

Directors' Report

The directors have pleasure in presenting their first report and the audited financial statements of the Company for the period from 28th March, 2003 (date of incorporation) to 31st December, 2003 and of the Group for the year ended 31st December, 2003.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 28th March, 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (the "Group") in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 25th August, 2003. Details of the Group Reorganisation are set out in notes 1 and 24 to the financial statements and the prospectus dated 15th September, 2003 issued by the Company (the "Prospectus").

The shares in the Company have been listed on the Stock Exchange with effect from 24th September, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 27.

Special interim dividends amounting to HK\$30,000,000 were declared by certain subsidiaries on 23rd August, 2003 to the then shareholders prior to the Group Reorganisation becoming effective and were paid on 4th September, 2003.

The directors now recommend the payment of a final dividend of 1.26 HK cents per share to the shareholders of the Company whose names appear on the register of members on 24th May, 2004.

The Group's profit for the year ended 31st December, 2003, which amounted to HK\$55,687,000, was in line with the profit forecast of not less than HK\$53,000,000 as set out in the Prospectus.

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PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired additional property, plant and equipment at a cost of approximately HK\$19,717,000 for business expansion.

Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the period from 28th March, 2003 (date of incorporation) to 31st December, 2003 are set out in note 24 to the financial statements.

SHARE PREMIUM AND RESERVE

The Company's reserves available for distribution represent the share premium and retained profits. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to the shareholders subject to the provisions of its memorandum or articles of association ("Articles of Association") and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

At the balance sheet date, in the opinion of the directors, the Company's reserve available for distribution to shareholders amounted to approximately HK\$176,511,000.

Movements in the share premium and reserve of the Company for the period from 28th March, 2003 (date of incorporation) to 31st December, 2003 are set out in note 26 to the financial statements. Movements in the share premium and reserve of the Group for the year ended 31st December, 2003 are set out in the consolidated statement of changes in equity on page 30.

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DIRECTORS

The directors of the Company since the date of incorporation and up to the date of this report are:

Executive directors

Mr. Hui Sum Kwok, <i>Chairman</i>	(appointed on 3rd April, 2003)
Mr. Hui Sum Ping, <i>Vice Chairman</i>	(appointed on 3rd April, 2003)
Mr. Hui Sum Tai	(appointed on 3rd April, 2003)
Mr. Wong Wing Por	(appointed on 3rd April, 2003)
Mr. Lam Hin Chi	(appointed on 3rd April, 2003)
Ms. Hui Yuen Li	(appointed on 3rd April, 2003)

Independent non-executive directors

Mr. Liu Kwok Fai, Alvan	(appointed on 4th September, 2003)
Mr. Chee Man Sang, Eric	(appointed on 4th September, 2003)

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Hui Sum Tai and Ms. Hui Yuen Li shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company for a term of two years commencing 15th September, 2003. Particulars of the service agreements have been set out in the Prospectus.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Category	Date of grant	Exercisable period (Note 1)	Exercise price HK\$	Share options granted during the year and outstanding at end of year
Directors				
Mr. Hui Sum Kwok (Note 2)	3.11.2003	3.5.2004 – 3.11.2006	1.13	3,226,000
Mr. Hui Sum Ping	3.11.2003	3.5.2004 – 3.11.2006	1.13	2,726,000
Mr. Hui Sum Tai	3.11.2003	3.5.2004 – 3.11.2006	1.13	3,600,000
Mr. Wong Wing Por	3.11.2003	3.5.2004 – 3.11.2006	1.13	2,700,000
Mr. Lam Hin Chi	3.11.2003	3.5.2004 – 3.11.2006	1.13	574,000
Ms. Hui Yuen Li	3.11.2003	3.5.2004 – 3.11.2006	1.13	500,000
Mr. Liu Kwok Fai, Alvan	3.11.2003	3.5.2004 – 3.11.2006	1.13	250,000
Mr. Chee Man Sang, Eric	3.11.2003	3.5.2004 – 3.11.2006	1.13	250,000
				13,826,000
Other employees	3.11.2003	3.5.2004 – 3.11.2006	1.13	2,174,000
Total all categories				16,000,000

