



**2003**

**Interim Report**



**漢寶集團(龍蝦大王)有限公司**

**Hon Po Group (Lobster King) Limited**

*(incorporated in the Cayman Islands with limited liability)*

The Board of Directors of Hon Po Group (Lobster King) Limited (the “Company”) hereby announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2003 together with comparative figures for the six months ended 30 June 2002. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003 have been reviewed by the Company’s Audit Committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) Six months ended 30 June 2003	(Unaudited) Six months ended 30 June 2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>Restated</i>
Turnover	4	281,858	368,779
Other revenue		13,675	3,343
Cost of inventories consumed		(90,816)	(115,508)
Staff costs		(108,850)	(134,447)
Operating lease rentals		(36,008)	(37,599)
Depreciation		(2,859)	(9,559)
Fuel costs and utility expenses		(32,339)	(36,178)
Other operating expenses		(36,755)	(36,111)
(Loss)/profit from operating activities	5	(12,094)	2,720
Finance costs		(2,698)	(1,505)
(Loss)/profit before tax		(14,792)	1,215
Tax	6	973	141
(Loss)/profit before minority interests		(13,819)	1,356
Minority interests		1,455	265
Net (loss)/profit from ordinary activities attributable to shareholders		(12,364)	1,621
Dividends – Special		–	100,114
(Loss)/earnings per share – Basic	7	(HK1.96 cents)	HK0.27 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	(Unaudited) 30 June 2003 <i>HK\$'000</i>	(Audited) 31 December 2002 <i>HK\$'000</i> <i>Restated</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		100,857	183,855
Other assets		4,826	5,198
Deferred tax assets		8,639	7,601
Rental deposits and other deposits		17,171	17,861
		<u>131,493</u>	<u>214,515</u>
<b>CURRENT ASSETS</b>			
Inventories		15,416	27,901
Accounts receivable	8	1,521	1,982
Deposits, prepayments and other receivables		17,395	16,405
Tax refundable		1,431	1,585
Cash and bank balances		12,219	21,927
		<u>47,982</u>	<u>69,800</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	9	(23,061)	(34,989)
Accruals		(63,107)	(74,322)
Due to immediate holding company		-	(3,660)
Tax payable		(302)	(1,325)
Bank overdrafts and bank loans		(53,949)	(31,049)
Finance lease payable		(1,013)	(571)
		<u>(141,432)</u>	<u>(145,916)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>(93,450)</b>	<b>(76,116)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>38,043</b>	<b>138,399</b>
<b>NON-CURRENT LIABILITIES</b>			
Other payable		(1,736)	(1,946)
Rental deposits received		(488)	(488)
Bank loans		(3,046)	(95,145)
Finance lease payables		(292)	(585)
Deferred tax		(753)	(688)
		<u>(6,315)</u>	<u>(98,852)</u>
<b>MINORITY INTERESTS</b>		<b>(371)</b>	<b>(1,826)</b>
		<u>31,357</u>	<u>37,721</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital		6,300	6,300
Reserves		25,057	31,421
		<u>31,357</u>	<u>37,721</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Fixed assets revaluation reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 January 2003</b>						
As previously reported	6,300	65,852	19,601	18,652	(80,285)	30,120
Adjusted on adoption of SSAP12 (Revised)	–	–	–	–	7,601	7,601
As restated	6,300	65,852	19,601	18,652	(72,684)	37,721
Preference Shares issued by Subsidiaries	–	6,000	–	–	–	6,000
Net loss for the period	–	–	–	–	(12,364)	(12,364)
At 30 June 2003	<u>6,300</u>	<u>71,852</u>	<u>19,601</u>	<u>18,652</u>	<u>(85,048)</u>	<u>31,357</u>
<b>At 1 January 2002</b>						
As previously reported	1	107,016	20,056	18,752	(3,241)	142,584
Adjusted on adoption of SSAP12 (Revised)	–	–	–	–	4,723	4,723
As restated	1	107,016	20,056	18,752	1,482	147,307
Arising on Group Reorganisation	–	45,613	–	–	–	45,613
New issue on public listing	1,750	33,250	–	–	–	35,000
Share issue expenses	–	(15,364)	–	–	–	(15,364)
Capitalisation issue of shares	4,549	(4,549)	–	–	–	–
Surplus on revaluation	–	–	20,055	18,752	–	38,807
Net profit for the period – restated	–	–	–	–	1,621	1,621
Special dividends						
– Part of Group Reorganisation process	–	(92,554)	–	–	–	(92,554)
– Approved on 4 June 2002	–	(7,560)	–	–	–	(7,560)
At 30 June 2002	<u>6,300</u>	<u>65,852</u>	<u>40,111</u>	<u>37,504</u>	<u>3,103</u>	<u>152,870</u>

