



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)

**FURTHER DELAY IN ISSUE OF 2002 AUDITED ANNUAL RESULTS ANNOUNCEMENT  
 AND DESPATCH OF ANNUAL REPORT  
 UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002  
 POSSIBLE CHANGE OF CONTROLLING SHAREHOLDER**

Reference is made to the Group's announcement dated 10 June 2003 regarding an apparent inaccuracy in the pro forma combined financial statements set out in Appendix I to the Prospectus and the 2001 Annual Report and the unaudited consolidated financial statements in the 2002 Interim Report and further postponement in the issue of the 2002 Audited Annual Results Announcement and the dispatch of the 2002 Annual Report. Reference is also made to the Group's announcements dated 31 July 2003, 4 September 2003 and 11 September 2003 regarding the further postponement in the issue of the 2002 Audited Annual Results Announcement and the 2002 Annual Report due to the matters set out in those announcements.

The Board announces that with reference to the draft Report of Findings prepared by the Company's independent accountants, the Special Dividend was inconsistent with the management's intention at the time the Special Dividend was declared. The Board further announces that the remedial proposal is being finalised by the Company, the details of which will be announced by the Board upon its finalisation.

The Board announces its updated unaudited financial results for the year ended 31 December 2002, which have been reviewed by the Company's audit committee, pending the issue of its 2002 Audited Annual Results Announcement. The Board will update the shareholders of the Company when the 2002 Audited Annual Results Announcement could be issued as soon as practicable and in any event not later than 1 month from the date of this announcement.

The Directors and their respective associates (as defined in the Listing Rules) have respectively confirmed that they have not dealt in the shares of the Company since 23 March 2003.

In respect of the Company's delay in publication of the 2002 Audited Annual Results Announcement and 2002 Annual Report and the failure to make up its annual accounts to a date falling not more than 6 months before the date of its annual general meeting, the Stock Exchange reserves its right to take action against the Company and / or the Directors regarding the breaches of paragraphs 8(1), 8(2) and 11(1) of the Listing Agreement by the Company.

Reference is also made to the announcement of the Company dated 11 August 2003. Negotiations regarding the disposal by certain Directors of their interest in the Company held through Hon Po Holdings is at an advanced stage, and Hon Po Investment has a firm intention to enter into an agreement for the sale of all its shares in the Company shortly after the issue of this announcement. If such sale by Hon Po Investment proceeds, there will be a change of control of the Company. **However, as no legally binding agreement for the sale and purchase of the shares held by Hon Po Investment has in fact been entered into between the parties, the possible disposal may or may not proceed. Further announcement will be made as and when appropriate.**

Save as disclosed above, the Directors are not aware of any matter discloseable under the general obligation imposed by paragraphs 2 and 3 of the Listing Agreement, which is or may be of a price-sensitive nature.

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:30 a.m. on 15 September 2003 pending the issue of this announcement. In view of the possible disposal by Hon Po Holdings of its interest in the Company, trading in the shares of the Company will continue to be suspended until further announcement by the Company.

**Shareholders of the Company and the public are advised to exercise caution when dealing in the securities of the Company.**

Reference is made to the Group's announcement dated 10 June 2003 regarding an apparent inaccuracy in the pro forma combined financial statements set out in Appendix I to the Prospectus and the 2001 Annual Report and the unaudited consolidated financial statements in the 2002 Interim Report.

Reference is also made to the Group's announcements dated 31 July 2003, 4 September 2003 and 11 September 2003 regarding the further postponement in the issue of the 2002 Audited Annual Results Announcement and the 2002 Annual Report due to the matters set out in those announcements.

The Board announces that with reference to the draft Report of Findings prepared by the independent accountants, the Special Dividend was in an amount inconsistent with the management's intention at the time when the Special Dividend was declared.

The Board further announces that the remedial proposal is being finalised by the Company, the details of which will be announced upon its finalisation.

