HOP FUNG GROUP

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, 2008

FINANCIAL HIGHLIGHTS

	2008 *HK$ million*	2007 *HK$ million*	**Change**
Revenue	**1,033.2**	925.5	+11.6%
Gross profit	**197.8**	211.6	-6.5%
EBITDA	**134.4**	136.8	-1.8%
Net profit from operation*	**73.4**	96.4	-23.9%

* *Net profit from operation represented profit for the year before change in fair value of unsecured structured borrowing and unrealised change 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 audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2008 together with the comparative figures for the year ended 31st December, 2007 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December, 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
Revenue	2	**1,033,152**	925,533
Cost of sales		**(835,341)**	(713,899)
Gross profit		**197,811**	211,634
Other income		**20,734**	18,526
Selling and distribution costs		**(46,843)**	(45,355)
Administrative expenses		**(62,198)**	(58,491)
Other expenses		**(22,445)**	(24,686)
Finance costs		**(11,869)**	(6,837)
Change in fair value of unsecured structured borrowing		**(7,157)**	9,762
Changes in fair value of derivative financial instruments		**(20,331)**	10,561
Profit before taxation		**47,702**	115,114
Taxation	3	**(6,270)**	(3,370)
Profit for the year	4	**41,432**	111,744
Dividends paid	5	**20,864**	27,776
		HK cents	*HK cents*
Earnings per share	6		
– basic		**8.58**	24.85
– diluted		**N/A**	24.57

CONSOLIDATED BALANCE SHEET
At 31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment		**1,098,640**	794,645
Prepaid lease payments on land use rights		**34,854**	35,347
Deposits paid for the acquisition of property, plant and equipment		**–**	52,621
		1,133,494	882,613
Current assets			
Inventories		**65,631**	191,998
Trade and other receivables	*7*	**115,419**	131,425
Deposits and prepayments		**10,537**	19,816
Prepaid lease payments on land use rights		**809**	809
Derivative financial instruments		**706**	2,141
Bank balances and cash		**254,795**	153,735
		447,897	499,924
Current liabilities			
Trade, bills and other payables	*8*	**102,788**	114,645
Taxation payable		**18,995**	17,471
Derivative financial instruments		**24,547**	1,218
Unsecured bank borrowings		**282,974**	236,848
Unsecured structured borrowing		**7,750**	7,800
		437,054	377,982
Net current assets		**10,843**	121,942
Total assets less current liabilities		**1,144,337**	1,004,555
Capital and reserves			
Share capital		**48,292**	48,292
Share premium and reserves		**723,785**	695,450
Total equity		**772,077**	743,742
Non-current liabilities			
Unsecured bank borrowings		**338,685**	230,914
Unsecured structured borrowing		**25,325**	26,069
Deferred taxation		**8,250**	3,830
		372,260	260,813
		1,144,337	1,004,555

Notes

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
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 the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009
[2] Effective for annual periods beginning on or after 1st January, 2009
[3] Effective for annual periods beginning on or after 1st July, 2009
[4] Effective for annual periods ending on or after 30th June, 2009
[5] Effective for annual periods beginning on or after 1st July, 2008
[6] Effective for annual periods beginning on or after 1st October, 2008
[7] Effective for transfers on or after 1st July, 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

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

All of the Group's revenue and contribution to profit are attributable to the manufacturing and sales of paper-ware products and over 90% of the Group's revenue 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 31st December, 2008, substantial assets, especially those property, plant and equipment, of the Group are located in the PRC.

3. TAXATION

	2008	2007
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong Profits Tax	**1,265**	2,141
– PRC Enterprise Income Tax	**585**	3,431
	1,850	5,572
Overprovision in prior years:		
– Hong Kong Profits Tax	**–**	(5,366)
Deferred taxation	**4,420**	3,164
	6,270	3,370

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

A portion of the Group's profits are earned by the Macau subsidiaries of the Group incorporated under the Macau SAR's Offshore Law. Pursuant to the Macau SAR's Offshore Law, such portion of profits are exempted from Macau complimentary tax, which is currently at 12% of the profits. Further, in the opinion of the directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

Pursuant to the relevant laws and regulations in the PRC, the major operating PRC subsidiaries of the Group are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