## CONDENSED CONSOLIDATED CASHFLOW STATEMENT

	(Unaudited) Consolidated six months ended 30 June 2003 <i>HK\$'000</i>	(Unaudited) Consolidated six months ended 30 June 2002 <i>HK\$'000</i>
<b>NET CASH (OUTFLOW)/INFLOW FROM:</b>		
<b>OPERATING ACTIVITIES</b>	(18,458)	28,215
<b>INVESTING ACTIVITIES</b>	80,499	(92,522)
<b>FINANCING ACTIVITIES</b>	(67,318)	72,314
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(5,277)	8,007
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIODS</b>	10,803	26,653
<b>CASH AND CASH EQUIVALENTS AT END OF PERIODS</b>	5,526	34,660
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	12,219	45,456
Bank overdrafts	(6,693)	(10,796)
	5,526	34,660

Notes:

**1. Principal Activity**

The principal activity of the Company is investment holding. The Principal activity of the Company's subsidiaries have not change during the period and involve the operation of a chain of Chinese restaurants and food manufacturing in Hong Kong.

**2. Significant Accounting Policies**

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting".

The accounting policies adopted in the preparation of the these condensed interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31 December 2002, except for the adoption of revised SSAP 12 "Income Taxes" which is effective first time for the accounting period commencing on or after 1 January 2003.

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liabilities method, whereby deferred tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The SSAP 12 (Revised) is required to be applied retrospectively and the comparative figures for 2002 have been restated accordingly.

As a result of the adoption of SSAP 12 (Revised), the opening balances on reserves at 1 January 2002 and 1 January 2003 have been increased by HK\$4,723,000 and HK\$7,601,000 respectively. The net profit for the six months ended 30 June 2002 has been increased by HK\$141,000.

**3. Segment Information**

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

**4. Turnover**

The Group's unaudited turnover during the respective interim periods mainly represents the receipts from restaurant operations and is derived in Hong Kong.

	(Unaudited) Six months ended 30 June 2003 HK\$'000	(Unaudited) Six months ended 30 June 2002 HK\$'000
Receipts from restaurant operations	279,030	368,779
Sales of goods of a food factory	2,828	-
	<u>281,858</u>	<u>368,779</u>

5. (Loss)/profit from Operating Activities

(Loss)/profit from operating activities is arrived at after charging/(crediting):

	(Unaudited) Six months ended 30 June 2003 HK\$'000	(Unaudited) Six months ended 30 June 2002 HK\$'000
Cost of inventories consumed	90,816	115,508
Depreciation	2,859	9,559
Staff costs (including directors' remuneration):		
Wages and salaries	104,067	128,447
Pension costs	4,783	6,000
	108,850	134,447
Minimum lease payments under operating leases on land and buildings:		
Related companies	4,295	5,826
Holding companies	7,488	7,458
Third parties	24,225	24,315
	36,008	37,599

6. Tax

	(Unaudited) Six months ended 30 June 2003 HK\$'000	(Unaudited) Six months ended 30 June 2002 HK\$'000 (Restated)
Deferred tax:		
Current provision	1,038	141
Attributable to change in tax rate	(65)	-
	973	141

No provision for Hong Kong current profits tax has been made as the Group had no assessable profits derived from Hong Kong during the current period (2002: Nil). Deferred tax has been provided in accordance with SSAP 12 (Revised), applied retrospectively.

7. (Loss)/earnings per Share

The calculation of basic (loss)/earnings per share is based on the unaudited condensed consolidated net loss from ordinary activities attributable to shareholders for the six months ended 30 June 2003 of HK\$12,364,000 (2002: net profit of HK\$1,621,000 as restated) and the weighted average of 630,000,000 (2002: 593,259,669) shares in issue during the period.

