NOTES TO FINANCIAL STATEMENTS 31 December 2002

1. CORPORATE INFORMATION

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.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries have not changed during the year and involve the operation of a chain of Chinese restaurants in Hong Kong. The principal activities of the subsidiaries are set out in note 15 to the financial statements.

In the opinion of the directors, Hon Po Holdings Limited ("Hon Po Holdings"), a company incorporated in Hong Kong, is the Company's ultimate holding company.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

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") on 18 February 2002, the Company became the holding company of the companies now comprising the Group (the "Subsidiaries") 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 British Virgin Islands (the "BVI") and the then holding company of the other subsidiaries as set out in note 15 to the financial statements, in consideration of 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 Limited ("Hon Po Investment"), the former shareholder of Hon Po International.

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

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 ("Chinese King's"), one of the Non-Group Companies, which were also transferred to the Group. Since the date of the transfer, the Non-Group Companies discontinued their activities of operating restaurants.

Further details of the Group Reorganisation are set out in note 22 to the financial statements and in the Prospectus.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (Continued)

Basis of presentation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions", issued by the Hong Kong Society of Accountants, as a result of which the legal structure of the Group Reorganisation was completed on 17 January 2002. Under this basis, the Company has been treated as the holding company of the Subsidiaries for the financial years presented, rather than from the date of its acquisition of the Subsidiaries on 17 January 2002. Accordingly, the consolidated results of the Group for the years ended 31 December 2001 and 2002 include the results of the Company and the Subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, where this is a shorter period. Pursuant to the Group Reorganisation, the results attributable to the Sourcing Business and the Restaurant Business have been included in the consolidated financial statements with effect from their effective dates of acquisition as aforementioned. The consolidated profit and loss account for the year ended 31 December 2002 has consolidated the results attributable to the Restaurant Business acquired on 11 January 2002 from 1 January 2002 rather than from 11 January 2002 onwards. The directors consider that the financial impact on the consolidation of the financial results of the Restaurant Business for the period from 1 January 2002 to 10 January 2002 did not have a significant impact on the Group's consolidated financial statements as a whole.

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

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

For information purposes only, the pro forma combined profit and loss accounts for the two years ended 31 December 2001 and 2002, presented below, include the results of the Company and the Subsidiaries with effect from 1 January 2001 or since their 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 two years ended 31 December 2001 and 2002. For the purpose of presenting the pro forma combined results of the Group, 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 presentation was adopted for the preparation of the accountants' report (the "Accountants' Report") included in the Prospectus.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (Continued)

Basis of presentation (Continued)

For information purposes only, the following are the pro forma combined profit and loss accounts of the Group for the two years ended 31 December 2001 and 2002 prepared on the basis as noted above:

	Note	2002 HK$'000	2001 HK$'000
TURNOVER		**730,466**	798,644
Other revenue and gain		**5,715**	6,103
Cost of inventories consumed		**(232,744)**	(242,996)
Staff costs		**(281,039)**	(282,908)
Operating lease rentals		**(77,372)**	(79,614)
Depreciation		**(18,793)**	(21,570)
Fuel costs and utility expenses		**(75,549)**	(78,570)
Other operating expenses		**(126,477)**	(69,451)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		**(75,793)**	29,638
Finance costs		**(4,468)**	(3,365)
PROFIT/(LOSS) BEFORE TAX		**(80,261)**	26,273
Tax		**(86)**	(4,560)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(80,347)**	21,713
Minority interests		**36**	440
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(80,311)**	22,153
EARNINGS/(LOSS) PER SHARE – Basic	*13*	**(HK13.13 cents)**	HK4.87 cents

At 31 December 2002, the Group had net current liabilities of approximately HK$76,116,000. The Group also incurred a net loss attributable to shareholders of approximately HK$77,044,000 for the year ended 31 December 2002. Subsequent to the balance sheet date, a subsidiary of the Company has been involved in legal proceedings with a landlord in the High Court in Hong Kong, concerning rent payable for a restaurant falling due after the balance sheet date. The amount of the subsequent legal claim outstanding against the Group is approximately HK$0.3 million plus other costs, damages and interest. The Group is in the process of negotiating with the landlord. Further details of the proceedings are set out in note 28(ii) to the financial statements.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (Continued)

Basis of presentation (Continued)

The Hong Kong economy has also been adversely affected by certain unforeseen events which in turn seriously affected consumer spending and consequently the Group's turnover, profitability and liquidity during the second half of 2002 and subsequently thereto up to the date of these financial statements were approved for issue. These events primarily included the threat of war in Iraq towards the end of 2002 which materialised after the year end, the proposed tax increases announced by the Hong Kong government at the beginning of 2003 and the outbreak of the atypical pneumonia epidemic.

Having regard to this background, in order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the directors have adopted the following measures:

(a) the directors have temporarily and permanently closed down certain loss-making Group restaurant operations so as to relieve the Group's liquidity pressure and to reduce further possible losses to the Group;

(b) the Group entered into written agreements with certain decoration contractors responsible for the decoration of the Group's restaurants to reschedule the payment of outstanding balances for restaurant decoration work, amounting to approximately HK$11 million, until January 2004;

(c) the directors have taken action to tighten cost controls over the restaurants' staff costs, overheads and various general and administrative expenses;

(d) subsequent to the balance sheet date, the Group entered into agreements with an independent third party and a related party for the disposal of two properties for a cash consideration of HK$83 million and HK$55 million, respectively. Further details regarding the disposals are set out in notes 28(i) and (v) to the financial statements. The net cash proceeds, after the repayment of the corresponding secured bank borrowings and related expenses, of approximately HK$33 million, have been used to provide additional cash resources for the Group's operations; and

(e) pursuant to an announcement made by the Company on 29 September 2003, the directors have completed negotiations with ICEA Financial Services Limited ("ICEA") for a proposed loan facility to be made available to the Company of approximately HK$19 million at an interest rate of prime rate plus 2% per annum (the "Proposed Loan Facility"). As part of the loan facility arrangements, the Company will execute a debenture in favour of ICEA creating a first floating charge over all the properties, assets and undertakings of the Company. The Proposed Loan Facility will also be supported by the personal guarantees of two directors of another company (the "Proposed Purchasing Company") connected with the Proposed Purchasing Company's proposed acquisition (the "Proposed Acquisition") of 348,516,000 issued and fully paid ordinary shares of the Company held by Hon Po Investment. The Proposed Loan Facility will be granted upon the completion of the Proposed Acquisition.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (Continued)

Basis of presentation (Continued)

A condensed pro forma adjusted consolidated net assets statement of the Group as at 31 December 2002, which is based on the audited consolidated net assets of the Group as at 31 December 2002 and adjusted as if the measures as set out in (b) and (d) above had taken place on 31 December 2002, is presented below:

