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

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2007	30.6.2006	**Change**
	HK$ million	*HK$ million*	
Turnover	**440.8**	390.1	**+13.0%**
Gross profit	**92.9**	80.0	**+16.2%**
EBITDA	**67.3**	55.4	**+21.5%**
Net profit from operation*	**45.9**	36.5	**+25.8%**
Net profit for the period	**51.3**	37.1	**+38.4%**

* *Net profit from operation represents net profit for the period exclusive of 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 unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June, 2007 together with the comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30.6.2007	30.6.2006
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Turnover	*3*	**440,795**	390,116
Cost of sales		**(347,853)**	(310,127)
Gross profit		**92,942**	79,989
Other income		**10,582**	8,736
Distribution costs		**(20,611)**	(18,190)
Administrative expenses		**(21,943)**	(19,439)
Other expenses		**(11,102)**	(9,305)
Finance costs		**(3,014)**	(4,732)
Change in fair value of structured borrowing		**4,156**	–
Changes in fair value of derivative financial instruments		**1,334**	647
Profit before taxation	*4*	**52,344**	37,706
Taxation	*5*	**(1,004)**	(602)
Profit for the period		**51,340**	37,104
Dividends	*6*	**8,107**	6,060
Earnings per share	*7*		
– basic (HK cents)		**12.1**	10
– diluted (HK cents)		**11.9**	9.8

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30.6.2007 HK$'000 (unaudited)	31.12.2006 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**387,540**	348,596
Prepaid lease payments on land use rights		**20,288**	20,537
Prepayments under processing arrangement		**2,087**	2,118
Deposits paid for the acquisition of property, plant and equipment		**143,678**	32,805
		553,593	404,056
Current assets			
Inventories		**99,549**	79,450
Trade and other receivables	*8*	**137,698**	119,035
Deposits and prepayments		**18,269**	8,333
Prepaid lease payments on land use rights		**478**	439
Prepayments under processing arrangement		**61**	61
Taxation recoverable		**–**	42
Derivative financial instruments		**846**	9
Bank balances and cash		**128,325**	231,605
		385,226	438,974
Current liabilities			
Trade and other payables	*9*	**77,341**	84,824
Taxation payable		**19,389**	18,475
Derivative financial instruments		**4,143**	4,640
Bank borrowings		**91,638**	65,611
Structured borrowing		**7,800**	7,765
		200,311	181,315
Net current assets		**184,915**	257,659
Total assets less current liabilities		**738,508**	661,715
Capital and reserves			
Share capital		**42,390**	42,390
Share premium and reserves		**477,057**	441,706
		519,447	484,096
Non-current liabilities			
Bank borrowings		**182,885**	133,527
Structured borrowing		**35,510**	43,426
Deferred taxation		**666**	666
		219,061	177,619
		738,508	661,715

Notes:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated 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 unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on 1st January, 2007.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC)-INT 7	Applying the restatement approach under HKAS 29 – Financial Reporting in Hyperinflationary Economies[2]
HK (IFRIC)-INT 8	Scope of HKFRS 2[3]
HK (IFRIC)-INT 9	Reassessment of embedded derivatives[4]
HK (IFRIC)-INT 10	Interim financial reporting and impairment[5]

[1] Effective for annual periods beginning on or after 1st January, 2007
[2] Effective for annual periods beginning on or after 1st March, 2006
[3] Effective for annual periods beginning on or after 1st May, 2006
[4] Effective for annual periods beginning on or after 1st June, 2006
[5] Effective for annual periods beginning on or after 1st November, 2006

The adoption of these new HKFRSs had no material effect on how the financial statements of the Group are prepared and presented for the current or prior accounting periods. 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.

HKFRS 8	Operating segments [1]
HK (IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions [2]
HK (IFRIC)-INT 12	Service concession arrangements [3]

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st March, 2007
[3] Effective for annual periods beginning on or after 1st January, 2008

3. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amount received and receivable for goods sold during the period.

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 (the "PRC"). Accordingly, no segment analysis is presented.

