
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in HON PO GROUP (LOBSTER KING) LIMITED, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

(Stock code: 228)

PROPOSED PLACINGS OF CONVERTIBLE NOTES, AND PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Placing Agent



Yicko Securities Limited

**Independent Financial Adviser to the Independent Board Committee
and the Shareholders**



KINGSTON CORPORATE FINANCE LIMITED

A notice re-convening the extraordinary general meeting (the "Adjourned EGM") of HON PO GROUP (LOBSTER KING) LIMITED which was adjourned on 8th April, 2005, to be held at 3:00 p.m. on Thursday, 30th June, 2005 at Hon Po Restaurant of 1st Floor, 78A-B To Kwa Wan Road, Kowloon is set out on pages 47 to 48 of this Circular. A notice convening an extraordinary general meeting (the "Second EGM") of HON PO GROUP (LOBSTER KING) LIMITED to be held at 3:15 p.m. on Thursday, 30th June, 2005, or if later, immediately after the close of the Adjourned EGM, at Hon Po Restaurant of 1st Floor, 78A-B To Kwa Wan Road, Kowloon is set out on pages 49 to 50 of this circular. Unless notice of revocation has been received by the Company, forms of proxy previously submitted in respect of the Adjourned EGM will continue to be valid. Furthermore, a WHITE form of proxy for use at the Adjourned EGM is enclosed. In addition, a BLUE form of proxy for use at the Second EGM is enclosed. Whether or not you are able to attend and vote at the relevant extraordinary general meeting, you are requested to complete the enclosed proxy forms in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the relevant extraordinary general meeting or any adjournment thereof. Completion and return of the proxy forms will not preclude you from subsequently attending and voting at the relevant extraordinary general meeting or any adjourned meeting should you so wish.

14th June, 2005

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Adjourned EGM”	the extraordinary general meeting convened by the First EGM Notice which was adjourned on 8th April, 2005, and in respect of which the notice to reconvene this meeting is set out on pages 47 to 48 of this Circular
“Announcements”	the announcement of the Company dated 21st February, 2005 in respect of, inter alia, the proposal for placing of the First Convertible Notes and the announcement of the Company dated 9th May, 2005 in respect of, inter alia, the possible placing of the Second Convertible Notes
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Capital Increase”	the proposed increase in the authorised share capital of the Company described more particularly in section 6 of the “Letter from the Board”
“Company”	Hon Po Group (Lobster King) Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“Conversion Price”	the First Conversion Price (in the case of the First Convertible Notes) and the Second Conversion Price (in the case of the Second Convertible Notes)
“Conversion Share(s)”	the Shares which fall to be issued on the exercise of conversion rights attached to the First Convertible Notes or (as the case may be) the Second Convertible Notes
“Convertible Note(s)”	the First Convertible Notes and the Second Convertible Notes or such of them as the context may require
“Director(s)”	the director(s) of the Company
“First Circular”	the circular to Shareholders dated 21st March, 2005 in respect of, amongst other things, the proposed issue of the First Convertible Notes

DEFINITIONS

“First Convertible Notes”	the series of convertible notes proposed to be issued by the Company in a maximum aggregate principal amount of HK\$40,000,000 in maximum as disclosed in the Company’s announcement dated 21st February, 2005
“First Conversion Price”	the conversion price per Share, initially being HK\$0.10 per Share, subject to adjustments
“First EGM Notice”	the notice dated 21st March, 2005 for the extraordinary general meeting of the Company which was adjourned on 8th April, 2005
“First Placing Agreement”	the conditional placing agreement dated 7th February, 2005 and amended by supplemental agreement dated 27th April, 2005 between the Company and the Placing Agent in relation to the proposed “best efforts” placing of the First Convertible Notes
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising Mr. Wu Tak Lung, Mr. Chang Kin Man and Ms. Lee Pui Hang, Pieann, being all the independent non-executive Directors
“Independent Shareholder(s)”	the Shareholders other than the controlling shareholder of the Company and its associates.
“Kingston”	Kingston Corporate Finance Limited, a licensed corporation to carry on business in types 4 and 6 (advising on securities and advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Latest Practicable Date”	10th June, 2005 being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Placing(s)”	the conditional placings of the Convertible Notes pursuant to the relevant placing agreement
“Placing Agent”	Yicko Securities Limited, a deemed licensed corporation to carry on business in types 1, 4, 6, and 9 regulated activities (dealing in securities, advising on securities and corporate finance, and asset management) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Second Convertible Notes”	the convertible notes to be issued by the Company in the aggregate principal amount of HK\$100,000,000 in maximum
“Second Conversion Price”	the conversion price per Share of the Second Convertible Notes, initially being HK\$0.05 per Share, subject to adjustments
“Second EGM”	the extraordinary general meeting of the Company convened by the Second EGM notice
“Second EGM Notice”	the notice for an extraordinary general meeting of the Company to consider, and if thought fit, to pass resolutions regarding the proposed Capital Increase and the proposed issue of Second Convertible Notes, the text of which is set out on pages 49 to 50 of this Circular
“Second Placing Agreement”	the conditional placing agreement dated 29th March, 2005 between the Company and the Placing Agent in respect to the proposed “best efforts” placing of the Second Convertible Notes
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.05 each in the existing share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

LETTER FROM THE BOARD



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)

(Stock code: 228)

Executive Directors:

Mr. Cheung To Sang

Mr. Chan Nun Chiu

Mrs. Cheung Lim Mai Tak, Grace

Mr. She Hing Chiu

Mr. Tse Chick Sang

Registered Office:

Century Yard

Cricket Square

Hutchins Drive

P.O.Box 2681 GT

Grace Grand Cayman

British West Indies

Independent Non-Executive Directors:

Mr. Chang Kin Man

Mr. Wu Tak Lung

Ms. Lee Pui Hang, Pieann

Head Office and Principal Place

of Business:

Unit E and F, G/F, Phase II

Kingsway Industrial Building

173-175 Wo Yi Hop Road

Kwai Chung

New Territories

Hong Kong

14th June, 2005

To the Shareholders

Dear Sirs or Madams,

PROPOSED PLACINGS OF CONVERTIBLE NOTES AND PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

1. INTRODUCTION

We refer to the proposed placings of First Convertible Notes and the Second Convertible Notes described in the Announcements and (in the case of the First Convertible Notes) the First Circular.

LETTER FROM THE BOARD

At the request of the Stock Exchange, the proposed issues of both the First Convertible Notes and the Second Convertible Notes are now to be put before the Independent Shareholders. In this connection, the Company has appointed Kingston to be the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the two proposed Convertible Note issues.

The purpose of this circular is to provide you with information regarding the proposals in respect of (i) the placing of Convertible Notes; (ii) the proposed Capital Increase (iii) the recommendations of the Independent Board Committee to the Independent Shareholders; (iv) the recommendation from Kingston to the Independent Board Committee of the Company and the Independent Shareholders; (v) the notice to reconvene the Adjourned EGM at which the resolution on terms of resolution numbered 1 of the First EGM Notice to approve the proposed First Convertible Notes will be put to Independent Shareholders and (vi) the Second EGM Notice at which resolutions to approve the proposed Capital Increase and proposed issue of Second Convertible Notes.

2. PROPOSED PLACINGS OF CONVERTIBLE NOTES

The Company has through the signing of the First Placing Agreement and the Second Placing Agreement agreed conditionally to the placing, on a “best efforts” basis by the Placing Agent, of the First Convertible Notes and the Second Convertible Notes respectively. The terms of the First Placing Agreement and the Second Placing Agreement and those of the First Convertible Notes and the Second Convertible Notes are substantially similar, save as described below. The issue of the Second Convertible Notes is not conditional on the issue of all or some of the First Convertible Notes or vice versa.

The Proposed Placings of Convertible Notes

Placing of the First Convertible Notes and the Second Convertible Notes are to be carried out on a “best efforts” basis. The following table shows the maximum principal amount of Convertible Notes which fall to be issued under the First Placing Agreement and the Second Placing Agreement respectively, and the number of tranches which the Convertible Notes are to be issued under each agreement.

LETTER FROM THE BOARD

	First Placing Agreement	Second Placing Agreement
Maximum principal amount of the Convertible Notes	HK\$40,000,000	HK\$100,000,000
Maximum number of tranches and maximum size of each tranches of the Convertible Notes	Two tranches of up to a maximum principal amount of HK\$20,000,000 for each tranche	Four tranches of up to a maximum principal amount of HK\$25,000,000 for each tranche
Proposed date of issue of the first tranche of the Convertible Notes to be issued under each agreement	The first tranche of the First Convertible Notes or (as the case may be) the Second Convertible Notes, if and to the extent successfully placed, are to be issued within seven days upon the fulfilment of the conditions of their respective issue (as set out below).	

The Placing Agent will receive a placing commission equal to 1% of the gross proceeds of the Convertible Notes placed by it. The placing commission under both the First Placing Agreement and the Second Placing Agreement is agreed after arm's length negotiations between the Company and the Placing Agent.

Parties to the Placing Agreements

The parties to both the First Placing Agreement and the Second Placing Agreement are the Placing Agent and the Company.

The Placing Agent and its ultimate beneficial owners are not connected persons (as defined in the Listing Rules) of the Company and is independent of and not connected with the Company nor with the directors, chief executive or substantial shareholders of the Company, and any of their subsidiaries or any of their respective associates.

Placees

The Placing Agent has conditionally agreed in each of the First Placing Agreement and the Second Placing Agreement to place, on a "best efforts" basis, the First Convertible Notes or (as the case may be) the Second Convertible Notes to not less than six independent professional, corporate or individual placees. Such placees and their ultimate beneficial owners will not be connected person(s) (as defined in the Listing Rules) of the Company and will be independent third parties and not connected with and not acting in concert with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

LETTER FROM THE BOARD

Conditions

Both placings of the First Convertible Notes and the Second Convertible Notes are conditional upon, amongst other things, the Listing Committee of the Stock Exchange having granted (either unconditionally or subject to conditions to which neither the Company nor the subscribers shall unreasonably object) the listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Notes and the passing of the relevant resolution for the approval of the issue of the Convertible Notes by the shareholders of the Company. The placing of the Second Convertible Notes is further conditional upon the Capital Increase becoming effective.

If the conditions are not fulfilled on or before 30th June, 2005 or such later date as may be agreed between the Placing Agent and the Company, both the First Placing Agreement and the Second Placing Agreement will lapse and become null and void.