	Audited consolidated net assets as at 31 December 2002 HK$'000	Pro forma adjustments: Rescheduled repayment terms for the decoration payables HK$'000 (b)	Pro forma adjustments: Disposal of properties HK$'000 (d)	Pro forma adjusted consolidated net assets as at 31 December 2002 HK$'000
Non-current assets	**206,914**		(138,000)	**68,914**
Current assets	**69,800**		32,507	**102,307**
Current liabilities	**(145,916)**	11,379	17,556	**(116,981)**
Net current liabilities	**(76,116)**			**(14,674)**
Non-current liabilities	**(98,852)**	(11,379)	87,937	**(22,294)**
Minority interests	**(1,826)**			**(1,826)**
Net assets	**30,120**			**30,120**

In addition to the above measures, the Group has not experienced any material withdrawal or reduction either of the banking facilities granted by its bankers, or of the credit terms granted by its suppliers up to the date of approval of these financial statements for issuance. The directors are confident that the Group will continue to receive ongoing financial support from its bankers and suppliers in maintaining the existing level of banking facilities and credit terms, respectively, currently made available to the Group for the Group's continued operations.

In the opinion of the directors, in light of the measures taken to date together with the expected successful outcome of those still in progress, and on the basis of the continued support from the bankers and suppliers, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2002 and at the date of approval of these financial statements.

Should the Group be unable to continue its business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise, including those contingent liabilities as set out in note 25 to the financial statements, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these potential adjustments has not been reflected in these financial statements.

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

The following new and revised SSAPs and Interpretation are effective for the first time in the preparation of the current year's consolidated financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"
- Interpretation 15: "Business combinations – "Date of exchange" and fair value of equity instruments"

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 are summarised as follows:

SSAP 1 prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 23 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, rather than translated at the applicable exchange rates ruling at the balance sheet date as was previously required. Further details about the impact of this SSAP are given in the accounting policy for foreign currencies as set out in note 4 to the financial statements.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on pages 24 and 25 of the financial statements and the notes thereto have been revised in accordance with the new requirements. The cash flows of the Company's overseas subsidiaries are now translated using the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas before, they were translated at the applicable exchange rates ruling at the balance sheet date. Further details about the impact of this change are described in the accounting policy for foreign currency transactions as set out in note 4 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 22 to the financial statements. These disclosures are similar to those previously required to be disclosed in the Report of the Directors by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and which are now included in the notes to the financial statements as a consequence of the SSAP.

Interpretation 15 prescribes the determination of the date of exchange on which the fair value of the equity instrument issued is determined in a business acquisition, and the basis of determination of the fair value of a quoted equity instrument. The adoption of this Interpretation requires equity instruments issued as a purchase consideration in a business acquisition to be measured at their fair value at the date of exchange, which is normally their quoted market price, and the disclosure of alternative methods and assumptions used in determining the fair value if the market price has not been used. When an equity instrument issued as purchase consideration does not have a published price at the date of exchange, an enterprise should disclose that fact and the method and significant assumptions applied in determining the fair value. Further details of the disclosures required under this Interpretation are set out in note 24(a) to the 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. 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) rental income under operating leases, on the straight-line basis over the lease terms;

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

(d) handling charges and sundry income, when services are rendered.

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 fixed assets 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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.

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.

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 consolidated profit and loss account and any relevant reserves as appropriate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of distributable reserves 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.

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 currencies

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

On consolidation, the financial statements of subsidiaries outside Hong Kong are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of subsidiaries outside Hong Kong which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of subsidiaries outside Hong Kong and the cash flows of subsidiaries outside Hong Kong were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, but has had no material effect on the amounts previously reported in prior year's financial statements.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Employee benefits

Employment Ordinance long service payments

Certain employees of the Group have completed the required number of years of service under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong (the "Employment 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 Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources of the Group. The Group's contingent liabilities in respect of such payments are set out in note 25 to the financial statements.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. 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.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

5. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the Group's major business comprises the operation of a chain of Chinese restaurants in Hong Kong.

6. TURNOVER, OTHER REVENUE AND GAIN

Turnover represents the receipts from restaurant operations. All significant intra-group transactions have been eliminated in the preparation of the consolidated financial statements. An analysis of the Group's turnover, other revenue and gain is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Turnover		
Receipts from restaurant operations	**730,466**	498,758
Other revenue		
Rental income, gross	**3,498**	1,797
Bank interest income	**31**	–
Handling charges received from fellow subsidiaries	**–**	458
Sundry income	**2,186**	1,138
	5,715	3,393
Gain		
Negative goodwill recognised *(note 24(a))*	**3,267**	–
Total revenue and gain	**739,448**	502,151

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

		Group	
		2002	2001
	Notes	*HK$'000*	*HK$'000*
Cost of inventories consumed		**232,744**	155,633
Depreciation	*14*	**18,793**	16,267
Staff costs (including directors' remuneration – *note 8*):			
Wages and salaries and other staff benefits		**269,349**	161,152
Pension scheme contributions		**11,690**	7,261
		281,039	168,413
Severance payment		**2,404**	–
Minimum lease payments under operating leases on land and buildings:			
Related companies		**10,731**	11,960
Certain fellow subsidiaries for the benefit of the ultimate holding company		**14,494**	44
Third parties		**52,147**	51,916
		77,372	63,920
Auditors' remuneration		**820**	679
Provision for impairment of leasehold land and buildings*	*14*	**5,500**	–
Provision for impairment of leasehold improvements*	*14*	**22,375**	–
Provision for impairment of furniture and fixtures*	*14*	**4,888**	–
Provision for impairment of plant and equipment*	*14*	**1,283**	–
Provision for impairment of other assets*		**1,865**	–
Revaluation deficit on leasehold land and buildings	*14*	**585**	–
Loss on disposal of fixed assets		**94**	–
Loss on disposal of other assets		**232**	–
Negative goodwill recognised**	*24(a)*	**(3,267)**	–
Net rental income		**(3,454)**	(1,597)
Bank interest income		**(31)**	–

* The provisions for impairment of leasehold land and buildings, leasehold improvements, furniture and fixtures, plant and equipment and other assets for the year ended 31 December 2002 are included in "Other operating expenses" on the face of the Group's consolidated profit and loss account.

** The negative goodwill recognised for the year ended 31 December 2002 is included in "Other revenue and gain" on the face of the Group's consolidated profit and loss account.

At 31 December 2002, no inventories were stated at net realisable value (2001: Nil).

