

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and of the Group for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 25.

On 24th 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.

An interim dividend of 1.26 HK cents per share, amounting to approximately HK\$4,635,000 in respect of 2004 was calculated by reference to 367,836,000 shares in issue on 8th September, 2004 and were paid to the shareholders of the Company on 7th October, 2004.

The directors now recommend the payment of a final dividend of 4.22 HK cents per share to the shareholders of the Company whose names appear on the register of members on 30th May, 2005.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired additional property, plant and equipment at a cost of HK\$72,050,000 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 12 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

SHARE PREMIUM AND RESERVES

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.

DIRECTORS' REPORT

SHARE PREMIUM AND RESERVES *(Continued)*

At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to approximately HK\$223,564,000.

Movements in the share premium and reserves of the Company for the year are set out in note 25 to the financial statements. Movements in the share premium and reserves of the Group for the year ended 31st December, 2004 are set out in the consolidated statement of changes in equity on page 28.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Hui Sum Kwok, *Chairman*

Mr. Hui Sum Ping, *Vice Chairman*

Mr. Hui Sum Tai

Mr. Wong Wing Por

Ms. Hui Yuen Li

Mr. Lam Hin Chi (resigned on 15th October, 2004)

Independent non-executive directors

Mr. Liu Kwok Fai, Alvan

Mr. Chee Man Sang, Eric

Mr. Wong Chu Leung (appointed on 15th September, 2004)

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, Mr. Hui Sum Ping, Mr. Wong Wing Por and Mr. Wong Chu Leung shall retire from office 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, which may be terminated by not less than three months' notice in writing served by either party.

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.

DIRECTORS' REPORT

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 26 to the financial statements.

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

Category	Option type (Note 1)	Date of grant	Exercise price HK\$	Outstanding at beginning of year	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at end of year
Directors								
Mr. Hui Sum Kwok (Note 2)	A	3.11.2003	1.130	3,226,000	-	(1,612,000)	-	1,614,000
	B	29.7.2004	1.330	-	450,000	-	-	450,000
	C	4.11.2004	1.104	-	2,250,000	-	-	2,250,000
Mr. Hui Sum Ping	A	3.11.2003	1.130	2,726,000	-	-	-	2,726,000
	B	29.7.2004	1.330	-	950,000	-	-	950,000
	C	4.11.2004	1.104	-	2,250,000	-	-	2,250,000
Mr. Hui Sum Tai	A	3.11.2003	1.130	3,600,000	-	-	-	3,600,000
	B	29.7.2004	1.330	-	70,000	-	-	70,000
	C	4.11.2004	1.104	-	2,250,000	-	-	2,250,000
Mr. Wong Wing Por	A	3.11.2003	1.130	2,700,000	-	(600,000)	-	2,100,000
	B	29.7.2004	1.330	-	970,000	-	-	970,000
	C	4.11.2004	1.104	-	2,250,000	-	-	2,250,000
Mr. Lam Hin Chi	A	3.11.2003	1.130	574,000	-	(286,000)	(288,000)	-
Ms. Hui Yuen Li	A	3.11.2003	1.130	500,000	-	(250,000)	-	250,000
	B	29.7.2004	1.330	-	3,170,000	-	-	3,170,000
Mr. Liu Kwok Fai, Alvan	A	3.11.2003	1.130	250,000	-	-	-	250,000
Mr. Chee Man Sang, Eric	A	3.11.2003	1.130	250,000	-	-	-	250,000
				<u>13,826,000</u>	<u>14,610,000</u>	<u>(2,748,000)</u>	<u>(288,000)</u>	<u>25,400,000</u>
Other employees	A	3.11.2003	1.130	2,174,000	-	(46,000)	(196,000)	1,932,000
	B	29.7.2004	1.330	-	5,390,000	-	-	5,390,000
				<u>2,174,000</u>	<u>5,390,000</u>	<u>(46,000)</u>	<u>(196,000)</u>	<u>7,322,000</u>
Total all categories				<u>16,000,000</u>	<u>20,000,000</u>	<u>(2,794,000)</u>	<u>(484,000)</u>	<u>32,722,000</u>

DIRECTORS' REPORT

SHARE OPTIONS (Continued)