Completion

Completion of the issue of the first tranche of each of the First Convertible Notes and the Second Convertible Notes (in both cases, if successfully placed) will take place within seven days following the date on which the conditions in respect of the relevant issue are fulfilled (or such other date as the Company and the Placing Agent shall agree).

Terms of Convertibles Notes

The terms of the Convertible Notes have been negotiated on arm's length basis. The principal terms of the First Convertible Notes and the Second Convertible Notes are (save as described below) substantially the same.

Principal amount

The maximum principal amount of the First Convertible Notes is HK\$40,000,000. The First Convertible Notes fall to be issuable in up to two tranches, each to involve First Convertible Notes of up to a maximum aggregate principal amount of HK\$20,000,000.

The maximum principal amount of the Second Convertible Notes is HK\$100,000,000. The Second Convertible Notes fall to be issuable in up to four tranches, each to involve Second Convertible Notes of up to a maximum aggregate principal amount of HK\$25,000,000.

LETTER FROM THE BOARD

In the case of both the First Convertible Notes and the Second Convertible Notes, each tranche of the First Convertible Notes or (as the case may be) the Second Convertible Notes (other than the first tranche) will only be issued if the relevant immediately preceding tranche of the Convertible Notes has been placed in full.

Interest

The Convertible Notes are non-interest bearing.

Maturity

Second anniversary from the date of the issue of the relevant Convertible Notes.

Conversion Price

The Conversion Price is subject to adjustment on events such as share consolidation, share sub-division and capital distribution.

The following table compares the First Conversion Price and the Second Conversion Price against (i) the closing price per Share on the last trading day immediately prior to the first announcement of the First Placing Agreement and (as the case may be) the Second Placing Agreement; (ii) the average closing price per Share on the five trading days up to and including that last trading day; (iii) the closing price per Share on the last trading day immediately prior to the Latest Practicable Date; (iv) the average closing price per Share on the five trading days up to and including the Latest Practicable Date; and (v) the average closing price per Share on the ten trading days up to and including the Latest Practicable Date. In the case of the prices in (i) and (ii) above, the closing price has been adjusted to take into account the effect of the 5 to 1 share consolidation of the Company which took effect on 11th April, 2005.

LETTER FROM THE BOARD

Reference price	Discount of initial First Conversion Price of HK\$0.1 per Share <i>(note 1)</i> to reference price <i>(note 2)</i>	Discount of initial Second Conversion Price of HK\$0.05 per Share to reference price <i>(note 2)</i>
(i) Closing price per Share <i>(note)</i> on the last trading date immediately prior to the first announcement of the proposed placing of the – First Convertible Notes: HK\$0.33 – Second Convertible Notes: HK\$0.95	69.70%	94.74%
(ii) Five-day average closing price per Share <i>(note)</i> ending on the last trading date immediately prior to the first announcement of the proposed placing of the – First Convertible Notes: HK\$0.334 – Second Convertible Notes: HK\$0.467	70.06%	89.29%
(iii) Closing price per Share on the Latest Practicable Date: HK\$0.48	79.17%	89.58%
(iv) Five-day average closing price per Share ending on the Latest Practicable Date: HK\$0.40	75.00%	87.50%
(v) Ten-day average closing price per Share ending on the Latest Practicable Date: HK\$0.358	72.07%	86.03%

LETTER FROM THE BOARD

Notes:

1. The relevant closing price per Share has been adjusted to take into account the effect of the 5 to 1 share consolidation which took effect on 11th April, 2005.
2. In respect of (i) & (ii) above, the reference price used for comparison against the First Conversion Price and the Second Conversion Price is the last closing price of or 5-day average closing price ending on the announcement of the placing of the relevant notes to which that price relates.

The Conversion Price has been agreed under each of the First Placing Agreement and the Second Placing Agreement after arms' length negotiations between the management of the Company and the Placing Agent, the Company having taken into account in its negotiations with the Placing Agent the following factors:—

- (a) the Company has reported unaudited consolidated net liabilities as at 30th June, 2004 of approximately HK\$21.6 million (which amount increased to approximately HK\$35.6 million (audited) as at 31st December, 2004) and, in such circumstances and having regard to the fact that the Group operates principally in the restaurant industry, the Company perceives that convertible notes which have a higher conversion price (or a conversion price which is close to or at a premium to the market price of the Shares) will have little attraction to investors; and
- (b) the conversion of the Convertible Notes would also have a positive effect on the Company's net asset value.

The Directors consider the First Conversion Price and the Second Conversion Price to be fair and reasonable, having regard to (i) the above factors, (ii) the opportunity to raise substantial funds through the issue of the Convertible Notes (which has not in the past been available to the Company and may not in the future be replicated as that is dictated largely by the condition of the equity market and the market for the Shares) and (iii) these being the conversion prices at which the Placing Agent was prepared to undertake placing of the Company's convertible notes under the First Placing Agreement and the Second Placing Agreement.

Conversion

Each holder of a Convertible Note may convert the whole or part (in the amount or integral multiple of HK\$50,000) of the principal amount of the relevant Convertible Note into new Conversion Shares. The number of new Conversion Shares is to be determined by dividing the principal amount of the relevant Convertible Note to be converted by the then prevailing Conversion Price, rounded down to the nearest integral number of Shares.

LETTER FROM THE BOARD

If the conversion rights attaching to the First Convertible Notes were exercised in full at the initial First Conversion Price, the Company will issue an aggregate of 400,000,000 new Conversion Shares, representing approximately 264.55% of the existing issued share capital of the Company and approximately 72.57% of the issued share capital of the Company enlarged by the issue of such Conversion Shares.

If the conversion rights attaching to the Second Convertible Notes were exercised in full at the initial Second Conversion Price, the Company will issue an aggregate of 2,000,000,000 new Conversion Shares, representing approximately 1,322.75% of the existing issued share capital of the Company and approximately 92.97% of the issued share capital of the Company enlarged by the issue of such Conversion Shares.

If the conversion rights attaching to both the First Convertible Notes and the Second Convertible Notes were exercised in full at their respective initial conversion price, the Company will issue an aggregate of 2,400,000,000 new Conversion Shares representing approximately 1,587.30% of the existing issued share capital of the Company and approximately 94.07% of the issued share capital of the Company enlarged by the issue of such Conversion Shares.

The First Conversion Shares which fall to be issued on conversion of the First Convertible Note will be issued pursuant to the resolution of the Shareholders at the Adjourned EGM which is to be reconvened (if passed). The Conversion Shares which fall to be issued on conversion of the Second Convertible Note will be issued pursuant to the resolution of the Shareholders at the Second EGM (if passed).

Conversion Period

Each of the holders of the Convertible Notes shall have the right at any time after the date of issue of the relevant Convertible Note and during the term of the relevant Convertible Note convert all or part (in the amount or integral multiple of HK\$50,000) of the principal amount of the relevant Convertible Note outstanding at any time into new Shares.

Ranking

The Conversion Shares will, when issued, rank *pari passu* in all respects among themselves and with all other shares in issue on the date of such allotment and issue.

LETTER FROM THE BOARD

Placing Limit

Each of the First Placing Agreement and the Second Placing Agreement provides that principal amount of each of the First Convertible Notes or (as the case may be) the Second Convertible Notes to be placed to each placee shall not exceed an amount which if immediately converted in full at the initial Conversion Price will entitle that placee to be issued with Shares which represent in aggregate 10% or more of the issued share capital of the Company as at the date of completion of the placing as enlarged by the issue of Conversion Shares on full conversion of the First Convertible Notes or (as the case may be) the Second Convertible Notes assuming conversion at the initial Conversion Price (and taking into account for the purpose of this calculation only the Convertible Notes issuable under the same Placing Agreement). The conversion rights of each holder of Convertible Notes is to be similarly restricted so that they may not exercise their conversion rights to such an extent that the total number of Conversion Shares which fall to be issued will represent 10% or more of the issued share capital of the Company at the date of the relevant conversion (including the Conversion Shares which fall to be issued on that conversion).

In the case of the First Convertible Notes, these restrictions had been requested by the Company with the intention of reducing the chances of (i) public float in the Shares falling under the minimum public float requirements under the Listing Rules and (ii) any single holder of the First Convertible Notes having on conversion a block of Shares which is larger than that of the existing controlling shareholder of the Company, on a fully diluted basis. These restrictions are imposed on the Second Convertible Notes mainly in view of (i) above.

Redemption by the Company

The Company shall be entitled, at any time after the expiry of nine months from the date of the issue of a Convertible Note, to redeem the whole or any part of the outstanding principal amount of the relevant Convertible Note at 5% premium over the outstanding principal amount being redeemed.

Status of the Convertible Notes

The Convertible Notes will, when issued, constitute general and unsecured obligations of the Company and shall rank equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.

LETTER FROM THE BOARD

No application will be made for listing of the Convertible Notes. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the shares falling to be issued upon exercise of the conversion rights attached to the Convertible Notes.

Transferability

The Convertible Notes are freely transferable subject to compliance with the conditions of the Convertible Notes and the Listing Rules, provided that the holders of the Convertible Notes must inform the Company of each transfer or assignment made by them.

Voting

A holder of the Convertible Notes shall not be entitled to attend on vote at any meeting of the Company by virtue only of it being the holder of the Convertible Note.

Events of Default

All Convertible Notes will contain events of default provisions which provides that on the occurrence of certain events of default specified in the Convertible Notes (e.g. liquidation), each of the holders of the Convertible Notes shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Note.

LETTER FROM THE BOARD

3. EFFECTS ON SHAREHOLDING STRUCTURE

The table below shows the shareholding structure of the Company as at the Latest Practicable Date together with the dilution effect on such shareholding if the conversion rights attached to First Convertible Notes and/or the Second Convertible Notes were exercised in full at their respective initial conversion prices:–

	Existing issued share capital		Assuming that the First Convertible Notes are issued and converted in full and no Second Convertible Notes are issued		Assuming that the Second Convertible Notes are issued and converted in full and no First Convertible Notes are issued		Assuming both the First Convertible Notes and the Second Convertible Notes are issued and converted in full	
		%		%		%		%
Hon Po Investment Limited	76,000,000	50.26	76,000,000	13.79	76,000,000	3.53	76,000,000	2.98
Public:								
Holders of the First Convertible Notes	–	–	400,000,000	72.57	–	–	400,000,000	15.68
Holders of the Second Convertible Notes	–	–	–	–	2,000,000,000	92.97	2,000,000,000	78.39
Others	75,200,000	49.74	75,200,000	13.64	75,200,000	3.50	75,200,000	2.95
Total	<u>151,200,000</u>	<u>100.00</u>	<u>551,200,000</u>	<u>100.00</u>	<u>2,151,200,000</u>	<u>100.00</u>	<u>2,551,200,000</u>	<u>100.00</u>

Note: The table above assumes conversion of the relevant Convertible Notes at their initial Conversion Price and there being no changes to the issued share capital of the Company other than as a result of such conversion.