Based on the information currently available to the Board, the pro forma combined profit and loss account as stated in the Prospectus and the 2001 Annual Report and the unaudited consolidated profit and loss account as stated in the 2002 Interim Report are believed by the Board to be unaffected by the aforementioned apparent inaccuracy. The Board and the independent board committee both believe that the apparent inaccuracy did not result in any actual adverse material consequences to its shareholders and other third parties as no perceivable prejudice has resulted to the shareholders and other third parties at any time.

To keep shareholders of the Company updated with the financial status of the Group, the Board includes in this Announcement its updated unaudited financial results with explanatory notes for the year ended 31 December 2002, which have been reviewed by the Company's audit committee, pending the issue of the 2002 Annual Results Announcement.

The Board Meeting to approve the 2002 Annual Results Announcement was originally scheduled on 16 September 2003. The Board announces that such meeting of the Board will be further postponed pending the finalisation of the remedial proposal by the Company, which will determine the appropriate accounting treatments explained in the section headed "DIVIDENDS", and thereafter the finalisation of the audit of the annual accounts by the Auditors. The audit of the annual accounts by the Auditors could not be finalised as the remedial proposal by the Company has yet to be finalised. The Board will update the shareholders of the Company of any further development of the matter as soon as practicable and in any event not later than 1 month from the date of this announcement.

Reference is also made to the announcement of the Company dated 11 August 2003. The Company has been informed by certain of its Directors who hold in aggregate 68.76% interests in Hon Po Holdings, the ultimate holding company of the Company, holding 60.32% shareholding in the Company, that negotiations referred to in that announcement for the possible disposal of its interest in the Company is at an advanced stage. Based on the current state of negotiations, Hon Po Investment has a firm intention to enter into a legally binding agreement for the sale of all of its shares in the Company shortly after the issue of this announcement. If such sale by Hon Po Investment proceeds, there will be a change of control of the Company. However, as no legally binding agreement for the sale and purchase of the shares held by Hon Po Investment has in fact been entered into between the parties, the possible disposal may or may not proceed. The Company will make a further announcement in relation to the progress of such negotiations as and when appropriate.

Save as disclosed in this announcement, the Directors are not aware of any matter discloseable under the general obligation imposed by paragraphs 2 and 3 of the Listing Agreement, which is or may be of a price-sensitive nature.

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:30 a.m. on 15 September 2003 with regard to price sensitive issue pending the issue of this Announcement. In view of the possible disposal by Hon Po Holdings of its interest in the Company, trading in the shares of the Company will continue to be suspended until further announcement by the Company.

The Directors and their respective associates (as defined in the Listing Rules) have respectively confirmed that they have not dealt in the shares of the Company since 23 March 2003.

In respect of the Company's delay in publication of the 2002 Audited Annual Results Announcement and 2002 Annual Report and the failure to make up its annual accounts to a date falling not more than 6 months before the date of its annual general meeting, the Stock Exchange reserves its right to take action against the Company and / or the Directors regarding the breaches of paragraphs 8(1), 8(2) and 11(1) of the Listing Agreement by the Company.

**Shareholders of the Company and the public are advised to exercise caution when dealing in the securities of the Company.**

**UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002**

The Board herein announce the unaudited consolidated results of the Group for the year ended 31 December 2002 together with comparative figures for the previous year. The unaudited consolidated results of the Group for the year ended 31 December 2002 together with comparative figures and the notes attaching thereto have been reviewed by the Company's audit committee.

	Notes	Unaudited Consolidated 2002 HK\$'000	Unaudited Consolidated 2001 HK\$'000	Pro Forma Combined * 2001 HK\$'000
TURNOVER	3	730,466	498,758	798,644
Other revenue and gain	3	8,982	3,393	6,103
Cost of inventories consumed		(232,744)	(155,633)	(242,996)
Staff costs (remark 1)		(276,660)	(168,413)	(282,908)
Operating lease rentals		(77,372)	(63,920)	(79,614)
Depreciation		(18,793)	(16,267)	(21,570)
Fuel costs and utility expenses		(75,549)	(45,933)	(78,570)
Other operating Expenses (remark 2)		(122,439)	(43,120)	(69,451)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	(64,109)	8,865	29,638
Finance costs		(4,468)	(171)	(3,365)
PROFIT/(LOSS) BEFORE TAX		(68,577)	8,694	26,273
Tax	6	(86)	(2,540)	(4,560)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS (remark 3)		(68,663)	6,154	21,713
Minority interests (remark 4)		36	448	440
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS (remark 5)		(68,627)	6,602	22,153
SPECIAL DIVIDENDS (remark 6)	7	100,114	-	-
EARNINGS/(LOSS) PER SHARE - Basic	8	(HK11.22 cents)	HK1.45 cents	HK4.87 cents