8. DIRECTORS/EMPLOYEES' REMUNERATION

Details of the remuneration of the Company's directors pursuant to Appendix 16 of the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees:		
Executive directors	**2,650**	–
Non-executive directors	**1,200**	–
Independent non-executive directors	**90**	–
	3,940	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**–**	1,054
Non-executive directors	**–**	–
Independent non-executive directors	**–**	–
	–	1,054
Pension scheme contributions	**53**	9
	3,993	1,063

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

	2002 Number of directors	2001 Number of directors
Nil to HK$1,000,000	**10**	6

8. DIRECTORS/EMPLOYEES' REMUNERATION (Continued)

The five highest paid individuals during the year included four (2001: Nil) directors, details of whose remuneration have been disclosed above. Details of the remuneration of the remaining one (2001: five) non-director, highest paid individual are as follows:

	2002	2001
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**710**	1,851
Pension scheme contributions	**12**	61
	722	1,912

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

	Number of employees	
	2002	2001
Nil to HK$1,000,000	**1**	5

During the years ended 31 December 2001 and 2002, 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 2002.

No share options were granted to the Company's directors, the Group's or the Company's employees during the year as set out in note 22 to the financial statements.

9. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**4,359**	166
Interest on finance leases	**109**	5
	4,468	171

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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% (2001: 16%) on timing differences.

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current year provision	**100**	1,999
Deferred tax charge/(credit), net – *note 21*	**(14)**	541
Tax charge for the year	**86**	2,540

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2002 was HK$81,030,000 (2001: Nil).

12. DIVIDENDS

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

As disclosed in the unaudited consolidated financial statements for the six months ended 30 June 2002 included in the interim report dated 25 September 2002 of the Company (the "2002 Interim Report") as part of the Group Reorganisation process incidental to the listing of the Company on the Stock Exchange, a special dividend (the "Special Dividend") of HK$224,600,000 was declared and approved by the directors of the Company which was conditional upon the listing of the Company's shares on the Stock Exchange. The Special Dividend was set-off against the account balance due to the Company (the "Account Balance") from Hon Po Investment, the sole shareholder of the Company arising upon the completion of the Group Reorganisation on 17 January 2002 prior to the listing. The Special Dividend did not involve any cash payment. It has since transpired that the pro forma financial statements, and other financial information of the Company on which the Accountants' Report was based, and consequently the Accountants' Report itself, were prepared in a manner inconsistent with the intentions of the directors in relation to the nature of the assets transferred in the course of the Group Reorganisation, with the result that the value of the transferred assets had been overstated.

Based on a report prepared by an independent firm of accountants retained by the Group, the directors agreed that the Special Dividend should be in the amount of approximately HK$92,554,000 to set-off the revised Account Balance as at the date of completion of the Group Reorganisation on 17 January 2002. The directors further agreed that the difference in the amount of HK$132,046,000 between the Special Dividend of HK$224,600,000 and the HK$92,554,000 as aforementioned (the "Difference") should be cancelled and waived. As with the Special Dividend, the cancellation and waiver of the Difference did not involve any cash payment, and the aforementioned HK$92,554,000 was settled by way of set-off against the revised Account Balance. Accordingly, the directors consider that there is no adverse change in the financial position and net tangible asset value of the Group and the Company as disclosed in the corresponding sections of the Prospectus, the 2001 annual report and the 2002 Interim Report. After taking into account the opinion of legal counsel, the directors consider that the cancellation and waiver of the Difference (i) does not lead to any loss to the members of the Company; and (ii) does not lead to any diminution of the Group's and the Company's assets and no third party obtains any benefit or suffers any loss, and accordingly, no party should be held liable.

12. DIVIDENDS (Continued)

The rates of the Special Dividend and the number of shares ranking for the Special Dividend are not presented as the directors consider that such information is not meaningful for the purpose of these financial statements.

On 23 April 2002, an ordinary resolution was passed, pursuant to which 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, to the shareholders of the Company whose names appeared 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 approved the special dividend and it was subsequently paid on 28 June 2002.

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share, on a consolidated basis, is based on the net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 of HK$77,044,000 (2001: net profit of HK$6,602,000) and the weighted average of 611,780,822 (2001: 455,000,000) ordinary shares in issue during the year.

For information purposes only, the calculation of the pro forma basic earnings/(loss) per share, on the pro forma combined basis as set out in note 2 to the financial statements, is based on the pro forma combined net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 of HK$80,311,000 (2001: net profit of HK$22,153,000) and the weighted average of 611,780,822 (2001: 455,000,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the basic earnings/(loss) per share, on both the consolidated and pro forma combined bases, for the year ended 31 December 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 on 4 May 2001, and the 99 shares issued as consideration for the acquisition of the entire issued share capital of Hon Po International on 17 January 2002, and the capitalisation issue of 454,999,900 shares, as further detailed in note 22 to the financial statements. The weighted average number of shares used to calculate the basic earnings/(loss) per share, on both the consolidated and pro forma combined bases, for the year ended 31 December 2002 includes the weighted average of the 156,780,822 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 years ended 31 December 2001 and 2002, and accordingly, no diluted earnings/(loss) per share amount, on either the consolidated or pro forma combined bases, have been presented.

14. 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	31,200	29,100	110,388	32,722	8,259	263	211,932
Additions	89,140	–	35,946	10,103	1,948	–	137,137
Acquisition of Restaurant Operation pursuant to Group Reorganisation *(note 24(a))*	–	–	–	6,119	549	–	6,668
Disposals	–	–	–	(135)	–	–	(135)
Deficit on revaluation	(2,720)	(100)	–	–	–	–	(2,820)
At 31 December 2002	117,620	29,000	146,334	48,809	10,756	263	352,782
Analysis of cost or valuation:							
At cost	–	–	146,334	48,809	10,756	263	206,162
At 2002 valuation	117,620	29,000	–	–	–	–	146,620
	117,620	29,000	146,334	48,809	10,756	263	352,782
Accumulated depreciation and impairment:							
At beginning of year	–	–	86,263	25,730	5,805	11	117,809
Provided during the year	1,680	–	11,761	3,921	1,365	66	18,793
Impairment provided during the year	5,500	–	22,375	4,888	1,283	–	34,046
Written back on disposal	–	–	–	(41)	–	–	(41)
Written back on revaluation	(1,680)	–	–	–	–	–	(1,680)
At 31 December 2002	5,500	–	120,399	34,498	8,453	77	168,927
Net book value:							
At 31 December 2002	112,120	29,000	25,935	14,311	2,303	186	183,855
At 31 December 2001	31,200	29,100	24,125	6,992	2,454	252	94,123

14. FIXED ASSETS (Continued)

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

	2002	2001
	HK$'000	*HK$'000*
Leasehold land and buildings held under:		
Long term leases	**110,900**	29,880
Medium term leases	**1,220**	1,320
	112,120	31,200

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 revalued individually on an open market, existing use basis at 31 December 2002 by FPDSavills (Hong Kong) Limited ("FPDSavills"), professionally qualified valuers, at HK$117,620,000. Deficits of HK$455,000 and HK$585,000 (note 7) arising therefrom, have been debited to the fixed assets revaluation reserve and charged to the profit and loss account, respectively. Provision for impairment of HK$5,500,000 has been charged to the profit and loss account for the year ended 31 December 2002.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation and impairment losses, they would have been included in the financial statements at approximately HK$93,451,000 (2001: HK$11,144,000).

