



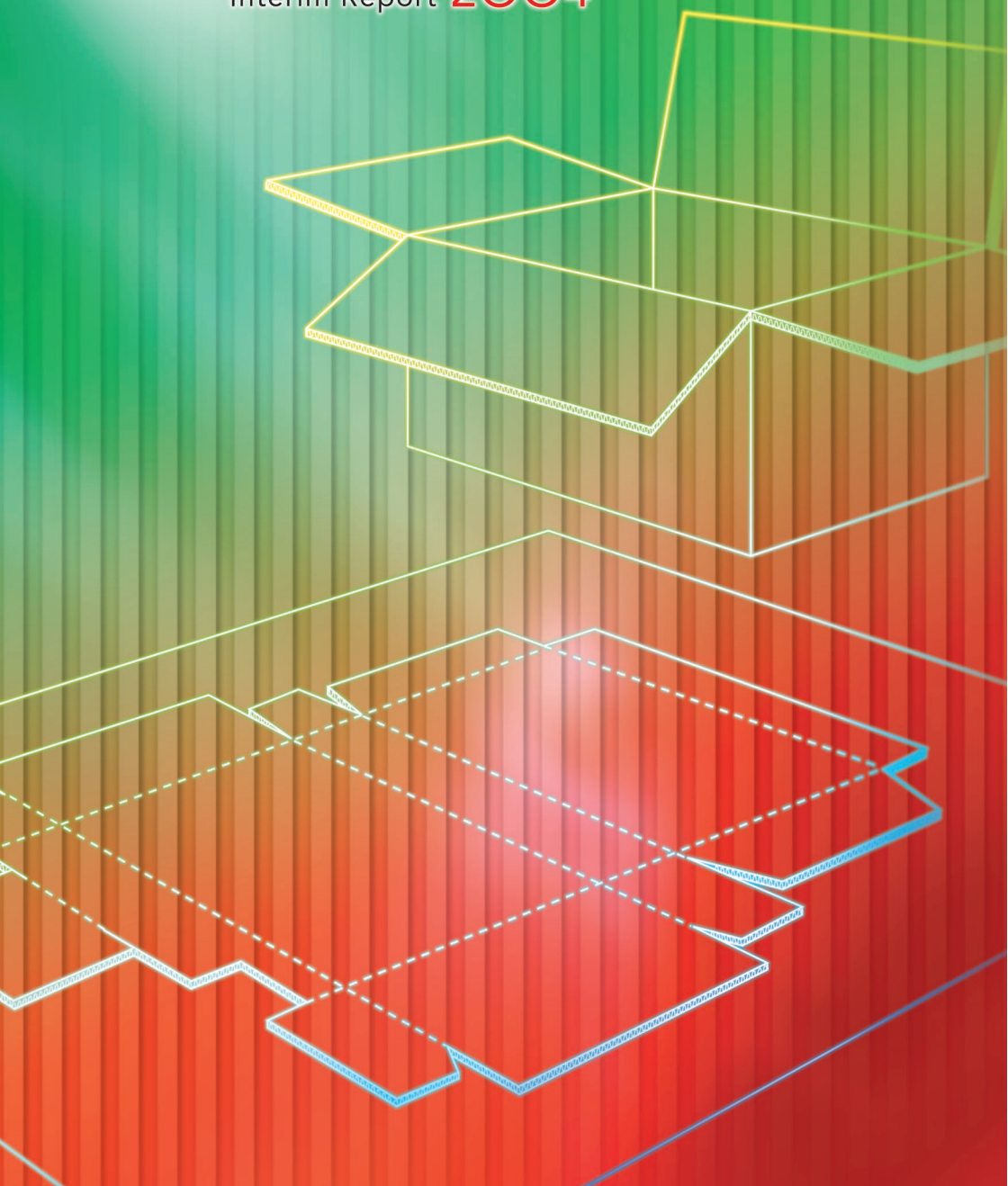
HOP FUNG GROUP

合豐集團控股有限公司

HOP FUNG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2004



The board of directors (the "Directors") of Hop Fung Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with comparative figures for the corresponding period in 2003 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
FOR THE SIX MONTHS ENDED 30 JUNE 2004