Notes:

1. Holders of share options granted under the Company's share option scheme may only exercise their options as follows:

Exercisable period	Maximum % of share options exercisable
3.5.2004 – 3.11.2004	up to 50%
4.11.2004 – 3.11.2005	up to 75% (to the extent not already exercised)
4.11.2005 – 3.11.2006	up to 100% (to the extent not already exercised)

2. Out of the 3,226,000 share options granted, Mr. Hui Sum Kwok was directly interested in 2,726,000 share options granted to him and was deemed to be interested in 500,000 share options granted to Ms. Wong Mui, who is the spouse of Mr. Hui Sum Kwok and a member of the senior management of the Group.

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SHARE OPTIONS (Continued)

The closing price of the Company's shares on 2nd November, 2003, the date immediately before the date of grant of the share options, was HK\$1.12 per share.

At 31st December 2003, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,000,000, representing approximately 4.4% of the shares of the Company in issue at that date.

The directors consider that it is not appropriate to disclose a theoretical value of the share options granted during the year since any valuation of the share options would be subject to a number of assumptions which are subjective and uncertain.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed above, at 31st December, 2003, the interests and/or short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Company/Name of associated corporation	Capacity	Number and class of securities
Mr. Hui Sum Kwok	Company	Founder of a discretionary trust/ interest of controlled corporations	252,000,000 shares Long position (Note 1)
Mr. Hui Sum Ping	Company	Founder of a discretionary trust/ interest of controlled corporations	252,000,000 shares Long position (Note 1)
Mr. Wong Wing Por	Company	Founder of a discretionary trust/ interest of controlled corporations	Nil (Note 1)
Mr. Lam Hin Chi	Company	Settlor of discretionary trusts	Nil (Note 1)

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Name of director	Company/Name of associated corporation	Capacity	Number and class of securities
Mr. Hui Sum Kwok	Hop Fung Industries Limited ("Hop Fung Industries")	Founder of a discretionary trust/ interest of controlled corporations	7,886 shares of US\$0.01 each Long position (Notes 1 and 2)
Mr. Hui Sum Ping	Hop Fung Industries	Founder of a discretionary trust/ interest of controlled corporations	7,886 shares of US\$0.01 each Long position (Notes 1 and 2)
Mr. Wong Wing Por	Hop Fung Industries	Founder of a discretionary trust/ interest of a controlled corporation	1,257 shares of US\$0.01 each Long position (Notes 1 and 2)
Mr. Lam Hin Chi	Hop Fung Industries	Settlor of discretionary trusts	Nil (Notes 1 and 2)
Mr. Hui Sum Kwok	Hop Fung Industries (Holdings) Limited ("Hop Fung Industries BVI")	Beneficial owner/founder of a discretionary trust/ interest of a controlled corporation	5,000 shares of US\$0.01 each Long position (Notes 1 and 3)
Mr. Hui Sum Ping	Hop Fung Industries BVI	Beneficial owner/founder of a discretionary trust/ interest of a controlled corporation	5,000 shares of US\$0.01 each Long position (Notes 1 and 3)
Mr. Lam Hin Chi	Hop Fung Industries BVI	Settlor of discretionary trusts	Nil (Notes 1 and 3)
Mr. Hui Sum Kwok	Gong Ming Hop Fung Paper Ware Factory Limited ("Hop Fung GM")	Interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1 and 4)

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Name of director	Company/Name of associated corporation	Capacity	Number and class of securities
Mr. Hui Sum Ping	Hop Fung GM	Founder of a discretionary trust/interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1 and 4)
Mr. Wong Wing Por	Hop Fung GM	Interest of controlled corporations/short position of a controlled corporation	Nil (Notes 1 and 4)
Mr. Lam Hin Chi	Hop Fung GM	Settlor of a discretionary trust	Nil (Notes 1 and 4)
Mr. Hui Sum Kwok	Fung Kong Hop Fung Paper Ware Factory Limited ("Hop Fung FG")	Interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1, 4 and 5)
Mr. Hui Sum Ping	Hop Fung FG	Founder of a discretionary trust/interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1, 4 and 5)
Mr. Wong Wing Por	Hop Fung FG	Interest of a controlled corporation/short position of a controlled corporation	Nil (Notes 1, 4 and 5)
Mr. Lam Hin Chi	Hop Fung FG	Settlor of a discretionary trust	Nil (Notes 1, 4 and 5)
Mr. Hui Sum Kwok	Applewood Forest Limited	Founder of a discretionary trust	1 share of US\$1 (Notes 1 and 6)
Mr. Lam Hin Chi	Applewood Forest Limited	Settlor of a discretionary trust	Nil (Notes 1 and 6)