The Group's investment properties were revalued collectively on an open market, existing use basis at 31 December 2002 by FPDSavills, at HK$29,000,000. A deficit of HK$100,000 arising therefrom, has been debited to the investment properties revaluation reserve.

The investment properties are leased to third parties under operating leases, further summary details of which are summarised in note 26(a) to the financial statements.

At 31 December 2002, the Group's investment properties and leasehold land and buildings, with carrying values of HK$29,000,000 (2001: HK$29,100,000) and HK$112,120,000 (2001: HK$27,800,000), respectively, were pledged to secure banking facilities granted to the Group (note 19).

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:

	2002	2001
	HK$'000	*HK$'000*
Furniture and fixtures	**388**	471
Plant and equipment	**1,194**	–
Motor vehicles	**135**	180
	1,717	651

Further particulars of the Group's investment properties are included on page 68.

15. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**191,464**	–
Due from subsidiaries	**20,038**	–
Due to subsidiaries	**(96,079)**	–
	115,423	–
Provision for impairment	**(80,000)**	–
	35,423	–

The balances with subsidiaries were unsecured, interest-free and were repayable on demand.

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Hon Po International Limited	BVI/Hong Kong	Ordinary US$151	100	Investment and intellectual property holding
Indirectly held				
A. Top Investment Limited	Hong Kong	Ordinary HK$12,000,000 Class A *(Note)* HK$11,500,000	96	Operation of a Chinese restaurant
Beautiguide Investments Limited	Hong Kong	Ordinary HK$10,000	100	Operation of a Chinese restaurant
Bestcase Hong Kong Limited	Hong Kong	Ordinary HK$6,000,000	100	Operation of a Chinese restaurant

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Bestrade Investments Limited	Hong Kong	Ordinary HK$100 Class A *(Note)* HK$17,500,000	100	Operation of a Chinese restaurant
Chai Wan Hon Po Restaurant Limited	Hong Kong	Ordinary HK$10,000 Class A *(Note)* HK$5,000,000	100	Operation of a Chinese restaurant
Dragongem Development Limited	Hong Kong	Ordinary HK$100 Class A *(Note)* HK$21,250,000	100	Operation of a Chinese restaurant
Harmony Sky Investment Limited	Hong Kong	Ordinary HK$10,000 Class A *(Note)* HK$10,000	99	Operation of a Chinese restaurant
Hon Po Bright Ocean Enterprises Limited	BVI/Hong Kong	Ordinary US$1	100	Operation of a Chinese restaurant
Hon Po Management Limited	Hong Kong	Ordinary HK$2 Class A *(Note)* HK$100	100	Sourcing business and property investment
Hon Po Rich Harvest Resources Limited	BVI/Hong Kong	Ordinary US$1	100	Operation of a Chinese restaurant
Hon Po Sunny Bright Developments Limited	BVI/Hong Kong	Ordinary US$1	100	Operation of a Chinese restaurant

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Hong Kong Hon Po Food Factory Limited*	Hong Kong	Ordinary HK$10,000	100	Production of seasonal food
Jing Hua (Allied) Limited*	Hong Kong	Ordinary HK$10,000	100	Operation of a Chinese restaurant
Jing Hua Restaurant Limited*	Hong Kong	Ordinary HK$10,000	100	Property investment
Metropolis Harbour View Chinese Cuisine Limited*	Hong Kong	Ordinary HK$10,000	100	Operation of a Chinese restaurant
Milibless International Development Limited	Hong Kong	Ordinary HK$100 Class A *(Note)* HK$6,000,000	100	Operation of a Chinese restaurant
More Development Limited	Hong Kong	Ordinary HK$100 Class A *(Note)* HK$28,000,000	100	Operation of a Chinese restaurant
Ocean Grace Investments Limited	Hong Kong	Ordinary HK$2	100	Operation of a Chinese restaurant
Open Global Investments Limited	BVI/Hong Kong	Ordinary US$1	100	Operation of a Chinese restaurant
Oriental Team Investments Limited	Hong Kong	Ordinary HK$18,200,000	67	Operation of a Chinese restaurant

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Rich Source Management Limited	BVI/Hong Kong	Ordinary US$10,000	99	Operation of a Chinese restaurant
Victory Impact Limited	BVI/Hong Kong	Ordinary US$1	100	Operation of a Chinese restaurant

Note: The Class A shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the relevant companies in such winding-up, if any).

* Incorporated during the year.

The above table lists the subsidiaries of the Company as at 31 December 2002 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. 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:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current to 3 months	**1,980**	1,629
4 to 6 months	**2**	2
	1,982	1,631

17. BALANCES WITH THE ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

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

	31 December 2002	**Maximum amount outstanding during the year**	**1 January 2002**
	HK$'000	*HK$'000*	*HK$'000*
Due from the ultimate holding company	–	105,103	63,846

The balances with the ultimate holding company and the immediate holding company were unsecured, interest-free and were repayable on demand.

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

18. ACCOUNTS PAYABLE

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

19. BANK OVERDRAFTS AND BANK LOANS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts	**11,124**	–	**–**	–
Bank loans wholly repayable:				
Within one year	**19,925**	–	**2,400**	–
In the second year	**12,174**	3,968	**–**	–
In the third to fifth years, inclusive	**26,309**	12,966	**3,000**	–
Beyond five years	**56,662**	20,066	**–**	–
	126,194	37,000	**5,400**	–
Portion classified as current liabilities	**(31,049)**	–	**(2,400)**	–
Long term portion	**95,145**	37,000	**3,000**	–

At 31 December 2002, the Group's banking facilities were secured by the leasehold land and buildings and investment properties of the Group (note 14) and supported by corporate guarantees executed by the Company (note 25) and personal guarantees executed by certain directors and a related party of the Company. At 31 December 2001, the Group's banking facilities were secured by certain leasehold land and buildings and investment properties of the Group and supported by personal guarantees executed by certain directors of the Company.

At 31 December 2002, the Company's banking facilities were secured by the leasehold land and buildings of certain subsidiaries of the Company (2001: Nil).

