合豐集團控股有限公司

HOP FUNG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2320

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2010

FINANCIAL HIGHLIGHTS

	2010	2009	**Change**
	HK$ million	*HK$ million*	
Revenue	**1,428.9**	923.4	+54.7%
Gross profit	**261.0**	176.9	+47.5%
EBITDA*	**172.6**	135.7	+27.2%
Profit from operation*	**71.3**	51.5	+38.4%

* *Excluding changes in fair value of unsecured structured borrowing and derivative financial instruments (except net cash inflow from settlement of derivative)*

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, 2010 together with the comparative figures for the year ended 31st December, 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	Notes	**2010** ***HK$'000***	2009 *HK$'000*
Revenue	*2*	**1,428,886**	923,366
Cost of sales		**(1,167,934)**	(746,425)
Gross profit		**260,952**	176,941
Other income		**19,317**	14,690
Selling and distribution costs		**(80,963)**	(36,234)
Administrative expenses		**(82,325)**	(61,902)
Other expenses		**(15,746)**	(20,389)
Finance costs	*3*	**(21,126)**	(10,601)
Changes in fair value of unsecured structured borrowing		**297**	9,464
Changes in fair value of derivative financial instruments		**2,829**	23,452
Profit before taxation		**83,235**	95,421
Income tax expense	*4*	**(11,525)**	(11,656)
Profit for the year	*5*	**71,710**	83,765
Other comprehensive income (expense) for the year:			
Exchange differences arising from translation of foreign operations		**34,214**	(680)
Total comprehensive income for the year		**105,924**	83,085
		HK cents	*HK cents*
Earnings per share	*7*		
– basic		**14.85**	17.35
– diluted		**14.43**	17.25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	Notes	**31st December 2010** **HK$'000**	31st December 2009 HK$'000 (Restated)	1st January 2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment		**1,254,680**	1,201,243	1,098,640
Prepaid lease payments on land use rights		**35,863**	34,361	34,854
		1,290,543	1,235,604	1,133,494
Current assets				
Inventories		**236,240**	154,862	65,631
Trade and other receivables	*8*	**232,437**	163,550	115,419
Deposits and prepayments		**12,216**	8,194	10,537
Prepaid lease payments on land use rights		**852**	809	809
Derivative financial instruments		**2,642**	262	706
Bank balances and cash		**203,125**	174,438	254,795
		687,512	502,115	447,897
Current liabilities				
Trade, bills and other payables	*9*	**204,832**	190,499	102,788
Taxation payable		**20,296**	19,410	18,995
Derivative financial instruments		**3,527**	1,271	24,547
Unsecured bank borrowings		**439,308**	328,120	387,437
Unsecured structured borrowing		**—**	7,750	7,750
		667,963	547,050	541,517
Net current assets (liabilities)		**19,549**	(44,935)	(93,620)
Total assets less current liabilities		**1,310,092**	1,190,669	1,039,874
Capital and reserves				
Share capital		**48,292**	48,292	48,292
Share premium and reserves		**899,674**	806,123	723,785
Total equity		**947,966**	854,415	772,077
Non-current liabilities				
Unsecured bank borrowings		**335,057**	310,233	234,222
Unsecured structured borrowing		**—**	8,111	25,325
Deferred taxation		**27,069**	17,910	8,250
		362,126	336,254	267,797
		1,310,092	1,190,669	1,039,874

Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK (IFRIC) - Int 17	Distributions of Non-cash Assets to Owners
HK - Int 5	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. The adoption of amendments to HKAS 17 had no impact on the consolidated financial statements.

Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$56,959,000 and HK$104,463,000 have been reclassified from non-current liabilities to current liabilities as at 31st December, 2009 and 1st January, 2009 respectively. As at 31st December, 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$55,922,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKASs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate

[2] Effective for annual periods beginning on or after 1st July, 2010

[3] Effective for annual periods beginning on or after 1st July, 2011

[4] Effective for annual periods beginning on or after 1st January, 2013

[5] Effective for annual periods beginning on or after 1st January, 2012

[6] Effective for annual periods beginning on or after 1st January, 2011

[7] Effective for annual periods beginning on or after 1st February, 2010

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31st December, 2013. Based on the Group's financial assets and financial liabilities as at 31st December, 2010, the application of the new Standard is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the gross proceeds received and receivable on the sale of goods during the year, net of discounts and sales related tax.