\* To facilitate comparison and for information purposes only, please refer to note 1 for the basis of presentation of the pro forma combined results for the year ended 31 December 2001

\*\* To facilitate better comparison and consistency, the comparative figures used in the sections of "Business Review" and "Financial Review", are extracted from the pro forma combined accounts of the Group for the year ended 31 December 2001 as stated in the 2001 Annual Report.

Remark 1: The staff cost has been increased by approximately HK\$5.3 million when compared to the announcement of the Company dated 30 April 2003 because of the subsequent provision made for other staff benefits resulting in respect of certain loss-making restaurants. These restaurants were permanently closed during 2003.

Remark 2: The other operating expenses have been increased by approximately HK\$19.6 million when compared to the announcement of the Company dated 30 April 2003 because of the subsequent provision of approximately HK\$18.6 million made for the impairment of fixed assets and other non-current assets in respect of certain loss-making restaurants. These restaurants were permanently closed during 2003. In addition, provision for the impairment of leasehold land and building of HK\$1 million has been made in respect of a property of the Group. This property was disposed of during 2003

Remarks 3 to 5: The differences arose due to the reasons as stated in Remarks 1 and 2 above.

Remark 6: The difference arose when compared to the announcement of the Company dated 30 April 2003 since, as further explained in the section of "DIVIDENDS" below, the revised special dividend of HK\$92,554,000 is a figure proposed by the Board as an amount which should have been declared as special dividend to the then sole shareholder of the Company prior to its listing based on the then intention of the Directors.

Notes:

1. **GROUP REORGANISATION AND BASIS OF PRESENTATION**

**Group reorganisation**

Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange on 18 February 2002, the Company became the holding company of the companies now comprising the Group (the "Subsidiaries") on 17 January 2002. This was accomplished by acquiring the entire issued share capital of Hon Po International, the then holding company of the other subsidiaries in the Prospectus, in consideration of and in exchange for the allotment and issue of a total of 99 shares of HK\$0.01 each in the share capital of the Company, credited as fully paid, to Hon Po Investment, the former shareholder of Hon Po International.

As further detailed in the Prospectus, the ongoing business concerns relating to the Sourcing Business were transferred to Hon Po Management, effective from 26 October 2001. Since then, Hon Po Holdings discontinued its activities of the Sourcing Business.

The ongoing business concerns relating to the Restaurant Business were transferred to certain subsidiaries of the Company, effective from 15 November 2001 and 11 January 2002. The Restaurant Business includes the leasehold land and buildings and investment properties owned by Chinese King's, one of the Non-Group Companies, which were also transferred to the Group. Since the date of the transfer, the Non-Group Companies discontinued their activities of operating restaurants.

Further details of the Group Reorganisation are set out in the Prospectus.

**Basis of presentation**

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

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

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

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

For information purposes only, the pro forma combined profit and loss accounts for the year ended 31 December 2001 include the results of the Company and the Subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, where this is a shorter period, on a pro forma combined basis as if the current Group structure had been in existence throughout the year ended 31 December 2001. For the purpose of presenting the pro forma combined results of the Group, the results of the Sourcing Business and the Restaurant Business have been included as if they had been transferred to the Group as at the beginning of the earliest period presented. This basis of presentation was adopted for the preparation of the Accountants' Report included in the Prospectus.