		<b>Six months ended</b>	
	<i>Notes</i>	<b>30.6.2004</b> <b>HK\$'000</b> <b>(unaudited)</b>	30.6.2003 <i>HK\$'000</i> (unaudited)
Turnover	3	<b>361,513</b>	250,381
Cost of sales		<b>(289,176)</b>	(189,789)
Gross profit		<b>72,337</b>	60,592
Other operating income		<b>5,858</b>	3,983
Distribution costs		<b>(15,395)</b>	(11,101)
Administrative expenses		<b>(18,213)</b>	(13,119)
Other operating expenses		<b>(7,517)</b>	(4,517)
Profit from operations	4	<b>37,070</b>	35,838
Finance costs	5	<b>(1,259)</b>	(2,217)
Profit before taxation		<b>35,811</b>	33,621
Taxation	6	<b>(4,012)</b>	(3,410)
Profit for the period		<b>31,799</b>	30,211
Dividend	7	<b>4,635</b>	–
Earnings per share			
– basic (HK cents)	8	<b>8.7</b>	11.2
– diluted (HK cents)	8	<b>8.6</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2004

	Notes	30.6.2004 HK\$'000 (unaudited)	31.12.2003 HK\$'000 (audited) (note 1)
<b>Non-current assets</b>			
Property, plant and equipment	9	118,813	96,016
Prepayments under processing arrangement	10	17,221	17,639
Investment in securities		7,118	7,328
Investment in equity-linked deposit – at cost		2,002	2,002
		<b>145,154</b>	122,985
<b>Current assets</b>			
Inventories		60,699	42,577
Trade and other receivables	11	89,601	83,266
Deposits and prepayments		18,389	24,644
Amounts due from a related company		–	652
Pledged bank deposits		16,520	16,519
Bank balances and cash		73,804	79,947
		<b>259,013</b>	247,605
<b>Current liabilities</b>			
Trade and other payables	12	81,933	63,369
Taxation		12,095	10,544
Obligations under finance leases		3,730	3,694
Trust receipt loans – secured		1,293	8,684
Bank borrowings – secured		15,485	14,145
		<b>114,536</b>	100,436
<b>Net current assets</b>		<b>144,477</b>	147,169
		<b>289,631</b>	270,154
<b>Capital and reserves</b>			
Share capital	13	36,504	36,504
Share premium and reserve		215,643	188,444
		<b>252,147</b>	224,948
<b>Non-current liabilities</b>			
Obligations under finance leases		4,899	6,773
Bank borrowings – secured		26,634	34,942
Deferred taxation		5,951	3,491
		<b>37,484</b>	45,206
		<b>289,631</b>	270,154

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	6,010	–	101,733	107,743
Share issued by a subsidiary to its then shareholders prior to the Group Reorganisation ( <i>note 1</i> )	1	–	–	1
Profit for the period	–	–	30,211	30,211
At 30 June 2003	6,011	–	131,944	137,955
Effect on capital structure of Group Reorganisation	(5,811)	5,811	–	–
Shares issued at premium on share offer	9,504	95,042	–	104,546
Shares issued expenses	–	(13,029)	–	(13,029)
Shares issue on capitalisation of share premium account	26,800	(26,800)	–	–
Profit for the period	–	–	25,476	25,476
Special interim dividend paid ( <i>note below</i> )	–	–	(30,000)	(30,000)
At 31 December 2003	36,504	61,024	127,420	224,948
Profit for the period	–	–	31,799	31,799
Dividend paid ( <i>note 7</i> )	–	–	(4,600)	(4,600)
<b>At 30 June 2004</b>	<b>36,504</b>	<b>61,024</b>	<b>154,619</b>	<b>252,147</b>

