HOP FUNG GROUP

HOP FUNG GROUP HOLDINGS LIMITED
合豐集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2320)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2006

FINANCIAL HIGHLIGHTS

	2006	2005	**Change**
	HK$ million	*HK$ million*	
Turnover	**820.1**	788.6	4.0%
Gross profit	**182.2**	154.1	18.2%
EBIT	**96.1**	76.3	26.0%
Net profit from operation*	**85.8**	69.2	24.0%

* Net profit for the year before changes in fair values of derivative financial instruments and structured borrowing

The board of directors (the "Directors") of Hop Fung Group Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2006 together with the comparative figures for the year ended 31st December, 2005 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2006** ***HK$'000***	2005 *HK$'000*
Turnover	2	**820,063**	788,555
Cost of sales		**(637,862)**	(634,422)
Gross profit		**182,201**	154,133
Other income		**18,569**	15,728
Distribution costs		**(39,946)**	(37,277)
Administrative expenses		**(42,614)**	(37,724)
Other expenses		**(22,081)**	(18,601)
Finance costs		**(8,644)**	(5,924)
Change in fair value of structured borrowing		**(12,366)**	–
Changes in fair value of derivative financial instruments		**(5,105)**	474
Profit before taxation		**70,014**	70,809
Taxation	3	**(1,716)**	(1,096)
Profit for the year		**68,298**	69,713
Dividends	4	**21,917**	21,115
Earnings per share	5		
– basic (HK cents)		**17.84**	18.95
– diluted (HK cents)		**17.43**	18.69

CONSOLIDATED BALANCE SHEET

		2006	2005
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**348,596**	290,925
Prepaid lease payments on land use rights		**20,537**	18,652
Prepayments under processing arrangement		**2,118**	2,179
Deposits paid for the acquisition of property, plant and equipment		**32,805**	10,088
		404,056	321,844
Current assets			
Inventories		**79,450**	74,737
Trade and other receivables	*6*	**119,035**	102,986
Deposits and prepayments		**8,333**	6,767
Prepaid lease payments on land use rights		**439**	432
Prepayments under processing arrangement		**61**	61
Taxation recoverable		**42**	–
Derivative financial instruments		**9**	862
Bank balances and cash		**231,605**	156,037
		438,974	341,882
Current liabilities			
Trade and other payables	*7*	**84,824**	81,696
Taxation payable		**18,475**	20,767
Derivative financial instruments		**4,640**	388
Bank borrowings		**65,611**	103,515
Structured borrowing		**7,765**	–
		181,315	206,366
Net current assets		**257,659**	135,516
Total assets less current liabilities		**661,715**	457,360
Capital and reserves			
Share capital		**42,390**	36,792
Share premium and reserves		**441,706**	301,533
		484,096	338,325
Non-current liabilities			
Bank borrowings		**133,527**	118,369
Structured borrowing		**43,426**	–
Deferred taxation		**666**	666
		177,619	119,035
		661,715	457,360

Notes

1. **APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are either effective for accounting periods beginning on or after 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on how the results and the financial position of the Group are prepared and presented except for HKFRS 8. They have commenced considering the potential impact of HKFRS 8 but are not yet in a position to determine whether HKFRS 8 would have a significant impact on how its results and operations and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK (IFRIC)-INT 7	Applying the restatement approach under HKAS 29 – Financial Reporting in Hyperinflationary Economies[3]
HK (IFRIC)-INT 8	Scope of HKFRS 2[4]
HK (IFRIC)-INT 9	Reassessment of embedded derivatives[5]
HK (IFRIC)-INT 10	Interim financial reporting and impairment[6]
HK (IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions[7]
HK (IFRIC)-INT 12	Service concession arrangements[8]

1 Effective for annual periods beginning on or after 1st January, 2007
2 Effective for annual periods beginning on or after 1st January, 2009
3 Effective for annual periods beginning on or after 1st March, 2006
4 Effective for annual periods beginning on or after 1st May, 2006
5 Effective for annual periods beginning on or after 1st June, 2006
6 Effective for annual periods beginning on or after 1st November, 2006
7 Effective for annual periods beginning on or after 1st March, 2007
8 Effective for annual periods beginning on or after 1st January, 2008

2. **SEGMENT INFORMATION**

All of the Group's turnover and contribution to 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 ("the PRC"). Accordingly, no analysis of segment is presented.

As at 31st December, 2005 and 31st December, 2006, all the Group's assets and liabilities are located in the PRC, including Hong Kong and Macau.

3. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	**1,646**	8,921
– Other region in the PRC	**70**	-
	1,716	8,921
Deferred taxation	**–**	(7,825)
	1,716	1,096

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

A portion of the Group's profits are earned by the Macau subsidiaries of the Group incorporated under the Macau SAR's Offshore Law. Pursuant to the Macau SAR's Offshore Law, such portion of profits are exempted from Macau complimentary tax, which is currently at 12% of the profits. 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.

Pursuant to the relevant laws and regulations in the PRC, the major operating PRC subsidiaries of the Group is exempted from PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction in the income tax rate in the following three years.

4. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Final dividend paid in respect of 2005 of 4.17 HK cents (2004: 4.22 HK cents) per share	**15,857**	15,523
Interim dividend paid in respect of 2006 of 1.58 HK cents (2005: 1.52 HK cents) per share	**6,060**	5,592
	21,917	21,115

The final dividend in respect of 2006 of 4.64 HK cents (2005: 4.17 HK cents) per share amounting to HK$19,669,000 (2005: HK$15,857,000) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

5. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share – Profit for the year	**68,298**	69,713

	2006	2005
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**382,774,110**	367,886,794
Effect of dilutive potential shares in respect of share options	**9,161,166**	5,202,216
Weighted average number of shares for the purpose of diluted earnings per share	**391,935,276**	373,089,010

6. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period of 5 - 150 days which may be extended to selected trade customers depending on their trade volume and history of settlement with the Group.

An aged analysis of trade receivables is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**104,034**	93,252
Overdue 1 to 30 days	**14,843**	9,221
	118,877	102,473
Other receivables	**158**	513
	119,035	102,986

Included in the carrying amount of the Group's trade receivables are HK$38,377,000 (2005: HK$28,080,000) and HK$13,542,000 (2005: HK$17,195,000) denominated in Renminbi and US dollars.

7. TRADE AND OTHER PAYABLES

An aged analysis of the trade payables is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**46,369**	36,006
Overdue 1 to 30 days	**6,251**	4,270
Overdue 31 to 60 days	**107**	56
Overdue for more than 60 days	**244**	507
	52,971	40,839
Other payables and accrued charges	**31,853**	40,857
	84,824	81,696

Included in the carrying amount of the Group's trade payables are HK$27,310,000 (2005: HK$19,491,000) and HK$18,284,000 (2005: HK$14,422,000) denominated in Renminbi and US dollars.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Tang Room II, 3/F, Sheraton Hong Kong Hotels & Towers, 20 Nathan Road, Kowloon, Hong Kong on 28th May, 2007 at 10:30a.m.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had resolved to recommend the payment of a final dividend of 4.64 HK cents per share for the year ended 31st December, 2006 (2005: 4.17 HK cents per share) to be payable on or about 15th June, 2007 to those shareholders whose names appear on the register of members of the Company on 28th May, 2007.

The register of members of the Company will be closed from 22nd May, 2007 to 28th May, 2007, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and attendance at the annual general meeting to be held on 28th May, 2007, all transfers accompanied by the relevant share certificates and completed transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 21st May, 2007.

BUSINESS REVIEW

The corrugated cardboard packaging industry saw robust demand growth in the preceding year on the back of a healthy global economy and rising exports and consumption power in China. The Group ("we") had also been aggressively expanding production facilities for corrugated paper-ware and its raw materials, in order to achieve vertical integration, and allow the Group to successfully control production costs and improve product quality even in an environment of rising raw materials prices and appreciation of the Renminbi. As a result, the Group achieved solid growth in turnover and operating margin in the year under review.

Faced with intensifying competition in the downstream packaging industry, the Group started to expand upstream in 2005, to create a vertically integrated model, improve operating efficiency and enhance margins. The Group's ("our") first upstream production line at Green Forest (QingXin) Paper Industrial Limited ("Green Forest") in Qingxin County, Qingyuan City, Guangdong Province officially started operations in March 2006. This production line, capable of producing 100,000 tonnes of high performance corrugated medium, can meet around 30-40% of the Group's raw materials requirements. Green Forest's medium production facilities have been nearly 100% utilized since July 2006, significantly offsetting the impact of volatile raw materials prices and fluctuations in supply on the Group's operations, whilst lifting overall gross margins at the same time.

We make every effort to improve its production and shipping process, in order to raise our operating efficiency, and bring to customers high value-added quality products and outstanding and timely service. Through buying state of the art production equipment, strengthening our computerized production processes and fine-tuning the distribution of orders, we have been able to optimize our production lines and equipment. As a result, we can leverage this enhanced platform to achieve full vertical integration and capture the enormous growth potential of the Chinese corrugated cardboard packaging industry.