In view of the potential dilution effect on existing Shareholders on conversion of the First Convertible Notes and Second Convertible Notes, for so long as any these convertible notes are outstanding:–

- (a) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
 - (i) whether there is any conversion of the First Convertible Notes and/or (as the case may be) the Second Convertible Notes during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

LETTER FROM THE BOARD

- (ii) the outstanding principal amount of the First Convertible Notes and/or (as the case may be) the Second Convertible Notes after the conversion, if any;
 - (iii) the total number of Shares issued pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company;
 - (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and
- (b) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the First Convertible Notes and/or (as the case may be) the Second Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the then latest announcement made by the Company in respect of the First Convertible Notes and/or (as the case may be) the Second Convertible Notes (and thereafter in a multiple of such 5% threshold), the Company will as soon as practicable but in any event no later than the fifth business day thereafter make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the then latest announcement made by the Company in respect of the First Convertible Notes and/or (as the case may be) the Second Convertible Notes, up to the date on which the total amount of Shares issued pursuant to the conversion amounts to 5% of the issued share capital of the Company as disclosed in the then latest announcement made by the Company in respect of the First Convertible Notes and/or (as the case may be) the Second Convertible Notes.

4. REASONS FOR AND THE BENEFITS OF THE PLACINGS OF THE CONVERTIBLE NOTES

The Company needs to raise funds for its operations and expansion. The overall performance of the Hong Kong restaurant industry in which the Company operates and the financial results and position of the Group renders it difficult for the Group to secure substantial debt financing for its business. These factors, together with the amount of funds which the Company seeks to raise, also renders an issue of Shares unattractive to potential third party investors in the Company. The Company has not proposed to make an issue by way of rights to all Shareholders to raise the funds sought by it as it has not identified any willing underwriter of such issue. Having regard to the net liabilities and net losses reported by the Company, a new Shares issue would be unrealistic and would in any event result in more immediate dilution to Shareholders. The Convertible Notes in substance being debt instruments with an option for their holders to convert the debt into equity in the Company represent a more attractive option for potential investors in the Company. The

LETTER FROM THE BOARD

current market conditions and recent investors interest in the Shares have created the opportunity for the Company to issue of the Convertible Notes through “best efforts” placing by the Placing Agent. The placing of the Convertible Notes represents an opportunity for the Company to raise capital under positive market condition for Shares prevailing at the time of the signing of the First Placing Agreement and the Second Placing Agreement and to broaden its shareholding and capital base.

Having taken into account the above and (i) the combination of the Convertible Notes bearing zero interest but having a redemption premium would reduce pressure on the Company’s short term cash flow requirements while the annualised costs of funds to the Company would be about 2.5% per annum on the principal amount of the Convertible Notes outstanding on maturity (having regard to the 5% redemption premium payable for the two-year note); and (ii) the two-year maturity of the Convertible Notes will result in improvement of the Group’s current ratios and working capital position, the Directors consider that the terms of the Placing and the Convertible Notes are fair and reasonable in the circumstances, and are in the interests of the Company and the Shareholders as a whole.

If the placing of either or both of the First Convertible Notes and the Second Convertible Notes is successful, the financial resources of the Group will increase significantly. Apart from improvements in the Group’s financial position as a result, the funding so obtained would give the Company greater flexibility and improve its bargaining powers with respect to its future investments and also allow it to make longer term investment planning over the next two years. As the actual amount of net proceeds from the Convertible Notes could not now be ascertained, the Company has no immediate plans for specific investment while the general purpose to which such proceeds are to be put to use are as stated in section 5 below. If the proceeds should be deployed for investments, depending on the status of conversion of the Convertible Notes prior to their maturity, the Convertible Notes then outstanding may be redeemed by using funds which may be generated from such investment, working capital which may then be available, debt financing which may then be available, proceeds of further equity or debt issues, proceeds of realisation of investments or a combination of some or all of the above. Investors should note that there is no assurance that the Company will at that time have or utilise funding from any or all of the above sources.

5. USE OF PROCEEDS

The maximum aggregate net proceeds from the issue of the First Convertible Notes and the Second Convertible Notes will be about HK\$39.4 million and about HK\$97.5 million respectively, in each case after taking into consideration of the placing commission payable to the Placing Agent and other accrual expenses (e.g. professional fee & printing fee etc.). Net proceeds from the issue of the First Convertible Notes will not be used to settle debts and liabilities other than accounts payables, other payables and accruals of the Group, which amounted to approximately HK\$33 million as at 31st March, 2005, and the balance of the proceeds (if any) may be applied

LETTER FROM THE BOARD

towards repayment of working capital advances in the amount of approximately HK\$42.8 million as at 31st March, 2005 made by the controlling Shareholder of the Company. Save as disclosed herein, the controlling Shareholder of the Company has not provided any guarantee and/or financial assistance to the Company. Net proceeds from the issue of the Second Convertible Notes are intended to be used for future investment on food and beverage related industries (which may or may not include investments in further restaurants) and/or property investment when suitable opportunities arise and after the actual amount of net proceeds from the Convertible Notes could be ascertained. However, no particular investment targets have been identified by the Company at present. If the First Convertible Notes issue does not proceed (because the requisite shareholders approval could not be obtained) or if some but not all of the First Convertible Notes are issued, then part of the net proceeds from the placings will be allocated for working capital purposes to make up any shortfall of net proceeds available from the issue of the First Convertible Notes.

The following table shows the equity issues made by the Company during 12 months' period immediately preceding the Latest Practicable Date:

Description	Announcement date	Net proceeds	Date of general mandate granted	Intended use of proceeds as announced	Actual use of proceeds
Issue of 126,000,000 new shares of HK\$0.01 each pursuant to a vendor-placing exercise at HK\$0.0624 per share	20th January, 2005	About HK\$7.6 million	27th May, 2004	General working capital	Used as intended

Shareholders should note that the issue of the Convertible Notes is conditional upon the fulfillment of the conditions as described under a sub-heading of "Conditions" in section 2 above. Accordingly, the First Convertible Notes issue and/or the Second Convertible Notes issue may or may not proceed at all or in full. Shareholders and potential investors should exercise caution when dealing in the Shares.

LETTER FROM THE BOARD

6. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The authorised share capital of the Company is HK\$100,000,000 divided into 2,000,000,000 Shares. In order to accommodate future expansion and growth of the Group, the Directors propose to increase the authorised share capital of the Company from HK\$100,000,000 divided into 2,000,000,000 Shares to HK\$500,000,000 divided into 10,000,000,000 Shares by the creation of an additional HK\$400,000,000 divided into 8,000,000,000 Shares.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the Second EGM.

7. EXTRAORDINARY GENERAL MEETINGS

A notice reconvening the Adjourned EGM to be held at 3:00 p.m. on Thursday, 30th June, 2005 for the purpose of considering and, if thought fit, passing, with or without amendments or modification to the resolution numbered 1 set out in the First EGM Notice to approve the placing of the First Convertible Notes is set out on pages 47 to 48 of this circular.

A notice convening the Second EGM to be held at 3:15 p.m. on Thursday, 30th June, 2005 or, if later, as soon as practicable after the close of the Adjourned EGM, for the purpose of considering and, if thought fit, passing with or without amendments or modification, the resolutions to be proposed to approve the Capital Increase and the placing of the Second Convertible Notes is set out on pages 49 to 50 of this circular.

The vote of Independent Shareholders at both the Adjourned EGM and the Second EGM on the resolutions to be proposed to approve the placing of the First Convertible Note and the Second Convertible Note respectively will be taken on a poll. Hon Po Investment Limited and its associates, which do not have any intention to vote against those resolutions, are required to abstain from voting in favour of those resolutions.

Unless the Company receives notice of revocation from the relevant shareholder, any valid proxy form previously submitted by that shareholder in respect of the Adjourned EGM will continue to be valid for the reconvened meeting. Shareholders entitled to attend and vote at the reconvened meeting are those who were members of the Company on 8th April, 2005. A WHITE form of proxy is also enclosed for use at the Adjourned EGM by those Shareholders who now wish to appoint proxies for that meeting.

LETTER FROM THE BOARD

A BLUE form of proxy is herewith enclosed for use at the Second EGM. Whether or not you intend to be present at either or both the Adjourned EGM and the Second EGM, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tengis Limited of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time for the Adjourned EGM and the Second EGM respectively. Completion and delivery of the forms of proxy will not prevent Shareholders from attending and voting at the Adjourned EGM or (as the case may be) the Second EGM if they so wish.

8. RECOMMENDATION

The Board considers that the proposed placings of the First Convertible Notes and the Second Convertible Notes and the Capital Increase are in the interests of the Company and the Shareholders as a whole. The Board recommends that the Shareholders vote in favour of the resolutions to be proposed at the Adjourned EGM and the Second EGM.

The Independent Board Committee of the Company, having considered the advice from Kingston, considers that the terms of the proposed placing of the First Convertible Notes and the Second Convertible Notes to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee of the Company has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the proposed placings to be proposed at the Adjourned EGM and the Second EGM respectively. The text of the letter from the Independent Board Committee is set out on pages 21 to 22 of this circular.

The text of the letter from Kingston, containing its recommendations and the principal factors and reasons taken into account in arriving at its recommendations in respect of the terms of the proposed placing of the First Convertible Notes and the Second Convertible Notes to be set out on pages 23 to 45 of this circular.

Your attention is also drawn to the notices to reconvene the Adjourned EGM and the Second EGM set out in this circular.

Yours faithfully,
By order of the Board
Hon Po Group (Lobster King) Limited
Cheung To Sang
Chairman and Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

(Stock code: 228)

14th June, 2005

To the Independent Shareholders

Dear Sirs or Madams,

PROPOSED PLACINGS OF CONVERTIBLE NOTES

We refer to the circular of the Company dated 14th June, 2005 (the “Circular”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been constituted as an independent board committee and to advise the Independent Shareholders in respect of the proposed placings of the First Convertible Notes and the Second Convertible Notes.

Kingston has been appointed to advise the Independent Board Committee and the Shareholders as to whether the terms of the proposed placings of the First Convertible Notes and the Second Convertible Notes are fair and reasonable as far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 23 to 45 of the Circular.