*Note:*

The amount represents dividends paid by certain subsidiaries to their then shareholders prior to the Group Reorganisation becoming effective.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	<b>Six months ended</b>	
	<b>30.6.2004</b> <b>HK\$'000</b> <b>(unaudited)</b>	30.6.2003 HK\$'000 (unaudited)
Net cash from operating activities	<b>45,974</b>	18,185
Net cash used in investing activities	<b>(30,060)</b>	(12,884)
Net cash used in financing activities	<b>(21,409)</b>	(2,191)
Net (decrease) increase in cash and cash equivalents	<b>(5,495)</b>	3,110
Cash and cash equivalents at beginning of the period	<b>79,299</b>	27,856
Cash and cash equivalents at end of the period	<b>73,804</b>	30,966
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>73,804</b>	31,061
Bank overdraft	-	(95)
	<b>73,804</b>	30,966

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS** *FOR THE SIX MONTHS ENDED 30 JUNE 2004*

### **1. GROUP RESTRUCTURING AND BASIS OF PREPARATION**

The Company was incorporated in the Cayman Islands on 28 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. Its ultimate holding company is Hop Fung Industries (Holdings) Limited, a company incorporated in the British Virgin Islands.

Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 25 August 2003, the Company issued shares in exchange for the entire issued share capital of Hop Fung Group Company Limited, the former holding company of the Company's subsidiaries, and thereby becoming the holding company of the Group. Details of the Group Reorganisation and the public offer and placing of shares in the Company are set out in the prospectus dated 15 September 2003 issued by the Company (the "Prospectus").

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

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the prior period have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice 27 ("SSAP") "Accounting for Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

### **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The accounting policies adopted for the preparation of the condensed financial statements are consistent with those adopted by the Group in its financial statements for the year ended 31 December 2003.

### **3. TURNOVER AND SEGMENT INFORMATION**

#### **Turnover**

Turnover represents the net amount received and receivable for goods sold during the period.

#### **Segment information**

All of the Group's turnover and contribution to operating profit are attributable to the manufacturing and sales of paper-ware products and over 90% of the Group's turnover and contribution to operating profit is attributable to customers who have their manufacturing base in the People's Republic of China ("PRC"). Accordingly, no segment analysis is presented.

As at 31 December 2003 and 30 June 2004, all the Group's assets and liabilities are located in the PRC, including Hong Kong.

**4. PROFIT FROM OPERATIONS**

<b>Six months ended</b>	
<b>30.6.2004</b>	30.6.2003
<b>HK\$'000</b>	HK\$'000

Profit from operations has been arrived at after charging (crediting):

Depreciation and amortisation of property, plant and equipment	<b>7,827</b>	5,766
Loss on disposal of property, plant and equipment	–	165
Unrealised loss on investment in securities	<b>210</b>	–
Interest income	<b>(144)</b>	(136)
Unrealised gain on investment in securities	–	(220)
	<b>–</b>	<b>–</b>

**5. FINANCE COSTS**

<b>Six months ended</b>	
<b>30.6.2004</b>	30.6.2003
<b>HK\$'000</b>	HK\$'000

Interest on bank borrowings wholly repayable within five years  
Interest on discounted bills

Interest on bank borrowings wholly repayable within five years	<b>832</b>	1,556
Interest on discounted bills	<b>68</b>	84
	<b>900</b>	1,640
Finance charges on obligations under finance leases	<b>89</b>	241
Bank charges	<b>270</b>	336
	<b>1,259</b>	2,217

**6. TAXATION**

<b>Six months ended</b>	
<b>30.6.2004</b>	30.6.2003
<b>HK\$'000</b>	HK\$'000

The charge comprises:

Current taxation		
Hong Kong Profits Tax	<b>1,552</b>	2,196
Deferred taxation	<b>2,460</b>	1,214
	<b>4,012</b>	3,410

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.6.2003: 17.5%) on the estimated assessable profit for the period.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

**7. DIVIDEND**

	<b>Six months ended</b>	
	<b>30.6.2004</b>	30.6.2003
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared in respect of 2004 of 1.26 HK cents (2003: nil) per share	<b>4,635</b>	—

The interim dividend of approximately HK\$4,635,000 in respect of 2004 is calculated by reference to 367,836,000 shares in issue on 8 September 2004.

