

## **REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements of Hon Po Group (Lobster King) Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2002.

### **GROUP REORGANISATION, SUBSIDIARIES AND BASIS OF PRESENTATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 April 2001 under the Companies Law of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of other companies now comprising the Group on 17 January 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto as well as the basis of presentation of the financial statements are set out in notes 2, 15 and 22 to the financial statements.

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

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries involve the operation of a chain of Chinese restaurants in Hong Kong. The nature of these principal activities have not changed during the year.

### **RESULTS AND DIVIDENDS**

The Group’s loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 67.

Details of the distribution of special dividends are set out in note 12 to the financial statements.

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2002.

### **SUMMARY FINANCIAL INFORMATION**

A summary of the consolidated financial results and consolidated assets, liabilities and minority interests of the Group for the last two financial years is set out on page 69. This summary does not form part of the audited financial statements.

### **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 14 to the financial statements. Further details of the Group’s investment properties are set out on page 68.

### **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company’s issued share capital during the year, together with the reasons therefor, and of the Company’s share options, are set out in note 22 to the financial statements.

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

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### DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK\$23,656,000. This includes the Company's share premium account, in the amount of HK\$104,686,000 at 31 December 2002, which may be distributed under certain circumstances.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$29,000.

### PRE-EMPTIVE RIGHTS

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

### MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year. Purchases from the five largest suppliers of the Group accounted for 34% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 7%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

### DIRECTORS

The directors of the Company during the year were as follows:

#### Executive directors

Mr. Cheung To Sang

Mr. Chan Nun Chiu

Mrs. Cheung Lim Mai Tak, Grace

Mr. She Hing Chiu

Mr. Tse Chick Sang

(appointed on 1 August 2002)

#### Non-executive directors

Mr. Cheung Sik Pang

Mr. Ng Wing Po

#### Independent non-executive directors

Ms. Lee Sin Mei, Olivia

(appointed on 30 January 2002)

Mr. Mak Siu Cheung, Bernard Jaun

(appointed on 30 January 2002)

Ms. Chan Choi Har, Ivy

(appointed on 30 January 2002)

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Subsequent to the balance sheet date, on 31 May 2003, Ms. Lee Sin Mei, Olivia, Mr. Mak Siu Cheung, Bernard Jaun and Ms. Chan Choi Har, Ivy resigned as independent non-executive directors of the Company.

On 31 May 2003, Messrs. Chang Kin Man and Wu Tak Lung were appointed as independent non-executive directors of the Company.

In accordance with article 87(1) of the Company's articles of association, Mrs. Cheung Lim Mai Tak, Grace will retire by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. Tse Chick Sang, Mr. Chang Kin Man and Mr. Wu Tak Lung will hold office until the forthcoming annual meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

### DIRECTORS' INTERESTS IN CONTRACTS

Mr. Cheung To Sang and Mrs. Cheung Lim Mai Tak, Grace, who are the directors of To Sang Management Company Limited ("To Sang Management"), were interested in a lease of staff quarters entered into between To Sang Management and the Group.

Tsin Tao Enterprises Limited ("Tsin Tao") supplied lotus seed paste to the Group. Kung Ping Investments Limited ("Kung Ping Investments") and N.W.P. Investments Limited ("N.W.P. Investments") are the corporate directors of Tsin Tao. Mr. Cheung Sik Pang and Mr. Ng Wing Po are the shareholders of Kung Ping Investments and N.W.P. Investments, respectively.

Mr. Cheung Sik Pang, who is a partner and a beneficial shareholder of Tung Cheong Hong and Pacific Good Trading Limited, respectively, was interested in the supplies of tea leaves and seafood to the Group, respectively.

Mr. Ng Wing Po, who is the director of N.W.P. Investments, was interested in a lease of staff quarters to the Group.

Further details of all the above transactions are included in note 27 to the financial statements.

Save for the above and for the transactions related to the Group Reorganisation, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, fellow subsidiaries and subsidiaries was a party during the year.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

Except for Mr. Tse Chick Sang, an executive director of the Company appointed during the year, who has a service contract with the Company for an initial term of three years commencing on 1 August 2002, each of the remaining executive and non-executive directors has a service contract with the Company for an initial term of three years commencing on 1 February 2002, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors and their associates in the issued 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 as set out below:

Number of shares held in Hon Po Holdings Limited ("Hon Po Holdings"), the ultimate holding company of the Group, which is an associated corporation under the SDI Ordinance, and nature of interest:

|                                | <b>Personal<br/>interest</b> | <b>Family<br/>interest</b> | <b>Corporate<br/>interest</b> | <b>Total<br/>interest</b> |
|--------------------------------|------------------------------|----------------------------|-------------------------------|---------------------------|
| Mr. Cheung To Sang             |                              | (Note 1)                   | 73,996,437<br>(Note 2)        | 17.51%                    |
| Mr. Chan Nun Chiu              |                              |                            | 53,963,137<br>(Note 3)        | 12.77%                    |
| Mrs. Cheung Lim Mai Tak, Grace |                              | (Note 1)                   | 43,762,162<br>(Note 4)        | 10.35%                    |
| Mr. She Hing Chiu              | 5,152,338                    |                            | 7,821,000<br>(Note 5)         | 3.07%                     |
| Mr. Ng Wing Po                 |                              |                            | 45,913,287<br>(Note 6)        | 10.86%                    |
| Mr. Cheung Sik Pang            |                              | 56,037,637<br>(Note 7)     |                               | 13.26%                    |
| Mr. Tse Chick Sang             | 2,553,425                    |                            | 1,415,250<br>(Note 8)         | 0.94%                     |
|                                |                              |                            |                               | <hr/> <hr/> <b>68.76%</b> |