Your attention is also drawn to the “Letter from the Board” set out on pages 5 to 20 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the reasons for the proposed placings of the First Convertible Notes and the Second Convertible Notes and the advice of Kingston, we are of the opinion that the terms of the proposed placings of the First Convertible Notes and the Second Convertible Notes are fair and reasonable so far as the Shareholders are concerned and is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the Adjourned EGM and the Second EGM to approve the proposed placings of the First Convertible Notes and the Second Convertible Notes.

Yours Faithfully

Independent Board Committee of

Hon Po Group (Lobster King) Limited

Chang Kin Man

Independent

Non-executive Director

Wu Tak Lung

Independent

Non-executive Director

Lee Pui Hang, Pieann

Independent

Non-executive Director

LETTER FROM KINGSTON

Set out below is the text of a letter to the Independent Board Committee and the Independent Shareholders from Kingston Corporate Finance Limited in respect of the Proposed Placings of Convertible Notes prepared for the purpose of inclusion of this circular.



KINGSTON CORPORATE FINANCE LIMITED

Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

14th June, 2005

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs

PROPOSED PLACINGS OF CONVERTIBLE NOTES

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Placings of Convertible Notes (the “Proposed Placings”), details of which are set out in the “Letter from the Board” in the circular issued by the Company to the Shareholders dated 21st March, 2005 (the “First Circular”) and the “Letter from the Board” in the circular issued by the Company to the Shareholders dated 14th June, 2005 (the “Second Circular”), respectively, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the First Circular and the Second Circular (the “Circulars”) unless the context require otherwise.

The Independent Board Committee, comprising Mr. Chang Kin Man, Mr. Wu Tak Lung and Ms. Lee Pui Hang, Pieann, all being the independent non-executive Directors, has been appointed to advise the Independent Shareholders in relation to the Proposed Placings.

LETTER FROM KINGSTON

With reference to the Letter from the Board in the First Circular and the announcement published to the public dated 9th May, 2005, the Company entered into a conditional placing agreement with the Placing Agent on 7th February, 2005 (the “First Placing Agreement”), pursuant to which the Company has agreed to issue and the Placing Agent has conditionally agreed with the Company to place, on a best effort basis, to not less than six independent professional, corporate or individual investors the First Convertible Notes which are proposed to be issued in an aggregate principal amount of HK\$40,000,000 in maximum. As set out in the announcement published to the public dated 9th May, 2005, the Company entered into a conditional placing agreement with the Placing Agent on 29th March, 2005 (the “Second Placing Agreement”), pursuant to which the Company has agreed to issue and the Placing Agent has conditionally agreed with the Company to place, on a best effort basis, to not less than six independent professional, corporate or individual investors the Second Convertible Notes which are proposed to be issued in an aggregate principal amount of HK\$100,000,000 in maximum.

Kingston Corporate Finance Limited is not connected with the directors, chief executive and substantial shareholders of the Company or any subsidiaries of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Kingston Corporate Finance Limited will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Proposed Placings and the Conversion Price, so far as the interest of the Independent Shareholders is concerned and whether it is in the interest of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circulars and the information and representations provided to us by the Directors and management of the Group and have assumed that all information and representations made by the Group and the Directors were true, accurate and complete at the time they were made and continue to be so as at the date of the Circulars. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circulars were reasonably made after due enquiry. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circulars nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Placing Agent, and their respective associates nor have we carried out any independent verification of the information supplied.

LETTER FROM KINGSTON

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion regarding the terms of the Proposed Placings, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Proposed Placings

The Company was incorporated in the Cayman Islands in 2001 with limited liability and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The Company is an investment holding company and its subsidiaries are principally engaged in the operation of a chain of Chinese restaurants and food manufacturing in Hong Kong.

As set out in the Letter from the Board in the Circular, both First Convertible Notes and Second Convertible Notes (the “Convertible Notes”) that bear zero interest rate are an appropriate means of raising additional capital funding for the Company without imposing further interest expense burden on the Company. As discussed with the management of the Company, the estimated net proceeds of approximately HK\$39.4 million from the proposed placing of First Convertible Notes will be applied as general working capital to immediately fulfill the short-term funding requirements of the Company and the estimated net proceeds of approximately HK\$97.5 million from the proposed placing of Second Convertible Notes will be applied for future investment on food and beverage related industries (which may or may not include investments in new restaurants) and/or property investment when suitable opportunities arise.

(i) *Going concern and financial position*

Set out below are the audited financial figures of the Group for the two financial years ended 31st December, 2004 and the unaudited financial figures for the three months ended 31st March, 2005:

	As at 31st March, 2005 HK\$'000	As at 31st December, 2004 HK\$'000	2003 HK\$'000
Current assets	14,897	18,269	34,404
Current liabilities	76,723	83,811	87,370
Net current liabilities	(61,826)	(65,542)	(52,966)
Total assets	50,901	51,452	102,530
Total liabilities	79,193	86,281	91,360
Minority interests	756	756	767
Net assets/(liabilities)	(29,048)	(35,585)	10,403

LETTER FROM KINGSTON

	Year ended 31st December,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	266,120	507,917
(Loss)/profit from operations	(35,732)	32,224
(Loss)/profit attributable to shareholders	(39,988)	31,223

In order to assess the appropriateness of raising a considerable sum of capital funding by way of the Proposed Placings, we emphasize on analyzing the financial position of the Group. Having reviewed the Chairman's statement set out in the Company's annual report for the year ended 31st December, 2004 (the "Annual Report 2004") and enquired with the management of the Company, although the retail market conditions in Hong Kong slightly improved amid the gradual recovery of the local economy and the implementation of "Individual Visit Scheme", we understand that Hong Kong restaurant industry still encountered with severe challenges in view of high operating costs and changes in government regulations and consumer behavior such as anti-smoking law, spending pattern, eating habit and perception of dietary practice.

Upon review of the Annual Report 2004, we note that the Group reported an audited consolidated turnover of approximately HK\$266.1 million for the year ended 31st December, 2004, representing a significant decrease of approximately 47.6% when compared with audited consolidated turnover of approximately HK\$507.9 million for the year ended 31st December, 2003. During the year ended 31st December, 2004, the Group also suffered an audited consolidated net loss attributable to the Shareholders of approximately HK\$40 million as compared with an audited consolidated net profit of approximately HK\$31.2 million for the year ended 31st December, 2003.

According to the Annual Report 2004, the Group continued to suffer from an audited consolidated net cash outflow from operating activities of approximately HK\$0.5 million for the year ended 31st December, 2004 although the Group recorded an improvement of approximately 98.5% in the audited consolidated net cashflow from operating activities for the year ended 31st December, 2004 when compared with an audited consolidated net cash outflow from operating activities of approximately HK\$35.2 million for the year ended 31st December, 2003. Importantly, the Independent Shareholders should note that the auditors of the Company had issued an opinion of fundamental uncertainty relating to the going concern basis of the Group as stated in the Annual Report 2004. Based on the opinion of the auditors of the Company, the validity of the going concern basis of the Group will be primarily depending upon future funding being raised to meet its debt obligation when they fall

LETTER FROM KINGSTON

due in the foreseeable future. Accordingly, we believe that the Group is in need to raise additional capital to support its restaurant operations and to strengthen its financial position.

Subsequent to the year ended 31st December, 2004, the Company completed a fund raising activity by way of placing of 126,000,000 new shares of HK\$0.01 each to certain independent investors at HK\$0.0624 per share of HK\$0.01 each, raising an aggregate of net proceeds of approximately HK\$7.6 million on 3rd February, 2005 for the purpose of supporting its immediate general working capital needs. Despite the abovementioned funding raised for the general working capital of the Group, we note that the unaudited consolidated cash and bank balance of the Group as at 31st March, 2005 was only approximately HK\$6.5 million, deteriorating by approximately 38% when compared with the Group's audited consolidated cash and bank balance of approximately HK\$10.5 million as at 31st December, 2004. In addition, the unaudited consolidated net liabilities of the Group was approximately HK\$29 million or approximately HK\$0.19 per Share (adjusted to take into account the effect of the 5 to 1 share consolidation which took effect on 11th April, 2005) as at 31st March, 2005, indicating that the Group is in urgent need for additional capital to bring its financial position in shape in view of the reasons mentioned above. As discussed with the Directors, we note that the business environment and nature of the Hong Kong restaurant industry in which the Group operates has been increasingly competitive and labour-intensive, and in particular labour costs constitute a significant portion of the Group's operating cost. Accordingly, the business performance and profitability of the Group were not satisfactory in the past and it is likely that the Group would face continuous challenges in the future. Given the unsatisfactory operating results and the weak financial position of the Group, we are of the view that pursuit of additional funding support is crucial to equipping the Group to sustain in such a highly competitive industry.

Notwithstanding the additional funding of approximately HK\$7.6 million raised by the Company on 3rd February, 2005 subsequent to the year ended 31st December, 2004, we note that the business operation of the Group had further been supported by the increase in borrowings of approximately HK\$0.9 million for the three months ended 31st March, 2005 from the immediate holding company (In fact, there had already been an increase in such borrowings of approximately HK\$37.4 million during the year ended 31st December, 2004). Upon review of the unaudited financial figures provided by the Company with the enquiry from the management of the Company, we note that the unaudited consolidated other payables and accruals (including salaries, rental and utility expenses) was reduced by approximately HK\$5.1 million but still stood at approximately HK\$22.6 million as at 31st March, 2005. The Directors advised that the other payables and accruals and account payables have been overdue longer than the credit term practically allowed by the relevant suppliers.

LETTER FROM KINGSTON

Given the considerable amount of net losses, net cash outflow from operating activities of the Group, account payables, other payables and accruals, borrowings from the immediate holding company and the prevailing market competition leading uncertainty of the Group's sustainability and profitability, we are of the view that the procurement of borrowings from the immediate holding company was only justifiable for the purpose of fulfilling the Group's immediate funding needs without involving any cumbersome procedures whereas the fund raising activity undertaken by the Company on 3rd February, 2005 and the Proposed Placings, in our opinion, are justifiable for sustaining and improving the Group's business operations on an ongoing and regular basis, notwithstanding that the fundamental uncertainty relating to the going concern basis of the Group might continue to prevail in the long term.

(ii) Alternative means of fund raising

As discussed with the management of the Company, the Directors had considered various means of fund raising (for the purpose of, amongst other things, financing its short-term funding requirements) other than the Proposed Placings, including, amongst other things, bank borrowings, further placing of new shares, or rights issue.

