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 ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2008	30.6.2007	**Change**
	HK$ million	*HK$ million*	
Turnover	**500.4**	424.0	**+18.0%**
Gross profit	**110.0**	92.9	**+18.4%**
EBITDA	**74.6**	67.3	**+10.8%**
Net profit from operation*	**50.1**	45.9	**+9.2%**

* *Net profit from operation represents profit for the period exclusive of change in fair value of structured borrowing and unrealised changes in fair value of derivative financial instruments.*

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, 2008 together with the comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30.6.2008	30.6.2007
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Turnover	3	**500,383**	424,013
Cost of sales		**(390,387)**	(331,071)
Gross profit		**109,996**	92,942
Other income		**10,646**	8,172
Selling and distribution costs		**(23,533)**	(20,611)
Administrative expenses		**(32,674)**	(21,943)
Other expenses		**(12,204)**	(11,102)
Finance costs		**(3,524)**	(3,014)
Realised changes in fair value of derivative financial instruments		**3,926**	2,410
Unrealised changes in fair value of derivative financial instruments		**190**	1,334
Change in fair value of structured borrowing		**(2,896)**	4,156
Profit before taxation	4	**49,927**	52,344
Taxation	5	**(2,506)**	(1,004)
Profit for the period		**47,421**	51,340
Dividends	6	**–**	8,107
Earnings per share	7		
– basic (HK cents)		**9.8**	12.1
– diluted (HK cents)		**9.8**	11.9

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30.6.2008** *HK$'000* **(unaudited)**	31.12.2007 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment		**867,917**	794,645
Prepaid lease payments on land use rights		**35,100**	35,347
Deposits paid for the acquisition of property, plant and equipment		**89,818**	52,621
		992,835	882,613
Current assets			
Inventories		**205,410**	191,998
Trade and other receivables	8	**140,516**	131,425
Deposits and prepayments		**26,892**	19,816
Prepaid lease payments on land use rights		**809**	809
Derivative financial instruments		**1,432**	2,141
Bank balances and cash		**103,633**	153,735
		478,692	499,924
Current liabilities			
Trade and bills payables	9	**85,066**	60,129
Other payables and accrued charges		**77,281**	54,516
Taxation payable		**18,697**	17,471
Derivative financial instruments		**319**	1,218
Bank borrowings		**227,170**	236,848
Structured borrowing		**7,800**	7,800
		416,333	377,982
Net current assets		**62,359**	121,942
Total assets less current liabilities		**1,055,194**	1,004,555
Capital and reserves			
Share capital		**48,292**	48,292
Share premium and reserves		**727,372**	695,450
Total equity		**775,664**	743,742
Non-current liabilities			
Bank borrowings		**249,354**	230,914
Structured borrowing		**25,065**	26,069
Deferred taxation		**5,111**	3,830
		279,530	260,813
		1,055,194	1,004,555

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements ("unaudited 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 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 statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2007. The unaudited statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2007.

In the current period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA which are effective for the financial period beginning on 1st January, 2008.

HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC) – INT 12	Service Concession Arrangements
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations 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 and revised standards, amendments or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendments 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.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 13	Customers Loyalty Programmes[3]

[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 July, 2008

3. 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, 2007 and 30th June, 2008, substantial assets, especially those property, plant and equipment, of the Group, are located in the PRC, including Hong Kong and Macau.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2008	30.6.2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation on prepaid lease payments	**247**	247
Depreciation of property, plant and equipment	**18,211**	17,153
Interest income	**(372)**	(1,509)

5. TAXATION

	Six months ended	
	30.6.2008	30.6.2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**950**	944
PRC Enterprise Income Tax	**275**	60
	1,225	1,004
Deferred taxation		
Charge for the period	**1,281**	–
	2,506	1,004

Hong Kong Profits Tax is calculated at 16.5% (2007: 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 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.

6. DIVIDENDS

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.

On 27th June, 2008, a dividend of 4.32 HK cents per share, amounting to approximately HK$20,862,000, was paid to the shareholders as final dividend for the year ended 31st December, 2007.

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2008 (six months ended 30th June, 2007: 1.68 HK cents per share, amounting to approximately HK$8,107,000).

7. 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:

	Six months ended	
	30.6.2008	30.6.2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period	**47,421**	51,340

	30.6.2008	30.6.2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**482,924,000**	423,898,000
Effect of dilutive potential ordinary shares in respect of share options	**–**	8,335,409
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**482,924,000**	432,233,409

8. TRADE AND OTHER RECEIVABLES

	30.6.2008	31.12.2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**141,697**	128,477
Less: allowance for doubtful debts	**(3,779)**	(3,713)
	137,918	124,764
Other receivables	**2,598**	6,661
Total trade and other receivables	**140,516**	131,425

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:

	30.6.2008	31.12.2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**101,183**	102,275
Overdue 1 to 30 days	**36,735**	22,489
	137,918	124,764

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$36,735,000 (2007: HK$22,489,000) 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 (2007: 48 days).