20. FINANCE LEASE PAYABLES

The Group leases certain of its fixed assets for its restaurant business and production of seasonal food products (note 14). These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At 31 December 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**631**	348	**571**	289
In the second year	**426**	205	**409**	181
In the third to fifth years, inclusive	**177**	–	**176**	–
Total minimum finance lease payments	**1,234**	553	**1,156**	470
Future finance charges	**(78)**	(83)		
Total net finance lease payables	**1,156**	470		
Portion classified as current liabilities	**(571)**	(289)		
Long term portion	**585**	181		

At 31 December 2001 and 2002, certain finance lease contracts of the Group were entered into by certain of the fellow subsidiaries of the Company. As part of the Group Reorganisation described in note 2 to the financial statements, the Group is currently in the process of novating the above-mentioned finance lease contracts to the Company's subsidiaries.

21. DEFERRED TAX

Deferred tax for the year has been provided under the liability method at the rate of 16% (2001: 16%) on timing differences.

	Group	
	2002	2001
	HK$'000	*HK$'000*
Balance at beginning of year	**688**	147
Acquisition of Restaurant Operation pursuant to Group Reorganisation – *note 24(a)*	**14**	–
Charge for the year – *note 10*	**613**	544
Overprovision in prior year – *note 10*	**(627)**	(3)
At 31 December	**688**	688

The principal components of the Group's provision for deferred tax, and the net deferred tax assets not recognised in the financial statements are as follows:

	Provided		Unprovided	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**1,203**	706	**(9,830)**	(5,471)
Tax losses	**(515)**	(18)	**(8,273)**	(1,698)
	688	688	**(18,103)**	(7,169)

The revaluations of the Group's leasehold land and buildings and investment properties do not constitute a timing difference and, consequently, the amounts of potential deferred tax thereon have not been quantified.

The Company had no significant potential deferred tax liabilities for which provision has not been made or unprovided deferred tax at the balance sheet date (2001: Nil).

22. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
630,000,000 (2001: 1) ordinary shares of HK$0.01 each	**6,300**	–

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;

(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.

Details of the movements in the issued and fully paid share capital of the Company during the year ended 31 December 2002 are as follows:

(e) On 17 January 2002, as part of the Group Reorganisation set out in note 2 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 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) In connection with the Company's initial public offering on 18 February 2002, 175,000,000 shares of HK$0.01 each (the "Offer Shares"), were issued at HK$0.20 each for a total cash consideration, before expenses, of HK$35,000,000.

The excess of the proceeds over the par value of the shares issued was credited to the share premium account.

22. 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 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)*	–	–	4,549
As at 31 December 2002		10,000,000,000	630,000,000	6,300

22. SHARE CAPITAL (Continued)

Share option scheme

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (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, will remain 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. 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.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At the balance sheet date and up to the date of approval of the financial statements, no share options have been granted under the Scheme.

23. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

The share premium account of the Group includes (i) shares issued at a premium; and (ii) the share premium arising on the Group Reorganisation as set out in note 2 to the financial statements.

Company

	Share premium account	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At date of incorporation, 31 December 2001 and 1 January 2002	–	–	–
Arising on acquisition of Hon Po International – *note 2*	191,463	–	191,463
New issue on public listing – *note 22*	33,250	–	33,250
Share issue expenses – *note 22*	(15,364)	–	(15,364)
Capitalisation Issue of shares – *note 22*	(4,549)	–	(4,549)
Net loss for the year	–	(81,030)	(81,030)
Distribution of special dividends – *note 12*	(100,114)	–	(100,114)
At 31 December 2002	104,686	(81,030)	23,656

The share premium account of the Company includes (i) shares issued at a premium; and (ii) the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying net assets of the subsidiaries pursuant to the Group Reorganisation as set out in note 2 to the financial statements. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company under certain circumstances.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of Sourcing Business and/or Restaurant Operation

		Group	
		2002	2001
	Notes	***HK$'000***	*HK$'000*
Net assets acquired:			
Fixed assets	*14*	**6,668**	1,053
Other assets		**1,877**	296
Rental deposits and other deposits		**3,707**	–
Inventories		**3,283**	5,709
Accounts receivable		**675**	135
Deposits, prepayments and other receivables		**2,838**	10,781
Due from the ultimate holding company		**15,263**	14,856
Tax refundable		**776**	48
Cash and bank balances		**12,824**	1,427
Accounts payable		**(9,444)**	(6,976)
Accruals		**(10,422)**	(8,182)
Tax payable		**(286)**	(354)
Bank overdrafts		**–**	(46)
Finance lease payables		**(465)**	(522)
Deferred tax		**(14)**	–
Total net assets acquired		**27,280**	18,225
Negative goodwill on acquisition	*6*	**(3,267)**	–
		24,013	18,225
Satisfied by:			
Shares issued		**45,613**	18,225
Due from the immediate holding company		**(21,600)**	–
		24,013	18,225

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(a) Acquisition of Sourcing Business and/or Restaurant Operation (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the Sourcing Business and/or Restaurant Operation is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Cash and bank balances acquired	**12,824**	1,427
Bank overdrafts acquired	**–**	(46)
	12,824	1,381

During the year ended 31 December 2002, as part of the Group Reorganisation detailed in note 2 to the financial statements, on 11 January 2002, the Restaurant Business excluding the leasehold land and buildings and investment properties owned by Chinese King's (the "Restaurant Operation") operated by certain Non-Group Companies was transferred to certain subsidiaries of the Company at an aggregate consideration of HK$45,613,000, which was settled by the allotment and issue of 40 ordinary shares of US$1 each in Hon Po International, to Hon Po Investment. The shares issued by Hon Po International did not have a published price at the time of issue. The fair value of the shares issued was estimated by reference to the fair values of the identifiable assets and liabilities attributable to the Restaurant Operation as at the date of acquisition. The excess of the consideration over the nominal value of shares issued was credited to the share premium account (note 23).

In addition, on 11 January 2002, two of the Non-Group Companies (the "Two Non-Group Companies") entered into deeds of assignment and novation with two subsidiaries of the Company (the "Two Subsidiaries"), pursuant to which, the Two Non-Group Companies transferred and assigned certain of their assets and liabilities required for the operation of the Restaurant Operation to the Two Subsidiaries, and the Two Non-Group Companies paid to the Two Subsidiaries an aggregate sum of HK$21,600,000. The amount was settled through the set-off of current accounts between Hon Po Investment and Hon Po International.

During the year ended 31 December 2001, as part of the Group Reorganisation described in note 2 to the financial statements, on 26 October 2001 and 15 November 2001, the Sourcing Business operated by Hon Po Holdings and the Restaurant Operation operated by Chinese King's were transferred to two subsidiaries of the Company, respectively, at an aggregate consideration of HK$18,225,000, which was settled by the allotment and issue of 20 ordinary shares of US$1 each in Hon Po International, to Hon Po Investment. The shares issued by Hon Po International did not have a published price at the time of issue. The fair value of the shares issued was estimated by reference to the fair values of the identifiable assets and liabilities attributable to the Sourcing Business and the Restaurant Operation as at the dates of acquisition. The excess of the consideration over the nominal value of shares issued was credited to the share premium account (note 23).

