,196
Minimum lease payments under operating leases on land and buildings:		
Related companies	**12,864**	13,698
Ultimate holding company	**14,620**	15,792
Third parties	**52,130**	55,632
	79,614	85,122
Auditors' remuneration	**900**	1,200
Loss on disposal of fixed assets	**–**	2,607
Net rental income	**(3,691)**	(3,184)

As at 31 December 2001, no inventories were stated at net realisable value (31 December 2000: nil).

8. DIRECTORS'/EMPLOYEES' REMUNERATION

The details of the remuneration of the Company's directors pursuant to Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non–executive directors	**–**	–
Independent non-executive directors	**–**	–
	–	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**1,054**	7,536
Non-executive directors	**–**	3,420
Independent non-executive directors	**–**	–
	1,054	10,956
Pension costs	**9**	1
	1,063	10,957

The number of directors whose remuneration fell within the following bands is as follows:

	2001	2000
	Number of directors	Number of directors
Nil – HK$1,000,000	**6**	1
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**–**	3
HK$3,500,001 – HK$4,000,000	**–**	1
	6	6

8. DIRECTORS'/EMPLOYEES' REMUNERATION (Continued)

The five highest paid individuals during the year included one (2000: five) director, details of their remuneration have been disclosed above. Details of the remuneration of the remaining four (2000: nil) non-director, highest paid individuals are as follows:

	2001	2000
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**2,715**	–
Pension costs	**56**	–
	2,771	–

The number of non-director, highest paid individuals whose remuneration fell within the following band is as follows:

	Number of employees	
	2001	2000
Nil to HK$1,000,000	**4**	–

During the years ended 31 December 2001 and 2000, no emoluments were paid by the Group to the directors or any of the five non-director, highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2001 and 2000.

9. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**3,238**	4,300
Interest on finance leases	**127**	57
	3,365	4,357

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Deferred tax has been provided for the year under the liability method at the rate of 16% (2000: 16%) on timing differences.

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current year provision	**4,005**	2,814
Underprovision in prior year	**–**	394
Deferred tax charge/(credit) – note 20	**555**	(822)
Tax charge for the year	**4,560**	2,386

11. SPECIAL DIVIDENDS

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, at the direction of 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.

Further details of the dividends are set out in note 28 to the financial statements.

12. EARNINGS PER SHARE

The calculation of pro forma basic earnings per share is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 of HK$22,153,000 (2000: HK$25,681,000) and the pro forma weighted average of 455,000,000 (2000: 455,000,000) shares deemed to be in issue as further described in note 21 to the financial statements throughout the year.

There were no potential dilutive ordinary shares in existence for the years ended 31 December 2001 and 2000, and accordingly, no pro forma diluted earnings per share have been presented.

13. FIXED ASSETS

Group

	Leasehold land and buildings	Investment properties	Leasehold improvements	Furniture and fixtures	Plant and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:							
At beginning of year	14,709	11,228	106,914	59,261	9,157	1,219	202,488
Additions	–	–	14,728	3,509	–	–	18,237
Disposals	–	–	–	(8)	–	–	(8)
Surplus on revaluation	16,491	17,872	–	–	–	–	34,363
At 31 December 2001	31,200	29,100	121,642	62,762	9,157	1,219	255,080
Analysis of cost or valuation:							
At cost	–	–	121,642	62,762	9,157	1,219	194,780
At 2001 valuation	31,200	29,100	–	–	–	–	60,300
	31,200	29,100	121,642	62,762	9,157	1,219	255,080
Accumulated depreciation:							
At beginning of year	3,359	880	84,298	42,953	4,759	808	137,057
Provided during the year	325	–	13,125	6,566	1,395	159	21,570
Written back on disposals	–	–	–	(1)	–	–	(1)
Written back on revaluation	(3,684)	(880)	–	–	–	–	(4,564)
At 31 December 2001	–	–	97,423	49,518	6,154	967	154,062
Net book value:							
At 31 December 2001	31,200	29,100	24,219	13,244	3,003	252	101,018
At 31 December 2000	11,350	10,348	22,616	16,308	4,398	411	65,431

13. FIXED ASSETS (Continued)

The valuation of the Group's leasehold land and buildings is analysed as follows:

	2001	2000
	HK$'000	*HK$'000*
Leasehold land and buildings held under:		
Long term leases	**29,880**	13,157
Medium term leases	**1,320**	1,552
	31,200	14,709

The Group's investment properties were held under long term leases. The leasehold land and buildings and investment properties are all situated in Hong Kong.