On 24 May 2004, a dividend of 1.26 HK cents per share, amounting to approximately HK\$4,600,000, was paid to the shareholders of the Company as final dividend for 2003.

**8. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Six months ended</b>	
	<b>30.6.2004</b>	30.6.2003
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share – Profit for the period	<b>31,799</b>	30,211
<b>Number of shares</b>		
Weighted average number of shares for the purpose of basic earnings per share	<b>365,042,000</b>	270,000,000
Effect of dilutive potential shares in respect of share options	<b>3,857,557</b>	—
Weighted average number of shares for the purpose of diluted earnings per share	<b>368,899,557</b>	270,000,000

The weighted average number of shares for 2003 has been arrived at on the assumption that the 2,000,000 shares issued upon the Group Reorganisation and the 268,000,000 shares issued pursuant to the capitalisation issue, as described in the section headed "Statutory and general information" in Appendix V to the Prospectus, had been completed prior to 1 January 2003.

**9. PROPERTY, PLANT AND EQUIPMENT**

	<i>HK\$'000</i>
<b>COST</b>	
At 1 January 2004	145,112
Additions	31,164
Disposals	(1,071)
<b>At 30 June 2004</b>	<b>175,205</b>
<b>DEPRECIATION AND AMORTISATION</b>	
At 1 January 2004	49,096
Provided for the period	7,827
Eliminated on disposals	(531)
<b>At 30 June 2004</b>	<b>56,392</b>
<b>NET BOOK VALUE</b>	
<b>At 30 June 2004</b>	<b>118,813</b>



**10. PREPAYMENTS UNDER PROCESSING ARRANGEMENT**

The amount of prepayments under processing arrangement disclosed in the condensed consolidated balance sheet represents the unutilised balance of prepayments made by a subsidiary of the Group to a processing factory in the PRC (the "FG Processing Factory") for the construction of the factory premises and other ancillary facilities of the FG Processing Factory as set out in the processing agreement and confirmation (the "FG Processing Arrangement").

Pursuant to the FG Processing Arrangement, a portion of the future processing fees and other processing expenses payable by the Group can be settled by way of setting off against the balance of prepayments over the expected remaining contract period of the FG Processing Arrangement. Accordingly, the prepayments are charged to the condensed consolidated income statement of the Group over the expected remaining contract period of the FG Processing Arrangement.

**11. TRADE AND OTHER RECEIVABLES**

The Group has a policy of allowing credit periods ranging from 5 – 120 days to its trade customers and may be extended to selected customers depending on their trade volume and settlement with the Group.

An aged analysis of trade receivables is as follows:

	<b>30.6.2004</b> <b>HK\$'000</b>	31.12.2003 <i>HK\$'000</i>
Current	<b>89,321</b>	71,500
Overdue 1 to 30 days	–	11,120
	<b>89,321</b>	82,620
Other receivables	<b>280</b>	646
	<b>89,601</b>	83,266

**12. TRADE AND OTHER PAYABLES**

	<b>30.6.2004</b> <b>HK\$'000</b>	31.12.2003 <i>HK\$'000</i>
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An aged analysis of the trade payables is as follows:

Current	<b>52,866</b>	29,238
Overdue 1 to 30 days	<b>14</b>	4,462
Overdue 31 to 60 days	<b>13</b>	26
Overdue for more than 60 days	<b>263</b>	315
	<b>53,156</b>	34,041
Other payables and accrued charges	<b>28,777</b>	29,328
	<b>81,933</b>	63,369