Further details of the acquisition are included in note 2 to the financial statements.

The Restaurant Operation of certain Non-Group Companies acquired during the year contributed HK$231,394,000 to the Group's turnover and a net loss of HK$10,208,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2002.

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(a) Acquisition of Sourcing Business and/or Restaurant Operation (Continued)

The Sourcing Business of Hon Po Holdings and the Restaurant Operation of Chinese King's acquired in the prior year contributed HK$12,233,000 to the Group's turnover and a net profit of HK$2,134,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

(b) Major non-cash transactions

(i) The Group Reorganisation involved the acquisition of the entire issued share capital of Hon Po International by the issue of shares of the Company, further details of which are set out in notes 2 and 22 to the financial statements.

(ii) As detailed in note (a) above, during the year ended 31 December 2001, the Group acquired the Sourcing Business and Restaurant Operation from Hon Po Holdings and Chinese King's, respectively, at an aggregate consideration of HK$18,225,000, which was settled by way of an allotment and issue of 20 ordinary shares of US$1 each in Hon Po International, to Hon Po Investment.

During the year ended 31 December 2002, the Group acquired the Restaurant Operation from certain Non-Group Companies at an aggregate consideration of HK$45,613,000, which was settled by way of an allotment and issue of 40 ordinary shares of US$1 each in Hon Po International, to Hon Po Investment.

In addition, the Two Non-Group Companies entered into deeds of assignment and novation with the Two Subsidiaries, pursuant to which, the Two Non-Group Companies transferred and assigned certain of their assets and liabilities required for the operation of the Restaurant Operation to the Two Subsidiaries, and the Two Non-Group Companies paid to the Two Subsidiaries an aggregate sum of HK$21,600,000. The amount was settled through the set-off of current accounts between Hon Po Investment and Hon Po International.

(iii) A special dividend was distributed as part of the Group Reorganisation and did not involve any cash payment. Further details are set out to note 12 to the financial statements.

(iv) During the years ended 31 December 2002 and 2001, 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$1,200,000 and HK$538,000, respectively.

25. CONTINGENT LIABILITIES

At 31 December 2002, a number of current employees had achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance should their employment be terminated under certain prescribed circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that there will be a material future outflow of resources from the Group in respect thereof.

The Group has a contingent liability in respect of possible future payments to employees under the Employment Ordinance and as detailed under the heading "Employee benefits" in note 4 to the financial statements, with a maximum possible amount of HK$24,440,000 (2001: HK$14,351,000) as at 31 December 2002.

At 31 December 2002, except for certain subsidiaries' banking facilities which were supported by the corporate guarantees of the Company (note 19), the Company had no significant contingent liabilities (2001: Nil).

26. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under non-cancellable operating lease arrangements with lease terms ranging from two to three years.

At 31 December 2002, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**2,775**	2,789
In the second to fifth years, inclusive	**2,698**	2,717
	5,473	5,506

(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 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**72,507**	62,272
In the second to fifth years, inclusive	**114,970**	100,424
After five years	**26,125**	15,321
	213,602	178,017

At 31 December 2002, the Company did not have any significant operating lease arrangements (2001: Nil).

27. RELATED PARTY TRANSACTIONS

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

	Notes	**2002**	2001
		HK$'000	*HK$'000*
Purchases of foodstuffs from related companies	*(i)*	**3,075**	10,313
Minimum lease payments under operating leases on land and buildings paid to related companies	*(ii)*	**10,731**	11,960
Minimum lease payments under operating leases on land and buildings paid to certain fellow subsidiaries for the benefit of the ultimate holding company	*(iii)*	**14,494**	44
Handling charges received from fellow subsidiaries	*(iv)*	**–**	458

Notes:

(i) The Group purchased foodstuffs from Hop Shing Suckling Pig & Roast Meat Company Limited ("Hop Shing"), some of whose directors were also directors of the Company, up to February 2001.

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

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

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

The directors of the Company, having regards to the costs of similar foodstuffs obtainable from third parties, consider that the purchases of foodstuffs were charged with reference to cost.

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

(ii) 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 is beneficially owned by certain directors of the Company. Composite and WCM Fund are beneficially owned by Mr. Wong Chung Ming who is a minority shareholder with a 4% interest in A. Top Investment Limited, a subsidiary of the Company. The rental expenses were based on the agreements signed within the Group.

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

27. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(iii) Certain properties beneficially owned by the ultimate holding company were leased to the Group for its operations. 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.

Out of the total rental deposits, other deposits, prepayments and other receivables as at 31 December 2002, an amount of HK$3,498,000 (2001: HK$66,000) represented rental deposits in respect of certain premises rented to the Group by certain fellow subsidiaries for the benefit of the ultimate holding company.

(iv) The handling charges were related to the administrative expenses provided to certain fellow subsidiaries up to October 2001.

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

(v) On 4 July 2002, Hon Po Sunny Bright Developments Limited ("Sunny Bright"), a wholly-owned subsidiary of the Company, and Hon Po Investment entered into an agreement in relation to the termination (the "Surrender Agreement") of the tenancy agreement (the "Tenancy Agreement") previously entered into between Hon Po Investment and Nice More Investment Limited ("Nice More"), a fellow subsidiary of the Company on 3 September 2001. Pursuant to the Tenancy Agreement, Hon Po Investment leased to Nice More a property situated in Tsuen Wan, New Territories, Hong Kong for a term of three years commencing on 3 September 2001 and expiring on 2 September 2004 at a monthly rental of HK$105,000 and with an option granted to Nice More to renew for a further term of three years. In accordance with the deed of novation dated 10 December 2001, the rights and obligations of Nice More under the Tenancy Agreement were assumed and accepted in all respects by Sunny Bright. The Tenancy Agreement was terminated with effect from 16 July 2002.

The Surrender Agreement constitutes a connected transaction as defined under the Listing Rules. Further details of the above transaction are set out in an announcement made by the Company on 5 July 2002.

