



Interim Report **2002**



漢寶集團(龍蝦大王)有限公司
Hon Po Group (Lobster King) Limited

(incorporated in the Cayman Islands with limited liability)

UNAUDITED INTERIM RESULTS

The Board of Directors of Hon Po Group (Lobster King) Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2002 together with comparative figures for the six months ended 30 June 2001. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2002 have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited consolidated)	(Pro forma combined)
		Six months ended 30 June 2002	Six months ended 30 June 2001
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	4	368,779	405,094
Other revenue		3,343	3,905
Cost of inventories consumed		(115,508)	(129,713)
Staff costs		(134,447)	(143,839)
Operating lease rentals		(37,599)	(39,963)
Depreciation		(9,559)	(10,694)
Fuel costs and utility expenses		(36,178)	(40,447)
Other operating expenses		(36,111)	(37,253)
Profit from operating activities	5	2,720	7,090
Finance costs		(1,505)	(2,044)
Profit before tax		1,215	5,046
Tax	6	–	(238)
Profit before minority interests		1,215	4,808
Minority interests		265	536
Net profit from ordinary activities attributable to shareholders		1,480	5,344
Dividends – Special		232,160	–
Earnings per share – Basic	7	HK0.25 cents	HK1.17 cents

Hon Po Group (Lobster King) Limited

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited consolidated) 30 June 2002 HK\$'000	(Pro forma combined) 31 December 2001 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		194,724	101,018
Other assets		5,894	5,730
Rental deposits and other deposits		18,327	24,978
		<u>218,945</u>	<u>131,726</u>
CURRENT ASSETS			
Inventories		14,569	12,131
Accounts receivable	8	2,739	2,307
Deposits, prepayments and other receivables		26,964	29,828
Due from ultimate holding company		–	237,149
Tax refundable		2,413	2,720
Cash and bank balances		45,456	39,793
		<u>92,141</u>	<u>323,928</u>
CURRENT LIABILITIES			
Accounts payable	9	(32,218)	(31,880)
Accruals		(52,554)	(53,414)
Tax payable		(2,408)	(2,572)
Bank overdrafts and bank loans		(16,931)	–
Finance lease payables		(369)	(751)
		<u>(104,480)</u>	<u>(88,617)</u>
NET CURRENT ASSETS/(LIABILITIES)		(12,339)	235,311
TOTAL ASSETS LESS CURRENT LIABILITIES		206,606	367,037
NON-CURRENT LIABILITIES			
Other payable		(208)	(572)
Rental deposits received		(700)	(700)
Bank loans		(93,116)	(37,000)
Finance lease payables		(60)	(185)
Deferred tax		(776)	(702)
		<u>(94,860)</u>	<u>(39,159)</u>
MINORITY INTERESTS		(1,597)	(1,932)
		<u>110,149</u>	<u>325,946</u>
CAPITAL AND RESERVES			
Issued capital		6,301	1
Reserves		103,848	325,945
		<u>110,149</u>	<u>325,946</u>

CONDENSED CONSOLIDATED CASHFLOW STATEMENT

	(Unaudited consolidated) Six months ended 30 June 2002 <i>HK\$'000</i>	(Pro forma combined) Six months ended 30 June 2001 <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM: OPERATING ACTIVITIES	28,215	12,097
INVESTING ACTIVITIES	(92,522)	(15,293)
FINANCING ACTIVITIES	72,314	(4,504)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,007	(7,700)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	26,653	22,323
CASH AND CASH EQUIVALENTS AT END OF PERIOD	34,660	14,623
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	45,456	15,945
Bank overdrafts	(10,796)	(1,322)
	34,660	14,623

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CONDENSED CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