As at 31st December, 2006 and 30th June, 2007, all the Group's assets and liabilities are located in the PRC, including Hong Kong and Macau.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortisation on prepaid lease payments	**216**	177
Depreciation of property, plant and equipment	**17,153**	13,365
Interest income	**(1,509)**	(1,166)

5. TAXATION

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**944**	602
Other region in the PRC	**60**	–
	1,004	602

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Taxation arising in the PRC is calculated at the rates prevailing in the PRC.

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 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.

6. DIVIDENDS

On 15th June, 2006 and 4th July, 2006, a dividend of 4.17 HK cents per share, amounting to approximately HK$15,857,000, was paid to the shareholders as final dividend for the year ended 31st December, 2005.

On 15th June, 2007, a dividend of 4.64 HK cents per share, amounting to approximately HK$19,669,000, was paid to the shareholders as final dividend for the year ended 31st December, 2006.

An interim dividend for the six months ended 30th June, 2007 of 1.68 HK cents per share, amounting to approximately HK$8,107,000, has been declared by the directors (six months ended 30th June, 2006: 1.58 HK cents per share, amounting to approximately HK$6,060,000).

7. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	*HK$'000*
Earnings		
Profit for the period	**51,340**	37,104
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**423,898,000**	372,799,238
Effect of dilutive potential shares in respect of share options	**8,335,409**	6,360,501
Weighted average number of shares for the purpose of diluted earnings per share	**432,233,409**	379,159,739

8. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods ranging from 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 the trade receivables is as follows:

	30.6.2007	31.12.2006
	HK$'000	*HK$'000*
Current	**115,259**	104,034
Overdue 1 to 30 days	**20,455**	14,843
	135,714	118,877
Other receivables	**1,984**	158
	137,698	119,035

The fair values of the Group's trade and other receivables at the balance sheet date approximate their corresponding carrying amounts.

9. TRADE AND OTHER PAYABLES

An aged analysis of the trade payables is as follows:

	30.6.2007	31.12.2006
	HK$'000	*HK$'000*
Current	**38,299**	46,369
Overdue 1 to 30 days	**6,202**	6,251
Overdue 31 to 60 days	**160**	107
Overdue for more than 60 days	**372**	244
	45,033	52,971
Other payables and accrued charges	**32,308**	31,853
	77,341	84,824

The fair values of the Group's trade and other payables at the balance sheet date approximate their corresponding carrying amounts.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had declared an interim dividend of 1.68 HK cents per share for the six months ended 30th June, 2007 (corresponding period in 2006: 1.58 HK cents per share) to be payable on or about 12th October, 2007 to those shareholders whose names appear on the register of members of the Company on 5th October, 2007.

The register of members of the Company will be closed from 3rd October, 2007 to 5th October, 2007, 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, Tricor Abacus Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 2nd October, 2007.

BUSINESS REVIEW

In the period under review, Hop Fung Group (hereafter "the Group" or "we") actively developed our upstream paper manufacturing business, and strived to expand our market share in the downstream corrugated packaging business, delivering strong growth in Mainland China domestic sales in the period. The proportion of the Group's sales going to Mainland China is on the rise on the back of the buoyant domestic economy and rising household income.

The Group's first corrugating medium production line started production back in March 2006, and satisfied approximately 40% of the Group's requirement for its key raw materials in the period under review. This vertically integrated business model largely offset the impact from raw materials cost increases and supply instability. In addition, utilization of upstream equipment rose from 70% in the same period of last year to 100% in this period, which allowed the Group's gross and net profits to improve.

In the period, the Group's focus was on the construction of the infrastructure needed for the second phase of the Green Forest (QingXin) Paper Industrial Limited ("Green Forest"), the upstream kraft linerboard production plant. With the help of the Group's experience in building a corrugating medium production line, the foundation works for that plant have been completed, and assembly of the production facilities started in May this year. The Group expects production at this plant to formally start in the first quarter of 2008. The plant has total annual capacity of 200,000 tonnes, twice the capacity of the Groups' currently operating corrugating medium production line.