(vi) On 28 October 2002, an agreement (the "October Surrender Agreement") was entered into between Hon Po Investment and Hon Po Bright Ocean Enterprises Limited ("Bright Ocean"), a wholly-owned subsidiary of the Company, in relation to the termination of the sub-tenancy agreement (the "Old Tenancy Agreement") entered into between Hon Po Investment and Up-Ahead Investment Limited ("Up-Ahead"), a fellow subsidiary of the Company, dated 18 September 2001. Hon Po Investment sub-let to Up-Ahead a property situated in Shek Yam Road, Kwai Chung, New Territories, Hong Kong (the "Old Property"), for a term of three years commencing on 16 August 2001 and expiring on 15 August 2004 at a monthly rental of HK$112,000 and with an option granted to Up-Ahead to renew for a further term of three years. In accordance with the deed of novation dated 10 December 2001, the rights and obligations of Up-Ahead under the above tenancy agreement dated 18 September 2001 were assumed and accepted in all respects by Bright Ocean.

On 28 October 2002, Bright Ocean entered into a tenancy agreement (the "New Tenancy Agreement") with Better Development & Investment Limited ("Better"), a fellow subsidiary of the Company, relating to the renting of a property situated in Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "New Property") and the October Surrender Agreement with Hon Po Investment relating to the termination of the Old Tenancy Agreement. Pursuant to the New Tenancy Agreement, Bright Ocean will pay a monthly rental of HK$320,000 to Better for renting the New Property commencing from 1 December 2002 to 30 November 2005 with an option granted to Bright Ocean to renew for a further term of three years at a revised monthly rental charge of HK$352,000.

As a result of the New Tenancy Agreement and the October Surrender Agreement, the restaurant operated by Bright Ocean located at the Old Property was relocated to the New Property. The rental under the New Tenancy Agreement paid by Bright Ocean to Better was included in note (iii) above. The rental expenses were assessed by FPDSavills, on an open market, existing use basis.

27. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

Both the New Tenancy Agreement and the October Surrender Agreement constituted connected transactions as defined under the Listing Rules. Further details of the above transaction are set out in the announcement made by the Company on 29 October 2002.

Subsequent to the year end, certain terms stipulated in the New Tenancy Agreement have been revised. Further details of the revision are set out in note 28 to the financial statements.

(vii) On 5 December 2002, an agreement (the "Cancellation Agreement") was entered into between Composite and Oriental Team Investments Limited ("Oriental Team"), a 67% owned subsidiary of the Company, in relation to the termination of the tenancy agreement entered into between Composite and Oriental Team dated 26 September 2000. Composite let to Oriental Team the property situated in Nathan Road and Kansu Street, Kowloon, Hong Kong (the "Property") for a term of five years commencing on 8 July 2000 and expiring on 7 July 2005 at a monthly rental of HK$615,000 for the first three years and HK$745,000 for the remaining two years. On 5 December 2002, another tenancy agreement (the "December New Tenancy Agreement") was entered into between Composite as landlord and Oriental Team as tenant in relation to the rental of the Property. Pursuant to the December New Tenancy Agreement, Oriental Team agreed to pay a monthly rental of HK$450,000 and HK$500,000 to Composite for renting the Property for the periods commencing from 1 January 2003 to 31 December 2005 and from 1 January 2006 to 31 December 2008, respectively. Both the December New Tenancy Agreement and the Cancellation Agreement were signed and dated on 15 April 2003.

Mr. Cheung To Sang, a director of the Company, has personally guaranteed the payment of the monthly rental and other charges by Oriental Team under the December New Tenancy Agreement for the period from 1 January 2003 to 31 December 2005. Both the December New Tenancy Agreement and the Cancellation Agreement constituted connected transactions as defined under the Listing Rules. Further details of the above transaction are set out in the announcement made by the Company on 9 December 2002.

The signing of the December New Tenancy Agreement and the Cancellation Agreement resulted in a decrease of the monthly rental of the Property. The rental expenses were assessed by FPDSavills, on a then open market, existing use basis.

The Group has entered into several related party and connected transactions subsequent to the balance sheet date. Further details of these transactions are set out in note 28 to the financial statements.

28. POST BALANCE SHEET EVENTS

(i) On 9 April 2003, Jing Hua Restaurant Limited ("Jing Hua"), a wholly-owned subsidiary of the Company, entered into a provisional agreement with Yan Yan Motors Limited (the "Purchaser"), an independent third party. Jing Hua agreed to dispose of the property located at Allied Plaza, Mongkok, Kowloon (the "Jing Hua Property") to the Purchaser for a total cash consideration of HK$83 million (the "Consideration"). The formal agreement for the sale and purchase was signed on 3 June 2003. As at 31 December 2002, provisions for impairment of the carrying amount of the Jing Hua Property and of its associated leasehold improvements costs, aggregating HK$12,256,000 (note 14), were made.

The Consideration was determined with reference to a valuation assessed by FPDSavills using the direct comparison method by collecting and analysing relevant comparable sales within the previous six months in the district of Mongkok. The transaction was completed on 6 June 2003. On 6 June 2003, a tenancy agreement (the "Jing Hua Tenancy Agreement") was entered into between the Purchaser as landlord and Jing Hua (Allied) Limited ("Jing Hua Allied"), a wholly-owned subsidiary of the Company, as tenant in relation to the rental of the Jing Hua Property.

28. POST BALANCE SHEET EVENTS (Continued)

Pursuant to the Jing Hua Tenancy Agreement, Jing Hua Allied pays monthly rentals of HK$700,000 and HK$770,000 to the Purchaser for renting the Jing Hua Property for the periods commencing from 6 June 2003 to 5 June 2006 and from 6 June 2006 to 5 June 2009, respectively. A rent-free period was granted for the first month and will be granted for the last month of the tenancy period. The rental expenses were assessed by FPDSavills, on an open market, existing use basis.

The net sales proceeds of the disposal of the Jing Hua Property, after the repayment of the corresponding secured bank borrowings and related expenses amounting to HK$62 million, of approximately HK$21 million were used as general working capital of the Group.

The disposal of the Jing Hua Property constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Further details of the above transactions are set out in an announcement made by the Company on 11 April 2003.

(ii) Subsequent to the balance sheet date, a subsidiary of the Company has been involved in legal proceeding in the High Court in Hong Kong with a landlord, concerning rent payable for a restaurant falling due after the balance sheet date. The amount of the legal claims outstanding against the Group is approximately HK$0.3 million plus other costs, damages and interests. The Group is in the process of negotiating with the landlord.

(iii) Subsequent to the balance sheet date, the Group permanently closed five of the Group's restaurants located at the Grand Tower Arcade in Mongkok, Kwan Chart Tower in Wanchai, Hollywood Plaza in Mongkok, Cheong Wah Building in Tsuen Wan and Continental Mansion in North Point (the "Closed Restaurants"). Further details of the permanent closure of the Closed Restaurants are set out in announcements made by the Company on 15 May 2003, 16 June 2003, 22 July 2003 and 2 October 2003. For the year ended 31 December 2002, provisions for impairment of the associated fixed assets and other assets and for employees' other benefits of the Closed Restaurants amounting to approximately HK$21 million (notes 7 and 14), HK$2 million (note 7) and HK$10 million (note 7) respectively, were made in the financial statements.