**13. SHARE CAPITAL**

	Number of shares	Nominal value HK\$'000
Shares of HK\$0.10 each		
Authorised:		
On incorporation	1,000,000	100
Increase in authorised share capital	<u>999,000,000</u>	<u>99,900</u>
At 30 June 2004 and 31 December 2003	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Allotted and issued on 3 April 2003 and on 25 August 2003	2,000,000	200
Shares issued at premium on share offer	95,042,000	9,504
Shares issued on capitalisation of share premium account	<u>268,000,000</u>	<u>26,800</u>
At 30 June 2004 and 31 December 2003	<u>365,042,000</u>	<u>36,504</u>

**14. PLEDGE OF ASSETS**

At 30 June 2004, the bank borrowings of the Group were secured by the followings:

- (a) pledged bank deposits of approximately HK\$16,520,000 (31.12.2003: HK\$16,519,000);
- (b) machinery with net book value of approximately HK\$2,651,000 (31.12.2003: HK\$2,946,000);
- (c) investment in securities of approximately HK\$7,118,000 (31.12.2003: HK\$7,328,000); and
- (d) investment in equity-linked deposit of approximately HK\$2,002,000 (31.12.2003: HK\$2,002,000).

**15. CAPITAL COMMITMENTS**

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>46,580</u>	<u>1,424</u>

**16. RELATED PARTY TRANSACTIONS**

- (a) During the period, the Group had the following transactions with related companies:

Name of related company	Notes	Nature of transactions	Six months ended	
			30.6.2004 HK\$'000	30.6.2003 HK\$'000
Hop Fung Properties Limited	(i)	Rental paid to	-	108
Fung Kong Wing Lung Paper Ware Factory Limited ("Fung Kong Wing Lung")	(ii)	Sales of goods to	2,219	3,371
Hop Fung (Australia) Pty Ltd	(iii)	Agency services	-	-

*Notes:*

- (i) Rental expenses charged by Hop Fung Properties Limited are calculated in accordance with the terms specified in the rental agreements entered into by both parties. Certain directors of the Company have beneficial interests in Hop Fung Properties Limited. The rental expenses were ceased upon the acquisition of the relevant property units by the Group from Hop Fung Properties Limited on 22 August 2003.
- (ii) Sales to Fung Kong Wing Lung, a company owned by a sister of certain directors of the Company, were determined on a cost-plus basis with reference to the market condition, and were negotiated on a case by case basis and mutually agreed by both parties. Sales to Fung Kong Wing Lung were terminated subsequent to 31 March 2004.
- (iii) The Group has engaged Hop Fung (Australia) Pty Ltd, a company in which a director of the Company has beneficial interest, as the Group's purchase agent in Australia at an annual fee of HK\$1 for the agency services rendered to the Group.
- (b) Pursuant to a trademark license agreement dated 24 May 2003, Hop Fung Group (HK) Limited, a company in which certain directors of the Company have beneficial interests, 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 for a nominal consideration of HK\$1.
- (c) (i) Certain directors provided unlimited personal guarantees to banks as part of the securities to secure for banking facilities granted to the Group during the six months ended 30 June 2003.
- (ii) A related company in which certain directors of the Company have beneficial interests pledged its properties to a bank as part of the securities to secure for banking facilities granted to the Group during the six months ended 30 June 2003.
- (iii) A director of the Company together with his spouse pledged their property and assigned the rental income from the property to bank as part of the securities to secure for banking facilities granted to the Group during the six months ended 30 June 2003.
- (iv) A subsidiary of the Company had provided corporate guarantees to and cross corporate guarantees with certain related companies, in which certain directors have beneficial interests, for facilities provided by the banks during the six months ended 30 June 2003.

The arrangements referred to in (i) to (iv) above were terminated subsequent to 30 June 2003.

## INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had declared an interim dividend of 1.26 HK cents per share (2003: Nil) to be payable on or about 7 October 2004 to those shareholders whose names appear on the register of members of the Company on 30 September 2004.

The register of members of the Company will be closed from 27 September 2004 to 30 September 2004, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms together with relevant share certificates must be lodged with the Company's branch share registrar and transfer agent in Hong Kong, Abacus Share Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 24 September 2004.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Summary

The Group recorded satisfactory results for the six months ended 30 June 2004. Turnover increased by approximately 44.4% as compared with the corresponding period last year to approximately HK\$361,513,000 (2003: HK\$250,381,000). Net profits surged approximately 5.3% to approximately HK\$31,799,000 (2003: HK\$30,211,000) while basic earnings per share was approximately 8.7 HK cents. The Directors had recommended the payment of an interim dividend of 1.26 HK cents.

### Business Review

The first half of 2004 was a period of continuous steady business development leading to increase in turnover for the Group. During the period, the sustained growth in the manufacturing sector in the PRC further stimulated demand for high quality corrugated paperboards and corrugated carton boxes which created enormous business opportunities to the Group. In order to capture these golden opportunities and explore the domestic packaging market in the PRC, the Group had established a wholly-owned foreign investment enterprise ("WOFIE") in Dongguan, Guangdong Province, which commenced full operations and productions in March 2004. The WOFIE expanded the Group's overall production capacities by about 35% which drove the surge in its turnover.

During the period under review, the upward trend of the prices of most of the raw materials continued though in a steadier pace when compared to the second half of 2003. With the management's flexible sale strategies, the Group's high value-added and high quality product mix, stringent cost control measures, continuous investment in production equipments and improvement in its production process which contributed to the increase in overall operational efficiency, impacts of inflating raw material prices on profit margins had been minimised. For the period under review, the Group's net profit margin was approximately 8.8% (Average for the year ended 31 December 2003: 9.4%).

## Prospects

With the rapid growth of the PRC's export market, the Group had set up a WOFIE and expanded its production facilities in order to increase its production and processing capacities. With the aforesaid expansion, the Group is well positioned not only for satisfactory results but also further penetration into the PRC domestic market. The management is optimistic towards the long-term prospects of the Group's corrugated paper-ware product business, and anticipates a strong growth in its business in years to come. In order to achieve economies of scale and cope with the ever-increasing demand, the Group plans to install additional production machineries and facilities at the end of the current year, which are scheduled to commence operation in the second quarter of 2005. This will further increase the Group's production capacities by approximately 20% and enhance the quality of its corrugated paper-ware products and operational efficiency.

Leveraging on the good and long-term relationship with our customers and major suppliers, coupled with stringent cost control measures and flexible sale strategies, enhanced high value-added and high quality product mix, and improved operational efficiency through continuous improvement in production process and investment in production facilities, we believe the dedication of all our efforts will bring reasonable profit margins to the Group and satisfactory return to our shareholders.

Looking forward, the Group will strive to maintain its sustainable growth in the second half of the year. In the absence of unforeseeable adversity, the management expects the Group to achieve satisfactory business growth and record reasonable and profitable results in 2004.

The construction of the Group's medium paper plant in Qingyuan, Guangdong Province has been started as scheduled and is expected to commence production in the first half of 2005. The Group's move to vertically integrated with upstream medium paper production will not only secure steady supply of its major raw materials but will also effectively lower its costs, improve its profit margins and strengthen its competitive edge.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 30 June 2004, the Group's total shareholders' funds were approximately HK\$252.1 million including share capital and reserves of approximately HK\$36.5 million and HK\$215.6 million respectively. As at 30 June 2004, the Group held pledged bank deposits and cash and bank deposits amounted to approximately HK\$90.3 million which were mainly denominated in Hong Kong dollars and United States dollars. The Group's bank borrowings, which were predominantly subject to floating interest rates, amounted to approximately HK\$52.0 million as at 30 June 2004 with maturity of approximately HK\$20.5 million and HK\$31.5 million repayable within one year and repayable after one year respectively. In view of the Group's financial position, the Group has adequate resources to fund its future operation.