The Group has strived to produce high quality corrugated cardboard packaging products, to provide excellent quality and high value added products as well as exceptional and timely service. The Group improved its operating efficiency and shipment workflows in the period, lifting sales volume and equipment utilization. At the same time, through purchasing advanced and highly effective production equipment, enhancing computerized production processes and effectively distributed workload across our production lines, we fully optimized our production lines and maximized the positive impact from our vertically integrated business model.

FINANCIAL REVIEW

Operating results

For the six months ended 30th June, 2007, the Group's turnover was HK$440,795,000 and net profit attributable to shareholders was HK$51,340,000, representing an increase of 13% and 38.4% respectively over the corresponding period of last year. The basic earnings per share was 12.1 HK cents as compared to 10 HK cents for the corresponding period of last year. The Directors had declared the payment of an interim dividend of 1.68 HK cents per share (corresponding period in 2006: 1.58 HK cents per share).

The increases in turnover and net profit were mainly resulted from rise in market share of corrugated paper-ware products and full utilization of corrugating medium production line.

Turnover and Gross Profit

In the first half of 2007, turnover of the Group increased approximately by 13% to HK$440,795,000 (corresponding period in 2006: HK$390,116,000). The increase was mainly attributable to the expansion of the market share of the corrugated cardboard packaging business through increased operating efficiency. Besides, the full utilization of the Group's corrugating medium production line and effective sales and cost strategy had been stimulating the growth of the sale of corrugating medium during the first half of 2007. On the other side, cost of sales increased by 12.2% which was due to rise in purchase and consumption of direct materials and overhead costs in order to cope with the full operation of the corrugating medium production line. The successful operation of self supply of the corrugating medium led to significant cost saving, resulting in growth in the Group's overall gross profit by 16.2% and improvement in gross profit margin from 20.5% to 21.1%.

Distribution costs, Administrative and Other expenses

In the first half of 2007, distribution costs increased by 13.3% from HK$18,190,000 to HK$20,611,000. It was due to rise in transportation costs for delivering corrugating medium from Qingyuan city to Dongguan city and Shenzhen city for the Group's production of paper-ware products. Administrative expenses increased by 12.9% from HK$19,439,000 to HK$21,943,000. The increase was primarily attributable to staff costs arising from full operation of corrugating medium production line and increment in the overall salaries level of the Group. Other expenses increased by 19.3% from HK$9,305,000 to HK$11,102,000 which was due to increase in full period depreciation charge for the corrugating medium plant.

Finance costs

Finance costs decreased by 36.3% from HK$4,732,000 to HK$3,014,000. The fall was due to repayment of bank loans in the first half of 2007. Moreover, the Group had drawn down additional bank loans to finance the second phase construction of the kraft linerboard production line. Accordingly, bank interests arising from those bank loans were capitalized in the construction.

Changes in fair values of derivative financial instruments and structured borrowing

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 and the first half of 2007, the Group had entered into certain 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. The amount of HK$1,334,000 recognized in the income statements as change in fair value was due to the reversal of the provision made as at 31st December, 2006.

In the second half of 2006, the Group also 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 was incurred last year and in the first half of 2007. The amount of HK$4,156,000 recognized in the income statements as change in fair value was due to the reversal of the provision made as at 31st December, 2006.

Liquidity, financial and capital resources

The shareholders' fund of the Group was HK$519.4 million as at 30th June 2007 (31st December, 2006: HK$484.1 million). As at 30th June, 2007, bank balances and cash decreased by HK$103.3 million to HK$128.3 million (31st December, 2006: HK$231.6 million). In November 2006, the Group received net proceeds of HK$77.7 million from the placing of shares that led to large amount of cash remained in the bank balances as at 31st December, 2006. However, the cash was subsequently invested in the Group's capital expenditures for kraft linerboard plant. Net current assets and current ratio (current assets divided by current liabilities) was HK$184.9 million (31st December, 2006: HK$257.7 million) and 1.92 (31st December, 2006: 2.42) respectively.