Pursuant to the closure of the restaurant located at Cheong Wah Building in Tsuen Wan mentioned above, on 21 July 2003, Open Global Investments Limited ("Open Global"), a wholly-owned subsidiary of the Company, and Bestall International Development Limited ("Bestall"), a fellow subsidiary of the Company, entered into an agreement in relation to the termination (the "July Surrender Agreement") of the tenancy agreement (the "Tsuen Wan Old Tenancy Agreement") previously entered into between Better and Bestall on 16 July 2001. Pursuant to the Tsuen Wan Old Tenancy Agreement, Bestall leased to Better a property situated in Cheong Wah Building, Tsuen Wan, New Territories, Hong Kong for a term of 9 years and fifteen days commencing on 16 July 2001 and expiring on 31 July 2010 at a monthly rental of HK$220,000. In accordance with the deed of novation dated 10 December 2001, the rights and obligations of Better under the Tsuen Wan Old Tenancy Agreement were assumed and accepted in all respects by Open Global. The Tsuen Wan Old Tenancy Agreement was terminated with effect from 1 May 2003.

The July Surrender Agreement constitutes a connected transaction as defined under the Listing Rules. Further details of the above transaction are set out in an announcement made by the Company on 22 July 2003.

28. POST BALANCE SHEET EVENTS (Continued)

(iv) On 30 June 2003, Bright Ocean entered into a deed of variation and confirmation (the "Deed") with Better. Pursuant to the Deed, the monthly rental payable by Bright Ocean to Better under the New Tenancy Agreement (note 27(vi)) was reduced from HK$320,000 to HK$200,000 for renting the New Property for the period from 1 June 2003 to 30 November 2005 and the option to renew for a further term of three years at a monthly rental of HK$352,000 was amended to the market rental to be agreed by Bright Ocean and Better. The other terms and conditions as stipulated in the New Tenancy Agreement remain in full force and effect.

The Deed constitutes a connected transaction of the Company as defined under the Listing Rules. Further details of the above transaction are set out in an announcement made by the Company on 30 June 2003.

(v) On 5 July 2003, Hon Po Management entered into an agreement (the "S&P Agreement") with N.W.P. Investments. Pursuant to the S&P Agreement, Hon Po Management agreed to dispose of the property located at Honour Building, To Kwa Wan, Kowloon (the "To Kwa Wan Property") to N.W.P. Investments for a total cash consideration of HK$55 million (the "To Kwa Wan Consideration"). For the year ended 31 December 2002, a provision for impairment of the carrying amount of the To Kwa Wan Property, of HK$1,000,000 (note 14), was made in the financial statements.

The To Kwa Wan Consideration was determined with reference to a valuation assessed by FPDSavills. The transaction was completed on 28 August 2003. On 28 August 2003, a tenancy agreement (the "To Kwa Wan Tenancy Agreement") was entered into between N.W.P. Investments as landlord and Ocean Grace Investments Limited, a wholly-owned subsidiary of the Company, as tenant in relation to the rental of the To Kwa Wan Property.

Pursuant to the To Kwa Wan Tenancy Agreement, the Group will pay monthly rentals of HK$250,000 to N.W.P. Investments for renting the To Kwa Wan Property for the six years commencing from the date when the assignment of the To Kwa Wan Property was completed. A rent-free period has been granted for the first month of the tenancy period. The rental expenses were assessed by FPDSavills, on an open market, existing use basis.

The net sales proceeds of the disposal of the To Kwa Wan Property, after the repayment of the corresponding secured bank borrowings and related expenses amounting to approximately HK$43 million, of approximately HK$12 million were used as general working capital of the Group.

The disposal of the To Kwa Wan Property constitutes a major connected transaction of the Company under Chapter 14 of the Listing Rules. Further details of the above transaction are set out in an announcement made by the Company on 9 July 2003.

28. POST BALANCE SHEET EVENTS (Continued)

(vi) On 23 September 2003, 29 September 2003 and 14 October 2003, a sale and purchase agreement, a supplemental agreement and a second supplemental agreement (collectively referred to as the "Proposed Acquisition Agreements") were entered into, respectively, between Hon Po Investment and the Proposed Purchasing Company, namely Cipla Ltd., a company incorporated in the BVI beneficially owned as to 50% by Mr. Cheung Kam Foo and 50% by Mr. Lam Lui Ming, independent third parties of the Group who are also directors of the Proposed Purchasing Company. Pursuant to the Proposed Acquisition Agreements, Hon Po Investment agreed to sell and the Proposed Purchasing Company conditionally agreed to purchase 348,516,000 issued and fully paid shares of the Company held by Hon Po Investment at a cash consideration of approximately HK$17 million. The completion of the Proposed Acquisition is conditional upon the fulfillment of certain conditions set out in the Proposed Acquisition Agreements and is expected to be completed on or before 15 November 2003. Pursuant to an announcement made by the Company on 29 September 2003, the directors have completed negotiation with ICEA in respect of the Proposed Loan Facility. The Company will execute a debenture in favour of ICEA for creating a first floating charge over all the properties, assets and undertaking of the Company. The Proposed Loan Facility will also be supported by guarantees by two directors of the Proposed Purchasing Company. The Proposed Loan Facility will be granted upon the completion of the Proposed Acquisition. Further details of the above transaction are set out in an announcements made by the Company on 29 September 2003 and 14 October 2003.

(vii) Pursuant to the closure of the restaurant located at Continental Mansion in North Point mentioned above, on 29 September 2003, Hon Po Rich Harvest Resources Limited ("Rich Harvest"), a wholly-owned subsidiary of the Company, and Hon Po Investment entered into an agreement in relation to the termination (the "September Surrender Agreement") of the tenancy agreement (the "North Point Old Tenancy Agreement") previously entered into between Dynaone Development Limited ("Dynaone"), a fellow subsidiary of the Company, and Hon Po Investment on 27 September 2001. Pursuant to the North Point Old Tenancy Agreement, Hon Po Investment leased to Dynaone a property situated in Continental Mansion, North Point, Hong Kong for a term of 3 years commencing on 27 September 2001 and expiring on 26 September 2004 at a monthly rental of HK$331,000 with an option to renew for another term of three years. In accordance with the deed of novation dated 10 December 2001, the rights and obligations of Dynaone under the North Point Old Tenancy Agreement were assumed and accepted in all respects by Rich Harvest. The North Point Old Tenancy Agreement was terminated with effect from 29 September 2003.

The September Surrender Agreement constitutes a connected transaction as defined under the Listing Rules. Further details of the above transaction are set out in an announcement made by the Company on 2 October 2003.

29. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 November 2003.