2. **ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

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

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

3. **TURNOVER, OTHER REVENUE AND GAIN**

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

	Unaudited Consolidated 2002 HK\$'000	Unaudited Consolidated 2001 HK\$'000	Pro Forma Combined * 2001 HK\$'000
Turnover	730,466	498,758	798,644
Receipts from restaurant operations	730,466	498,758	798,644
Other revenue			
Rental income, gross	3,498	1,797	3,900
Bank interest income	31	-	59
Handling charges received from fellow subsidiaries	-	458	-
Sundry income	2,186	1,138	2,144
	5,715	3,393	6,103
Gain			
Negative goodwill recognized	3,267	-	-
Total revenue and gain	739,448	502,151	804,747

4. **SEGMENT INFORMATION**

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

5. **PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

Profit/(loss) from operating activities is arrived at after charging/(crediting):

	Unaudited Consolidated 2002 HK\$'000	Unaudited Consolidated 2001 HK\$'000	Pro Forma Combined * 2001 HK\$'000
Cost of inventories consumed	232,744	155,633	242,996
Depreciation	18,793	16,267	21,570
Provision for impairment of leasehold land and buildings	5,500	-	-
Provision for impairment of other fixed assets	24,847	-	-
Provision for impairment of other assets	1,526	-	-
Revaluation deficit on leasehold land and buildings	585	-	-
Loss on disposal of fixed assets	94	-	-
Loss on disposal of other assets	232	-	-

## 6. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Deferred tax has been provided for the year under the liability method at the rate of 16% (2001: 16%) on timing differences.

	Unaudited Consolidated 2002 HK\$'000	Unaudited Consolidated 2001 HK\$'000	Pro Forma Combined * 2001 HK\$'000
Current year provision	100	1,999	4,005
Deferred tax charge/(credit), net	(14)	541	555
Tax charge for the year	<u>86</u>	<u>2,540</u>	<u>4,560</u>

## 7. SPECIAL DIVIDENDS

	Unaudited Consolidated 2002 HK\$'000	Unaudited Consolidated 2001 HK\$'000	Pro Forma Combined * 2001 HK\$'000
Revised special dividend	92,554	-	-
Special dividend	7,560	-	-
	<u>100,114</u>	<u>-</u>	<u>-</u>

Revised special dividend was proposed to be paid by the Company to the then sole shareholder prior to the Group Reorganisation, more details of which was set out in the paragraph "Dividends" hereunder.

Special dividend of HK\$7,560,000 was proposed on 23 April 2002 and paid to the shareholders of the Company on 28 June 2002.

## 8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share, on a consolidated basis, is based on the unaudited net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 of HK\$68,627,000 (2001: unaudited net profit of HK\$6,602,000) and the weighted average of 611,780,822 (2001: 455,000,000) ordinary shares in issue during the year.

For information purposes only, the calculation of the pro forma basic earnings per share, on the pro forma combined basis as set out in note 1 above, is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 of HK\$22,153,000 and the weighted average of 455,000,000 ordinary shares in issue during the year ended 31 December 2001.

The weighted average number of shares used to calculate the earnings per share, on both the consolidated and pro forma combined bases, for the year ended 31 December 2001 includes the pro forma issued share capital of the Company of 455,000,000 shares, comprising the 1 share of the Company allotted and issued, credited as fully paid, to Hon Po Investment on 4 May 2001, and the 99 shares issued as consideration for the acquisition of the entire issued share capital of Hon Po International on 17 January 2002, and the capitalisation issue of 454,999,900 shares. The weighted average number of shares used to calculate the loss per share, on the consolidated bases, for the year ended 31 December 2002 includes the weighted average of the 156,780,822 shares issued upon the listing of the Company's shares on the Stock Exchange on 18 February 2002 in addition to the aforementioned 455,000,000 ordinary shares.

There were no potential dilutive ordinary shares in existence for the years ended 31 December 2001 and 2002, and accordingly, no diluted earnings/(loss) per share amount, on either the consolidated or pro forma combined bases, have been presented.