The Group's leasehold land and buildings were valued on an open market, existing use basis at 30 November 2001 by FPDSavills at HK$31,200,000. As advised by FPDSavills, there were no material differences between the values of the leasehold land and buildings as at 30 November 2001 and at the balance sheet date. A surplus of HK$20,175,000 arising therefrom, which represented the excess of the revalued amounts over the then carrying values of the leasehold land and buildings, on an individual asset basis, has been credited to the fixed assets revaluation reserve (note 22).

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$11,025,000 (2000: HK$11,350,000).

The Group's investment properties were valued on an open market, existing use basis at 30 November 2001 by FPDSavills, at HK$29,100,000. As advised by FPDSavills, there were no material differences between the values of the investment properties as at 30 November 2001 and at the balance sheet date. A surplus of HK$18,752,000 arising therefrom, which represented the excess of the revalued amounts over the then carrying values of the investment properties, on a profolio basis, has been credited to the investment properties revaluation reserve (note 22).

The investment properties are leased to third parties under operating leases, further summary details of which are summarised in note 25(a) to the financial statements.

As at 31 December 2001, the Group's investment properties and certain leasehold land and buildings, with carrying values of HK$29,100,000 and HK$27,800,000, respectively, were pledged to secure banking facilities granted to the Group (note 18).

13. FIXED ASSETS (Continued)

The net book values of the fixed assets of the Group held under finance leases included in the total amount of fixed assets were as follows:

	2001	2000
	HK$'000	*HK$'000*
Furniture and fixtures	**758**	748
Plant and equipment	**427**	510
Motor vehicles	**180**	399
	1,365	1,657

Further particulars of the Group's investment properties are included on page 61.

14. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries which were acquired pursuant to the Group Reorganisation are included in pages 62 to 64.

15. ACCOUNTS RECEIVABLE

The general credit terms of the Group range from one to six months. An aged analysis of accounts receivable as at balance sheet date, based on invoice date, is as follows:

	2001	2000
	HK$'000	*HK$'000*
Current – 3 months	**2,305**	3,936
4 – 6 months	**2**	73
	2,307	4,009

16. DUE FROM ULTIMATE HOLDING COMPANY

Particulars of the amount due from ultimate holding company of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	31 December 2001	**Maximum amount outstanding during the year**	**1 January 2001**
	HK$'000	*HK$'000*	*HK$'000*
Due from ultimate holding company	237,149	237,149	207,108

The balance with ultimate holding company was unsecured, interest-free and was repayable on demand. Subsequent to the balance sheet date, the amount due from ultimate holding company was partly settled by a special dividend of HK$224,600,000 (note 28).

Out of the total rental deposits and other deposits as at 31 December 2001, an amount of HK$3,509,000 represented the rental deposits in respect of certain premises rented to the Group by ultimate holding company as detailed in note 1 to the financial statements.

17. ACCOUNTS PAYABLE

The ageing of accounts payable of the Group fell within the range of one to three months as at 31 December 2001 and 2000.

18. BANK OVERDRAFTS AND BANK LOANS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bank overdrafts	**–**	203
Bank loans wholly repayable:		
Within one year	**–**	8,095
In the second year	**3,968**	6,881
In the third to fifth years, inclusive	**12,966**	17,770
Beyond five years	**20,066**	7,101
	37,000	40,050
Portion classified as current liabilities	**–**	(8,298)
Long term portion	**37,000**	31,752

18. BANK OVERDRAFTS AND BANK LOANS (Continued)

At 31 December 2001, the Group's banking facilities were secured by certain of the leasehold land and buildings and investment properties (note 13) of the Group and supported by personal guarantees executed by certain directors of the Company. Subsequent to the balance sheet date, the personal guarantees executed by certain directors of the Company were released and replaced by the corporate guarantees from the Company.

19. FINANCE LEASE PAYABLES

The Group leases certain of its fixed assets for its restaurant business (note 13). These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2001	2000	**2001**	2000
Group	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**871**	975	**751**	818
In the second year	**205**	639	**185**	601
In the third to fifth years, inclusive	**–**	33	**–**	32
Total minimum finance lease payments	**1,076**	1,647	**936**	1,451
Future finance charges	**(140)**	(196)		
Total net finance lease payables	**936**	1,451		
Portion classified as current liabilities	**(751)**	(818)		
Long term portion	**185**	633		

SSAP 14 was revised and implemented during the year, as detailed in note 3 to the financial statements. Certain new disclosures are required and have been included above.

20. DEFERRED TAX

Deferred tax for the year has been provided under the liability method at the rate of 16% (2000: 16%) on timing differences.