However, given the poor business performance (as to an audited consolidated net loss attributable to the Shareholders of approximately HK\$40 million for the year ended 31st December, 2004), weak liquidity position (as to an unaudited consolidated cash and bank balance of approximately HK\$6.5 million as at 31st March, 2005) and the issue of going concern (as to an unaudited consolidated net liabilities of approximately HK\$29 million as at 31st March, 2005) of the Group, the Directors confirmed that they had experienced greater-than-expected difficulties in procuring banks, financial institutions and/or independent underwriters in the market for the purpose of serving its general working capital needs or in particular, for those companies operate in Hong Kong restaurant industry, such as by way of bank borrowings, further placing of new shares and/or rights issue.

Having discussed with the Directors with reference to the Group's financial position and the industry category in which the Group operates, we concur with the Directors' view that the Company was unable to procure additional bank borrowings when the Company is in need for immediate short term funding although the Group had outstanding bank borrowings of only approximately HK\$1.6 million as at 31st March, 2005. In any event, obtaining bank borrowings will inevitably result in additional interest cost to be borne by the Group and will also require the Group to make periodic repayment which may not be an appropriate means of financing

LETTER FROM KINGSTON

alternative when the Group is actually in need for financial relief and more resources to enhance its operations' sustainability and profitability from the competitive market. Conversely, the Convertible Notes will not require any interest payment and even loan repayment from the Group if the convertible note investors (the "Noteholders") exercised its right to fully convert the debt into equity in the Company.

In addition, we have been informed by the Directors that the Company had approached two financial institutions to discuss any possibility of conducting a rights issue of shares on both basis of full entitlements or no acceptance of full entitlements by the controlling shareholder of the Company before considering the issue of the Convertible Notes. However, the financial institutions that were approached by the Company in respect of the rights issue expressed no positive response because the possibility of the rights issue to be conducted on a fully underwritten basis could imply substantial risk to them in view of poor fundamental factors of the Company. Size of rights issue was not discussed as the discussion was on the preliminary stage.

Contrary to various means of fund raising platform as mentioned above, we concur with the Directors' view that the issue of the Convertible Notes to the Independent Shareholders are the most appropriate means of financing alternative for the purpose of serving the general working capital requirements of the Group in both short term and long term at zero financing cost thereby resulting in broader capital base in the event that the Convertible Notes are fully exercised.

(iii) *Keen market competition*

Having enquired with the management of the Company, although the general economy slightly improved amid the gradual recovery of the local economy and the implementation of "Individual Visit Scheme", we have learnt that Hong Kong restaurant industry still encountered with severe challenges as evidenced by the fact that more than 40 restaurant groups had shut down their restaurant business during the first quarter of 2005 according to a news reported by Sing Tao Daily on 14th April, 2005.

Upon review of the Annual Report 2004 and financial information provided by the Company, the Directors had permanently closed down three of its restaurants located at Kowloon City, Kwai Chung and Mei Foo and disposed of three of its restaurants located at Yaumatei, Hunghom and Shum Shui Po during the year ended 31st December, 2004 (the "Closed Restaurants"). We note that the audited operating loss resulting from the Closed Restaurants amounted to approximately HK\$10.1 million for the year ended 31st December, 2004, representing approximately 28.3% of the

LETTER FROM KINGSTON

audited consolidated loss from operations of the Group. In view of keen competition in the Hong Kong restaurant industry, we concur with the Directors that the Company should take steps to revitalize the Group's restaurant operation thereby improving the shareholders' equity value by way of a) disposing of the loss-making restaurant branches and b) exploiting new prospects for food and beverage related industries and/or property investment when suitable opportunities arise.

On the above basis, we believe that the proposed placing of Second Convertible Notes represents a good financing opportunity for the Company to make better prospects of further investments on food and beverage related industries which are crucial to the Company for being competitive in the Hong Kong restaurant industry. As discussed the changes in consumer behavior and government regulations above, further investments to explore new market niche (in terms of taste, style and price) and further enhancement on its existing restaurant operations can further strengthen the Group's fleet of restaurants. As stated in the Letter from the Board in the Second Circular, the net proceeds from the proposed placing of Second Convertible Notes will also be used to property investment when suitable opportunities arise. Taking into consideration the audited consolidated operating lease rental of approximately HK\$32.9 million or approximately 12.4% of the audited consolidated turnover for the year ended 31st December, 2004, we are of the view that the inflation revisiting amid the improvement in the general economy may further push the rental higher that will eventually erode the Group's earnings. Accordingly, the Group's earnings will be improved due to rental savings on the basis that the Company had its own properties for restaurant operations and it is fair and reasonable for the Company to purchase properties for its own business operations for better corporate resources re-deployment, operational efficiency and profitability. However, the Independent Shareholder should note that the Company will be subject to property revaluation which may or may not affect the Group's earnings, depending on the property market climate.

2. Principal terms of the First Convertible Notes and Second Convertible Notes

The Noteholders may convert the whole or part of the principal amount of the First Convertible Notes and Second Convertible Notes into equity in the Company at the conversion price of First Convertible Notes (the "First Conversion Price") and the conversion price of Second Convertible Notes (the "Second Conversion Price") (subject to adjustments) at any time and from time to time, after the date of issue of the respective convertible notes up to the second anniversary of the issue of the respective convertible notes.

LETTER FROM KINGSTON

The terms of the Convertible Notes have been negotiated between the Company and the Placing Agent on arm's length basis and the principal terms (adjusted to take into account the effect of the 5 to 1 share consolidation of the Company which took effect on 11th April, 2005) of which are summarized below:

	First Convertible Notes	Second Convertible Notes
Issuer	The Company	The Company
Principal amount	HK\$40 million	HK\$100 million
Interest	Non-interest bearing	Non-interest bearing
Maturity date	Second anniversary from the date of the issue of the First Convertible Notes	Second anniversary from the date of the issue of the Second Convertible Notes
Conversion	Each of the holders shall have the right to convert the whole or part integral multiple of HK\$50,000 of principle amount of the First Convertible Notes into Conversion Shares (subject to adjustment)	Each of the holders shall have the right to convert the whole or part integral multiple of HK\$50,000 of principle amount of the Second Convertible Notes into Conversion Shares (subject to adjustment)
Initial conversion price	HK\$0.10 per Share (adjusted to take into account the effect of the 5 to 1 share consolidation which took effect on 11th April, 2005)	HK\$0.05 per Share (subject to adjustments)

LETTER FROM KINGSTON

	First Convertible Notes	Second Convertible Notes
Tranche of placing	<p>The proposed placing of First Convertible Notes is carried out in two stages. The first stage of the proposed placing with principal amount of HK\$20 million in maximum will be issued within 7 days upon fulfillment of the conditions as set out in the “Letter from the Board” in the First Circular while the second stage of the proposed placing with principal amount of HK\$20 million in maximum will be issued within 3 months upon the successful proposed placing in the first stage</p>	<p>The proposed placing of Second Convertible Notes is carried out in four stages. A principal amount of HK\$25 million in maximum will be issued in each of the 4 stages: 1) being issued within 7 days upon fulfillment of the conditions; and 2) being issued within one month upon the successful completion of the former stage</p>
Redemption right	<p>If the First Convertible Notes have not been converted within nine months from the date of the issue, the Company shall have the rights to redeem the whole or part of the First Convertible Notes at a redemption amount equal to 105% of the redeemed principal amount of the First Convertible Notes before its maturity</p>	<p>If the Second Convertible Notes have not been converted within nine months from the date of the issue, the Company shall have the rights to redeem the whole or part of the Second Convertible Notes at a redemption amount equal to 105% of the redeemed principal amount of the Second Convertible Notes before its maturity</p>

LETTER FROM KINGSTON

(i) Interest

For the purpose of comparison, we have conducted our research, at our best effort, through a manual search of all circulars on the Stock exchange’s website, for a period from 1st January, 2005 to 15th May, 2005, which had been published with the key words of “Convertible Notes” and have identified 9 listed companies (the “Comparables”) which have announced, issued or proposed to issue convertible notes since 1st January, 2005 (the “Peer Convertible Notes”). The table below set out the interest rate of Peer Convertible Notes that were identified by us:

Table 1

Name of listed issuer	Stock Code	Date of announcement	Interest rate <i>% p.a.</i>
The Company – First Convertible Notes	228	21st February, 2005	0
The Company – Second Convertible Notes	228	9th May, 2005	0
Capital Estate Limited	193	5th January, 2005	2
Premium Land Limited	167	6th January, 2005	1
SMI Publishing Group Limited	8010	3rd February, 2005	1.5
Get Nice Holdings Limited	64	22nd February, 2005	3
Nippon Asia Investments Holdings Limited	603	17th February, 2005	1
Town Health International Holdings Company Limited	8138	3rd February, 2005	2.5
Heritage International Holdings Limited	412	25th January, 2005	0
China United International Holdings Limited	273	12th January, 2005	0
China Sci-Tech Holdings Limited	985	3rd February, 2005	3
		Mean:	1.56

LETTER FROM KINGSTON

Table 1 demonstrated that the Peer Convertible Notes bear an interest rate, ranging from 0% p.a. to 3% p.a. with a mean of approximately 1.56% p.a. whereas there are 3 listed companies including the Company having issued or proposing the issue of convertible notes at zero interest rate. In addition to the financial backgrounds, Independent Shareholders should note that many qualitative factors, including but not limited to, the business nature, industry prospects, management and operational scale of the underlying companies issuing the Peer Convertible Notes may be different from those of the Company while the respective principal amounts of the Peer Convertible Notes and the respective tenor of the Peer Convertible Notes may also be distinguished from those of the Convertible Notes.