## DIVIDENDS

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

As disclosed in the unaudited consolidated financial statements for the six months ended 30 June 2002 included in the 2002 Interim Report and as part of the Group Reorganisation process incidental to listing on the Stock Exchange, the Special Dividend was declared and approved by the directors of the Company. The Special Dividend was used to set-off against the Account Balance with Hon Po Investment, the sole shareholder of the Company prior to the listing. The Special Dividend did not involve any cash payment. It has since transpired that the pro forma financial statements, and other financial information of the Company on which the Accountants' Report was based, and consequently the Accountants' Report itself, were prepared in a manner inconsistent with the intentions of the Directors in relation to the nature of the assets transferred in the course of the Group Reorganisation. Subject to confirmation by the report of Company's independent accountants which is being finalised, the Account Balance might have been overstated. The financial position of the Company based on the intentions of the directors in relation to the nature of the assets transferred in the course of the Group Reorganisation was such that the Company might not have had sufficient reserves at the material time to declare and pay the Special Dividend. With reference to the draft report prepared by the Company's independent accountants and subject to its finalisation, the Directors consider that the Special Dividend should be in the sum of approximately HK\$92,554,000. The Directors are seeking advice from professional advisers and will propose remedial actions to be taken. A further announcement will be made with regard to the conclusions in the report of Company's independent accountants and the proposed remedial actions once the same can be finalised. Hon Po Investment, the controlling shareholder of the Company, has provisionally indicated that it is prepared to have the Special Dividend reduced to HK\$92,554,000 (subject to confirmation by the Company's independent accountants as aforesaid) accordingly. On such basis, the Directors consider that the aforementioned matter detailed in this paragraph (i) does not lead to any loss to the members of the Company; and (ii) does not lead to any diminution of the Group's and the Company's assets and no third party obtains any benefit or suffer any loss, and accordingly, no party should be held liable. Further details on the proposed remedial actions will be announced by the Board once the Report of Findings and advice from professional advisers are finalised.

On 23 April 2002, the Board proposed the payment of a special dividend of HK\$7,560,000, representing HK1.2 cent 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.

## BUSINESS REVIEW\*\*

In 2002, the restaurant sector continued to contract as the Hong Kong economy was struggling to recovery. According to the Census and Statistics Department of Hong Kong, the total revenue of the restaurant sector in Hong Kong amounted to HK\$53.3 billion, representing a decline of 5.5% from that of 2001. Comparing to the first half of 2002, Hong Kong's total restaurant receipts in the second half of the year dropped by a higher percentage. While the restaurant industry experienced sluggish sales, restaurant operators, particularly among those operating Chinese restaurants, significantly lowered prices to attract customers, which resulted in a cutthroat competition.

### Operating results

Affected by an adverse operating environment, the Group saw its unaudited consolidated turnover for the year ended 31 December 2002 erode by 8.5% from 2001's pro forma combined turnover to HK\$730,466,000. The Group's unaudited consolidated net loss attributable to shareholders for 2002 was HK\$68,627,000, against a pro forma combined net profit of HK\$22,153,000 in 2001.

Factors accounted for the loss in 2002 included:

- Owing to sluggish consumption sentiment and severe market competition, consolidated turnover decreased by 8.5% and gross profit percentage (defined as difference between turnover and cost of inventories consumed as a percentage of turnover) dropped by 1.5% when compared to the pro forma combined figures in 2001. The consolidated turnover and gross profit percentage for the second half of 2002 were lower than that in the first half of 2002;
- Provisions for the impairment of leasehold land and buildings and leasehold improvements for properties of the Group of approximately HK\$13.3 million were made in the annual results of the Group for 2002. The disposal of the properties was completed in June 2003 and August 2003.
- Provision for the impairment of fixed assets and other non-current assets of the Group in respect of certain loss-making restaurants amounted to approximately HK\$18.6 million were made in the annual results of the Group for 2002. The related provision for other staff benefits amounted to approximately HK\$5.3 million was made in 2002. These restaurants were permanently closed during 2003.
- Increase in advertising and promotional expenses as part of the marketing strategy to increase market presence;
- Despite continued deflation in the overall economy, the rentals of the Group's restaurants remained high.
- A restaurant of the Group, which commenced business in October 2002, has yet to achieve its full potential and, hence, has not reached the breakeven level in 2002.