	(Unaudited consolidated)					Total HK\$'000
	Issued Capital HK\$'000	Share premium HK\$'000	Fixed assets revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profits/ losses (accumulated) HK\$'000	
At 1 January 2002	1	-	-	-	(3,241)	(3,240)
Arising pursuant to Group						
Reorganisation	-	285,626	-	-	-	285,626
New issue on public listing	1,750	33,250	-	-	-	35,000
Share issue expenses	-	(15,364)	-	-	-	(15,364)
Capitalisation issue of shares	4,550	(4,550)	-	-	-	-
Surplus on revaluation	-	-	20,055	18,752	-	38,807
Distribution of special dividends	-	(232,160)	-	-	-	(232,160)
Net profit for the period	-	-	-	-	1,480	1,480
At 30 June 2002	<u>6,301</u>	<u>66,802</u>	<u>20,055</u>	<u>18,752</u>	<u>(1,761)</u>	<u>110,149</u>
	(Pro forma combined)					
	Issued Capital HK\$'000	Surplus HK\$'000	Goodwill reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	1	62,449	(1,690)	15,606	188,500	264,866
Net profit for the period	-	-	-	-	5,344	5,344
At 30 June 2001	<u>1</u>	<u>62,449</u>	<u>(1,690)</u>	<u>15,606</u>	<u>193,844</u>	<u>270,210</u>

Notes:

1. Group Reorganisation 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”) on 18 February 2002. The Group has acquired from its ultimate holding company and the subsidiaries of the ultimate holding company the sourcing of food and beverage operations (the “Sourcing Business”) effective from 26 October 2001 and the restaurant operations (the “Restaurant Business”) effective from 15 November 2001 and 11 January 2002. The Group Reorganisation involved companies under common control. The unaudited condensed consolidated financial statements for the six months ended 30 June 2002 have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 27 “Accounting for Group Reconstructions”, as a result of the Group Reorganisation completed on 17 January 2002. Under this basis, the Company has been treated as the holding company of the companies now composing the Group (the “Subsidiaries”) for the six months ended 30 June 2002, rather than from the date of its acquisition of the Subsidiaries on 17 January 2002. Accordingly, the unaudited condensed consolidated results of the Group for the six months ended 30 June 2002 include the results of the Company and the Subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, where this is a shorter period. Pursuant to the Group Reorganisation, the unaudited results attributable to the Sourcing Business and the Restaurant Business have been included in the unaudited condensed consolidated financial statements of the Group with effect from the abovementioned respective acquisition dates. The unaudited results attributable to the Restaurant Business acquired on 11 January 2002 are immaterial for the period from 1 January 2002 to 10 January 2002. Accordingly, the unaudited results attributable to the Restaurant Business acquired on 11 January 2002 for that period are included in the six months ended 30 June 2002.

In the opinion of the directors, the unaudited condensed consolidated interim financial statements of the Group prepared on the above basis present fairly the results and the state of affairs of the Group as a whole.

For information purposes only, the pro forma combined profit and loss account for the six months ended 30 June 2001, include the results of the Group with effect from 1 January 2001 or since the Subsidiaries’ respective dates of incorporation, where this is a shorter period, on a pro forma combined basis as if the current Group structure had been in existence throughout the six months ended 30 June 2001. The results of the Sourcing Business and the Restaurant Business have been included as if they had been transferred to the Group as at the beginning of the earliest period presented. This basis of the presentation was adopted for the preparation of the accountants’ report included in the Company’s prospectus dated 31 January 2002 (the “Prospectus”).

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

Further details of the Group Reorganisation are set out in the Prospectus.

2. Adoption of new and revised Hong Kong Statements of Standard Accounting Practice

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with SSAP 25 “Interim Financial Reporting”. The accounting policies adopted are the same as those used in the Group’s pro forma combined financial statements for the year ended 31 December 2001. In 2002, the Group has for the first time adopted the following new and revised SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

- SSAP 1 (Revised): “Presentation of Financial Statements”
- SSAP 11 (Revised): “Foreign Currency Translation”
- SSAP 15 (Revised): “Cash Flow Statements”
- SSAP 25 (Revised): “Interim Financial Reporting”
- SSAP 34: “Employee Benefits”