There were no potential dilutive ordinary shares in existence for the relevant periods, and accordingly, no diluted earnings per share amount have been presented.

## 8. Accounts Receivable

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

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Current–3 months	1,521	1,980
4–6 months	–	2
	<u>1,521</u>	<u>1,982</u>

## 9. Accounts Payable

The ageing of the accounts payable of the Group fell within the range of one to three months as at 30 June 2003 and 31 December 2002.

## 10. Contingent Liabilities

At 30 June 2003 and 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 recognized 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.

At 30 June 2003, the Group has a contingent liability in respect of possible future payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$23,700,000 (31 December 2002: HK\$24,440,000).

At 30 June 2003, except for certain subsidiaries' banking facilities which were supported by the corporate guarantees of the Company, the Company had no significant contingent liabilities (31 December 2002: Nil).

## 11. Capital Commitments

As at 30 June 2003 and 31 December 2002, the Group did not have any material capital commitments.

## 12. Operating commitments

### (a) As lessor

The Group leases its investment properties under non-cancellable operating lease arrangement with lease terms ranging from two to three years.

At 30 June 2003, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Within one year	2,524	2,775
In the second to fifth years, inclusive	1,452	2,698
	<u>3,976</u>	<u>5,473</u>



(b) *As lessee*

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

At 30 June 2003, the Group had total future minimum future lease payments under non-cancellable operating leases falling due as follows:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Within one year	56,696	72,507
In the second to fifth years, inclusive	128,821	114,970
After five years	18,139	26,125
	<u>203,656</u>	<u>213,602</u>

### 13. Related Party Transactions

	<i>Notes</i>	(Unaudited) Six months ended 30 June 2003 HK\$'000	(Unaudited) Six months ended 30 June 2002 HK\$'000
Purchase of food from related companies	(i)	698	1,870
Sales of food to related companies		125	126
Operating lease rentals paid to related companies	(ii)	4,295	5,826
Operating lease rentals paid to holding companies and its subsidiaries	(iii)	<u>7,488</u>	<u>7,458</u>

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

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

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

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

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

- (iii) The rental expenses were paid to subsidiaries of Hon Po Holdings Limited ("Hon Po Holdings"), the ultimate holding company of the Group. The rental expenses were based on the agreements signed with the Group.

These related party transactions also constitute connected transactions as defined under the Listing Rules.

- (iv) On 30 June 2003, Hon Po Bright Ocean Enterprises Limited ("Bright Ocean"), a wholly-owned subsidiary of the Company, has entered into a deed of variation and confirmation with Better Development & Investment Limited, an indirect wholly-owned subsidiary of Hon Po Holdings, with regard to the reduction of the monthly rental of the property leased to Bright Ocean from HK\$320,000 per month to HK\$200,000 for the period from 1 June 2003 to 30 November 2005.

#### 14. Post Balance Sheet Events

- (i) Subsequent to the balance sheet date, the Group permanently closed four of the Group's restaurants located at 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 the announcements made by the Company on 22 July 2003 and 2 October 2003. Provisions for impairment of the associated fixed assets and other assets and for employees' other benefits of the Closed Restaurants were made in the financial statements for the year ended 31 December 2002.

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.

- (ii) 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"). A provision for impairment of the carrying of the To Kwa Wan Property, was made in the financial statements for the year ended 31 December 2002.

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.

- (iii) 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.

- (iv) 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.

## **15. Interim Dividend**

The Board of Directors does not recommend the distribution of interim dividend for current period (2002: Nil).

## **16. 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; (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.

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 the financial statements.

At 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The operating environment of the Group continued to exacerbate in the first half of 2003. The economy, which was in the doldrums, was further struck by the sudden outbreak of Severe Acute Respiratory Syndrome (“SARS”) in March. The restaurant sector was one of the most severely affected industries from the epidemic, and suffered from a drastic reduction in diners. In the face of the unfavourable market conditions, the Group contained loss by suspending the operation of some of its restaurants.