9. TRADE AND BILLS PAYABLES

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

	30.6.2008	31.12.2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**84,407**	43,137
Overdue 1 to 30 days	**332**	10,285
Overdue 31 to 60 days	**75**	6,231
Overdue for more than 60 days	**252**	476
	85,066	60,129

The average credit period on purchases of goods is 34 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2008. (corresponding period in 2007: 1.68 HK cents per share)

BUSINESS REVIEW

The Group's corrugated paper-ware operations recorded solid and sustained growth in the period under review, and margins were also stable. Although raw materials and energy costs continued to rise in the period under review, the Group was still able to effectively transfer rising costs to our customers, and the vertically integrated business model has delivered synergies that have offset the negative outlook on the manufacturing sector. In addition, sales to domestic customers in the Mainland expanded in the period, relieving the pressure on the Group from a rising Renminbi. Our position in the domestic corrugated paper-ware market has been solidified.

The Group has been actively building our upstream corrugating medium and kraft linerboard production lines since 2004. The Group's first medium line started production in March 2006, with total annual capacity of 100,000 tonnes. During the period under review, the utilization of that line was approximately 100%, meeting around 40% of the raw materials requirements of the Group's downstream operations.

The Group has built our Phase 2 plant and an upstream linerboard production line at the site of Green Forest (QingXin) Paper Industrial Limited ("Green Forest") in Qingyuan, Guangdong Province, taking advantage of the Group's experience in building a medium production line. In addition, the plant has its own power plant to provide electricity to avoid halting production due to an unstable municipal supply. The production line started assembly in May last year, and started trial production in May this year, with full production from July onwards. With annual capacity of 230,000 tonnes, production in the first two months of this year has been satisfactory, with more than 60% utilization.

The total capacity of the two upstream production lines is at present enough to meet the Group's raw materials requirements. To complement the upstream business and expand the downstream paper-ware business, the Group is now actively expanding our capacity in corrugated paper-ware products, having stabilized our supply of raw materials. As the Group no longer needs to stock linerboard and medium of different sizes, we have cut back on warehouse space in our Dongguan site and have added a new corrugated paper-ware production line ("corrugator"). This corrugator was installed in May this year and started trial production in June, with full production having started in July. The move would increase our annual capacity downstream by around 12%, expand our sales to domestic Mainland customers, increase our share of the domestic market, amortize our fixed costs, and deliver more profits to our Group.

FINANCIAL REVIEW

Operating results

In the first half of 2008, the Group recorded an encouraging growth of 18.0% in turnover, rising from HK$424,013,000 to HK$500,383,000. The growth was mainly contributed by the rise in selling prices. Around 1.3% growth was attributable to the increasing demand of corrugated paper-ware products from Chinese domestic consumption, leading to a slight gain in the Group's domestic market share.

With high inflation rate in the period under review, the costs of raw materials, in average, increased by 25%. However, the Group's ability to pass on the cost increase to customers together with the synergies achieved by vertical integration offset the negative effect and resulted in a surge in gross profit by 18.4%. A steady gross profit margin of 22.0% was maintained too (corresponding period in 2007: 21.9%).

The appreciation of Renminbi leading to exchange gain in the period under review contributed much to other income leading to 30.3% surge in other income, from HK$8,172,000 to HK$10,646,000.

Selling and distribution costs increased by 14.2%, from HK$20,611,000 to HK$23,533,000. It was mainly due to globally increase in crude oil price and other transportation related costs for shipping upstream corrugating medium to downstream paper-ware plants and delivering corrugated paper-ware products to customers.

The increase of administrative expenses by 48.9%, from HK$21,943,000 to HK$32,674,000, was primarily contributed by higher staff costs incurred which included the share-based payments, and staff related costs from increasing manpower for operating the new upstream kraft linerboard production commencing in July this year.

Other operating expenses increased by 9.9%, from HK$11,102,000 to HK$12,204,000. It was due to depreciation charge for additional enhancements to the PRC plants for daily operations.

Finance costs increased by 16.9%, from HK$3,014,000 to HK$3,524,000. Additional bank interest was charged for higher trust receipt loans for financing rising raw material costs (mainly waste paper) as well as higher stock level for the new upstream kraft linerboard production.