FINANCIAL REVIEW

Performance

Turnover of the Group in 2006 recorded an increase of 4% to HK$820.1 million (2005: HK$788.6 million). It was mainly attributable to the sales of corrugating medium in the second half of 2006 after commencing the upstream business in March 2006. The success in producing corrugating medium for own use led to significant cost saving which, in turn, led to a surge in gross profit by 18.2% and an improvement in gross profit margin from 19.5% to 22.2%.

With cash inflow from the upstream operation and the placing of shares, the rise in bank interest income from fixed deposits mainly accounted for the increase in other operating income.

The 7.2% increase in distribution costs was chiefly the transportation cost for delivering the corrugating medium from Green Forest in Qingyuan City to the three plants in Dongguan City and Shenzhen City for producing corrugated paper boards and carton boxes.

The increase in administrative expenses by 13% to HK$42.6 million (2005: HK$37.7 million) was primarily attributable to the increase in staff cost. In addition to increasing number of staff for operating the new corrugating medium plant, an average rise of 8% in salaries was resulted from attracting staff in view of labour shortage in the Guangdong Province.

Depreciation charges for the factory premises and dormitories of the corrugating medium plant mainly brought to an increase in other operating expenses by 18.8% to HK$22.1 million (2005: HK$18.6 million).

The significant contribution from the new corrugating medium plant in supplying raw materials to the downstream plants can be measured by a surge of 26% in the earnings before interest and tax ("EBIT") to HK$96.1 million (2005: HK$76.3 million). The EBIT margin increased from 9.7% to 11.7%.

Bank interests for loans raised in mid 2005 for financing the corrugating medium plant in machinery acquisition and factory construction were capitalized in 2005. With operation commenced in March 2006, bank interests were charged to the income statement leading to increase in finance costs by HK$2.7 million.

Changes in fair values of derivative financial instruments and structured borrowing were recognized in the income statement for accounting purpose only. They were non-cash in nature and will be reversed to zero at maturity date.

During 2006, the Group had entered into certain forward exchange contracts with banks for periods ranging from 1 to 1.5 years to minimize the exposure to foreign exchange rate risk (1) in acquiring the kraft linerboard production line in RMB, and (2) in purchasing raw materials in USD. The adverse effect of the appreciation of both currencies to the Group was proved to be eliminated in 2006 as lower exchange rates were eventually paid. HK$5.1 million was recognized in the income statement as change in fair value of derivative financial instruments for accounting purpose.

In the second half of 2006, the Group entered into a contract of structured borrowing with a bank for a period of five years to finance its kraft linerboard plant at a cheaper borrowing cost. The contract was proved to be effective as no interest had been incurred during the year ended 31st December, 2006. HK$12.4 million was recognized in the income statement as change in fair value of structured borrowing for accounting purpose.

Net profit from operation (net profit for the year before changes in fair value of derivative financial instruments and structured borrowing) was increased by 24% to HK$85.8 million (2005: HK$69.2 million). The slight decrease in net profit for the year by 2% to HK$68.3 million (2005: HK$69.7 million) was due to the changes in fair values of derivative financial instruments and structured borrowing for accounting purpose.

Net profit margin for the year ended 31st December, 2006 was 8.3%. Basic earnings per share were 17.84 HK cents (2005: 18.95 HK cents). The Directors proposed a final dividend of 4.64 HK cents per share (2005: 4.17 HK cents).

Liquidity, financial and capital resources

The Group received net proceeds of HK$77.7 million from the placing of shares in November 2006, resulting in an increment of bank balances and cash to HK$231.6 million (2005: HK$156 million). At 31st December, 2006, net current assets and current ratio (current assets divided by current liabilities) of the Group were HK$257.7 million (2005: HK$135.5 million) and 2.42 (2005: 1.66) respectively.

In 2006, the Group had capital expenditures amounting to HK$47.8 million which were mainly the remaining construction cost for the corrugating medium plant incurred in the first quarter of 2006. In addition, the Group paid deposits of HK$35.1 million for acquisition of machinery and land for kraft linerboard plant. The Group further spent HK$15.9 million for improving production facilities in existing factories.

With cash inflow from the operation of corrugating medium plant, less working capital in the form of trust receipt loans was required leading to reduction in trust receipt loans by HK$43.8 million. Increase in the Group's total bank borrowings (including bank borrowings and structured borrowings) by HK$72.2 million comprised short term and long term bank borrowings' increases by HK$13.6 million and HK$58.6 million respectively. New bank borrowings were mainly raised for financing the investment in kraft linerboard plant. A lower net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) of 4% (2005: 19%) was achieved in 2006 as the placing of shares improved the cash level of the group. The Group's financial position was strong and distinctive as compared to last year.