As a result of the harsh operating environment and the Group’s operation of fewer restaurants to cut loss, the Group’s turnover dropped by 23.6% to HK\$281,858,000. Despite the challenges, the Group succeeded in reducing its cost of inventories and staff costs by 21.4% and 19.0% from those of the corresponding period last year to HK\$90,816,000 and HK\$108,850,000 for the period under review mainly as a result of the temporary closures of a few restaurants. Gross profit margin for the period under review also remained stable. However, some fixed overheads, including operating lease rentals and utility expenses, remained at similar levels or exhibited slight adjustments when compared with those of the same period last year. For the period under review, the Group’s net loss from ordinary activities attributable to shareholders amounted to HK\$12,364,000 against a net profit of HK\$1,621,000 for the same period in 2002.

During the period under review, the Group’s production and sale of food business generated a turnover of HK\$2,828,000. Although contribution from the food production business to the Group was yet to be significant, the food operation is intended to be a long-term investment and a revenue stream in the future.

Meanwhile, the Group carried out renovation in the restaurants whose operation was suspended during the period under review. The objective was to provide a new, comfortable dining environment to each of these restaurants so as to attract more patrons upon their business resumption. Some of these restaurants have already reopened.

The Group also adopted various measures to strengthen its financial position. In April 2003, the Group disposed a property for the consideration of HK\$83,000,000.

As disclosed in an announcement dated 30 September 2003, the Group’s controlling shareholder, Hon Po Investment Limited (“Hon Po Investment”), entered into a sale and purchase agreement with Cipla Limited regarding the disposal of 348,516,000 shares in the Company (representing a 55.32% interest in the Company) for a consideration of HK\$17,425,800, subject to the terms and conditions as provided in the sale and purchase agreement.

### Operating Results

Due to the impact of SARS and tough economic climate of operations in Hong Kong, the Group’s unaudited consolidated turnover decreased by 23.6% from the corresponding period of 2002. The Group’s unaudited consolidated net loss attributable to shareholders for the current period was HK\$12,364,000, against a net profit of HK\$1,621,000 in the corresponding period in 2002.

### Staff and Compensation Policy

At 30 June 2003, the Group had a total workforce of 1,428 (30 June 2002: 1,912). The salary and wages of our employees are dependent on their duties and performance.

## FINANCIAL REVIEW

### Funding Policy

The Group will make its funding decision on a case-by-case basis and according to the following factors:

- the availability of bank loans and the interest rate level
- the availability of and the advantage of using internal resources instead of borrowing loans
- impact on the gearing ratio and interest rate fluctuation

### Capital Structure

As at 30 June 2003, the Group had outstanding bank borrowings and finance lease payables denominated in Hong Kong dollars with an aggregate amount of HK\$58,299,000 (31 December 2002: HK\$127,350,000). The cash and bank balances of the Group amounted to HK\$12,249,000 (31 December 2002: HK\$21,927,000). The decrease in the outstanding bank borrowings was mainly due to the disposal of a property during the current period (as detailed in the circular dated 25 April 2003).

The short-term borrowings of the Group accounted for 94.2% (31 December 2002: 24.8%) of the total borrowings at 30 June 2003.

The interest expenses of the Group for the current period were HK\$2,698,000 (2002: HK\$1,505,000).

As at 30 June 2003, the ratio of total liabilities to total assets of the Group was 82.5% (31 December 2002: 89.1%).

To conclude, in the coming period, the Group will adopt various measures to strengthen its financial position. In July 2003, the Group entered into an agreement, pursuant to which the Group have sold a property for HK\$55 million. The disposals of the aforesaid property has helped to enhance the working capital position and reduce the outstanding bank borrowings of the Group.

### Pledges of Assets

As at 30 June 2003, leasehold land and buildings and investment properties of the Group with a net book value of HK\$57,778,000 (31 December 2002: HK\$141,120,000) were pledged as security for bank loans.

### Use of Proceeds

The Company placed and issued 175,000,000 new shares on 18 February 2002 at a price of HK\$0.2 each.

The net proceeds, after deduction of related expenses, were approximately HK\$19,636,000. HK\$5,247,000 had been utilised for the establishment of a food manufacturing factory in Hong Kong. HK\$10,388,000 had been utilised for the expansion of the Group's restaurant business in Hong Kong.