The adoption of these SSAPs does not make any changes to the accounting policies of the Group and has no major impacts on the unaudited condensed consolidated financial statements for the period, except for SSAP 1 (Revised) and SSAP 15 (Revised) which are summarised as follows:

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 (Revised) is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The unaudited condensed consolidated statement of changes in equity for the period and the comparative figures have been presented in accordance with SSAP 1 (Revised) in the unaudited condensed interim financial report.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The unaudited condensed consolidated cash flow statement for the period and the comparative figures have been presented in accordance with SSAP 15 (Revised) in the unaudited condensed interim financial report.

3. Segment information

No separate analysis of segment information is presented as the Group’s sole business during the respective interim result periods are engaged in the operation of a chain of Chinese restaurants in Hong Kong.

4. Turnover

The Group’s turnover during the respective interim periods solely represents the receipts from restaurant operations. All significant intra-group transactions have been eliminated in the respective unaudited condensed consolidated and condensed pro forma combined financial statements..

5. Profit from operating activities

Profit from operating activities is arrived at after charging:

	(Unaudited consolidated) Six months ended 30 June 2002 HK\$'000	(Pro forma combined) Six months ended 30 June 2001 HK\$'000
Cost of inventories consumed	115,508	129,713
Depreciation	9,559	10,694
Staff costs (including directors' remuneration):		
Wages and Salaries	128,447	137,600
Pension Costs	6,000	6,239
	<u>134,447</u>	<u>143,839</u>
Minimum lease payments under operating leases on land and buildings:		
Related companies	5,826	6,102
Holding companies	7,458	7,896
Third parties	24,315	25,965
	<u>37,599</u>	<u>39,963</u>

6. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from Hong Kong during the current period (Corresponding period of 2001: at the tax rate of 16%). No deferred tax has been provided for the current period and the Group had no material significant unprovided deferred tax during the current period. Deferred tax has been provided for the six months ended 30 June 2001 under the liability method at the rate of 16% on timing differences.

	(Unaudited consolidated) Six months ended 30 June 2002 HK\$'000	(Pro forma combined) Six months ended 30 June 2001 HK\$'000
Current period provision	-	150
Deferred tax charge	-	88
	<u>-</u>	<u>238</u>
Tax charge for the period	<u>-</u>	<u>238</u>

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7. Earnings per share

The calculation of basic earnings per share, on a consolidated basis, is based on the unaudited condensed consolidated net profit from ordinary activities attributable to shareholders for the current period of HK\$1,480,000 and the weighted average of 593,259,669 shares in issue during the current period.

For information purposes only, the calculation of pro forma basic earnings per share, on the pro forma combined basis as set out in note 1 above, is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the six months ended 30 June 2001 of HK\$5,344,000 and the weighted average of 455,000,000 shares in issue during the previous period.

The weighted average number of shares used to calculate the earnings per share, on the pro forma combined basis, for the six months ended 30 June 2001 includes the pro forma issued share capital of the Company of 455,000,000 shares, comprising the 1 share of the Company allotted and issued, credited as fully paid, to Hon Po Investment Limited ("Hon Po Investment"), a holding company of the Company, on 4 May 2001 and the 99 shares issued as consideration for the acquisition of the entire issued share capital of Hon Po International Limited ("Hon Po International"), a wholly-owned subsidiary of the Company, on 17 January 2002 and the capitalisation issue of 454,999,900 shares, as further detailed in the Company's 2001 annual report. The weighted average number of shares used to calculate the earnings per share, on the consolidated basis, for the current period includes the weighted average of the 138,259,669 shares issued upon the listing of the Company's shares on the Stock Exchange on 18 February 2002 in addition to the aforementioned 455,000,000 ordinary shares.

There were no potential dilutive ordinary shares in existence for the relevant periods, and accordingly, no diluted earnings per share amount, on either consolidated or pro forma combined basis, have been presented.