The foreign currency forward contracts of which the Group had entered into during the last two years were proved to be effective. Realised income of HK$3,926,000 was received and recognised as realised changes in fair value of derivative financial instruments.

The same accounting treatments were applied to unrealised changes in fair value of derivative financial instruments and change in fair value of structured borrowing. Both were recognised in the income statement for accounting purpose only. They were non-cash in nature and will be reversed to zero at maturity date. During the period under review, the Group recorded a gain on unrealised change in derivative financial instruments of HK$190,000 and a loss on change in fair value of structured borrowing of HK$2,896,000.

Net profit from operation (profit for the period before unrealised changes in fair value of derivative financial instruments and change in fair value of structured borrowing) was increased by 9.2% to HK$50.1 million (corresponding period in 2007: HK$45.9 million). Profit for the period was dropped by 7.6% to HK$47.4 million, mainly resulting from the loss on change in fair value of structured borrowing.

Net profit margin (net profit from operation divided by turnover) for the six months period ended 30th June, 2008 was maintained at 10.0%. Basic earnings per share was 9.8 HK cents (corresponding period in 2007: 12.1 HK cents). The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2008 (corresponding period in 2007: 1.68 HK cents).

Liquidity, financial and capital resources

As at 30th June, 2008, the Group's total cash and cash equivalents, mostly denominated in Hong Kong dollars and Renminbi, amounted to approximately HK$103.6 million (31st December, 2007: HK$153.7 million). As funds were used as capital expenditure for constructing the new upstream kraft linerboard plant, a decrease in the cash balance of HK$50.1 million was recorded.

During the period under review, the Group had capital expenditures amounting to HK$120 million for building new upstream plant and acquiring kraft linerboard machinery.

Net current assets and current ratio (current assets divided by current liabilities) were HK$62.4 million (31st December, 2007: HK$121.9 million) and 1.15 (31st December, 2007: 1.32) respectively. A decline in the net current assets was mainly due to the decrease in the balance of cash and cash equivalents for building new plant.

The Group's net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was 51.6% (31st December, 2007: 46.4%). As the Group was required to keep stock for the new upstream kraft linerboard production commenced in July this year, more trust receipt loans were raised for financing. As a result, higher net gearing ratio was measured.

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 certain subsidiaries of the Group for the years of assessment 1998/1999 to 2004/2005. Objections have been filed against all these assessments. 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.

OUTLOOK

Looking to the second half of 2008, the slowdown of the US, European and Japanese economies will weigh on global trade. However, the Group sees this as a process of accelerating consolidation and the ouster of small players in the market. The difficult operating environment has forced numerous smaller and weaker paper-ware manufacturers to close. At the same time, the stable raw materials supply, economies of scale and just-in-time delivery strategy of the Group have allowed us to use our competitive advantages to develop the Mainland's domestic demand, expand our downstream corrugated packaging operations and expand market share.

The Group is planning to add a corrugator which is expected to start operations in the second quarter of 2009, raising annual capacity by 10%. And the Group's market share in Guangdong is now at around 5%. The Group is continuously searching for new customers in different markets and is also seeking acquisition targets among downstream players, in order to expand our current downstream operations, improve our sales strategies and grasp the enormous business opportunities offered by the Mainland. The management is confident of raising our market share in Guangdong to 10% within five years.

The Group expects raw materials prices to consolidate in the coming year. However, the Group has already developed itself into a fully self-sufficient vertically integrated business and has curtailed its reliance on externally sourced raw materials. We are now able to better control production costs, and provide a win-win solution to our customers through the most appropriate and highest quality paper products to meet their positioning needs.

To further control costs, the Group is planning technology upgrades on its upstream production equipment in September this year. The planned improvements not only can raise annual capacity by 20% but can also allow our medium production line to also produce linerboard, giving us more flexibility in production. Going forward, the Group is aiming to extract more synergies from the upstream and downstream businesses, improve operating efficiency, enhance our competitiveness and margins and deliver better returns to our shareholders.

HUMAN RESOURCES

As at 30th June, 2008, the Group and the processing factories employed a total workforce of around 2,000 full time staff (31st December, 2007: 1,700). The increase was mainly attributable to our continuous business growth and new upstream kraft linerboard 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, 2008 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, 2008, the Company and its subsidiaries had not purchased, redeemed or sold any of the Company's listed securities on the Stock Exchange.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of Rules Governing the Listing of Securities on the Stock Exchange, during the six months ended 30th June, 2008, 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, 2008.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim report of the Company for the six months ended 30th June, 2008 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 September 2008.

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

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, 19th September, 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 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.