



HOP FUNG GROUP

[For Immediate Release]

Hop Fung Reported Growth for Turnover and Net Profit from Operations in 2006

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Further Develops Upstream Businesses Enhances Profit Margin and Expands Market Share

Financial Highlights

- Turnover increased by 4% to HK\$820.1 million in 2006
- Gross Profit increased by 18% to HK\$182.2 million
- Gross Margin increased 2.7 percentage points to 22.2%
- Net Profit from Operation increased by 23.9% to HK\$85.8 million
- The Board of Directors recommended paying a final dividend of 4.64 HK cents per share
- Development of upstream business to minimize production cost and enhance product quality; With an aim of capturing additional market share through effective enhancement on sales strategy, in turn bringing steady business growth

(18 April 2007 – Hong Kong) – **Hop Fung Group Holdings Limited** (“Hop Fung” or “the Group”; stock code: 2320), an established corrugated paper-ware manufacturer and provider, achieved fruitful performance with continuous growth in both turnover and net profit in 2006.

With continuous growth in global demand for corrugated paper-ware packaging products, as well as rising PRC export, the Group’s turnover increased by 4% to HK\$820.1 million for the year ended 31 December 2006. Despite the escalating raw material prices and appreciation of the RMB created a challenging business environment, the Group has successfully control production cost through advancing to upstream business. During the year, the Group’s gross margin was 22.2%, representing an increase of 2.7 percentage points as compared with 2005.

Net profit from operation (net profit for the year before changes in fair value of derivative financial instruments and structured borrowing) increased by 23.9% to HK\$85.8 million. The slight decrease in net profit for the year by 2% to HK\$68.3 million was due to the changes in fair values of derivative financial instruments and structured borrowing, amounting to HK\$17.5 million, recognized for accounting purpose. These are of non-cash nature and will be reversed to zero at maturity date.

Basic earnings per share was 17.84 HK cents. The Board of Directors has recommended the payment of a final dividend of 4.64 HK cents per share, together with the interim dividend of 1.58 HK cents already paid, total dividend payout ratio for the year was 37.7%.

Mr. Hui Sum Kwok, Chairman of Hop Fung, said, “Taking into consideration the intense competition downstream, we have been actively developing the upstream business since 2005 with the aim of building a vertically integrated operation which enabled a stabilized raw material supply and offset the negative impact of price increase. At the same time, we will continue to implement effective cost control and improve our sales and promotion strategy.”

The Group maintained a very healthy financial position. As at 31 December 2006, the Group's bank and cash balances amounted to approximately HK\$231.6 million, with a net gearing ratio of 1.3% (excluding changes in fair value of derivative financial instruments and structured borrowing) and current ratio of 2.42 times.

During the year, the Group is committed to improving operational efficiency through vertical integration, and in turn enhance overall profit margin and enhance product quality. In March 2006, Phase I of the Green Forest (QingXin) Paper Industrial Limited ("Green Forest") in Qingxin County, Qingyuan City, Guangdong Province commenced operation. The facility mainly produces high performance corrugating medium. With an annual production capacity of 100,000 tonnes of corrugating medium, it is capable of satisfying about 30% to 40% of the Group's demand for raw material. As at July 2006, utilization rate of Green Forest's corrugating medium production line is close to 100%, mitigating the impact of price fluctuation and unstable demand of imported raw materials on the Group, and assuring stable growth of the Group's overall gross profit margin.

Looking ahead, the Group will focus on constructing a new production line for another major raw material – kraft linerboards in Phase II of Green Forest. The Group has signed purchase order for the main production facilities of kraft linerboards in late May 2006. In addition, the foundation of the kraft linerboard production line was laid in March 2007 and the main equipment for production will be installed in June 2007. With an estimated annual output capacity of 200,000 tonnes, which is a double of the annual production capacity of corrugated medium, the production line is scheduled to commence operation in early 2008. When the plant is completed, the Group will have less reliance on imported raw materials and be able to further lower production cost. The Group will be able to enhance product quality and minimize wastage through producing raw materials in need according to customers' demand.

Mr. Hui concluded, "The PRC is gradually taking on the role of the world's industrial production centre, a trend that will benefit development of the corrugated packaging paper-ware market. To capture the huge market potential, we will strive to increase its market share and forge ahead with initiatives to effect integration of our businesses. We will also seek to enhance marketing to reinforce our operation strengthen, thus ensuring a strong and steady business growth. We will also continue to improve our ERP management system, so as to boast operational efficiency, with an ultimate goal of delivering satisfactory returns to shareholders."

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About Hop Fung Group Holdings Limited

Founded by the Hui Brothers in 1988, Hop Fung Group is principally engaged in the manufacture and sale of quality corrugated paper ware products, including corrugated paper boards and corrugated carton boxes, to its over 550 customers in the manufacturing sectors in Hong Kong and the Pearl River Delta. Adopting an effective vertically integrated production model and stringent quality control, the Group has established its reputation as one of the leading manufacturers and providers of corrugated paper-ware products in the market. The Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong on 24 September 2003.

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Hop Fung Group Holdings Limited 2006 Annual Results Announcement

Consolidated income statement

(HKD'000)	2006	2005	Change	%
Turnover	820,063	788,555	31,508	4.0%
Cost of Sales	<u>(637,862)</u>	<u>(634,422)</u>	(3,440)	0.5%
Gross Profit	182,201	154,133	28,068	18.2%
Other Operating Income	18,569	15,728	2,841	18.1%
Distribution Costs	(39,946)	(37,277)	(2,669)	7.2%
Administrative Expenses	(42,614)	(37,724)	(4,890)	13.0%
Other Operating Expenses	<u>(22,081)</u>	<u>(18,601)</u>	(3,480)	18.7%
Profit from Operation	96,129	76,259	19,870	26.1%
Finance Costs	<u>(8,644)</u>	<u>(5,924)</u>	(2,720)	45.9%
Profit Before Taxation	87,485	70,335	17,150	24.4%
Taxation	<u>(1,716)</u>	<u>(1,096)</u>	(620)	56.6%
Net Profit from Operation	85,769	69,239	16,530	23.9%
Change in Fair Value of Derivate Financial Instruments	(5,105)	474	(5,579)	(1,177%)
Change in Fair Value of Structured Borrowing	<u>(12,366)</u>	-	(12,366)	n/a
Net Profit for The Year	68,298	69,713	(1,415)	(2.0%)