8. 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:

	(Unaudited consolidated) 30 June 2002 HK\$'000	(Pro forma combined) 31 December 2001 HK\$'000
Current – 3 months	2,739	2,305
4 – 6 months	–	2
	<u>2,739</u>	<u>2,307</u>

9. Accounts payable

The ageing of accounts payable of the Group fell within the range of one to three months as at 30 June 2002 and 31 December 2001.

10. Contingent liabilities

As at 30 June 2002, if the termination of all employees met the circumstances required by the Employment Ordinance in respect of long service payments in Hong Kong, the Group's contingent liabilities in respect of long service payments at 30 June 2002 would be approximately HK\$34,000,000 (31 December 2001: HK\$26,000,000).

11. Capital commitments

As at 30 June 2002, the Group had unaudited authorised but not contracted for commitments in respect of purchase of fixed asset of HK\$2,904,000 (31 December 2001: nil) at the balance sheet date.

12. Related party transactions

		(Unaudited consolidated) Six months ended 30 June 2002 HK\$'000	(Pro forma combined) Six months ended 30 June 2001 HK\$'000
Sales of food to related companies	<i>(i)</i>	126	761
Purchase of food from related companies	<i>(ii)</i>	1,870	15,868
Operating lease rentals paid to related companies	<i>(iii)</i>	5,826	6,102
Operating lease rentals paid to holding companies	<i>(iv)</i>	<u>7,458</u>	<u>7,896</u>

- (i) During the current period, the Group sold foodstuff to Golden Jumbo Thai Restaurant Limited (“Golden Jumbo”) of which, one of the director of the Company is interested in approximately 74% of the issued share capital of Tabo Development Limited (“Tabo Development”), a shareholder of Hon Po Holdings Limited (“Hon Po Holdings”), the Company’s ultimate holding company, which in turn is interested in approximately 39.13% of the issued share capital of Golden Jumbo.

During the previous period, the Group sold foodstuff to Bestall International Development Limited (“Bestall”), of which the beneficial owners of its 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 (“Kung Ping Investments”) 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 Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

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- (iii) 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 approximately 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.

- (iv) During the current period, certain properties of Hon Po Investment are leased to the Group for its operations based on the agreed rental charges of the tenancy agreements signed with the Group.

During the previous period, the above properties were provided by Hon Po Holdings and its non-listed subsidiaries (the “Landlords”) to the Group on a rent-free basis. Had the rental expenses charged by the Landlords, based on assessments made by FPDSavills (Hong Kong) Limited, professional qualified valuers, the charges would have been HK\$7,896,000. These rental charges had been reflected in the condensed pro forma combined results of the Group for the previous period.

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

13 Post balance sheet events

On 25 September 2002, Chinese King’s Development Limited (“Chinese King”) and Ocean Grace Investments Limited (“Ocean Grace”), an indirect wholly-owned subsidiary of the Company, entered into a supplemental agreement (“Supplemental Agreement”) to ratify an error in the business and asset transfer agreement dated 11 October 2001 between Chinese King and Ocean Grace (the “Agreement”) which is reflected on pages 214 and 228 of the Prospectus of the Company dated 31 January 2002, where reference to the consideration for the Agreement should be HK\$12,990,000 rather than HK\$40,000,000. The consideration is calculated with reference to the net book value of the purchased assets and business as at 30 June 2001 as contemplated in the Agreement.

As the consideration for the transfer of purchased assets and business under the Agreement was settled by way of the issue and allotment of 10 ordinary shares (the number of shares issued will remain unchanged despite the signing of Supplemental Agreement) of US\$1.00 each in the share capital of Hon Po International (as the parent company of Ocean Grace) to Hon Po Investment (acting as the designee of Chinese King), the Directors (including the independent non-executive directors) confirm that the Supplemental Agreement entered into between Chinese King and Ocean Grace will have no impact on the consolidated financial position of the Group.

Further announcement will be announced in due course.

14 Approval of the interim financial report

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 25 September 2002.