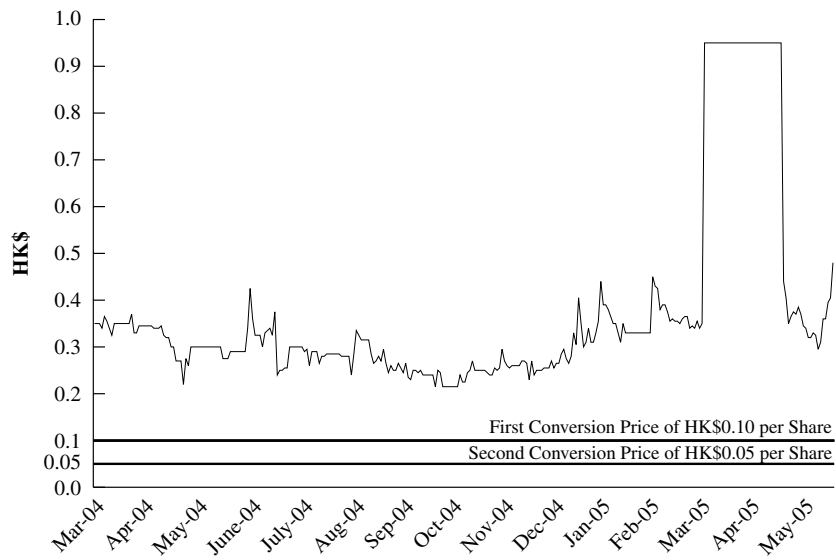
As mentioned in Section 1(ii) above, notwithstanding that the Group had outstanding bank borrowings in an aggregate amount of only approximately HK\$1.6 million as at 31st March, 2005, at an average interest rate of approximately 6% p.a. or approximately HK\$96,000 interest expense p.a., the Proposed Placings will bring in fresh funding to the Company at zero financing cost, on the assumption that the Convertible Notes are not redeemed and are converted in equity in the Company, to a) repay the outstanding bank borrowings; b) settle its short-term funding needs and c) finance its restaurant investments and/or property investments if suitable opportunities arise. We also envisage that the Proposed Placings will effectively benefit the Company in terms of financial flexibility given the key banks in Hong Kong recently revised their best lending rate upward to 5.75% and is likely to push the aforesaid rate higher due to liquidity squeezed amid general inflation revisited on economic recovery.

(ii) Initial conversion price

As stated in the Letter from the Board as contained in the Circulars, the terms of the Convertible Notes were determined on arm's length basis between the Company and the Placing Agent. Chart 1 and Chart 2 set out below illustrates the historical closing price per Share and the daily trading volume of the Shares (adjusted to take into account the effect of the 5 to 1 share consolidation which took effect on 11th April, 2005), respectively, traded on the Stock exchange from 24th March, 2004 to 23rd March, 2005 (the "Latest Trading Date") and further up to the Latest Practicable Date (the "Relevant Period").

LETTER FROM KINGSTON

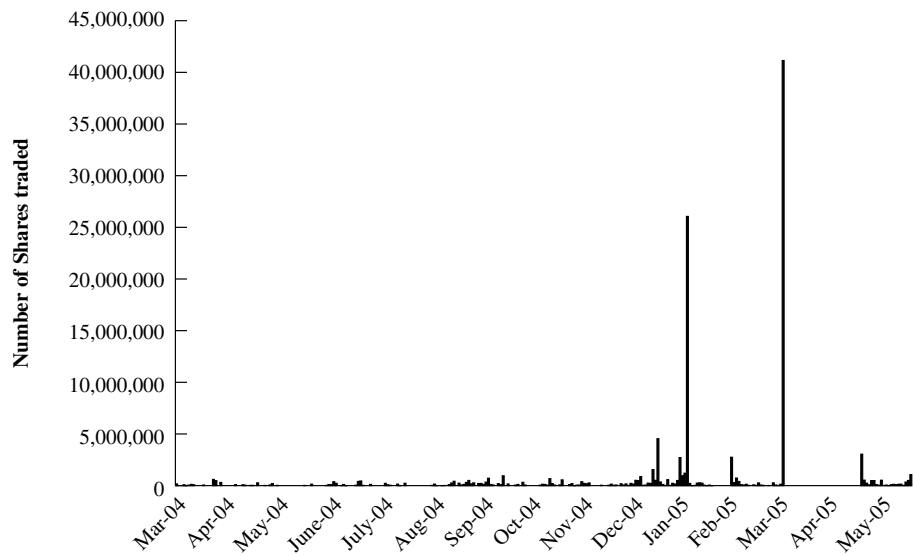
Chart 1
Share price performance of the Company



Source: www.hkex.com.hk

Remark: In respect of Chart 1 illustrated above, all relevant closing prices per Share during the Relevant Period have been adjusted to take into account the effect of the 5 to 1 share consolidation which took effect on 11th April, 2005

Chart 2
Daily trading volume of the Company



Source: www.hkex.com.hk

Remark: In respect of Chart 2 illustrated above, all relevant trading volume during the Relevant Period have been adjusted to take into account the effect of the 5 to 1 share consolidation which took effect on 11th April, 2005

LETTER FROM KINGSTON

In essence, the First Conversion Price and all relevant closing prices per Share during the Relevant Period presented below have been adjusted to take into account the effect of the 5 to 1 share consolidation which took effect on 11th April, 2005. The First Conversion Price of HK\$0.10 per Share, therefore, represents:

- (a) a discount of approximately 89.5% over the closing price of HK\$0.95 per Share as quoted on the Stock Exchange on the Latest Trading Date;
- (b) a discount of approximately 78.6% over the average closing price of the Shares of approximately HK\$0.467 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Latest Trading Date;
- (c) a discount of approximately 75.7% over the average closing price of the Shares of approximately HK\$0.411 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Latest Trading Date;
- (d) a discount of approximately 73.6% over the average closing price of the Shares of approximately HK\$0.379 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Latest Trading Date;
- (e) a discount of approximately 69% over the average closing price of the Shares of approximately HK\$0.323 per Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Latest Trading Date;
- (f) a discount of approximately 79.2% over the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (g) a discount of approximately 72.1% over the average closing price of the Shares of approximately HK\$0.358 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Latest Practicable Date.

LETTER FROM KINGSTON

As demonstrated above in Chart 1, there was a sudden price movement and high trading volume on the Latest Trading Date (the “Sudden Movement”) as the closing price of the Shares hit as high as HK\$1.15 per Share while the trading volume surged to 41,146,000 Shares. However, the Company had published an announcement in respect of the Sudden Movement on 23rd March, 2005, at the request of the Stock Exchange, and stated that the Directors were not aware of any reason for the Sudden Movement. Upon the resumption of trading on 12th May, 2005, we note that the trading volume of the Shares plummeted by about 93% to only 3,014,600 Shares while the Share price also dropped sharply by approximately 54% to HK\$0.44 per Share. We also note that the trading volume was as little as only 10,000 Shares on 30th May, 2005 and the closing Share price dropped to as low as HK\$0.295 on 2nd June, 2005. As such, the Independent Shareholders should note that the Sudden Movement is only an exceptional case and is not relevant to be considered in assessing the fairness of the Proposed Placings.

Save for the Share price traded on the Latest Trading Date, the Share price had been traded at a range from HK\$0.215 per Share to HK\$0.44 per Share with a median of HK\$0.295 per Share during the period from 24th March, 2004 to 22nd March, 2005, representing the Share price at which the Company had been often traded. On this basis, the discount of the First Conversion Price over the median closing price of the Share of approximately 66.10% for the aforementioned period, are relatively much lower than the discounts over the average closing price selected at different time series as illustrated above. We are of the view that the Convertible Notes which have a higher conversion price (or a conversion price which is close to or a premium to the market price of the Shares) will have no incentive to investors, having regard to the fact that zero interest income returned to the Noteholders, poor business performance and weak financial position of the Group as discussed above.

On the other hand, we consider that the Company’s share price may not accurately reflect the true underlying value of the Company since the trading in the shares of the Company was not active as illustrated in Chart 2 and there were no trading on the Stock Exchange for 90 days or about 34% of the Relevant Period with an average of only about 0.43 million Shares or approximately 0.57% of the independent shareholding interest, traded per day during the Relevant Period. In most circumstances, investors are willing to pay a premium for liquidity that is the ability to convert the shares into cash quickly with minimal transaction costs and high degree of certainty about the net proceeds whereas investors will demand a large discount for, including, amongst other things, the lack of liquidity. In order to reflect the illiquidity of the Shares on the Stock Exchange, we consider that it is unavoidable to set a discount on the First Conversion Price in order to attract potential investors, especially with the fundamental uncertainty relating to the going concern of the Group and tough industry environment.

LETTER FROM KINGSTON

On the other hand, the Second Conversion Price of HK\$0.05 per Share (subject to adjustment) represents:

- (a) a discount of approximately 94.7% over the closing price of HK\$0.95 per Share as quoted on the Stock Exchange on the Latest Trading Date;
- (b) a discount of approximately 89.3% over the average closing price of the Shares of HK\$0.467 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Latest Trading Date;
- (c) a discount of approximately 87.8% over the average closing price of the Shares of HK\$0.411 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Latest Trading Date;
- (d) a discount of approximately 86.8% over the average closing price of the Shares of HK\$0.379 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Latest Trading Date;
- (e) a discount of approximately 84.5% over the average closing price of the Shares of HK\$0.323 per Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Latest Trading Date;
- (f) a discount of approximately 89.6% over the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (g) a discount of approximately 86% over the average closing price of the Shares of HK\$0.358 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Latest Practicable Date.

We note that the discount of the Second Conversion Price to the median closing price of the Share of approximately 83% for the aforesaid period, are relatively less than the discount to the average closing price per Share selected at different time series as set out in Section 2(ii). As discussed above, the Convertible Notes which have a higher conversion price (or a conversion price which is close to or a premium over the market price of the Share) will have little or no attraction to investors, having regard to the fact that the inherent risks associated with the Group, such as liquidity risk (as to thin trading volume), credit risk (as to likelihood of inability to repay the Convertible Notes at maturity), business risk (as to likelihood of reluctance to revitalize the business operations) and market risk (as to changes in consumer behavior and government regulations).

LETTER FROM KINGSTON

Having considered a) the unaudited consolidated net liabilities of approximately HK\$29 million (equivalent to approximately HK\$0.19 per Share) and b) the unaudited consolidated net current liabilities of approximately HK\$61.8 million (equivalent to approximately HK\$0.41 per Share) as at 31st March, 2005, on the basis of 151,200,000 Shares in issue (adjusted to take into account the effect of the 5 to 1 share consolidation of the Company which took effect on 11th April, 2005), the Convertible Notes to be invested by the Noteholders are not secured and backed by any assets due to the Group's negative shareholding equity status as to its net current liabilities and net liabilities positions. On such basis, we consider that the First Conversion Price and Second Conversion Price are attractive to the Company so far as the interest of the Independent Shareholders is concerned.

