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 ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2007

FINANCIAL HIGHLIGHTS

	2007	2006	**Change**
	HK$ million	*HK$ million*	
Turnover	**925.5**	799.9	+15.7%
Gross profit	**211.6**	182.2	+16.1%
EBITDA	**136.8**	126.9	+7.8%
Profit for the year	**111.7**	68.3	+63.5%

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, 2007 together with the comparative figures for the year ended 31st December, 2006 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December, 2007

	Notes	**2007** ***HK$'000***	2006 *HK$'000*
Turnover	2	**925,533**	799,936
Cost of sales		**(713,899)**	(617,735)
Gross profit		**211,634**	182,201
Other income		**18,526**	17,742
Selling and distribution costs		**(45,355)**	(39,946)
Administrative expenses		**(58,491)**	(42,614)
Other expenses		**(24,686)**	(22,081)
Finance costs		**(6,837)**	(8,644)
Change in fair value of structured borrowing		**9,762**	(12,366)
Realised and unrealised changes in fair value of derivative financial instruments		**10,561**	(4,278)
Profit before taxation		**115,114**	70,014
Taxation	3	**(3,370)**	(1,716)
Profit for the year	4	**111,744**	68,298
Dividends recognised as distribution during the year	5	**27,776**	21,917
Earnings per share	6		
— basic (HK cents)		**24.85**	17.84
— diluted (HK cents)		**24.57**	17.43

CONSOLIDATED BALANCE SHEET
At 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**794,645**	348,596
Prepaid lease payments on land use rights		**35,347**	22,655
Deposits paid for the acquisition of property, plant and equipment		**52,621**	32,805
		882,613	404,056
Current assets			
Inventories		**191,998**	79,450
Trade and other receivables	*7*	**131,425**	119,035
Deposits and prepayments		**19,816**	8,333
Prepaid lease payments on land use rights		**809**	500
Taxation recoverable		**—**	42
Derivative financial instruments		**2,141**	9
Bank balances and cash		**153,735**	231,605
		499,924	438,974
Current liabilities			
Trade and other payables	*8*	**114,645**	84,824
Taxation payable		**17,471**	18,475
Derivative financial instruments		**1,218**	4,640
Bank borrowings		**236,848**	65,611
Structured borrowing		**7,800**	7,765
		377,982	181,315
Net current assets		**121,942**	257,659
Total assets less current liabilities		**1,004,555**	661,715
Capital and reserves			
Share capital		**48,292**	42,390
Share premium and reserves		**695,450**	441,706
Total equity		**743,742**	484,096
Non-current liabilities			
Bank borrowings		**230,914**	133,527
Structured borrowing		**26,069**	43,426
Deferred taxation		**3,830**	666
		260,813	177,619
		1,004,555	661,715

Notes

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)—Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)—Int 8	Scope of HKFRS 2
HK(IFRIC)—Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)—Int 10	Interim Financial Reporting and Impairment

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 applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)—Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)—Int 12	Service Concession Arrangements[4]
HK(IFRIC)—Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)—Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1st January, 2009
2 Effective for annual periods beginning on or after 1st July, 2009
3 Effective for annual periods beginning on or after 1st March, 2007
4 Effective for annual periods beginning on or after 1st January, 2008
5 Effective for annual periods beginning on or after 1st July, 2008

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group. The directors 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.

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, 2006 and 31st December, 2007, substantial assets, especially those property, plant and equipment, of the Group are located in the PRC.

3. TAXATION

	2007	2006
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
— Hong Kong Profits Tax	**2,141**	1,646
— PRC Enterprise Income Tax	**3,431**	70
	5,572	1,716
Overprovision in prior years:		
— Hong Kong Profits Tax	**(5,366)**	—
Deferred taxation	**3,164**	—
	3,370	1,716

Hong Kong Profits Tax is calculated at 17.5% (2006: 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 are exempted from PRC enterprise 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. PROFIT FOR THE YEAR

	2007	2006
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Allowance for doubtful debts	**2,056**	—
Cost of inventories recognised as expenses	**713,899**	617,735
Depreciation of property, plant and equipment	**34,652**	31,098
Staff costs	**41,023**	28,203

5. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Final dividend paid in respect of 2006 of 4.64 HK cents (2005: 4.17 HK cents) per share	**19,669**	15,857
Interim dividend paid in respect of 2007 of 1.68 HK cents (2006: 1.58 HK cents) per share	**8,107**	6,060
	27,776	21,917

The final dividend in respect of 2007 of 4.32 HK cents (2006: 4.64 HK cents) per share amounting to HK$20,862,000 (2006: HK$19,669,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share — Profit for the year	**111,744**	68,298

	2007	2006
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**449,620,515**	382,774,110
Effect of dilutive potential ordinary shares in respect of share options	**5,264,325**	9,161,166
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**454,884,840**	391,935,276

7. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**128,477**	124,454
Less: allowance for doubtful debts	**(3,713)**	(5,577)
	124,764	118,877
Other receivables	**6,661**	158
Total trade and other receivables	**131,425**	119,035

The Group allows 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. The following is an aged analysis of trade receivables net of allowance of doubtful debts at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Current	**102,275**	100,683
Overdue 1 to 30 days	**22,489**	18,194
	124,764	118,877

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$22,489,000 (2006: HK$18,194,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 48 days (2006: 50 days).

8. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Current	**43,137**	46,369
Overdue 1 to 30 days	**10,285**	6,251
Overdue 31 to 60 days	**6,231**	107
Overdue for more than 60 days	**476**	244
	60,129	52,971
Other payables and accrued charges	**54,516**	31,853
	114,645	84,824

The average credit period on purchases of goods is 29 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Tang Room I, 3/F, Sheraton Hong Kong Hotels & Towers, 20 Nathan Road, Kowloon, Hong Kong on 26th May, 2008 at 10:30 a.m.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had resolved to recommend the payment of a final dividend of 4.32 HK cents per share for the year ended 31st December, 2007 (2006: 4.64 HK cents per share) to be payable on or about 27th June, 2008 to those shareholders whose names appear on the register of members of the Company on 26th May, 2008.

The register of members of the Company will be closed from 20th May, 2008 to 26th May, 2008, 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 26th May, 2008, 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 19th May, 2008.

BUSINESS REVIEW

In 2007, exports of various products to countries around the world slowed on the back of the depreciation of the US dollar, rising energy prices and the sub-prime crisis in the US. This affected market demand for corrugated cardboard products. Although changes to China's labour policy and the appreciation of the Renminbi had put pressure on corporates, Chinese domestic economic growth remains buoyant and this drove up considerably domestic demand for corrugated cardboard products. The Group was able to exploit this opportunity to expand its domestic market, improve our marketing strategies and deliver satisfactory growth in our revenues for the year.

The Group's revenue achieved steady growth in the year, with increases in both domestic and overseas sales. Domestic sales doubled in the last year. In the year, our sales of paper boards and carton boxes were roughly split 70:30; the shorter timeframe required to make paper boards versus carton boxes allowed us to improve utilization by five percentage points.

In the upstream business, to maintain our flexibility and agility, the Group concentrated on the production of high performance corrugating medium, and sold some of our products to other customers. At the same time we sourced regular corrugating medium from external parties. This allowed us to raise the utilization of our upstream facilities to 100%, and effectively control operating costs, and offset the impact from rising raw materials prices and the appreciation of the Renminbi, resulting in the growth in profits for the group in the period.

Our upstream corrugating medium production facilities can now satisfy approximately 40% of our raw materials requirements for manufacturing corrugated paper boards and carton boxes. Our stable supply of quality raw materials have mitigated risks associated with supply stability and price fluctuations. We also focused on the construction of our upstream linerboard production line and our new power plant. This was the Group's biggest project ever and, after 16 months of challenging work, the project's infrastructure and installation works have been completed, and trial production had already started. We are delighted with the results of the trial production and the quality of the products from the new line already meet international standards. We expect the new line to start full commercial production from June 2008 onwards. This production line's capacity can reach 230,000 tonnes.

By that time, our upstream business can fully meet the raw materials requirements of our downstream business, and provide enough linerboard and corrugating medium to our downstream plants to make paper boards and carton boxes. Not only can this give us assurance on the quality of our products but we can also reduce operating costs, meet customers' requirements for just-in-time delivery and guarantee the quality of our service.

FINANCIAL REVIEW

Operating results

Turnover of the Group recorded an increase from HK$799.9 million to HK$925.5 million, representing a surge of 15.7%. It was mainly attributable to the rise in selling prices and robust domestic demand of corrugated packaging paper-ware products from the booming Chinese economy. With the full year's upstream production of corrugating medium which satisfied approximately 40% of the needs of the downstream paper-ware business, it resulted in great cost saving which offset against significant paper cost increment. Therefore, the Group's gross profit was surged by 16.1%, with gross profit margin maintained at 22.9%.

Other income increased by 4.4% to HK$18.5 million (2006: HK$17.7 million)

Distribution costs increased by 13.5% to HK$45.4 million (2006: HK$39.9 million). It was due to higher transportation costs for delivering more corrugating medium from Qingyuan City to the downstream plants in Dongguan City and Shenzhen City.

During the year, administrative expenses increased by 37.3% to HK$58.5 million (2006: HK$42.6 million). The tense supply of domestic labour led to higher salaries level and other related staff costs in order to reduce staff turnover rate. Extra staff was employed to cope with the continuous business growth. Furthermore, share based payment of approximately HK$5.2 million was incurred for granting share options to eligible staff as incentive.

With full year's depreciation charge for fixed assets (other than plant and machinery) of the upstream plant when compared to only nine-month charges in 2006, other operating expenses increased by 11.8% to HK$24.7 million (2006: HK$22.1 million).

With the success in producing corrugating medium for own use and expanding the domestic market share, the Group measured an increase of earnings before interest and tax ("EBIT") by 6.6% to HK$101.6 million (2006: HK$95.3 million) that brought to EBIT margin to 11%.

New bank loans were raised to finance the construction of plant and power plant, and acquisition of machinery for the Group's upstream kraft linerboard production ("upstream investment project"). However decrease in finance costs by HK$1.8 million was due to capitalization of bank interests directly attributable to the upstream investment project.