INTERIM DIVIDEND

As the Company was recently listed on the Main Board of the Stock Exchange, the Board of Directors does not recommend the distribution of interim dividend for current period. (Corresponding period of 2001: Nil).

SPECIAL DIVIDENDS

Prior to the Group Reorganisation, the Company did not have any distributable reserves.

As disclosed in the Prospectus, 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 on 18 February 2002, such special dividend had been fully paid to Hon Po Investment, the sole shareholder of the Company registered in the register of members of the Company on 17 January 2002. The above special dividend was distributed as part of the reorganization and did not involve any actual cash payment.

The Board of 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 name appear on the register of members of the Company on 4 June 2002. On 4 June 2002, the Company's shareholders at the Company's annual general meeting have approved the special dividend and it was subsequently paid on 28 June 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

The past six months was a challenging and memorable period for the Group, with our successful public listing on the main board of the Stock Exchange on 18 February 2002. The Group has expanded its activities on all fronts, not only producing immediate and direct benefits but also laying down a strong framework for future development.

Due to the economic down-turn, the Group recorded a decrease in turnover of 9.0% from approximately HK\$405 million in the six months ended 30 June 2001 (the 'Last Interim Period') to approximately HK\$369 million in the six months ended 30 June 2002 (the 'Current Interim Period'). The decrease in turnover is mainly a result of the tough economic climate of operations in Hong Kong.

The Group recorded a net profit of approximately HK\$1.5 million in the Current Interim Period compared to approximately HK\$5.3 million in the Last Interim Period.

Operation Review

In the midst of economic down-turn, spending power was drastically reduced. The World Cup in mid-May till June this year, further weakened the food and beverage business in Hong Kong. The Group managed to further strengthen its restaurant business with continuous product innovation through aggressive pricing, careful quality control and a judicious expansion strategy. As one of the leading players in the market, the Group has carefully expanded its restaurant chains in strategic locations with higher population density. In May this year, the Group successfully acquired a property of approximately 22,820 sq.ft., located in Prince Edward, with the intention to move into higher-income sector of the Chinese restaurant business.

Strategies and Vision

Introduction of 'New Brand'

Capitalising its well-established brand name as a quality seafood provider in Hong Kong, the Group intends to extend its market coverage. The Group opened a new restaurant in Prince Edward this year with a new brand name of "Jing Hua Restaurant" and will open a higher end Chinese restaurant in Metropolitan Hotel, Hunghom. In addition, the Group is actively investigating the feasibility of opening new restaurants in other major cities in the PRC such as Shenzhen.

A Cost Saving Expansion

In addition to the well-planned and careful on-going cost control procedures undertaken to face the keen competition such as increasing the sourcing of new suppliers, the Group also takes a strategic move to further lower its operating costs.

A Framework for Long Term Growth

When drawing its blueprints, the management of the Group will place strong emphasis to maintain its profitability while at the same time, taking the opportunity of the current economic situation to build an extensive distribution network ready for strong pick-up when the economy rebounds.

With the Group's strong reputation, its extensive distribution network and well-planned and insightful marketing strategy, the Directors are confident that the Group will strive through the economic down-turn with uncompromised quality products and services while at the same time laying down the foundation for growth and long term development in the future.

Staff and Compensation Policy

On 30 June 2002, the Group had a total workforce of 1,912 (31 December 2001: 1,919). The salaries and wages of our employees are dependent on their duties and performance.

FINANCIAL REVIEW

The Group will make the funding decision case by case and based on the following factors:

- whether the bank loan is available and how much is the interest rate
- whether the internal resources can be used for the funding purposes
- impact on the gearing ratio and interest rate fluctuation

Capital Structure

As at 30 June 2002, the Group had bank overdraft, bank loans and finance lease payables denominated in HK dollars with an aggregate amount of HK\$110,476,000 (31 December 2001: HK\$37,936,000). The bank loan was increased as a result of the expansion of the Group's restaurant business in Hong Kong and the purchase of a property located at 2/F., Allied Plaza, Cosmopolitan Centre, No. 760 Nathan Road, Kowloon with a purchase consideration of HK\$85,000,000. The bank loans of the Group are at floating rates. The Group did not employ any financial instruments for hedging purposes. The cash and bank balances of the Group amounted to HK\$45,456,000 (31 December 2001: HK\$39,793,000).