Given the key banks in Hong Kong recently revised their best lending rate upward and is likely to push the aforesaid rate higher as discussed above, a bond bears with fixed interest payments or zero interest rate will have little or no incentive to the investors. In order to induce investors to purchase the Convertible Notes at zero interest rate, it is unavoidable that the conversion price of the Convertible Notes must be set at a discount to compensate the Noteholders with a) downside protection having regard to the fact that the inherent risks and going concern issue as discussed above and b) the upside potential in form of a return from gain on share price if the Convertible Notes so converted in the event that the Company successfully weathers the poor business operations.

As stated in the Letter from the Board in the Circular, the Company shall have the rights to redeem the whole or part of the respective Notes at a redemption amount equal to 105% of the redeemed principal amount of the respective Convertible Notes before its maturity if the respective Notes have not been converted within nine months from the date of the issue. In other words, the Company shall pay no cost for two-years period financing but is obliged to repay the principal amount of the Convertible Notes at maturity on the assumption that a) the Company did not redeem any principal amount of the respective Notes and b) the Noteholders did not exercise its right to convert the Convertible Notes into equity before its maturity. As such, we consider that the Proposed Placings is attractive to the Independent Shareholders as the Noteholders are not rewarded for any return apart from the gain on Shares when the Convertible Notes were converted into equity in the Company and the redemption premium paid by the Company when the Convertible Notes are redeemed.

We were advised by the Directors that the terms of the Convertible Notes were determined on arm's length basis between the Company and the Placing Agent, with reference to among other things, including but not limited to the trading volume, business nature, financial performance, business operation of the Group and the general interest rate trend.

LETTER FROM KINGSTON

Having taken into consideration a) the negative shareholding equity status as to its net current liabilities and net liabilities positions; b) the Convertible Notes being not secured and asset-backed; c) zero financing cost for two-year periods; d) difficult to dispose of shareholding interests due to illiquid share trading volume; e) possibility of default debt payments in view of the poor business track record; f) lower debt instruments pricing during the rising interest rate environment; and g) competitive industry prospects in view of high operating costs and changes in government regulations and consumer behaviour, we are of the view that the pricing of the Convertible Notes is fair and reasonable to the Independent Shareholders and in the interest of the Company and the Shareholders as a whole.

3. Financial effect of the Proposed Placings

(i) *Net liabilities*

As discussed above, the Group recorded an unaudited consolidated net liabilities of approximately HK\$29 million as at 31st March, 2005. There will be no immediate effect to the Group's net liabilities upon the completion of the Proposed Placings as the Group's assets and liabilities will increase by the same increment. However, the total liabilities of the Group will be improved by the principal amount of the Convertible Notes while a positive impact will be brought on the net tangible assets position of the Group on the assumption that the Convertible Notes are fully converted into Conversion Shares.

In any case, Independent Shareholders should note that certain new Hong Kong Financial Reporting Standards ("HKFRS") have become effective on 1st January, 2005 including, but not limited to, Hong Kong Accounting Standard 39 ("HKAS39") on measurement and recognition of financial instruments. We have discussed with the Directors and understand that the said standards would not have any impacts on the net liabilities position of the Group arising from the annual/interim financial period assessments to be carried out on the Convertible Notes with reference to market parameters by the Company and its auditor after the completion of the Proposed Placings.

(ii) *Cashflow*

Having discussed with the Directors, we understand that the proposed placings of First Convertible Notes and Second Convertible Notes would bring in net cash inflow of approximately HK\$39.4 million and approximately HK\$97.5 million, respectively, which would be utilized by the Company to meet its immediate general working capital needs and to enhance business prospects with further restaurant

LETTER FROM KINGSTON

investments and/or property investments when suitable opportunities arise. In the event that the Company decided to exercise its right to redeem the whole or part of the outstanding principal amount of the Convertible Notes after nine months from the date of the issue of the Convertible Notes, a 5% redemption premium on the redeemed principal amount of the Convertible Notes shall be incurred as the cost of funding for early redemption that may further reduce the Company's financial flexibility. Therefore, Independent Shareholders should be aware of the Group's financial position that is still subject to further funding needs for the principal repayment of the Convertible Notes upon their respective maturity should the Noteholders do not exercise its right to convert their respective Notes.

(iii) Gearing

On the basis of the unaudited consolidated total assets of the Group of approximately HK\$50.9 million and the sum of unaudited consolidated total liabilities & minority interests of the Group of approximately HK\$79.9 million as at 31st March, 2005, the gearing ratio (defined as total liabilities & minority interests over total assets) of the Group as at 31st March, 2005 would be approximately 157%. For purpose of analysis only, on the assumptions that a) the Convertible Notes are fully converted into Conversion Shares; b) the net proceeds from the Second Convertible Notes, to certain extent, are not immediately applied for any investment opportunities; c) the net proceeds from the issue of First Convertible Notes (in the amount of HK\$39.4 million) are used as stated in the manners as set out in the Second Circular (i.e. general working capital to support the immediate operation needs and d) neither the First Convertible Notes nor the Second Convertible Notes were redeemed, we were confirmed by the Company that the total assets will increase and the total liabilities will decrease thereby reducing the gearing ratio of the Group. We concur with the Directors' view that the additional funding would give the Company greater financial flexibility for business operation needs and ability to finance investment prospects when suitable opportunities arise. However, Independent Shareholders should be aware of the fact that the Group's gearing position may not be improved if the Company fails to revitalize its business and therefore the Company is still subject to further funding needs for the principal repayment of the Convertible Notes upon their respective maturity should the Noteholders do not exercise its right to convert their respective Convertible Notes.

In any case, Independent Shareholders should note that certain new Hong Kong Financial Reporting Standards ("HKFRS") have become effective on 1st January, 2005 including, but not limited to, Hong Kong Accounting Standard 39 ("HKAS39") on measurement and recognition of financial instruments. We have discussed with the

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Directors and understand that the said standards would not have any impacts on the gearing position of the Group arising from the annual/interim financial period assessments to be carried out on the Convertible Notes with reference to market parameters by the Company and its auditor after the Proposed Placings.

4. Dilution effect on shareholding

We refer to a table set out in the Letter from the Board as contained in the Second Circular in which the dilution effect on shareholding of the Company immediately before and after the full conversion of the First Convertible Notes, Second Convertible Notes and in aggregate of the Convertible Notes at the respective conversion price.

In the event that the First Convertible Notes were fully exercised and converted by the Noteholders at the First Conversion Price of HK\$0.10 per Share (adjusted to take into account the effect of the 5 to 1 share consolidation of the Company which took effect on 11th April, 2005) and no further issue of Shares or repurchase of Shares by the Company as at the Latest Practicable date, a total of 400,000,000 Conversion Shares, representing approximately 72.6% of the Company's issued share capital as enlarged by the issue and allotment of such Consolidated Shares, will be issued. As such, the shareholding interests of the existing Independent Shareholders will be reduced from approximately 49.7% to approximately 13.6%, representing a dilution of approximately 72.6%.

In the event that the Second Convertible Notes were fully exercised and converted by the Noteholders at the Second Conversion Price of HK\$0.05 per Share (subject to adjustment) and no further issue of Shares or repurchase of Shares by the Company as at the Latest Practicable date, a total of 2,000,000,000 Conversion Shares, representing approximately 93% of the Company's issued share capital as enlarged by the issue and allotment of such Consolidated Shares, will be issued. As such, the shareholding interests of the existing Independent Shareholders will be reduced from approximately 49.7% to approximately 3.5%, representing a dilution of approximately 93%.

In the event that the First Convertible Notes and Second Convertible Notes were fully exercised and converted by the Noteholders at the First Conversion Price and Second Conversion Price (subject to adjustment), respectively, and no further issue of Shares or repurchase of Shares by the Company as at the Latest Practicable date, an aggregate of 2,400,000,000 Conversion Shares, representing approximately 94% of the Company's issued share capital as enlarged by the issue and allotment of such Consolidated Shares, will be issued. As such, the shareholding interests of the existing Independent Shareholders will be reduced from approximately 49.7% to approximately 2.9%, representing a dilution of approximately 94%.

LETTER FROM KINGSTON

For the Proposed Placings, the placing limit under each of the First Placing Agreement and the Second Placing Agreement provides that principal amount of each of the First Convertible Notes or (as the case may be) the Second Convertible Notes to be placed to each placee shall not exceed an amount which, if immediately converted in full at the initial Conversion Price, will entitle that placee to be issued with Shares which represent in aggregate 10% or more of the issued share capital of the Company as at the date of completion of the placing as enlarged by the issue of Conversion Shares on full conversion of the First Convertible Notes or (as the case may be) the Second Convertible Notes assuming conversion at the initial Conversion Price (and taking into account for the purpose of this calculation only the Convertible Notes issuable under the same Placing Agreement). The conversion rights of each holder of Convertible Notes is to be similarly restricted so that they may not exercise their conversion rights to such an extent that the total number of Conversion Shares which fall to be issued will represent 10% or more of the issued share capital of the Company at the date of the relevant conversion (including the Conversion Shares which fall to be issued on that conversion). According to the Company, such restrictions were requested by the Company with the intention of reducing the chances of (i) public float in the Shares falling under the minimum public float requirements under the Listing Rules; and (ii), in case of the proposed placing of First Convertible Notes only, any single holder of the First Convertible Notes having on conversion a block of Shares which is larger than that of the existing controlling shareholder of the Company on a fully diluted basis. We are of the view that the placing limit will not make any difference between the controlling shareholder and the minority shareholders of the Company on the dilution impact on their shareholdings however the existing controlling shareholder will be able to retain its controlling status upon the full conversion of First Convertible Notes.

As discussed in Section 1 above, the Group is in urgent needs for additional funding to serve its immediate general working capital requirements and greater financial flexibility for further revitalization of its restaurant branch network and/or property investments when suitable opportunities arise. Further, upon review of the unaudited financial figures provided by the Company, the Group had an unaudited consolidated cash and bank balance of approximately HK\$6.5 million as at 31st March, 2005, representing only 8.5% of the unaudited consolidated current liabilities as at 31st March, 2005. We are of the opinion that existing shareholders (including minority shareholders) would have even less prospects of improvement in the value of their attributable interest in the Company in the event that the Group is unlikely to generate sufficient internal resources and/or obtain additional capital funding by way of Convertible Notes issue or other financing alternatives (which is impossible to the Group as mentioned above in Section 1(ii)), at its current financial status as discussed in Section 1, to support its business operation needs and possibly prospects for future investments.