	Group	
	2001	2000
	HK$'000	*HK$'000*
Balance at beginning of year	**147**	969
Charge for the year – note 10	**558**	–
Overprovision in prior year – note 10	**(3)**	(822)
At 31 December	**702**	147

The principal components of the Group's provision for deferred tax, and net deferred tax liabilities/(assets) not recognised are as follows:

	Provided		Unprovided	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**720**	157	**(5,941)**	(7,043)
Tax losses	**(18)**	(10)	**(3,940)**	(2,671)
	702	147	**(9,881)**	(9,714)

The revaluation of the Group's leasehold land and buildings and investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Company had no significant potential deferred tax liabilities or unprovided deferred tax at the balance sheet date.

21. SHARE CAPITAL

Shares

The following changes in the Company's authorised and issued share capital took place during the period from 4 April 2001 (date of incorporation) to 31 December 2001:

(a) On incorporation, the authorised share capital of the Company was HK$10,000,000 divided into 1,000,000,000 shares of HK$0.01 each;

(b) On 4 April 2001, one subscriber share of HK$0.01 was allotted and issued fully paid;

21. SHARE CAPITAL (Continued)

Shares (Continued)

(c) On 4 May 2001, the subscriber share was transferred to and held by Hon Po Investment; and

(d) On 11 October 2001, the authorised share capital of the Company was increased from HK$10,000,000 to HK$100,000,000 by the creation of a further 9,000,000,000 shares of HK$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.

Subsequent to the balance sheet date, there were the following events:

(e) On 17 January 2002, as part of the Group Reorganisation set out in note 1 to the financial statements, an aggregate of 99 shares were allotted and issued, credited as fully paid, to Hon Po Investment as consideration for the acquisition by the Company of, and in exchange for, the 151 shares of US$1.00 each in Hon Po International, representing the entire issued share capital of Hon Po International;

(f) On 28 January 2002, pursuant to a written resolution of the Company, a total of 454,999,900 shares of HK$0.01 each were allotted as fully paid at par to Hon Po Investment as at the close of business on 17 January 2002, by way of the capitalisation of the sum of HK$4,549,999 standing to the credit of the share premium account of the Company ("Capitalisation Issue"). This allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued to the public upon the listing of the Company's shares on the Stock Exchange; and

(g) On 18 February 2002, in connection with the Company's initial public offering, 175,000,000 shares of HK$0.01 each ("Offer Shares"), were issued at HK$0.2 each for a total cash consideration, before expenses, of HK$35,000,000.

21. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of the above movements in the authorised and issued share capital of the Company is as follows:

	Notes	**Number of authorised shares**	**Number of shares issued**	**Nominal value of shares issued** *HK$'000*
On incorporation and subsequent on 4 May 2001, one subscriber share was issued fully paid, and subsequently transferred to Hon Po Investment	*(a), (b) & (c)*	1,000,000,000	1	–
Increase in authorised share capital	*(d)*	9,000,000,000	–	–
Shares issued as consideration for the acquisition of the entire issued share capital of Hon Po International	*(e)*	–	99	1
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares	*(f)*	–	454,999,900	–
Pro forma share capital as at 31 December 2000 and 2001		10,000,000,000	455,000,000	1
New issue on public listing	*(g)*	–	175,000,000	1,750
Capitalisation of the share premium account as set out above	*(f)*	–	–	4,550
		10,000,000,000	630,000,000	6,301

Pursuant to the basis of presentation set out in note 1 to the financial statements, the pro forma combined financial statements of the Group have been presented as if the Group Reorganisation on 18 February 2002 had taken place prior to the financial years ended 31 December 2001 and 2000.

21. SHARE CAPITAL (Continued)

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the section "Share option scheme" in the report of the directors.

Since the Scheme became effective and as at the date of this report, no share options have been granted pursuant to the Scheme.

22. RESERVES

Group

	Surplus	Goodwill reserve	Capital reserve	Fixed assets revaluation reserve	Investment properties revaluation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2000	62,449	(1,690)	15,606	–	–	162,819	239,184
Profit for the year attributable to shareholders	–	–	–	–	–	25,681	25,681
At 31 December 2000 and 1 January 2001	62,449	(1,690)	15,606	–	–	188,500	264,865
Surplus on revaluation	–	–	–	20,175	18,752	–	38,927
Profit for the year attributable to shareholders	–	–	–	–	–	22,153	22,153
At 31 December 2001	62,449	(1,690)	15,606	20,175	18,752	210,653	325,945

The surplus disclosed above represents the combined share capital of the subsidiaries which were acquired by the Company pursuant to the Group Reorganisation.

