

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

At 23 April 2002, an ordinary resolution was passed, pursuant to which the directors of the Company proposed the payment of a special dividend of HK\$7,560,000, representing HK1.2 cents per share of the Company, out of the Company’s distributable reserves for the year, to the shareholders of the Company whose names appeared on the register of members of the Company on 4 June 2002. On 4 June 2002, the Company’s shareholders at the Company’s annual general meeting approved the special dividend and it was subsequently paid on 28 June 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

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

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

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

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

Operating results

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

Staff and Compensation Policy

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

FINANCIAL REVIEW

Funding policy

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

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

Capital structure

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

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

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

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

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

Pledges of assets

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

Use of proceeds

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

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

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

Exchange exposure

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

Capital commitment

As at 30 June 2003 and 31 December 2002, there was no material capital commitment for the Group.

Contingent liabilities

At 30 June 2003 and 31 December 2002, a number of current employees had achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance should their employment be terminated under certain prescribed circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that there will be a material future outflow of resources from the Group in respect thereof.

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

PROSPECTS

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

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

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

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

DISCLOSURE OF FULL INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

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

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

Hong Kong, 12 November 2003

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information other than that relating to Offeror contained in this announcement and confirm having made all reasonable inquiries, that to the best of their knowledge, the opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement other than that relating to the Offeror, the omission of which would make any statement in this announcement misleading.