LETTER FROM KINGSTON

Notwithstanding such impact of shareholding dilution on the existing Shareholders (equal dilution impact on both the controlling Shareholder and the minority Shareholders), there would be an enlargement in the permanent capital base of the Company and an improvement in the gearing position, liquidity position and net tangible asset position of the Group, upon the conversion of the Convertible Notes, as set out in the sections above, particularly under the current circumstance of the Group with fundamental uncertainty relating to the going concern basis. However, Independent Shareholders should note that the dilution effect on the existing shareholding interests is very substantial and is only justifiable in the event that the management of the Company effectively could make use of the net proceeds from the Proposed Placings thereby increasing the shareholders' equity value that overrides the abovementioned dilution effect.

On the above basis and taking into consideration the reasons and merits of the Proposed Placings, including but not limited to a) the improvement in the fundamental uncertainty relating to the going concern basis; b) positive effect to the liquidity position of the Group; c) the benefit from zero interest bearing funding under the Convertible Notes; d) the absence of means of financing alternative to meet the Group's immediate cash flow requirements and exploiting prospects of possibly investment opportunities; and e) the improvement in financial position of the Group upon the full conversion of the Convertible Notes, we are of the view that the immediate benefits to the Group mentioned above as a result of the Proposed Placings justifies the dilution effect on the existing shareholding interests so far as the interest of the Independent Shareholders is concerned.

5. The interests of the controlling shareholder and the minority shareholders of the Company in respect of the Proposed Placings

As explained in the above paragraph headed "4. Dilution effect on shareholding", the Proposed Placings have the same potential dilution impact on the shareholding interests of the controlling shareholder and the minority shareholders of the Company. However, existing controlling shareholders will be able to retain its controlling status upon the full conversion of First Convertible Notes.

We note from the Company that net proceeds from the issue of the First Convertible Notes have been earmarked for working capital purposes (primarily to settle account payables, other payables and accruals of the Group of approximately HK\$33 million as at 31st March, 2005 and the balance of the proceeds (if any) may be applied towards repayment of working capital advances made by the controlling shareholder of the Company of approximately HK\$42.8 million as at 31st March, 2005). We also note that if the First Convertible Notes issue does not proceed (because the requisite shareholders approval could not be obtained) or if some but not all of the First Convertible Notes are issued, then part of the net proceeds

LETTER FROM KINGSTON

from the Second Placings will be allocated for working capital purposes to make up any shortfall of net proceeds available from the issue of the First Convertible Notes. Given that the financial position of the Group will be brought to a condition in better shape (e.g. lowering the quick ratio or gearing level) as a result of the application of net proceeds and that the controlling shareholder of the Company had provided financial support (by way of loans in a position not different from other creditors of the Company) to the Company during the period of time in which the Company encountered extreme difficulties in obtaining alternative financing support, we consider that the possible repayment of the outstanding loans due from the Company to the controlling Shareholder is fair and reasonable.

RECOMMENDATION

Having considered the above principal factors, in particular, (1) the reasons of the Proposed Placings (including (i) financial uncertainty relating to the going concern basis and financial position, (ii) the absence of means of financing alternative to meet the Group's immediate cash flow requirements and exploiting prospects of possibly investment opportunities and (iii) keen market competition); (2) principal terms of the First Convertible Notes and Second Convertible Notes (including (i) the negative shareholding equity status as to its net current liabilities and net liabilities positions; (ii) the Convertible Notes being not secured and asset-backed; (iii) zero financing cost for two-year periods; (iv) difficult to dispose of shareholding interests due to illiquid share trading volume; (v) possibility of default debt payments in view of the poor business track record; (vi) lower debt instruments pricing during the rising interest rate environment; and (vii) competitive industry prospects in view of high operating costs and changes in government regulations and consumer behaviour) (3) Financial effects of the Proposed Placings (including (i) positive impact to the Group's total liabilities, (ii) fresh cashflow to fulfill the funding needs of the Group and (iii) improvement on the gearing position), we are of the opinion that the principal terms of the Convertible Notes are fair and reasonable so far as the Independent Shareholders are concerned and the Proposed Placings is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions approving, among other matters, the proposed placing of the First Convertible Notes at the Adjourned EGM and the issue of Second Convertible Notes to be proposed at the Second EGM.

Yours faithfully,

For and on behalf of

Kingston Corporate Finance Limited

Elton Cheung

Director

PROCEDURES FOR DEMANDING A POLL

The following sets out the procedures by which the Shareholders may demand a poll at any general meeting of the Company.

Pursuant to article 66 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

NOTICE TO RECONVENE THE ADJOURNED EGM



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)

(Stock code: 228)

NOTICE IS HEREBY GIVEN pursuant to article 64 of the articles of association of HON PO GROUP (LOBSTER KING) LIMITED (the “Company”) that the extraordinary general meeting of the Company convened by notice dated 21st March, 2005 and adjourned on 8th April, 2005 (the “EGM”) will be re-convened at Hon Po Restaurant of 1st Floor, 78A-B To Kwa Wan Road, Kowloon at 3:00 p.m. on Thursday, 30th June, 2005 (the “Adjourned Meeting”).

By order of the Board
Hon Po Group (Lobster King) Limited
Luk Chi Shing
Company Secretary

Hong Kong, 14th June, 2005

Notes:

1. At the Adjourned Meeting, only resolution numbered 1 set out in the notice of EGM of the Company dated 21st March, 2005 will be put before shareholders. In accordance with the Listing Rules, Hon Po Investment Limited, the controlling shareholder of the Company and its associates (as defined in the Listing Rules) are required to abstain from voting on that resolution. That resolution will be determined by way of a poll. The text of that resolution is extracted as follows:–

“THAT conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited having granted approval for the listing of and permission to deal in the Conversion Shares:

- (a) **the execution of the placing agreement dated 7th February, 2005 (the “Placing Agreement”) (a copy of which is produced before the meeting marked “A” and initialled by the Chairman of the meeting for the purpose of identification) entered into between the Company and Yicko Securities Limited (the “Placing Agent”) in relation to the issue by way of placing of the convertible notes in the aggregate principal amount of HK\$40 million in maximum (the “Convertible Notes”) to not less than six independent professional, corporate or individual investors through the Placing Agent pursuant to and in accordance with the terms and conditions set out in the circular of the Company dated 21st March, 2005 (the “Placing”) be and is hereby approved, ratified and confirmed;**
- (b) **the directors of the Company (the “Directors”) be and are hereby authorized to issue the Convertible Notes pursuant to or in connection with the Placing;**

NOTICE TO RECONVENE THE ADJOURNED EGM

- (c) **the Directors be and are hereby authorised to do any and all acts and things as they consider may be necessary or expedient to give effect to and/or to complete the transactions contemplated under the Placing Agreement and any other documents or matters incidental thereto and/or as contemplated therein;**
 - (d) **the Directors be and are hereby authorised to allot and issue the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Notes (whether in whole or in part thereof) pursuant to the terms and conditions of the Convertible Notes; and**
 - (e) **the seal of the Company be affixed to such documents incidental and/or contemplated in sub-paragraphs (a) to (d) above (including but not limited to the certificate of the Convertible Notes) which are required to be executed under seal in the presence of any two Directors, who shall also sign on each of such document.”**
- 2. Unless the Company receives notice of revocation from the relevant shareholder, any valid proxy form previously submitted by that shareholder in respect of the EGM will continue to be valid for the Adjourned Meeting. In any event, signing and delivery of the proxy form in respect of Adjourned Meeting shall be deemed to have revoked all proxy forms previously submitted by the shareholder in respect of the EGM.
 - 3. Shareholders entitled to attend and vote at the Adjourned Meeting are those who were members of the Company on 8th April, 2005.
 - 4. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member of the Company may appoint a proxy in respect of only part of his holding of shares in the Company. A proxy need not be a member of the Company, but must attend the Adjourned Meeting in person to represent the member.
 - 5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
 - 6. The instrument appointing a proxy (if required by the board of Director) together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of authority, must be delivered to the office of Tengis Limited, the Company's Branch Share Registrar in Hong Kong at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong or by way of notice to or in any document accompanying the notice convening the meeting not less than forty-eight (48) hours before the time appointed for holding the Adjourned Meeting (or any further adjournment thereof).
 - 7. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
 - 8. In the case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

NOTICE OF THE SECOND EGM



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)

(Stock code: 228)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of HON PO GROUP (LOBSTER KING) LIMITED (the “Company”) will be held at Hon Po Restaurant of 1st Floor, 78A-B To Kwa Wan Road, Kowloon at 3:15 p.m. on Thursday, 30th June, 2005, or if later, immediately after the close of the extraordinary general meeting of the Company reconvened by notice dated 14th June, 2005 (the “Second EGM”), for the purposes of considering and, if thought fit, passing, with or without amendments or modification, the following resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 comprising 2,000,000,000 shares of HK\$0.05 each to HK\$500,000,000 comprising 10,000,000,000 shares of HK\$0.05 each by the creation of an additional HK\$400,000,000 divided into 8,000,000,000 shares of HK\$0.05 each.”
2. **“THAT** the placing agreement dated 29th March, 2005 between the Company and Yicko Securities Limited in relation to a proposed placing, on a “best efforts” basis, of convertible notes of an aggregate principal amount of up to HK\$100,000,000, and convertible into shares of the Company at the initial conversion price of HK\$0.05 per share of HK\$0.05 each, a copy of which agreement is produced before the meeting marked “B” and initialled by the chairman for the purposes of identification, be and is hereby approved, ratified and confirmed, and the directors of the Company be and are hereby authorised to issue the convertible notes and, upon conversion thereof, shares of the Company which thereby fall to be issued and to do all such acts and things as they may consider necessary, expedient or desirable to give effect to the transactions contemplated under the placing agreement.”

By order of the Board

Hon Po Group (Lobster King) Limited

Luk Chi Shing

Company Secretary

Hong Kong, 14th June, 2005

NOTICE OF THE SECOND EGM

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member of the Company may appoint a proxy in respect of part only of his holding of shares in the Company. A proxy need not be a member of the Company, but must attend the meeting in person to represent the member.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
3. The instrument appointing a proxy (if required by the board of Director) together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of authority, must be delivered to the office of Tengis Limited, the Company's Branch Share Registrar in Hong Kong at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong or by way of notice to or in any document accompanying the notice convening the meeting not less than forty-eight (48) hours before the time appointed for holding the meeting (or any adjournment thereof).
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5. In the case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. In accordance with the Listing Rules, Hon Po Investment Limited, the controlling shareholder of the Company and its associates (as defined in the Listing Rules) are required to abstain from voting on resolution numbered 2 as set out above.
7. The resolution numbered 2 as set out above will be determined by way of a poll.