Goodwill arising on the acquisition of a subsidiary and negative goodwill arising on the acquisition of a business remain eliminated against reserves and credited to the capital reserve, respectively, as explained in notes 3 and 4 to the financial statements.

23. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow/(outflow) from operating activities

	Group	
	2001	2000
	HK$'000	*HK$'000*
Profit from operating activities	**29,638**	30,529
Interest income	**(59)**	(135)
Depreciation	**21,570**	20,679
Loss on disposal of fixed assets	**–**	2,607
Decrease/(increase) in rental deposits and other deposits	**5,065**	(17,342)
Decrease/(increase) in inventories	**(587)**	3,565
Decrease/(increase) in accounts receivable	**1,702**	(667)
Increase in deposits, prepayments and other receivables	**(17,717)**	(2,800)
Increase in an amount due from ultimate holding company	**(30,041)**	(38,383)
Increase/(decrease) in accounts payable	**11,368**	(4,535)
Increase in accruals	**24,940**	577
Increase/(decrease) in other payable	**(880)**	1,452
Increase in rental deposits received	**449**	251
Net cash inflow/(outflow) from operating activities	**45,448**	(4,202)

(b) Analysis of changes in financing of the Group during the year

	Issued capital (including pro forma combined surplus)	Finance lease payables	Bank loans	Minority interests
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2000	62,450	333	33,805	4,267
Share of loss for the year	–	–	–	(1,895)
Inception of finance leases	–	1,552	–	–
Cash inflow/(outflow) from financing, net	–	(434)	6,042	–
Balance as at 31 December 2000 and at 1 January 2001	62,450	1,451	39,847	2,372
Share of loss for the year	–	–	–	(440)
Inception of finance leases	–	538	–	–
Cash outflow from financing, net	–	(1,053)	(2,847)	–
Balance as at 31 December 2001	62,450	936	37,000	1,932

23. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT (Continued)

(c) Major non–cash transaction

During the years ended 31 December 2001 and 2000, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$538,000 and HK$1,552,000, respectively.

24. CONTINGENT LIABILITIES

If the termination of all the employees met the circumstances required by the Ordinance as set out in note 4 to the financial statements, the Group's liabilities at 31 December 2001 would be HK$25,864,000 (2000: HK$22,212,000). No provision has been made for these amounts. As at 31 December 2001, the Company had no significant contingent liabilities.

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) under non-cancellable operating lease arrangements with lease terms ranging from two to three years.

At 31 December 2001, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**2,789**	2,037
In the second to fifth years, inclusive	**2,717**	655
	5,506	2,692

(b) As lessee

The Group leases certain of its restaurants, staff quarters, offices and warehouses under non-cancellable operating lease arrangements with lease terms ranging from one to ten years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**77,567**	43,874
In the second to fifth year, inclusive	**127,894**	106,417
After five years	**25,643**	22,207
	231,104	172,498

25. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee (Continued)

At 31 December 2001, the Company did not have any significant leases.

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required.

26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25(b) above, the Group had the following commitments at the balance sheet date:

	2001	2000
	HK$'000	*HK$'000*
Capital commitments contracted for		
Commitments in respect of purchase of fixed assets	**–**	1,911

At the balance sheet date, the Company did not have any significant capital commitments.

27. RELATED PARTY TRANSACTIONS

In addition to the transactions inherited to the Group Reorganisation and the transactions and balances detailed elsewhere in these pro forma combined financial statements, the Group had the following material transactions with related parties during the year:

		2001	2000
	Notes	***HK$'000***	*HK$'000*
Sales of foodstuff to related companies	*(i)*	**786**	2,188
Purchases of foodstuff from related companies	*(ii)*	**21,081**	41,955
Handling charges received from related companies	*(iii)*	**–**	126
Minimum lease payments under operating leases on land and buildings paid to related companies	*(iv)*	**12,864**	13,698
Minimum lease payments under operating lease on land and buildings paid to ultimate holding company	*(v)*	**14,620**	15,792
Consultancy fees paid to related companies	*(vi)*	**–**	189

27. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(i) The Group sold foodstuff to Rifeson Investments Limited ("Rifeson") up to April 2000 and Bestall International Development Limited ("Bestall"), of which the beneficial owners of their corporate directors were also directors of the Company.

The directors consider that the sales of foodstuff were charged by the Group with reference to cost.

(ii) The Group purchased foodstuff from Hop Shing Sucking Pig & Roast Meat Company Limited ("Hop Shing"), of which some of their directors were also directors of the Company, up to February 2001.