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Notes:

1. The 252,000,000 shares are owned by Hop Fung Industries. The issued share capital of Hop Fung Industries is owned as to 78.86%, 12.57% and 8.57% by Hop Fung Industries BVI, Delight Ocean Limited (“Delight”) and Mr. Shum Lit Ki respectively.

The issued share capital of Hop Fung Industries BVI is owned as to 11.81% , 11.81%, 38.19% and 38.19% by Mr. Hui Sum Kwok, Mr. Hui Sum Ping, Fullwood Holdings Limited (“Fullwood”) and Goldspeed Holdings Limited (“Goldspeed”) respectively. The entire issued share capital of Fullwood is owned by Newcourt Trustees Limited (“Newcourt”) in its capacity as the trustee of Hui & Wong Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Kwok, the settlor of which is Mr. Lam Hin Chi and the discretionary objects of which include family members of Mr. Hui Sum Kwok. The entire issued share capital of Goldspeed is owned by Newcourt in its capacity as the trustee of HSP 2003 Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Ping, the settlor of which is Mr. Lam Hin Chi and the discretionary objects of which include family members of Mr. Hui Sum Ping. Accordingly, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to be interested in the 252,000,000 shares under the SFO.

The entire issued share capital of Delight is owned by Newcourt in its capacity as the trustee of Wong’s Family Trust, a discretionary trust the founder of which is Mr. Wong Wing Por, the settlor of which is Mr. Lam Hin Chi and the discretionary objects of which include family members of Mr. Wong Wing Por.

2. Hop Fung Industries is a holding company of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung Industries is US\$100 divided into 10,000 shares of US\$0.01 each which is owned as to 7,886, 1,257 and 857 shares by Hop Fung Industries BVI, Delight and Mr. Shum Lit Ki respectively. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to be interested in the 7,886 shares of US\$0.01 each and Mr. Wong Wing Por is deemed to be interested in the 1,257 shares of US\$0.01 each in Hop Fung Industries.

3. Hop Fung Industries BVI is a holding company of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung Industries BVI is US\$100 divided into 10,000 shares of US\$0.01 each which is owned as to 1,181, 1,181, 3,819 and 3,819 shares by Mr. Hui Sum Kwok, Mr. Hui Sum Ping, Fullwood and Goldspeed respectively. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is interested and/or deemed to be interested in an aggregate of 5,000 shares of US\$0.01 each in Hop Fung Industries BVI.

4. Hop Fung GM is a subsidiary of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung GM is HK\$3,000,100 divided into 100 ordinary shares of HK\$1 each and 3,000,000 non-voting deferred shares of HK\$1 each. The 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung GM are beneficially owned by Hop Fung Group (HK) Limited (“Hop Fung Group HK”) which is owned as to 78.86%, 12.57% and 8.57% by Hop Fung Holdings Limited (“Hop Fung Holdings (BVI)”), Mr. Wong Wing Por and Mr. Shum Lit Ki respectively.

The issued share capital of Hop Fung Holdings (BVI) is owned as to 50%, 11.81% and 38.19% by Mr. Hui Sum Kwok, Mr. Hui Sum Ping and Goldspeed respectively. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to be interested in the 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung GM.