The balance of approximately HK\$4,001,000 was currently used as general working capital for the Group and will be used for the Group's restaurant business in accordance with the intended usage as stipulated in the Company's Prospectus dated 31 January 2002.

### Exchange Exposure

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

## PROSPECTS

Although the market sentiment has improved, the restaurant sector as a whole is still struggling to recover to the level before the SARS outbreak. In view of this outlook, the Group will continue to consolidate its operation in the second half of the year.

While streamlining its restaurant network, the Group will continue to expand its product variety, improve food quality and adopt strategic marketing plans to attract more customers.

To enhance its liquidity position, the Group entered into an agreement in July 2003, pursuant to which the Group disposed a property for HK\$55,000,000. The disposal will enable the Group to focus its financial resources in its core restaurant operation.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2003, the interests and short positions of the Directors and chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests which they are taken or deemed to have under Section 344 of the SFO) or which are required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Number of shares held and nature of interest in Hon Po Holdings Limited, an associated corporation.

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

*Notes:*

1. Interests in shares of his/her spouse are excluded in accordance with Section 344(1)a of the SFO.
2. The shares are held by To Sang Management Company Limited, a company which is controlled indirectly by a discretionary trust of which Mr. Cheung To Sang and certain of his children are beneficiaries.
3. The shares are held by Nun Chiu Investments Limited, a company in which both Mr. Chan Nun Chiu and his wife each has a controlling interest.
4. Shares of 4,700,750 are held by Tabo Development Limited, a company in which Mrs. Cheung Lim Mai Tak, Grace owns approximately 74% of the issued capital. Shares of 39,061,412 are held by Lim Mai Tak Consultants and Investments Limited, a company which is controlled indirectly by a discretionary trust of which Mrs. Cheung Lim Mai Tak, Grace and certain of her children are beneficiaries.
5. The shares are held by Tread Wood Investment Limited, a company in which Mr. She Hing Chiu owns approximately 50% of the issued capital.
6. The shares are held by N.W.P. Investments Limited, a company which is controlled indirectly by a discretionary trust of which Mr. Ng Wing Po's wife and certain of his children are beneficiaries.
7. The shares are held by Kung Ping Investments Limited, a company which is deemed to be controlled by Mr. Cheung Sik Pang and his wife.
8. The shares are held by King Space Limited, a company which is controlled by Mr. Tse Chick Sang.

Save as disclosed herein, none of the Directors and chief executives and their associates has any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests which they are taken or deemed to have under Section 344 of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Under the terms of a share option scheme (the "Scheme") adopted conditionally by the Company on 28 January 2002, the board of directors of the Company may, at its discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. Further details of the Scheme are disclosed in the section "Share option scheme" below. The Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 18 February 2002. As at 30 June 2003, no options have been granted to any director or employee under the Scheme.

Save as the transactions inherited to the Group Reorganisation as disclosed above, at no time since its incorporation were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group and sub-contractors of the Group. The Scheme became effective on 18 February 2002 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. As at 30 June 2003, the Company had no share option outstanding under the Scheme and accordingly, no shares issuable under share options granted under the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be notified by the directors to each grantee which shall not be more than 10 years from the date on which the option is deemed to be granted and accepted. According to the Scheme, there is no provision requiring a minimum holding period before an option may be exercised. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option under the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, the following interests of 5% or more or short positions in the issued share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held	Percentage of issued share capital	Long/Short Position
Hon Po Holdings Limited	380,000,000	60.32%	Long Position
Hon Po Investment Limited	380,000,000	60.32%	Long Position



*Note:*

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

Save as disclosed above, as at 30 June 2003, no person had registered an interest and short position in the share capital of the Company that was required to be recorded under Section 336 of the SFO.

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

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

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

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

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with directors the accounting principles and practices by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited consolidated financial statement for the current period.

## **DISCLOSURE OF FULL INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE**

The Company's 2003 interim report which set out all the information required by Paragraphs 46(1) to 46(6) inclusive in Appendix 16 to the Listing Rules will be published in the website of the Stock Exchange in due course.

By Order of the Board  
**Hon Po Group (Lobster King) Limited**  
**Cheung To Sang**  
*Chairman and Managing Director*

Hong Kong, 12 November 2003