### Operation review

During the year, deteriorating market conditions resulted in intensified competition. High unemployment rate and economic slowdown culminated in lower consumption in the restaurant industry. On the other hand, many restaurant operators made deep discounted offers to boost sales, resulting in significant retreat in profits. In addition, as poor economic climate persisted, low-priced ready-to-serve meals and fast food restaurants, which used to target only the low-end market and customers pursuing quick services and convenience, gained popularity and became new strong competitors to Chinese and non-Chinese restaurants, which emphasise on service quality, product variety, culinary delights and gracious ambience. To the Group, the emergence of these new strong competitors increased the pressure of price reduction.

In the face of the tough market situation, the Group expanded its product variety, improved food quality and adopted strategic marketing plans to attract more customers. Moreover, the Group had also implemented market segmentation to enlarge its market coverage. In July and October 2002, the Group opened two new restaurants, Jing Hua Restaurant and Metropolis Harbour View Chinese Cuisine Restaurant respectively - the former is a specialty restaurant serving Guangdong cuisine and Shanghai and Beijing dim sum while the latter caters for medium to high end market. As the two new restaurants were still in their initial operating stage, substantial start-up costs were incurred, but the potential contribution to turnover and profit from them had not yet been reflected in the Group's results.

During the year, the Group diversified into the production of seasonal food and snacks, with the commencement of operation of its food manufacturing factory. In its initial operation, the plant produced moon cakes and other festive food for the Chinese New Year, which were sold through the Group's restaurant network. 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.

The Group had also streamlined its restaurant network to improve operational efficiency and better resources allocation. While this move brought immediate cost-saving benefits to the Group, it was intended to be a long-term strategy in improving the Group's ability to take advantage of any business opportunities arising from a better economy.

Meanwhile, the Group had also stepped up its cost control measures, such as sourcing from new suppliers offering competitive prices, adopting the central purchasing strategy, cutting wages and negotiating with lessors for rental reduction. These measures had helped mitigate part of the impact from reduced turnover and severe price competition.

During the year, the Group's plan to set up a business venture in the mainland China as stated in the Prospectus was suspended temporarily. After conducting extensive market research on the China's restaurant industry, the Group decided that it was not the appropriate timing to embark on operations in the mainland China.

### Staff and compensation policy

As at the end of 2002, the Group had a total workforce of 2,118 (pro forma combined basis for 2001: 1,919). The salary and wages of our employees are commensurate with 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 31 December 2002, the Group had outstanding bank borrowings and finance lease payables denominated in Hong Kong dollars with an aggregate amount of HK\$127,350,000 (pro forma combined basis for 2001: HK\$37,936,000). The cash and bank balances of the Group amounted to HK\$21,927,000 (pro forma combined basis for 2001: HK\$39,793,000). The increase in the outstanding bank borrowings was mainly due to the financing of the purchase of a property during 2002 (as detailed in the circular dated 27 May 2002) and the decoration of two new restaurants, which commenced operation during the second half of 2002.

The short-term borrowings of the Group accounted for 24.8% (pro forma combined basis for 2001: 2.0%) of the total borrowings.

The consolidated interest expenses for 2002 were HK\$4,468,000 (pro forma combined basis for 2001: HK\$3,365,000).

To conclude, in the coming year, the Group will adopt various measures to strengthen its financial position, including the disposal of two properties of the Group. In April 2003 and July 2003, the Group entered into two separate agreements, pursuant to which the Group have sold two of its properties for HK\$83 million and HK\$55 million respectively. The disposals of the aforesaid two properties have helped enhance the working capital position and reduced the outstanding bank borrowings of the Group.

### Pledges of assets

As at 31 December 2002, leasehold land and buildings and investment properties of the Group with a net book value of HK\$141,120,000 (pro forma combined basis for 2001: HK\$56,900,000) were pledged as security for bank loans.

### Use of proceeds of New Issue

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 from share offer, 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 Prospectus.

### Exchange exposure

Since most of our sales, raw materials and bank loans were denominated in Hong Kong dollars during 2002 and 2001, the Group was only exposed to insignificant exchange risks.

### Capital commitment

As at 31 December 2002, there was no material capital commitment for the Group (pro forma combined basis as at 31 December 2001: Nil).