Same as last year, 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 2007, the Group had entered into certain new forward exchange contracts to minimize the exposure to foreign exchange rate risk in acquiring the kraft linerboard production line in RMB and in purchasing raw materials in USD. This strategy was proved to be effective and contributed a realised income of HK$5 million. On the other hand, unrealised income of HK$5.6 million recognized as changes in fair value of derivative financial instruments was the net effect of the provision made for the new contracts and the reversal of the provision made in the previous year.

The structured borrowing contract again was proved to be effective as no interest had been incurred. Income of HK$9.8 million recognized as change in fair value of structured borrowing was due to the reversal of the provision made in the previous year.

Net profit from operation (net profit for the year before changes in fair value of derivative financial instruments and structured borrowing) was increased by 7.6% to HK$91.4 million (2006: HK$84.9 million). Significant increase in net profit for the year by 63.5% to HK$111.7 million (2006: HK$68.3 million) was due to reversal of changes in fair values of derivative financial instruments and structured borrowing for accounting purpose.

Net profit margin for the year ended 31st December 2007 was maintained at 12.1%. Basic earnings per share was 24.85 HK cents (2006: 17.84 HK cents). The Directors proposed a final dividend of 4.32 HK cents per share (2006: 4.64 HK cents).

Liquidity, financial and capital resources

During the year, the Group received net proceeds of HK$142.1 million from the placing of shares. Bank balances and cash declined to HK$153.7 million (2006: HK$231.6 million) as the funds were used for the upstream investment project. At 31st December 2007, net current assets and current ratio (current assets divided by current liabilities) of the Group were HK$121.9 million (2006: HK$257.7 million) and 1.32 (2006: 2.42) respectively.

During the year, the Group had capital expenditures amounting to HK$492.7 million for the upstream investment project. Moreover, the Group also acquired an additional piece of land in Qingyuan for the project amounting to HK$13 million.

As at 31st December 2007, trust receipt loans increased by HK$120.5 million. Additional waste paper was kept for the trial production of kraft linerboard production line and for minimizing the adverse effect from the ever-rising waste paper cost. Term loans of HK$214.4 million during the year were raised for financing the upstream investment project which led to increase in total bank borrowings (including bank borrowings and structured borrowings) by HK$140.6 million. Short term and long term bank borrowings increases by HK$50.8 million and HK$89.8 million respectively. Net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was 46.4% (2006: 1.3%).

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 2004/2005 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

2008 marks a new chapter in our Group's history. A fully self-sufficient, vertically integrated business model brings to our Group healthy development going forward. We will concentrate on the development of our downstream business, expand our market share and aim to expand our market share in Guangdong Province from 5% at present to 10% within five years. In January 2008, we implemented the first step towards plans to expand our downstream operations in Dongguan by adding a new corrugator, which expand our capacity by 12%. We expect the new line to start full commercial production from June 2008 onwards.

As downstream small and medium sized manufacturers are facing a new round of consolidation due to rising production costs and changes to Chinese government policy, we see opportunities for us to expand our operations. We are closely investigating the possibility of acquiring downstream manufacturers and are seeking appropriate acquisition targets, to achieve economies of scale, improve our competitive position and create more synergies with our upstream operations.

After the completion of the linerboard line, the Group will move towards starting construction of the second phase of the power plant and technology upgrades for our corrugating medium production line. The new power plant can provide stable power supply to our corrugating medium line, avoid the risks of power cuts and reduce operating costs. At the same time, after the technology upgrade, the line will be capable of producing both corrugating medium and linerboard, whilst capacity will also be increased by 20% to 120,000 tonnes of packaging paper. This would further enhance our operational flexibility and improve returns for our Group. We expect to start construction of our third upstream production line in mid-2009, and to start production by the end of 2010, in order to expand our production capacity to no less than 600,000 tonnes per year.

Although prospects for the global economy remain uncertain, and costs are still rising relentlessly, the rising wealth and spending power of the Chinese people still provide ample opportunities for expansion. We will continue with our tenacious approach, grasp this opportunity to expand our business, and face a challenging future. We will continue to strengthen our management and improve our competitiveness to achieve better returns.

HUMAN RESOURCES

As at 31st December, 2007, the Group and the processing factories employed a total workforce of around 1,700 full time staff (2006: 1,400). The increase was mainly attributable to our continuous business growth. 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, 2007 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, 2007, 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 July 2007, the Company entered into a placing agreement and a subscription agreement regarding 42 million shares at a price of HK$3.55 per share. Net proceeds of HK$142.1 million were raised. Approximately 88% of the net proceeds was used for acquiring machinery and constructing the plant for kraft linerboard production. Approximately 12% of the net proceeds was used for acquiring machinery parts for enhancing the production line of corrugating medium.

CORPORATE GOVERNANCE

The Company had complied with throughout the year ended 31st December, 2007 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 at 31st December, 2007 and the consolidated income statement and the related notes thereto for the year then ended 31st December, 2007 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, 2007 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 2008.

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, 22nd April, 2008

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 Miss 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.