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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

The board of directors (the "Directors") of Hop Fung Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June, 2005 together with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited and restated)*
Turnover	*3*	**376,794**	361,513
Cost of sales		**(302,995)**	(289,176)
Gross profit		**73,799**	72,337
Other operating income		**7,053**	5,858
Distribution costs		**(16,904)**	(15,395)
Administrative expenses		**(18,415)**	(18,472)
Other operating expenses		**(6,865)**	(7,517)
Finance costs		**(3,348)**	(1,259)
Profit before taxation		**35,320**	35,552
Taxation	*4*	**(436)**	(4,012)
Profit for the period		**34,884**	31,540
Dividend	*5*	**5,592**	4,635
Earnings per share			
– basic (HK cents)	*6*	**9.5**	8.6
– diluted (HK cents)		**9.4**	8.5

CONDENSED CONSOLIDATED BALANCE SHEET

	At 30th June, 2005 HK$'000 (unaudited)	At 31st December, 2004 HK$'000 (audited and restated)
Non-current assets		
Property, plant and equipment	**212,434**	143,883
Prepaid lease payments on land use rights	**7,380**	7,480
Prepayments under processing arrangement	**16,385**	16,803
Deposits paid for the acquisition of property, plant and equipment	**29,199**	22,428
	265,398	190,594
Current assets		
Inventories	**70,095**	59,033
Trade and other receivables	**106,645**	88,535
Deposits and prepayments	**4,965**	7,764
Prepaid lease payments on land use rights	**200**	200
Investment in equity-linked deposit	**2,002**	2,002
Bank balances and cash	**175,501**	133,446
	359,408	290,980
Current liabilities		
Trade and other payables	**78,271**	88,407
Taxation	**21,422**	12,495
Bank borrowings	**107,719**	50,504
Interest rates swap financial liabilities	**177**	–
	207,589	151,406
Net current assets	**151,819**	139,574
	417,217	330,168
Capital and reserves		
Share capital	**36,792**	36,783
Share premium and reserves	**269,998**	249,239
	306,790	286,022
Non-current liabilities		
Bank borrowings	**110,427**	35,655
Deferred taxation	**–**	8,491
	110,427	44,146
	417,217	330,168

Notes:

1. **BASIS OF PREPARATION**

   The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. **PRINCIPAL ACCOUNTING POLICIES**

   The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

   The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group has not applied HKFRS 2 to share options that were granted after 7th November, 2002 and had vested before 1st January, 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005. Comparative figures have been restated.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial Instruments: recognition and measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The application of HKAS 39 has had no material effect on the results for the current or prior accounting periods.

Derivatives

By 31st December, 2004, the Group has derivative embedded in the equity-linked deposit. This derivative was previously recorded off balance sheet. In current period, in addition to the above mentioned embedded derivative, the Group's derivative financial instruments also included interest rates swaps which were used to manage the Group's exposure to interest rate fluctuation.

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

In the opinion of the Directors of the Company, the fair value of the embedded derivative from the equity-linked deposit as at 1st January, 2005 and 30th June, 2005 is nil.

3. SEGMENT INFORMATION

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

As at 31st December, 2004 and 30th June, 2005, all the Group's assets and liabilities are located in the PRC, including Hong Kong and Macau.

4. **TAXATION**

	Six months ended 30th June,	
	2005	2004
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**8,927**	1,552
Deferred taxation	**(8,491)**	2,460
	436	4,012

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30th June, 2004: 17.5%) on the estimated assessable profit for the period.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. 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.

5. **DIVIDEND**

On 24th May, 2004, a dividend of 1.26 HK cents per share, totalling HK$4,600,000, was paid to the shareholders as final dividend for the year ended 31st December, 2003.

On 16th June, 2005 and 17th June, 2005, a dividend of 4.22 HK cents per share, totalling HK$15,523,000, was paid to the shareholders as final dividend for the year ended 31st December, 2004.

An interim dividend for the six months ended 30th June, 2005 of 1.52 HK cents per share, totalling HK$5,592,000, has been declared by the Directors (six months ended 30th June, 2004: 1.26 HK cents per share, totalling HK$4,635,000).

6. **EARNINGS PER SHARE**

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

	Six months ended 30th June,	
	2005	2004
	HK$'000	*HK$'000*
		(restated)
Earnings		
Profit for the period	**34,884**	31,540
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**367,846,939**	365,042,000
Effect of dilutive potential shares in respect of share options	**4,904,372**	3,857,557
Weighted average number of shares for the purpose of diluted earnings per share	**372,751,311**	368,899,557

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies is as follows:

	Basic	**Diluted**
	HK cents	*HK cents*
Reconciliation of earnings per share for the six month ended 30th June, 2004:		
As originally stated	8.7	8.6
Adjustments arising from the changes in accounting policies	(0.1)	(0.1)
As restated	8.6	8.5

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had declared an interim dividend of 1.52 HK cents per share for the six months ended 30th June, 2005 (2004: 1.26 HK cents per share) to be payable on or about 21st October, 2005 to those shareholders whose names appear on the register of members of the Company on 14th October, 2005.

The register of members of the Company will be closed from 12th October, 2005 to 14th October, 2005, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms together with relevant share certificates must be lodged with the Company's branch share registrar and transfer agent in Hong Kong, Abacus Share Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 10th October, 2005.