Pursuant to an option deed dated 19th August, 2003, Hop Fung Group HK and its nominee granted to Hop Fung Group Company Limited (“Hop Fung Group (BVI)”), a wholly owned subsidiary of the Company, an option to purchase from them such 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung GM. Accordingly, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to have a short position in the underlying shares of the option granted under the option deed pursuant to the SFO.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Notes: (Continued)

5. Hop Fung FG is a subsidiary of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung FG is HK\$3,000,100 divided into 100 ordinary shares of HK\$1 each and 3,000,000 non-voting deferred shares of HK\$1 each. The 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung FG are beneficially owned by Hop Fung Group HK. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to be interested in the 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung FG.

Pursuant to an option deed dated 19th August, 2003, Hop Fung Group HK and its nominee granted to Hop Fung Group (BVI) an option to purchase from them such 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung FG. Accordingly, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to have a short position in the underlying shares of the option granted under the option deed pursuant to the SFO.

6. Applewood Forest Limited ("Applewood") is a company incorporated in the British Virgin Islands. The entire issued share capital of Applewood is US\$1 comprises 1 share of US\$1 which is owned by Newcourt in its capacity as the trustee of Hui & Wong Family Trust. Applewood is an associated corporation of the Company under the SFO. Under the SFO, Mr. Hui Sum Kwok is deemed to be interested in the 1 share of US\$1 in Applewood owned by Newcourt in its capacity as the trustee of Hui & Wong Family Trust.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2003.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of shareholder	Number of issued shares held	Note(s)	Approximate percentage of issued share
Hop Fung Industries	252,000,000	1	69%
Hop Fung Industries BVI	252,000,000	1 and 2	69%
Fullwood	252,000,000	1, 2, 3 and 4	69%
Goldspeed	252,000,000	1, 2, 3 and 5	69%
Newcourt	252,000,000	1, 2, 3, 4 and 5	69%
Mr. Hui Sum Kwok	252,000,000	1, 2, 3 and 4	69%
Mr. Hui Sum Ping	252,000,000	1, 2, 3 and 5	69%
Hallgain Management Limited	18,310,000	6	5%
Kingboard Chemical Holdings Limited	18,310,000	7	5%

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SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. The 252,000,000 shares are owned by Hop Fung Industries.
2. The issued share capital of Hop Fung Industries is owned as to 78.86%, 12.57% and 8.57% by Hop Fung Industries BVI, Delight and Mr. Shum Lit Ki respectively and Hop Fung Industries BVI is deemed to be interested in the 252,000,000 shares under the SFO.
3. The issued share capital of Hop Fung Industries BVI is owned as to 11.81%, 11.81%, 38.19% and 38.19% by Mr. Hui Sum Kwok, Mr. Hui Sum Ping, Fullwood and Goldspeed respectively.
4. The entire issued share capital of Fullwood is owned by Newcourt in its capacity as the trustee of Hui & Wong Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Kwok, the settlor of which is Mr. Lam Hin Chi and the discretionary objects of which include family members of Mr. Hui Sum Kwok. Accordingly, each of Fullwood, Newcourt and Mr. Hui Sum Kwok is deemed to be interested in the 252,000,000 shares under the SFO.
5. The entire issued share capital of Goldspeed is owned by Newcourt in its capacity as the trustee of HSP 2003 Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Ping, the settlor of which is Mr. Lam Hin Chi and the discretionary objects of which include family members of Mr. Hui Sum Ping. Accordingly, each of Goldspeed, Newcourt and Mr. Hui Sum Ping is deemed to be interested in the 252,000,000 shares under the SFO.
6. Hallgain Management Limited is deemed to be interested in 18,310,000 shares in the Company, which are directly or indirectly held by Kingboard Chemical Holdings Limited, by virtue of its holdings of approximately 36.2% interests in the issued share capital of Kingboard Chemical Holdings Limited.
7. Kingboard Chemical Holdings Limited is directly interested in 3,694,000 shares in the Company and is deemed to be interested in 14,616,000 shares in the Company as held by certain of its subsidiaries.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2003.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 24th September, 2003, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Options" above, at no time during the year was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, save as disclosed above, none of the directors, their spouse or children under the age of 18 were granted any right to subscribe for the securities of the Company or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Other than the transactions disclosed under the heading "Connected Transactions" below, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2003, the aggregate amount of turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 59% of the Group's total purchases and the purchase attributable to the Group's largest supplier accounted for approximately 25% of the Group's total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 24th September, 2003. Through the issue of 95,042,000 new shares at HK\$1.10 each, the Group raised approximately HK\$91,500,000, after deduction of related expenses. These proceeds were partly applied during the year ended 31st December, 2003 in accordance with the proposed applications set out in the Prospectus under the heading "Use of Proceeds from the New Issue", as follows:

- as to approximately HK\$600,000 for the expansion of existing manufacturing facilities for corrugated carton boxes at the processing factories;
- as to approximately HK\$10,000,000 for setting up of the manufacturing operations mainly for domestic sales in the People's Republic of China; and
- as to approximately HK\$31,500,000 as general working capital of the Group.

The remaining net proceeds as at 31st December, 2003 of approximately HK\$49,400,000 were placed in deposit with a bank in Hong Kong. The Directors are of the opinion that the remaining proceeds will be applied in the coming year for their intended uses as set out in Prospectus.

Directors' Report

CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions with connected persons:

- (a) The Group paid rental to Hop Fung Properties Limited amounting to HK\$138,194 for the property units then owned by Hop Fung Properties Limited (the "Properties"). The rentals were made on normal commercial terms in the ordinary course of business of the Group and in accordance with the terms specified in the rental agreements entered into by both parties. Messrs. Hui Sum Kwok, Hui Sum Ping and Wong Wing Por, executive directors of the Company, have indirect beneficial interests in Hop Fung Properties Limited.
- (b) Pursuant to an assignment dated 22nd August, 2003, the Group acquired the Properties from Hop Fung Properties Limited for a total consideration of HK\$1,500,000 and, accordingly, the Group ceased its payment of rental to Hop Fung Properties Limited since then. The consideration paid by the Group was based on the valuation as at 31st July, 2003 of the Properties made by DTZ Debenham Tie Leung Limited, an independent property valuer.
- (c) The Group's borrowings were secured by, amongst others:
 - (i) Unlimited personal guarantees provided by Messrs. Hui Sum Kwok, Hui Sum Ping and Hui Sum Tai.
 - (ii) Certain leasehold properties owned by Hop Fung Properties Limited.
 - (iii) An investment property owned by Mr. Hui Sum Kwok and his spouse, Ms. Wong Mui, together with assignment of rental of this property.
 - (iv) Corporate guarantees provided by and cross corporate guarantees with certain related companies, including Hop Fung Holdings (BVI) (a related company in which Messrs. Hui Sum Kwok and Hui Sum Ping have beneficial interests), Hop Fung Group HK, Hop Fung Properties Limited, Hontax Development Limited and Yentex Development Limited (all being related companies in which Messrs. Hui Sum Kwok, Hui Sum Ping and Wong Wing Por have direct/indirect beneficial interests).

All the securities and guarantees provided by or provided to connected persons of the Company in relation to banking facilities as mentioned above were released subsequent to the listing of the shares of the Company on the Stock Exchange and replaced by the corporate guarantees provided by the Company and/or other collaterals provided by the Group.

CONNECTED TRANSACTIONS (Continued)

- (d) On 24th May, 2003, the Group entered into a trademark license agreement with Hop Fung Group HK whereby Hop Fung Group HK agreed to grant an irrevocable and exclusive license to the Group to use one of the trademarks currently used by the Group in Hong Kong before it is assigned to the Company as mentioned below, for a nominal consideration of HK\$1. Hop Fung Group HK also agreed and undertook to the Company that, for a nominal consideration of HK\$1, it shall assign and transfer all legal and beneficial rights of the trademark upon request of the Company after the trademark is duly registered with the Register of Trade Marks in Hong Kong.
- (e) The Group has engaged Hop Fung (Australia) Pty Ltd as the Group's purchase agent in Australia at an annual fee of HK\$1 for the agency services rendered to the Group. Hop Fung (Australia) Pty Ltd is a company in which Mr. Hui Sum Kwok has beneficial interest.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$226,000.

CORPORATE GOVERNANCE

The Company has complied in the period between its listing date and 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Hui Sum Kwok
CHAIRMAN

13th April, 2004