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### Notes:

1. The interests in shares of his/her spouse are excluded in accordance with Section 31(1)(a) of SDI Ordinance.
2. The shares are held by To Sang Management, a company which is controlled indirectly by a discretionary trust of which Mr. Cheung To Sang and certain of his children are beneficiaries.
3. The shares are held by Nun Chiu Investments Limited, a company in which Mr. Chan Nun Chiu and his wife have a controlling interest.
4. 4,700,750 shares are held by Tabo Development Limited (“Tabo Development”), a company in which Mrs. Cheung Lim Mai Tak, Grace owns approximately 74% of the issued capital. 39,061,412 shares 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.
5. The shares are held by Tread Wood Investment Limited, a company in which Mr. She Hing Chiu owns approximately 50% of the issued capital.
6. The shares are held by N.W.P. Investments, a company which is controlled indirectly by a discretionary trust of which Mr. Ng Wing Po’s wife and certain of his children are beneficiaries.
7. The shares are held by Kung Ping Investments, a company which is deemed to be controlled by Mr. Cheung Sik Pang and his wife.
8. The shares are held by King Space Limited, a company which is controlled by Mr. Tse Chick Sang.

The interests of the directors in the share options of the Company are disclosed in note 22 to the financial statements. Save as disclosed above, as at 31 December 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

Apart from the transactions related to the Group Reorganisation as disclosed above and the share option scheme disclosures in note 22 to the financial statements, at no time during the year 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 holding companies, fellow subsidiaries and 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

Due to the adoption of Statement of Standard Accounting Practice No. 34 “Employee benefits” during the year, the detailed disclosures relating to the Company’s share option scheme have been moved to note 22 to the financial statements.

### CONTRACTS OF SIGNIFICANCE

Pursuant to various agreements entered into during the year between the Group and Hon Po Holdings, certain properties beneficially owned by Hon Po Holdings are leased to the Group for the Group’s operations. During the year, the rental expense payable to Hon Po Holdings amounted to HK\$14,494,000 (2001: HK\$44,000). Further details of the transactions are included in note 27 to the financial statements and in the Prospectus.

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## SUBSTANTIAL SHAREHOLDERS

At 31 December 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 Limited | 380,000,000           | 60.32%   |

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

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

## RELATED PARTY AND CONNECTED TRANSACTIONS

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

During the year, A. Top Investment Limited ("A. Top") a non-wholly owned subsidiary of the Company, paid fee/handling charges of HK\$178,765 (2001: Nil) to Hon Po International Limited and HK\$178,765 (2001: 72,680) to Hon Po Management Limited. Oriental Team Investments Limited ("Oriental Team"), a non-wholly owned subsidiary of the Company, paid fee/handling charges of HK\$203,073 (2001: Nil) to Hon Po International Limited and HK\$203,073 (2001: HK\$80,007) to Hon Po Management Limited. Mr. Wong Chung Ming is a director of A. Top and Oriental Team. He is also interested in approximately 4.17% in the ordinary shares of A. Top. Mr. Wong and his family are beneficially interested in Megalopolis Limited which in turn holds approximately 32.97% of ordinary shares in Oriental Team.

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

1. entered into by the Company in the ordinary and usual course of its business;
2. conducted either (i) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (ii) where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. entered into either (i) in accordance with the terms of the agreements governing such transactions, or (ii) where there are no such agreements, on terms no less favourable than those available to or from independent third parties.

Save for the transactions related to the Group Reorganisation as disclosed above and the transactions disclosed in note 27 to the financial statements, there were no other transactions which require to be disclosed as connected transactions in accordance with the Listing Rules.

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### DIRECTORS' INTERESTS IN A COMPETING BUSINESS AND CONFLICT OF INTERESTS

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

- (i) Mrs. Cheung Lim Mai Tak, Grace, an executive director, is interested in approximately 74% of the issued share capital of Tabo Development, a shareholder of Hon Po Holdings, which in turn is interested in approximately 39.13% of the issued share capital of Golden Jumbo Thai Restaurant Limited ("Golden Jumbo"). Golden Jumbo operates a Thai restaurant in Hong Kong. As (a) Golden Jumbo is principally engaged in the provision of Thai food while the Group is principally engaged in the provision of Chinese food; (b) the Group and Golden Jumbo target different customer groups; and (c) apart from Mrs. Cheung Lim Mai Tak, Grace, Golden Jumbo is operated by management different from that of the Group, the Group is capable of carrying out its business independently of, and at arm's length from, the business of Golden Jumbo.
- (ii) Mr. Cheung Sik Pang, a non-executive director, through his own and his family interests in Kung Ping Investments, a substantial shareholder of Hon Po Holdings, and Mr. Ng Wing Po, a non-executive director, through his and his family interests in N.W.P. Investments, a substantial shareholder of Hon Po Holdings, are deemed to be indirectly interested in approximately 36.36% and 18.18% of the issued share capital of Very Good Restaurant Limited ("Very Good"), respectively. Very Good operates a Chinese restaurant in Hong Kong. As both Mr. Cheung Sik Pang and Mr. Ng Wing Po are non-executive directors and are not involved in the daily management of the Group; and Very Good is a single restaurant operator, the Group is capable of carrying on its business independently of, and at arm's length from, the business of Very Good.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 18 February 2002, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

### POST BALANCE SHEET EVENTS

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

### CODE OF BEST PRACTICE

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

### AUDIT COMMITTEE

The Company set up an audit committee on 30 January 2002 which was established in accordance with the requirements of the Code with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises all of the two independent non-executive directors of the Company at the date of this report.

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## AUDITORS

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

ON BEHALF OF THE BOARD

**Cheung To Sang**

*Chairman and Managing Director*

Hong Kong

6 November 2003