Contingent liabilities

A tax audit had been conducted by the Inland Revenue Department in December 2004. The Inland Revenue Department issued protective assessments for the years of assessment 1998/1999 to 2003/2004 to certain subsidiaries of the Group. As the tax audit was still in progress, in the opinion of the Directors, the outcome and impact of this matter could not be determined with reasonable certainty at this stage.

PROSPECTS

The corrugated cardboard packaging industry continues to expand on the back of China's emergence as the world's manufacturing centre. To tap into the attractive growth opportunities available, the Group is aiming to expand market share through further integration and improvements in marketing and sales, in order to enhance our execution capabilities and deliver solid growth in our business.

Given that the Group's expansion from downstream box manufacturing to upstream paper manufacturing has been satisfactory even in its first year of operation in 2006, we are fully confident that we can continue to expand our operations. We focus on the second phase of the development of Green Forest, namely construction of a new kraft linerboard plant with 200,000 tonnes of annual capacity. The Group formally signed agreements to acquire the key manufacturing components for the kraft linerboard production line at the end of May 2006, and foundation work for the plant was completed in March 2007. We expect to start installation of the production line in June and formally begin operations in early 2008. By that time, the Group's total capacity in cardboard will rise to 300,000 tonnes. This new line will not only reduce the Group's dependence on external raw materials and hence lower our costs, but will also allow the Group to customize raw materials for different customers, reduce wastage and enhance product quality.

The Group will continue to optimize its production equipment, enhance capacity and produce a more diversified range of cardboard products. We also plan to expand downstream to complement the development of our upstream business and move towards a fully integrated business model. In addition, the Group will further enhance our enterprise resource planning system in order to improve operating efficiency, enhance margins and competitiveness, and deliver satisfactory returns to our shareholders.

HUMAN RESOURCES

As at 31st December, 2006, the Group and the processing factories employed a total workforce of around 1,400 full time staff (2005: 1,200). The increase was mainly attributable to our continuous business growth and upstream production. Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors namely, Mr. Liu Kwok Fai, Alvan, Mr. Chee Man Sang, Eric and Mr. Wong Chu Leung. The audit committee has reviewed with the management the audited consolidated financial statements of the Group for the year ended 31st December, 2006 and has discussed auditing, internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st December, 2006, the Company and its subsidiaries had not purchased, redeemed or sold any of the Company's listed securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

PLACING OF SHARES

In November 2006, the Company entered into a placing agreement and a subscription agreement regarding 40 million shares at a price of HK$2.00 per share. Net proceeds of HK$77.7 million were raised. Approximately 90% of the net proceeds will be used to finance the construction of a new factory and purchase of manufacturing facilities for kraft linerboard production and approximately 10% of the net proceeds will be used to meet its general working capital requirements.

CORPORATE GOVERNANCE

The Company had complied with throughout the year ended 31st December, 2006 the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except with the following deviations:

Code Provision A.2.1

- Code provision A.2.1 stipulates that the division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing.
- There is no written terms on division of responsibilities between the chairman and the chief executive officer. The Directors consider that the responsibilities of the chairman and chief executive officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Code Provision A.4.2

- Code provision A.4.2 stipulates that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.
- In accordance with the Company's Articles of Association, Directors appointed to fill a casual vacancy are subject to re-election at next annual general meeting.

Code Provision B.1.3

- A major deviation from the code provision B.1.3 is that the Remuneration Committee of the Company review and make recommendations to the Directors on the remuneration packages of the Executive Directors only but not senior management.

Currently, the remuneration of senior management is attended by the Chairman and/or Chief Executive Officer of the Company.

PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2006 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual report of the Company for the year ended 31st December, 2006 containing all the information required by the Listing Rules also be available at the Company's and the Stock Exchange's website will be dispatched to the Company's shareholders in late April 2007.

This results announcement is published on the Company's website (www.hopfunggroup.com) and the Stock Exchange's website.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere thanks to our shareholders and all other associates for their supports and to our staff for their commitment and diligence during the year.

By Order of the Board
HUI Sum Kwok
Chairman

Hong Kong, 18th April, 2007

As at the date of this announcement, the executive directors of the Company are Messrs Hui Sum Kwok, Hui Sum Ping, Hui Sum Tai, Wong Wing Por and Ms Hui Yuen Li and the independent non-executive directors of the Company are Messrs Liu Kwok Fai, Alvan, Chee Man Sang, Eric and Wong Chu Leung.