BUSINESS REVIEW

With sustainable economic growth in the PRC during the first half of 2005, the development in the manufacturing industry fostered the market demand for corrugated paper-ware products and thereby maintaining the corrugated paper-ware business of the Group. The increase of 7.2% in output as compared to the corresponding period last year was mainly attributable to the establishment of a wholly-owned foreign investment enterprise in Dongguan, Guangdong Province in March last year. Apart from that, the Group continued to provide high quality and high value-added products to customers by installing advanced and efficient carton boxes production facilities in different plants in addition to researching into and exploring new production technology.

During the period under review, the rapid rise in crude oil prices led to increase in transportation costs and raw material prices, thus casting pressure on the operating costs of the manufacturing industry. To minimize the influence, the Group strived for stricter cost control and internal capital management aside from improving production workflow and introducing flexible procurement and marketing strategies in providing customers with high quality corrugated paper-ware products. Hence, the Group's marginal profit was maintained.

For the first half of 2005, the Group's turnover registered a growth of approximately 4.2% compared to the same period in the preceding year. The Group's net profit margin was approximately 9.3% (for the period ended 30th June, 2004: approximately 8.7%).

FINANCIAL REVIEW

Operating results

In the first half of 2005, the Group recorded 4.2% growth in turnover, rising from HK$361.5 million to HK$376.8 million. The growth was mainly contributed by the increase in sales of carton boxes. With effective cost control, gross profit margin only slightly fell by 0.4%, from 20% to 19.6% despite the rising prices of raw materials and oil. The administrative cost and other operating expenses further declined by 0.3% and 8.7% respectively.

Net profit increased by approximately 10.6%, from HK$31.5 million to HK$34.9 million. The surge of net profit margin from 8.7% to 9.3% was primarily due to the reduction in effective tax rate. Basic earnings per share thus increased to 9.5 HK cents (2004: 8.6 HK cents). The Directors had recommended the payment of an interim dividend of 1.52 HK cents.

Liquidity, financial and capital resources

The net cash inflow increased by HK$42.1 million to HK$175.5 million. (31st December, 2004: HK$133.4 million). Net current assets and current ratio (current assets divided by current liabilities) was HK$151.8 million (31st December, 2004: HK$139.6 million) and 1.73 (31st December, 2004: 1.92) respectively.

During the first half of 2005, the Group spent HK$15.5 million on dividend payment and further spent HK$85.6 million on capital resources for new factory construction in Qingyuan of Guangdong for upstream production, and new production facilities in existing factories for expansion. The acquisition of fixed assets was wholly financed by the term loans newly raised from banks.

As at 30th June, 2005, the Group did not pledge any assets as security for borrowings. The Group's total borrowings increased from HK$86.2 million (as at 31st December, 2004) to HK$218.1 million. The increase was attributable to the rise in long-term borrowings of HK$74.8 million and short-term borrowings of HK$57.1 in financing fixed assets and procurement respectively. The ratio of long-term borrowings to short-term borrowings was 51:49 (31st December, 2004: 41:59). The Group has entered into agreements of interest rate swaps to minimize the adverse effect of increasing interest rates.

Contingent Liabilities

Tax audit has been conducted by the Inland Revenue Department in December 2004. The Inland Revenue Department issued protective assessments for the year of assessment 1998/1999 to certain subsidiaries of the Group during the period. As the tax audit is still in progress, in the opinion of the Directors, the outcome and impact of this matter cannot be determined with reasonable certainty at this stage.

PROSPECTS

Looking forward, the PRC should be able to maintain its economic growth in the second half of 2005. To maintain its advantageous competitive edge, the Group will further install advanced production equipment to raise productivity and to manufacture various kinds of corrugated paper-ware products. The Group's GongMing processing plant in Shenzhen, Guangdong Province installed a new production line for corrugated paperboards in mid 2005. This production line will be fully operated in the second half year, further raising the Group's total output.

Furthermore, as a major supplier of corrugated paper-ware products, the Group will continue to expand and strengthen its marketing team so that customers be provided with higher quality corrugated paper-ware products and more efficient services so as to enlarge the Group's market share.

As part of its effort in expanding into upstream corrugated paper-ware business, the Group has invested capital and technology in the construction of a medium paper plant in Qingyuan, Guangdong Province in the first half of the year. The project is now near completion and the new plant is expected to carry out pilot run in the fourth quarter of the year and commence production in early 2006. By then, the Group will have its own source of steady raw material supply, thus reducing dependence on outsourcing of high-cost raw materials and creating synergies which further lower the production costs and strengthen the competitive edge of the Group.

The Group is committed to carrying out stringent financial strategy, effective cost management and marketing strategies and further improving the production workflow for a stronger foundation and greater return in the future.

HUMAN RESOURCES

As at 30th June, 2005, the Group and the processing factories employed a total workforce of around 880 full time staff (31st December, 2004: 850). 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the six months ended 30th June, 2005.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed with the management the unaudited condensed consolidated financial statements for the six months ended 30th June, 2005, and has also discussed the internal control, the accounting principles and practices adopted by the Group.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30th June, 2005 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has adopted on 21st April, 2005 its own code of conduct regarding securities transactions by the Directors on fee no less exacting than the required standard as set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange. All the Directors confirmed they have complied with the Model Code during the six months ended 30th June, 2005.

APPRECIATION

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 period.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement of the Company containing all the information required by paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange.

By Order of the Board
HUI Sum Kwok
Chairman

Hong Kong, 22th September, 2005

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.