Segment information

The Group's operations are mainly organised under the segments of manufacture and sale of:

- Containerboard – corrugating medium and linerboard
- Corrugated packaging – corrugated paper boards and carton boxes

The Group's operations are located in the People's Republic of China (the "PRC").

The following is an analysis of the Group's revenue and results by operating and reportable segment:

Segment revenues and results

For the year ended 31st December, 2010

	Containerboard	**Corrugated Packaging**	**Segment total**	**Eliminations**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE					
External sales	**156,383**	**1,272,503**	**1,428,886**	**—**	**1,428,886**
Inter-segment sales	**773,388**	**2,522**	**775,910**	**(775,910)**	**—**
Total	**929,771**	**1,275,025**	**2,204,796**	**(775,910)**	**1,428,886**
RESULT					
Segment profit	**39,145**	**62,090**	**101,235**	**—**	**101,235**
Finance costs					**(21,126)**
Changes in fair value of unsecured structured borrowing					**297**
Changes in fair value of derivative financial instruments					**2,829**
Profit before taxation					**83,235**

For the year ended 31st December, 2009

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	127,406	795,960	923,366	—	923,366
Inter-segment sales	476,187	858	477,045	(477,045)	—
Total	603,593	796,818	1,400,411	(477,045)	923,366
RESULT					
Segment profit	29,819	43,287	73,106	—	73,106
Finance costs					(10,601)
Changes in fair value of unsecured structured borrowing					9,464
Changes in fair value of derivative financial instruments					23,452
Profit before taxation					95,421

Inter-segment sales are charged at prevailing market rates. No revenue from any single customer during the year contributed over 10% of the total revenue of the Group.

3. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**21,126**	17,403
Less: amounts capitalised to property, plant and equipment	**—**	(6,802)
	21,126	10,601

In 2009, borrowing costs capitalised arising on the general borrowing pool of the Group were calculated by applying a capitalisation rate of approximately 3.3% per annum to expenditure on the qualifying assets.

No borrowing costs were capitalised during the year ended 31st December, 2010.

4. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**1,015**	1,207
PRC Enterprise Income Tax	**1,351**	789
	2,366	1,996
Deferred tax	**9,159**	9,660
	11,525	11,656

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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 of the Company, 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 their first profit-making year, followed by a 50% reduction for the next three years.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

5. PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**1,167,934**	746,425
Reversal of allowance for inventories (included in "cost of sales" and "cost of inventories recognised as expenses") (Note)	**(54)**	(13,851)
Depreciation of property, plant and equipment	**68,027**	61,529
(Reversal of impairment loss) impairment losses on trade receivables (included in "other expenses")	**(3,589)**	3,553
Staff costs	**93,464**	64,416

Note: The reversal of allowance for inventories is recognised based on the increase in net realisable value following the gradual recovery of economic downturn.

6. DIVIDENDS

	2010	2009
	HK$'000	*HK$'000*
Final dividend paid in respect of 2009 of 2.20 HK cents per share (2009: Final dividend paid in respect of 2008 of nil per share)	**10,625**	—
Interim dividend paid in respect of 2010 of 1.00 HK cent per share (2009: Interim dividend paid in respect of 2009 of 1.00 HK cent per share)	**4,829**	4,829
	15,454	4,829

The final dividend of 3.40 HK cents per share in respect of the year ended 31st December, 2010 has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**71,710**	83,765

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**482,924,000**	482,924,000
Effect of dilutive potential ordinary shares in respect of share options	**13,912,834**	2,577,829
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**496,836,834**	485,501,829

8. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**232,964**	167,714
Less: allowance for doubtful debts	**(784)**	(4,356)
	232,180	163,358
Other receivables	**257**	192
Total trade and other receivables	**232,437**	163,550

The Group allows credit periods ranging from 5 to 150 days to its trade customers 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 for doubtful debts presented based on the invoice date at the end of the reporting period:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**194,621**	137,639
31 – 60 days	**17,949**	11,823
61 – 90 days	**10,471**	6,281
Over 90 days	**9,139**	7,615
	232,180	163,358

Before accepting any new customer, the Group uses an external litigation search to assess the potential customer's credit quality and defines credit limits on a customer-by-customer basis. Limits and scoring attributed to customers are reviewed monthly. Trade receivables that are neither past due nor impaired relate to customers for whom there was no recent history of default.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$29,820,000 (2009: HK$17,487,000) which were past due at the reporting date for which the Group has not provided for impairment loss. Such amount relates to a number of independent customers that have good trade and payment records with the Group. There has not been a significant change in credit quality of the relevant customers and the Group believes that the balances are still recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 51 days based on invoice dates (2009: 54 days).

9. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2010	2009
	HK$'000	*HK$'000*
Current	**107,498**	96,997
Overdue 1 to 30 days	**3,488**	6,005
Overdue 31 to 60 days	**1,904**	1,408
Overdue for more than 60 days	**1,743**	2,834
	114,633	107,244
Payables for the acquisition of property, plant and equipment	**19,151**	29,931
Other payables and accrued charges	**71,048**	53,324
	204,832	190,499

The average credit period on purchases of goods is 32 days (2009: 34 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Tang Room I, 3/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on 23rd May, 2011 at 10:30 a.m. Notice of the annual general meeting will be published and issued to shareholders in due course.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had resolved to recommend the payment of a final dividend of 3.40 HK cents per share for the year ended 31st December, 2010 to be payable on or around 17th June, 2011 to the Company's shareholders whose names appear on the register of members of the Company on 23rd May, 2011 subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The register of members of the Company will be closed from 19th May, 2011 to 23rd May, 2011, both dates inclusive, during which period no transfer of shares will be registered and no shares will be allotted and issued on the exercise of the subscription rights attaching to the outstanding share options granted by the Company. In order to qualify for the proposed final dividend and attendance at the annual general meeting of the Company to be held on 23rd May, 2011, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 18th May, 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's long term plans to develop the domestic market received a boost from the growth in domestic consumption in 2010, which offset the impact from a slow recovery in European and American economies. Turnover from domestic sales jumped 90% year on year in 2010, to 54% of total sales, and export sales rose by 27%. The fact that domestic sales now account for more sales than exports show that we have delivered on our shift to the domestic market and we are seeing encouraging results.

Selling prices rose by around 30% in the period although there were fluctuations in between. Overall production volume rose by around 20% via new customers (and hence a rise in orders) as well as an increase in capacity from full contributions from a new downstream production line built last year. Upstream containerboard (corrugating medium and linerboard) and downstream corrugated packaging (corrugated paper boards and carton boxes) sales rose by 22% and 60%, respectively, accounting for 11% and 89% of turnover. The strong sales meant utilization came to 78% and 88% in the year, respectively.

The increase in waste paper prices pushed up prices for corrugated packaging products, relieving much of the pressure from raw materials cost increases. However, the increase in other costs such as transportation costs, coal, labour costs and other items meant gross margins slightly fell by 0.9%. Increases in minimum wages in several provinces put pressure on different industries but the Group's labour costs are now priced based on individual productivity, so the impact of higher minimum wages did not have a material impact on our costs.

The Group has continued to improve production flow, strengthen quality inspection, reduce production wastage, adjust inventory levels and tighten credit controls, resulting in bad debts levels that remain close to zero. Our prudent financial policy means our debt levels remain stable.

FINANCIAL REVIEW

Operating results

In 2010, the Group recorded revenue of HK$1,428.9 million, representing a surge by 54.7% from HK$923.4 million. The average selling price and sales volume rose by around 32% and 18% respectively, resulting from increase in demand from economic recovery and Chinese domestic market. The full year contributions from a downstream line (which commenced production in September 2009) also led to the surge.

Cost of sales was increased in line with revenue by 56.5%, from HK$746.4 million to HK$1,167.9 million. Gross profit rose by 47.5%, representing HK$84.1 million. There was a slight drop in gross profit margin from 19.2% to 18.3%, mainly due to rising production costs but fluctuating selling prices.

Other income rose by 31.3% from HK$14.7 million to HK$19.3 million. It was mainly due to increases in volume and selling prices of scraps.

Selling and distribution costs climbed 123.8% from HK$36.2 million to HK$81.0 million. The sharp increase was primarily attributable to rise in sales commission (owing to surge in turnover), and rise in transportation cost (owing to increasing number of delivery and rising oil prices).

Administrative expenses rose by 33.0% from HK$61.9 million to HK$82.3 million. The increment was mainly contributed by increase in salaries and higher insurance cost incurred for providing protection to the group's growing assets.

Other expenses fell by 23.0% from HK$20.4 million to HK$15.7 million. The drop was attributable to the reversal of the impairment loss on trade receivables.