Notes:

1. The vesting period of the share options granted is determined by directors at each time when the options are granted. Holders of share options granted under the Company's share option scheme may only exercise their options during the exercisable periods as follows:

Option type A	Option type B	Option type C	Maximum % of share options exercisable
3.5.2004 – 3.11.2004	1.1.2005 – 31.12.2005	1.3.2005 – 28.2.2006	up to 50%
4.11.2004 – 3.11.2005	1.1.2006 – 31.12.2006	1.3.2006 – 28.2.2007	up to 75% (to the extent not already exercised)
4.11.2005 – 3.11.2006	1.1.2007 – 31.12.2007	1.3.2007 – 29.2.2008	up to 100% (to the extent not already exercised)

2. Out of the 1,614,000 outstanding share options granted, Mr. Hui Sum Kwok is directly interested in 1,364,000 share options granted to him and is deemed to be interested in 250,000 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.

The closing prices of the Company's shares on 28th July, 2004 and 3rd November, 2004, the dates immediately before the date of grant of the share options, were HK\$1.33 and HK\$1.10 per share respectively.

The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$1.38 per share.

At 31st December, 2004, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 32,722,000, representing approximately 8.9% 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' REPORT

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed above, at 31st December, 2004, 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:

(a) Shares

Name of director	Company/Name of associated corporation	Capacity	Number and class of securities	Approximate percentage of issued share of the Company/associated corporation
Mr. Hui Sum Kwok	Company	Founder of a discretionary trust/ interest of controlled corporations	252,000,000 shares Long position (Note 1)	68.51%
Mr. Hui Sum Kwok	Company	Beneficial owner	2,522,000 shares Long position	0.69%
Mr. Hui Sum Kwok	Company	Interest of spouse	250,000 shares Long position	0.07%
Mr. Hui Sum Ping	Company	Founder of a discretionary trust/ interest of controlled corporations	252,000,000 shares Long position (Note 1)	68.51%
Mr. Hui Sum Ping	Company	Beneficial owner	510,000 shares Long position	0.14%
Mr. Hui Sum Tai	Company	Beneficial owner	200,000 shares Long position	0.05%
Mr. Wong Wing Por	Company	Founder of a discretionary trust/ interest of controlled corporations	Nil (Note 1)	–
Mr. Wong Wing Por	Company	Beneficial owner	600,000 shares Long position	0.16%
Ms. Hui Yuen Li	Company	Beneficial owner	250,000 shares Long position	0.07%

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

(a) Shares (Continued)

Name of director	Company/Name of associated corporation	Capacity	Number and class of securities	Approximate percentage of issued share of the Company/associated corporation
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)	78.86%
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)	78.86%
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)	12.57%
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)	50%
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)	50%
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)	100%
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)	100%

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

(a) Shares (Continued)

Name of director	Company/Name of associated corporation	Capacity	Number and class of securities	Approximate percentage of issued share of the Company/associated corporation
Mr. Wong Wing Por	Hop Fung GM	Interest of controlled corporations/short position of a controlled corporation	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)	100%
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)	100%
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. Hui Sum Kwok	Applewood Forest Limited	Founder of a discretionary trust	1 share of US\$1 Long position (Notes 1 and 6)	100%
Mr. Hui Sum Kwok	Profit Luck Limited	Founder of a discretionary trust	100 shares of HK\$1 each Long position (Notes 1, 6 and 7)	100%

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

(a) Shares *(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. Fullwood is wholly owned by Pinicity Investments Limited ("Pinicity") and Pinicity is wholly owned by HSBC International Trustee Limited ("HSBC") in its capacity as the trustee of Hui & Wong 2004 Family Trust, a discretionary trust the founder of which is Hui Sum Kwok and the discretionary objects of which include family members of Hui Sum Kwok. Goldspeed is wholly owned by Goldkeen Assets Management Limited ("Goldkeen") and Goldkeen is wholly owned by HSBC in its capacity as the trustee of HSP 2004 Family Trust, a discretionary trust the founder of which is Hui Sum Ping and the discretionary objects of which include family members of Hui Sum Ping. Accordingly, each of Hui Sum Kwok and Hui Sum Ping will be deemed to be interested in the 252,000,000 shares under the SFO.