As at 30 June 2004, the Group had a negative gearing level (defined as bank borrowings less pledged bank deposits and cash and bank deposits divided by shareholders' funds) as the Group had a net cash balance at the period end date. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 2.26 times as at 30 June 2004 (as at 31 December 2003: 2.47 times). As at 30 June 2004, the Group did not have any material contingent liabilities.

Transactions of the Group were mainly denominated in Hong Kong or United States dollars such that the Group did not have significant exposure to foreign exchange fluctuation and no hedging for the foreign currency transaction had been carried out during the period under review.

## CHARGES ON ASSETS

As at 30 June 2004, pledged bank deposits, investment in securities, investment in equity-linked deposit and machineries with carrying value of approximately HK\$16.5 million, HK\$7.1 million, HK\$2.0 million and HK\$14.7 million respectively were pledged to certain banks to secure certain banking facilities granted to the Group. Subsequent to 30 June 2004, charges on these assets have been released.

## HUMAN RESOURCES

As at 30 June 2004, there was a total workforce of around 782 full time staff for the Group and the processing factories. Besides offering competitive remuneration packages to the employees, discretionary bonuses and share options may also be granted to the eligible employees based on the Group's and the individual's performance.

## 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 24 September 2003. Through the issue of 95,042,000 new shares at HK\$1.10 each, the Group had raised approximately HK\$91.5 million, after deduction of related expenses. These net proceeds were partly applied up to 30 June 2004 in the following manner and in accordance with the proposed applications set out in the section headed "Use of Proceeds from the New Issue" of the Prospectus:

- as to approximately HK\$6.9 million for the expansion of manufacturing facilities for corrugated carton boxes at the processing factories;
- as to approximately HK\$20.0 million for setting up of the manufacturing operations mainly for domestic PRC sales;
- as to approximately HK\$14.5 million for setting up of the manufacturing operations for upstream medium paper production; and,
- as to approximately HK\$31.5 million as general working capital of the Group.

The remaining net proceeds as at 30 June 2004 of approximately HK\$18.6 million were placed in deposit with banks in Hong Kong. The Directors are of the opinion that the remaining proceeds will be applied for their intended uses as set out in the Prospectus.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES**

At 30 June 2004, the interests of the directors, chief executives and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies were as follows:

<b>Name of Director</b>	<b>Company/Name of associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities</b>
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)
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)

<b>Name of Director</b>	<b>Company/Name of associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities</b>
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)
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 a controlled corporation/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)



Name of Director	Company/Name of associated corporation	Capacity	Number and class of securities
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)
Mr. Hui Sum Kwok	Profit Luck Limited	Founder of a discretionary trust/interest of a controlled corporation	100 shares of HK\$1 each (Notes 1 and 7)
Mr. Lam Hin Chi	Profit Luck Limited	Settlor of a discretionary trust/interest of a controlled corporation	Nil (Notes 1 and 7)

**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.

- 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 19 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.

- 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 19 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.

- 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.
- Profit Luck Limited ("PLL") is a company incorporated in Hong Kong. The entire issued share capital of PLL is HK\$100 comprises 100 ordinary shares of HK\$1 each which is owned by Applewood. PLL is an associated corporation of the Company under the SFO. Accordingly, Mr. Hui Sum Kwok is deemed to be interested in the 100 ordinary shares of HK\$1 each in PLL owned by Applewood under the SFO.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2004.

