1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. The ultimate holding company of the Company is Kong Fai International Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and elsewhere in the People's Republic of China (the "PRC") which specialise in Chiu Chow cuisine, and in the operation of a hotel in the PRC.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants. The new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the previous year have been restated in order to achieve a consistent presentation. The adoption of the new and revised SSAPs does not have any impact on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of the investment properties, and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to the effective date of acquisition or disposal as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Investment in subsidiaries

Investment in subsidiaries is included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

Revenue recognition

Revenue from restaurant and hotel operations is recognised when goods are sold and services are rendered.

Sales of goods is recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance for properties under operating leases, is recognised on a straight line basis over the lease terms.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss.

Initial purchases of crockery and utensils, table cloths, towels and uniforms are capitalised and no depreciation is provided thereon. Costs of subsequent replacements of these items are charged to the income statement as and when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress is not depreciated until completion of construction. Cost on completed construction works is transferred to other categories of property, plant and equipment.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	Over the duration of the leases or fifty years, whichever is the shorter
Furniture and restaurant equipment	12.5% – 50%
Plant and equipment	20%
Motor vehicles	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income derived therefrom being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance in the reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance in the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, any balance in the investment property revaluation reserve which is attributable to that property is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewal period, is twenty years or less.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of food and beverage items is calculated using the first-in, first-out method. Cost of other items is calculated using the weighted average method.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Translation of foreign currency financial statements

In preparing consolidated financial statements, financial statements which are not denominated in Hong Kong dollars in respect of operations outside Hong Kong are translated using the closing rate method. Exchange differences arising on consolidation are dealt with in the translation reserve.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight line basis over the duration of the leases.

Retirement benefits scheme

The amount of the Group's contributions payable under the Group's retirement benefits scheme is charged to the income statement.

4. TURNOVER

Turnover represents the aggregate of the revenue (net of relevant business tax) from restaurant and hotel operations, including service charge and gratuity income, revenue from sales of environmental friendly containers, and rental income received and receivable during the year.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two main operating divisions – restaurant and hotel operations and property investment.

Segment information about these businesses is presented below.

(a) Year 2002:

(i) Income statement

	Restaurant and hotel operations HK$'000	Property investment HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External revenue	209,271	315	955	–	210,541
Inter-segment revenue	–	1,800	83	(1,883)	–
Total revenue	209,271	2,115	1,038	(1,883)	210,541
RESULT					
Segment result	(24,942)	(86)	(1,015)	–	(26,043)
Unallocated corporate expenses					(4,181)
Loss from operations					(30,224)
Finance costs					(606)
Share of results of associates			(2)		(2)
Loss before taxation					(30,832)
Taxation					(73)
Loss before minority interests					(30,905)
Minority interests					149
Net loss for the year					(30,756)

Inter-segment revenue are charged at prevailing market price.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

(a) Year 2002:

(ii) Balance sheet

	Restaurant and hotel operations HK$'000	Property investment HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	45,951	102,057	8,831	156,839
Unallocated corporate assets				348
Consolidated total assets				157,187
LIABILITIES				
Segment liabilities	17,029	9,999	1,281	28,309
Loans from minority shareholders	5,000	34,994	–	39,994
Unallocated corporate liabilities				188
Consolidated total liabilities				68,491

(iii) Other information

	Restaurant and hotel operations HK$'000	Property investment HK$'000	Others HK$'000	Consolidated HK$'000
Capital additions	1,954	–	7,361	9,315
Depreciation	5,846	761	–	6,607
Other non-cash expenses	1,873	1,655	4,000	7,528

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

(b) Year 2001:

(i) Income statement

	Restaurant and hotel operations HK$'000	Property investment HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External revenue	263,564	529	–	–	264,093
Inter – segment revenue	–	2,400	–	(2,400)	–
Total revenue	263,564	2,929	–	(2,400)	264,093
RESULT					
Segment result	(2,004)	979	–	–	(1,025)
Unallocated corporate expenses					(2,175)
Loss from operations					(3,200)
Finance costs					(1,756)
Share of results of associates			(68)		(68)
Loss before taxation					(5,024)
Taxation					(899)
Loss before minority interests					(5,923)
Minority interests					332
Net loss for the year					(5,591)

Inter-segment revenue are charged at prevailing market price.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

(b) Year 2001:

(ii) Balance sheet

	Restaurant and hotel operations HK$'000	Property investment HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	81,100	104,536	–	185,636
Interests in associates	–	–	4,002	4,002
Unallocated corporate assets				40
Consolidated total assets				189,678
LIABILITIES				
Segment liabilities	16,286	13,603	–	29,889
Loans from minority shareholders	9,500	35,001	–	44,501
Unallocated corporate liabilities				187
Consolidated total liabilities				74,577

(iii) Other information

	Restaurant and hotel operations HK$'000	Property investment HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	6,028	–	6,028
Depreciation	5,512	762	6,274

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

An analysis of the Group's turnover and operating results by geographical market is as follows:

	Turnover		Loss from operations	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**190,870**	238,647	**(27,033)**	(3,472)
PRC, other than in Hong Kong	**19,671**	25,446	**(3,191)**	272
	210,541	264,093	**(30,224)**	(3,200)

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**61,551**	98,904	**1,348**	4,817
PRC, other than in Hong Kong	**95,636**	90,774	**7,967**	1,211
	157,187	189,678	**9,315**	6,028