Delight is wholly owned by Richfaith Assets Management Limited ("Richfaith") and Richfaith is wholly owned by HSBC in its capacity as the trustee of Wong's 2004 Family Trust, a discretionary trust the founder of which is Wong Wing Por and the discretionary objects of which include family members of 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.

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

(a) Shares (Continued)

Notes: (Continued)

- 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.

- 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.

- 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 HSBC in its capacity as the trustee of Hui & Wong 2004 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 HSBC in its capacity as the trustee of Hui & Wong 2004 Family Trust.
- Profit Luck Limited ("Profit") is a company incorporated in Hong Kong. The entire issued share capital of Profit is HK\$100 comprises 100 shares of HK\$1 each which is indirectly owned by HSBC through its wholly owned subsidiary, Applewood. Details of Applewood are set out in note 6 above.

(b) Shares Options

Details of the directors' and their associates' interests in share options of the Company are set out in the section headed "Share Options" above.

DIRECTORS' REPORT

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

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, 2004.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, 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	Capacity	Number of issued shares held	Note(s)	Approximate percentage of issued share
Hop Fung Industries	Beneficial owner	252,000,000	1	68.51%
Hop Fung Industries BVI	Interest of a controlled corporation	252,000,000	1 and 2	68.51%
Fullwood	Interest of controlled corporations	252,000,000	1, 2, 3 and 4	68.51%
Pinecity	Interest of controlled corporations	252,000,000	1, 2, 3 and 4	68.51%
Goldspeed	Interest of controlled corporations	252,000,000	1, 2, 3 and 5	68.51%
Goldkeen	Interest of controlled corporations	252,000,000	1, 2, 3 and 5	68.51%
HSBC	Trustee of discretionary trust/interest of controlled corporations	253,146,000	1, 2, 3, 4 and 5	68.82%
Mr. Hui Sum Kwok	Beneficial owner/founder of a discretionary trust/interest of controlled corporations/interest of spouse	254,772,000	1, 2, 3 and 4	69.26%
Mr. Hui Sum Ping	Beneficial owner/founder of a discretionary trust/interest of controlled corporations	252,510,000	1, 2, 3 and 5	68.65%
Hallgain Management Limited	Interest of controlled corporations	29,382,000	6	7.99%
Kingboard Chemical Holdings Limited	Beneficial owner/interest of controlled corporations	29,382,000	7	7.99%

Notes:

- 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 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.
- 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.
- The entire issued share capital of Fullwood is indirectly held by HSBC through its 100% controlled corporation, Pinecity in its capacity as the trustee of Hui & Wong 2004 Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Kwok and the discretionary objects of which include family members of Mr. Hui Sum Kwok. Accordingly, each of Fullwood, Pinecity, HSBC and Mr. Hui Sum Kwok is deemed to be interested in the 252,000,000 shares under the SFO.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes: (Continued)

5. The entire issued share capital of Goldspeed is indirectly held by HSBC through its 100% controlled corporation Goldkeen in its capacity as the trustee of HSP 2004 Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Ping and the discretionary objects of which include family members of Mr. Hui Sum Ping. Accordingly, each of Goldspeed, Goldkeen, HSBC 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 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 3,922,000 shares in the Company and is deemed to be interested in 25,460,000 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, 2004.

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

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.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for less than 21% of the Group's total turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 56% of the Group's total purchases and the purchase attributable to the Group's largest supplier accounted for approximately 22% 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.

CONNECTED TRANSACTIONS

In 2003, the Group had 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 was 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 would assign and transfer all legal and beneficial rights of the trademark upon request of the Company after the trademark was duly registered with the Registrar of Trade Marks in Hong Kong.

On 6th February, 2004, Hop Fung Group Company Limited, a wholly owned subsidiary of the Company became the registered owner of the trademark. The trademark was then transferred to the Group and accordingly, the trademark license agreement was cancelled.

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\$348,000.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004 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.

The Company has adopted on 21st April 2005 its own code of conduct regarding securities transactions by directors on fee no less exacting than the required standard as set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange ("the Model Code"). All the directors confirmed they have complied with the Model Code during the year ended 31st December 2004.

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

21st April, 2005