The short term borrowings of the Group accounted for 15.7% (31 December 2001: 2.0%) of the total borrowings.

The unaudited consolidated interest expenses for current period was HK\$1,505,000. The pro forma combined interest expenses for the previous period was HK\$2,044,000. The interest-earnings multiples of 1.8 times (Corresponding period of 2001: 3.5 times) was satisfactory.

As at 30 June 2002, the ratio of total liabilities to total assets of the Group was 64.1%, showing an increase over the figure of 28.0% at 31 December 2001.

In conclusion, the financial position of the Group is satisfactory.

Pledges of Assets

As at 30 June 2002, leasehold land and buildings and investment properties of the Group with a net book value of HK\$144,846,000 (31 December 2001: HK\$56,900,000) were pledged as security for bank loans.

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Use of Proceeds of New Issue

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

The net proceeds of share offer, after deduction of related expenses, were approximately HK\$19,635,000. HK\$5,247,000 has been utilized for the establishment of a food manufacturing factory in Hong Kong. HK\$10,388,000 had been utilized for the expansion of the Group's restaurant business in Hong Kong.

The balance of approximately HK\$4,000,000 will be used for the Group's restaurant business in accordance with the plan.

Exchange Exposure

Since most of our sales, purchases of raw materials and bank loans were denominated in Hong Kong dollars during the relevant periods, the Group was only exposed to insignificant exchange risks.

Capital Commitment

As at 30 June 2002, capital commitment amounted to HK\$2,904,000 (31 December 2001: nil).

Contingent Liabilities

As at 30 June 2002, if the termination of all employees met the circumstances required by the Employment Ordinance in relation to long service payment in Hong Kong, the Group's contingent liabilities in respect of long service payments at 30 June 2002 would be approximately HK\$34,000,000 (31 December 2001: HK\$26,000,000).

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, 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 interests	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%
Mr. Tse Chick Sang	2,553,425		1,415,250 (Note 8)	0.94%

Notes:

- Interests in shares of his/her spouse are excluded in accordance with Section 31(1)a of SDI Ordinance.
- The shares are held by To Sang Management Company, a company which is controlled indirectly by a discretionary trust of which Mr. Cheung To Sang and certain of his children are beneficiaries.
- The shares are held by Nun Chiu Investments, a company in which both Mr. Chan Nun Chiu and his wife each has a controlling interest.
- Shares of 4,700,750 are held by Tabo Development, 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, Grace and certain of her children are beneficiaries.
- 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.
8. The shares are held by King Space Limited, a company which is controlled by Mr. Tse Chick Sang.

Save as disclosed above, as at 30 June 2002, 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 of Hong Kong Limited on 18 February 2002. As at 30 June 2002, 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. As at 30 June 2002, 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Group did not purchase, sell or redeem any of the Company's listed securities during the current period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the current period, 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.

AUDIT COMMITTEE

The Audit Committee of the Company comprises all of the three independent non-executive directors of the Company which include Ms. Lee Sin Mei, Olivia, Mr. Mak Siu Cheung, Bernard Jaun and Ms. Chan Choi Har, Ivy, respectively. The Audit Committee has reviewed with directors the accounting principles and practices by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated interim financial statement for the current period.

DISCLOSURE OF THE RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

The Company's 2002 interim report which set out all the information required by Paragraphs 46(1) to 46(6) inclusive in Appendix 16 to the Listing Rules will be available for publication in the website of the Stock Exchange in due course.

By Order of the Board
Cheung To Sang
Chairman and Managing Director

Hong Kong, 25 September 2002