6. LOSS BEFORE TAXATION

	2002 HK$'000	2001 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration (note 7)	**3,948**	4,110
Other staff costs, including retirement benefits scheme contributions	**73,428**	82,809
Total staff costs	**77,376**	86,919
Auditors' remuneration	**474**	450
Depreciation	**6,607**	6,274
Interest on bank borrowings wholly repayable within five years	**606**	1,756
Loss on disposal of property, plant and equipment	**1,873**	–
and after crediting:		
Interest income	**587**	1,179

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	2002 HK$'000	2001 HK$'000
Directors' fees:		
Executive	**–**	–
Independent non-executive	**144**	144
Non-executive	**72**	72
	216	216
Other emoluments paid to executive directors:		
Salaries and other benefits	**3,696**	3,882
Retirement benefits scheme contributions	**36**	12
	3,732	3,894
Total directors' emoluments	**3,948**	4,110

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Information regarding directors' emoluments (continued)

The emoluments of the directors fall within the following bands:

	Number of directors 2002	2001
Nil to HK$1,000,000	**4**	4
HK$1,000,001 to HK$2,000,000	**2**	2
	6	6

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group in both years included two executive directors. The emoluments of the remaining three highest paid individuals, not being directors, are as follows:

	2002 HK$'000	2001 HK$'000
Salaries and other benefits	**2,437**	3,008
Retirement benefits scheme contributions	**36**	12
	2,473	3,020

The emoluments of these three employees fall within the following bands:

	Number of employees 2002	2001
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	2

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

8. TAXATION

	2002 HK$'000	2001 HK$'000
The taxation charge of the Company and subsidiaries comprises:		
Hong Kong Profits Tax calculated at 16% (2001: 16%) on the estimated assessable profits of the year		
– current year	**90**	388
– (over)underprovision in prior years	**(17)**	511
	73	899

Details of the potential deferred taxation not provided for in the year are set out in note 24.

9. NET LOSS FOR THE YEAR

Of the Group's net loss for the year, a loss of HK$32,102,000 (2001: HK$5,239,000) has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK$30,756,000 (2001: HK$5,591,000) and on the 484,853,527 shares (2001: weighted average number of 373,270,798 shares) in issue during the year.

No diluted loss per share has been presented for the year as the exercise and conversion of the share options would result in a decrease in the loss per share for the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Furniture and restaurant equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 April 2001	56,038	95,698	–	3,933	–	155,669
Additions	546	1,455	5,441	–	1,873	9,315
Disposals	–	(29,488)	–	–	–	(29,488)
At 31 March 2002	56,584	67,665	5,441	3,933	1,873	135,496
DEPRECIATION						
At 1 April 2001	7,976	80,149	–	3,435	–	91,560
Provided for the year	1,351	5,155	–	101	–	6,607
Eliminated on disposals	–	(27,610)	–	–	–	(27,610)
At 31 March 2002	9,327	57,694	–	3,536	–	70,557
NET BOOK VALUES						
At 31 March 2002	47,257	9,971	5,441	397	1,873	64,939
At 31 March 2001	48,062	15,549	–	498	–	64,109

The Group's leasehold land and buildings are held under medium-term leases and are situated:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
In Hong Kong	**34,490**	35,252
In the PRC	**12,767**	12,810
	47,257	48,062

No depreciation for plant and machinery had been provided for the year as these assets have not yet been put into commercial use up to 31 March 2002.

12. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
AT VALUATION	
At 1 April 2001	11,000
Reclassified from deposits paid for property acquisitions (see note 13)	58,155
Revaluation deficit	(1,655)
At 31 March 2002	67,500

The Group's investment properties were revalued at 31 March 2002 by RHL Appraisal Ltd., a firm of independent professional property valuers, on an open market existing use basis.

The Group's investment properties are situated in the PRC and are held under leases as follows:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Long leases (note (a))	**58,000**	–
Medium-term leases (note (b))	**9,500**	11,000
	67,500	11,000

Notes:

(a) The investment properties were held for a term of seventy years expiring in May 2063. They were vacant as at 31 March 2002.

(b) The investment properties are held for a term of fifty years expiring in January 2039. They are rented out under operating leases. The Group is in the process of applying for the relevant land use rights certificate.

13. DEPOSITS PAID FOR PROPERTY ACQUISITIONS

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Deposits paid	**–**	95,000
Less: Impairment loss recognised	**–**	(36,845)
	–	58,155

The amount in 2001 represented deposits paid to the developer, net of impairment loss recognised, in connection with the acquisitions of properties at Wen Jin Square, Shenzhen, the PRC for an aggregate consideration of HK$105,245,000.

The developer of the properties failed to deliver the completed properties to the Group by June 1995 as stipulated in the purchase and sale agreements. After several court actions in the PRC, judgement was made in November 2000 under which the Group is obliged to take possession of the properties by paying the balance of the original purchase price amounting to HK$10,245,000 to the developer and the developer is obliged to pay compensation to the Group amounting to HK$10,245,000 for the delay in the delivery of the completed properties to the Group. At 31 March 2001, the Group was negotiating with the developer to offset the above amounts and was in the process of obtaining the legal title to the properties. An impairment loss was recognised, at 31 March 2001, so as to reduce the carrying amount of the deposits paid to the estimated recoverable amount in realising the properties with reference to the valuations of the properties made by RHL Appraisal Ltd., a firm of independent professional property valuers, on an open market basis.

During the current year, the Group reached an agreement with the developer to offset the financial obligations of each other. The Group also obtained legal title to the properties. As the properties were acquired for rental purposes, the carrying amount of the deposits was reclassified to investment properties during the current year (see note 12).