An increase in EBITDA (earnings before interest, tax, depreciation and amortization and changes in fair value of unsecured structured borrowing and derivative financial instruments except net cash inflow from settlement of derivative) by 27.2%, from HK$135.7 million to HK$172.6 million, was achieved on the back of business growth.

Finance cost jumped 99.1%, from HK$10.6 million to HK$21.1 million. Additional bank loans were raised to finance the technical upgrades to upstream production lines in Qingyuan city. Besides, no interest was capitalized to property, plant and equipment during 2010 (2009: HK$6.8 million).

Same as previous years, changes in fair value of unsecured structured borrowing and derivative financial instruments (except net cash inflow from settlement of derivative) were recognised only for accounting purpose. They were non-cash in nature and would be reversed to zero at maturity date. The contract for unsecured structured borrowing was early terminated during the year. No interest had ever been charged for it.

Profit from operation (profit for the year exclusive of changes in fair value of unsecured structured borrowing and derivative financial instruments except net cash inflow from settlement of derivative) rose by 38.4% from HK$51.5 million to HK$71.3 million. The profit margin from operation fell slightly from 5.6% to 5.0%.

Profit for the year fell by 14.4% from HK$83.8 million to HK$71.7 million. It was mainly attributable to the great reversal of changes in fair value of unsecured structured borrowing and derivative financial instruments (except net cash inflow from settlement of derivative) in 2009.

Profit margin for the year was 5.0%. Basic earnings per share were 14.85 HK cents (2009: 17.35 HK cents). The directors proposed a final dividend of 3.40 HK cents per share (2009: 2.2 HK cents).

Liquidity, financial and capital resources

At 31st December 2010, the Group's total cash and cash equivalents were mostly denominated in Hong Kong dollars and Renminbi. Bank balances and cash amounted to HK$203.1 million (2009: HK$174.4 million). Net current assets and current ratio of the Group were HK$19.5 million (2009: net current liabilities HK$44.9 million) and 1.03 (2009: 0.92).

The Group spent HK$90.4 million on capital expenditures for making technical upgrades to upstream production lines and acquiring new machines for downstream production.

Inventory turnover was slightly increased from 54 days to 61 days. Two-month shipment was basically required for delivering waste paper from Europe or United States to the PRC.

At the balance sheet date, trust receipt loans fell by HK$14.1 million and bank advances rose by HK$67.7 million. The group bought more local waste paper and less imported waste paper as compared to 2009, leading to the change in loan structure. New bank loans were raised for financing the capital expenditures, indicating continuous support from principal bankers. The current and non-current bank borrowings (including structured borrowing) were up by HK$103.4 million and HK$17.0 million respectively. Net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was increased to 60.3% (2009: 56.1%).

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 2005/2006 to certain subsidiaries of the Group. Objections have been filed against all these assessments. 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 Group has successfully shifted its focus to the domestic Chinese market, and saw solid performance growth with domestic sales in the first two months of 2011 up by more than 20% compared to the same period of 2010 and overall sales up by around 10%. This proves that the Group has built solid foundations for developing the domestic market. The construction new downstream production line in Qingyuan will expand total capacity by around 10% and allow the Group to further develop the domestic market and expand our market share.

HUMAN RESOURCES

As at 31st December, 2010, the Group and the processing factory employed a total workforce of around 2,050 full time staff (2009: 2,000). 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. Chee Man Sang, Eric, Mr. Yip Kwok Kwan and Mr. Wong Chu Leung. The audit committee has reviewed with the management this results announcement and the audited consolidated financial statements of the Group for the year ended 31st December, 2010 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, 2010, 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").

CORPORATE GOVERNANCE

The Board of Directors strives to maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The corporate governance principles of the Company emphasize the importance of a quality Board, effective internal controls and accountability to shareholders. The Company has applied the principles as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31st December, 2010, 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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December, 2010 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.

PUBLIC FLOAT

As far as the Company is aware, more than 25% of the issued shares of the Company were held in public hands as of 31st December, 2010.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The annual report of the Company for the year ended 31st December, 2010 will be dispatched to the Company's shareholders in April 2011 and it will be available at the Company's website 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.

On behalf of the Board
Hui Sum Kwok
Chairman

Hong Kong, 29th March, 2011

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. Chee Man Sang, Eric, Yip Kwok Kwan and Wong Chu Leung.