## PROSPECTS

Looking ahead, 2003 will continue to be a difficult year. In the face of a bleak economic outlook, profits tax increase and drastic decline in restaurant patrons in March and April 2003 following the SARS outbreak, the Group will step up its cost control measures, consolidate its business operations, streamline its restaurant network and implement market segmentation.

To increase cost-effectiveness, the Group will continue to fine-tune its restaurant network, such as relocating restaurants to higher traffic areas. For restaurants at strategic locations, the Group focuses on operation improvement and market segmentation. To cater for different clusters of diners, the Group introduces exotic cuisine and a new image to the appropriate restaurants. Consummating the market segmentation strategy, the Group is considering renaming restaurants with a different presentation under a new brand identity. At present, two restaurants operated under the Group are specialty restaurants, and another one targets the medium to high-end market. Such a marketing strategy is beginning to produce results, with the specialty restaurant, Jing Hua, breaking even after a few months of operation.

Regarding the food production business, the Group will continue its focus on developing marketable festive food.

To lower costs, the Group will continue to adopt its central purchasing strategy and to negotiate with lessors to reduce rentals of its restaurants.

With respect to marketing and sales promotion, the Group has joined hands with AEON Credit Service (Asia) Company Limited ("AEON") to make special offers to AEON's credit card members. In addition, the Group has also issued VIP / member cards to regular patrons to Metropolis Harbour View Chinese Cuisine Restaurant. These VIP members will enjoy special discounts and other promotional offers when they dine at Metropolis Harbour View Chinese Cuisine Restaurant.

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

During the year, other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 18 February 2002, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities. The Group did not purchase, sell or redeem any of the Company's listed securities during the year ended 31 December 2002.

## DEFINITIONS

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

"2001 Annual Report"	The annual report of the Group for the year ended 31 December 2001
"2002 Interim Report"	The interim report of the Group for the six months ended 30 June 2002
"2002 Annual Report"	The annual report of the Group for the year ended 31 December 2002
"2002 Audited Annual Results Announcement"	The audited annual results announcement of the Group for the year ended 31 December 2002
"Account Balance"	The account balance due to the Company from Hon Po Investment prior to the listing of the Company following the Group Reorganisation and proposed to be set off primarily by the Special Dividend
"Accountants' Report"	The accountants' report included in the Prospectus
"Auditors"	Auditors of the Company
"Board"	The Board of Directors of the Company
"Chinese King's"	Chinese King's Development Limited, one of the Non-Group Companies
"Company"	Hon Po Group (Lobster King) Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
"Directors"	The Directors of the Company
"Group"	The Company and its subsidiaries
"Group Reorganisation"	The reorganisation scheme undergone by the Group (as defined in the Prospectus) to rationalise its structure in preparation for the listing of the shares of the Company on the Main Board of the Stock Exchange on 18 February 2002
"Hon Po Holdings"	Hon Po Holdings Limited, a company incorporated in Hong Kong with limited liability, the ultimate holding company of the Company
"Hon Po International"	Hon Po International Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company
"Hon Po Investment"	Hon Po Investment Limited, the immediate holding company of the Company
"Hon Po Management"	Hon Po Management Limited, an indirect wholly owned subsidiary of the Company
"Listing Agreement"	The Listing Agreement signed between the Company and the Stock Exchange in accordance with Appendix 7B of the Listing Rules
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Non-Group Companies"	Certain companies not within the structure of the Group and beneficially held by Hon Po Holdings
"Prospectus"	The prospectus of the Company dated 31 January 2002
"Report of Findings"	The report to be issued by the independent accountants appointed by the Company
"Restaurant Business"	The restaurant operations operated by certain non-Group companies beneficially held by Hon Po Holdings
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sourcing Business"	The sourcing of food and beverage operations operated by Hon Po Holdings
"Special Dividend"	A special dividend in the sum of HK\$224,600,000 declared by the directors of the Company, which was conditional upon the listing of the Company's shares on the Stock Exchange pursuant to the written resolutions of the sole shareholder of the Company passed on 28 January 2002

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

Hong Kong, 19 September 2003

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