The Group purchased foodstuff from Tsin Tao Enterprises Limited, a company beneficially held by Kung Ping Investments Limited and N.W.P. Investments Limited ("N.W.P. Investments"), of which some of their directors were also the directors of the Company.

The Group purchased foodstuff from Tung Cheong Hong and Pacific Good Trading Limited, which are beneficially held by a director of the Company.

The Group purchased foodstuff from Ching Wah Trading Company and Hollimax Limited ("Hollimax"), which are beneficially held by certain family members of certain directors of the Company. The Group purchased foodstuff from Hollimax up to June 2001.

The directors of the Company consider that the purchases of foodstuff were charged with reference to cost.

Except for purchases from Hop Shing and Hollimax, the remaining related party transactions also constitute connected transactions as defined under the Listing Rules.

(iii) The handling charges were related to the administrative services provided to Rifeson and Bestall. There were no handling charges received from Rifeson and Bestall since August 2000 and May 2000, respectively.

The directors consider that the handling charges were charged by the Group with reference to cost.

(iv) The rental expenses were paid to N.W.P. Investments, To Sang Management Company Limited ("To Sang Management"), Composite Interest Limited ("Composite") and Wong Chung Ming Development Fund Company Limited ("WCM Fund"). To Sang Management was beneficially held by certain directors of the Company. Composite and WCM Fund were beneficially held by Mr. Wong Chung Ming who is a minority shareholder with 4% interest in A. Top Investment Limited, a subsidiary of the Company. The rental expenses were based on the agreements signed with the Group.

This related party transaction also constitutes a connected transaction as defined under the Listing Rules.

27. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(v) As detailed in note 1 to the financial statements, certain properties of the Landlords are leased to the Group for its operations and the corresponding pro forma monthly rental expenses payable to the Landlords have been included in the preparation of the pro forma combined financial statements. The rental expenses were valued by FPDSavills for the years ended 31 December 2001 and 2000. The balance was included as an amount due from ultimate holding company at the balance sheet date.

This related party transaction also constitutes a connected transaction as defined under the Listing Rules.

(vi) The consultancy fees were related to the consultancy services provided by To Sang Management. The directors of the Company consider that the fees were charged with reference to cost.

(vii) The Group's banking facilities are supported by guarantees executed by certain directors of the Company as further detailed in note 18 to the financial statements.

28. POST BALANCE SHEET EVENTS

In addition to the matters set out in note 1 to the financial statements, subsequent to the balance sheet date, there were the following events:

(a) On 28 January 2002, written resolutions were passed pursuant to which the Company conditionally adopted the Scheme. On 18 February 2002, upon the listing of the Company's shares on the Stock Exchange, such Scheme became effective. Further details of the Scheme are set out under section "Share option scheme" in the report of the directors and in note 21 to the financial statements.

(b) As detailed in note 21(f) to the financial statements, the Capitalisation Issue was credited as fully paid as a result of the issue of the Offer Shares.

(c) As detailed in note 21(g) to the financial statements, on 18 February 2002, the Offer Shares were issued at HK$0.2 each for a total cash consideration, before expenses of HK$15,364,000, of HK$35,000,000.

(d) 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 in full to Hon Po Holdings at the direction of Hon Po Investment, the sole shareholder of the Company registered in the register of members of the Company on 17 January 2002.

(e) 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.

28. POST BALANCE SHEET EVENTS (Continued)

An adjusted pro forma combined balance sheet of the Group as at 31 December 2001, which is based on the pro forma combined balance sheet of the Group as at 31 December 2001 and adjusted as if the events subsequent to the balance sheet date as set out in notes 28(b), (c) and (d) to the financial statements above had taken place on 31 December 2001, is presented below:

	Pro forma combined balance sheet as at 31 December 2001	Pro forma post balance sheet events adjustments			Adjusted pro forma combined balance sheet as at 31 December 2001
		Capitalisation of shares	Placing of shares	Special dividend	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 28 (b))	*(note 28 (c))*	*(note 28 (d))*	
Non-current assets	131,726				131,726
Current assets	323,928		19,636	(224,600)	118,964
Current liabilities	(88,617)				(88,617)
Net current assets	235,311				30,347
Non-current liabilities	(39,159)				(39,159)
Minority interests	(1,932)				(1,932)
Net assets	325,946				120,982
Share capital	1	4,550	1,750		6,301
Reserves	325,945	(4,550)	17,886	(224,600)	114,681
	325,946				120,982

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2002.