In the first half of 2007, the Group spent additional HK$160 million deposits for the acquisition of kraft linerboard production line and construction of the plant. The construction of plant and dormitory and installation of machinery were in progress. They were financed by fund raising activities from placing of shares and bank borrowings.

The Group generally generated internal cashflow from its operations of corrugating medium plant and corrugated paper-ware plants and used the funds for financing its daily operations. The Group's total bank borrowings increased by HK$71.6 million from HK$238 million to HK$309.6 million. Increase in total bank borrowings (including trust receipt loans, bank borrowings and structured borrowing) comprised of short term and long term bank borrowings' increases by HK$26.1 million and HK$45.6 million respectively. New bank borrowings were mainly used for financing the investment in kraft linerboard plant. The net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was 34.9% (31st December, 2006: 1.3%). A higher net gearing ratio was resulted from additional bank loans raised for financing the construction of kraft linerboard plant and acquisition of kraft linerboard machinery. The Group's financial position remains strong and liquid. The Group has sufficient cash and credit facilities to support its working capital requirements and future investments.

Contingent Liabilities

Tax audit has 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 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 ahead to the second half of 2007, we will dedicate our efforts towards building the Group's first kraft linerboard production line, to ensure that the line will start production on schedule. The Group will also continue to expand our downstream business to complement the development of our upstream business, and move towards a fully vertically integrated business model. At the same time, the Group is aiming to expand market share, effectively improve our sales and marketing policy and grasp the enormous opportunities available in the China domestic and global corrugated cardboard industry.

With the launch of production of the kraft linerboard line in the first quarter of 2008, plus existing supplies of corrugating medium, the Group's upstream production will be enough to meet 100% of the Group's requirements for key raw materials. This self-sufficient business model not only allows the Group to reduce its dependence on externally acquired raw materials and reduce production costs but also let the Group produce raw materials based on customers' exact requirements, reduce wastage and improve product quality.

To take advantage of opportunities in the market and complement our upstream business, the Group plans to build its fourth downstream corrugated cardboard packaging factory in Dongguan City, which should be completed by the third quarter of 2008. This would increase the Group's corrugated packaging production capacity by 25%. The Group's downstream cardboard packaging facilities in Qingyuan, part of Green Forest, will also start production in the fourth quarter of 2008, which will accompany our expansion upstream. At the same time, the Group is striving to improve internal operations and production equipment, enhance enterprise resource planning systems, in order to raise capacity and produce a greater variety of corrugated cardboard packaging products.

The Group's current market share in Guangdong province is approximately 5%. To cater to China's strong domestic demand and expand market share, the Group is aggressively expanding its corrugated cardboard packaging business, developing new customers and seeking appropriate acquisition targets. We aim to increase our market share to 10% in the next five years. The Group management believes that, with an integrated business model, the Group will be able to achieve satisfactory results. Going forward, the Group will continue to improve operating efficiency, raise our margins and competitiveness, and deliver superior returns to our shareholders.

HUMAN RESOURCES

As at 30th June, 2007, the Group and the processing factories employed a total workforce of around 1,500 full time staff (31st December, 2006: 1,400). 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 (Chairman), Mr. Chee Man Sang, Eric and Mr. Wong Chu Leung. The audit committee has reviewed with the management the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2007 and has discussed auditing, internal control, the accounting principles and practices adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2007, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities on the Stock Exchange.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules on the Stock Exchange, during the six months ended 30th June, 2007, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct for securities transactions by Directors (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors of the Company, all directors have confirmed that they had complied with the Own Code throughout the six months ended 30th June, 2007.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30th June, 2007 containing all the information required by the Listing Rules also be available at the Company's website (www.hopfunggroup.com) and the Stock Exchange's website (www.hkex.com.hk) will be dispatched to the Company's shareholders in late September 2007.

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.

By Order of the Board
HUI Sum Kwok
Chairman

Hong Kong, 14th September, 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.