**SUBSTANTIAL SHAREHOLDERS**

At 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

<b>Name</b>	<b>Capacity</b>	<b>Number of shares interested (Long Position)</b>	<i>Note(s)</i>	<b>Approximate percentage of issued share capital</b>
Hop Fund Industries	Beneficial owner	252,000,000	1	69%
Hop Fung Industries BVI	Interest of a controlled corporation	252,000,000	1 and 2	69%
Fullwood	Interest of controlled corporations	252,000,000	1, 2, 3 and 4	69%
Goldspeed	Interest of controlled corporations	252,000,000	1, 2, 3 and 5	69%
Newcourt	Trustee of discretionary trusts/interest of controlled corporations	252,000,000	1, 2, 3, 4 and 5	69%
Mr. Hui Sum Kwok	Founder of a discretionary trust/interest of controlled corporations	252,000,000	1, 2, 3 and 4	69%
Mr. Hui Sum Ping	Founder of a discretionary trust/interest of controlled corporations	252,000,000	1, 2, 3 and 5	69%
Hallgain Management Limited	Interest of controlled corporations	29,382,000	6	8%
Kingboard Chemical Holdings Limited	Beneficial owner/ interest of controlled corporations	29,382,000	7	8%

*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 29,382,000 shares, 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 3,922,000 shares and is deemed to be interested in 25,460,000 shares as held by certain of its subsidiaries.

Other than as disclosed above, the Company has not been notified by any other interests or short positions in the issued share capital of the Company as at 30 June 2004.

## SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 4 September 2003, the Company adopted a share option scheme (the "Share Option Scheme").

Details of the movements in share options during the six months ended 30 June 2004 were as follows:

Category	Date of grant	Exercisable period (Note 1)	Exercise price HK\$	At 1 January 2004	Granted during the period	Exercised during the period	Lapsed or cancelled during the period	At 30 June 2004
Mr. Hui Sum Kwok (Note 2)	3.11.2003	3.5.2004 – 3.11.2006	1.13	3,226,000	-	-	-	3,226,000
Mr. Hui Sum Ping	3.11.2003	3.5.2004 – 3.11.2006	1.13	2,726,000	-	-	-	2,726,000
Mr. Hui Sum Tai	3.11.2003	3.5.2004 – 3.11.2006	1.13	3,600,000	-	-	-	3,600,000
Mr. Wong Wing Por	3.11.2003	3.5.2004 – 3.11.2006	1.13	2,700,000	-	-	-	2,700,000
Mr. Lam Hin Chi	3.11.2003	3.5.2004 – 3.11.2006	1.13	574,000	-	-	-	574,000
Ms. Hui Yuen Li	3.11.2003	3.5.2004 – 3.11.2006	1.13	500,000	-	-	-	500,000
Mr. Liu Kwok Fai, Alvan	3.11.2003	3.5.2004 – 3.11.2006	1.13	250,000	-	-	-	250,000
Mr. Chee Man Sang, Eric	3.11.2003	3.5.2004 – 3.11.2006	1.13	250,000	-	-	-	250,000
				13,826,000	-	-	-	13,826,000
Other employees				2,174,000	-	-	(136,000)	2,038,000
Total all categories				16,000,000	-	-	(136,000)	15,864,000

Notes:

1. Holders of share options granted under the share option scheme adopted by the Company on 4 September 2003 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.

## **PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2004.

## **AUDIT COMMITTEE**

The Company's Audit Committee has reviewed this unaudited interim report of the Group for the six months ended 30 June 2004 and holds regular meetings throughout the year.

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not or, was not for any time during the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By Order of the Board  
**Hui Sum Kwok**  
*Chairman and Chief Executive Officer*

Hong Kong, 8 September 2004

Board of Directors:

*Executive*

Mr. Hui Sum Kwok

Mr. Hui Sum Ping

Mr. Hui Sum Tai

Mr. Wong Wing Por

Mr. Lam Hin Chi

Ms. Hui Yuen Li

*Independent Non-Executive*

Mr. Liu Kwok Fai, Alvan

Mr. Chee Man Sang, Eric