4. PROFIT FOR THE YEAR

	2008	2007
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**835,340**	713,899
Write-down of inventories (included in "cost of sales")	**13,275**	–
Depreciation of property, plant and equipment	**46,858**	34,652
(Reversal of) impairment losses on trade receivables	**(2,910)**	2,056
Staff costs	**53,017**	41,023

5. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Final dividend paid in respect of 2007 of HK4.32 cents (2007: Final dividend paid in respect of 2006 of HK4.64 cents) per share	**20,864**	19,669
Interim dividend paid in respect of 2007 of HK1.68 cents per share	**–**	8,107
	20,864	27,776

The Directors did not recommend the payment of a final dividend for the year ended 31st December, 2008. The final dividend in respect of 2007 of HK4.32 cents per share proposed by the directors was approved by the shareholders in the annual general meeting held in 2008.

6. EARNINGS PER SHARE

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

	2008	2007
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**41,432**	111,744

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**482,924,000**	449,620,515
Effect of dilutive potential ordinary shares in respect of share options		5,264,325
Weighted average number of ordinary shares for the purpose of diluted earnings per share		454,884,840

No diluted earnings per share has been presented for the year ended 31st December, 2008 because the exercise price of the Company's share options was higher than the average market price for shares for that year.

7. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**109,684**	128,477
Less: allowance for doubtful debts	**(803)**	(3,713)
	108,881	124,764
Other receivables	**6,538**	6,661
Total trade and other receivables	**115,419**	131,425

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 of doubtful debts at the balance sheet date:

	2008	2007
	HK$'000	*HK$'000*
Current	**97,603**	102,275
Overdue 1 to 30 days	**11,278**	22,489
	108,881	124,764

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$11,278,000 (2007: HK$22,489,000) which were past due at the reporting date but 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 41 days based on invoice dates (2007: 48 days).

8. TRADE, BILLS AND OTHER PAYABLES

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

	2008	2007
	HK$'000	*HK$'000*
Current	**41,799**	43,137
Overdue 1 to 30 days	**1,143**	10,285
Overdue 31 to 60 days	**48**	6,231
Overdue for more than 60 days	**636**	476
	43,626	60,129
Other payables and accrued charges	**59,162**	54,516
	102,788	114,645

The average credit period on purchases of goods is 31 days (2007: 29 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

ANNUAL GENERAL MEETING

It is proposed that annual general meeting of the Company will be held at Unit 3203, 32/F., Admiralty Centre I, 18 Harcourt Road, Hong Kong on 8th June, 2009 at 10:30 a.m. Notice of annual general meeting will be published and issued to shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4th June, 2009 to 8th June, 2009, 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 attendance at the annual general meeting of the Company to be held on 8th June, 2009, 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 3rd June, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The downturn of the US and EU economies in the fourth quarter dragged down exports of consumer products in China, slashing demand for corrugated containers in China. Volatility in raw materials prices, especially the plunge in wastepaper and corrugated containerboard prices since September last year, have also contributed to a challenging environment for our industry.

Despite weak exports from China due to the global financial crisis slashing demand for corrugated container products, we have been able to achieve steady growth in our business in the last year due to our vertically integrated business model and diversified client base. In 2008, we have strived to expand our domestic sales to various industries, and sales to domestic clients rose from 20% in the preceding year to around 25%. Utilization rates reached around 70% for our upstream plant and nearly 80% for our downstream plants, a satisfactory performance in our view.

To reduce overall production costs, our group has continued to develop and optimize our Green Forest plant. In July last year, our Phase 2 production line and new power plant started operations. In addition, we started technical upgrades to our Phase 1 plant in September last year, and the upgrades were completed in December. This has allowed the plant to flexibly switch between producing corrugated medium and linerboard as well as raising annual capacity by 20%.

In addition, with the upstream capacity fully satisfying our raw materials requirements, we no longer need to store linerboard and medium of different sizes. We can now scale back the inventory storage facilities of our Dongguan plant for use as a new corrugator. That new line started production in July 2008, raising overall capacity by 10%. This has improved our company's fixed asset turnover and vertical integration. In addition, our sales are now more weighted towards domestic clients as we continue to increase our domestic market share, with domestic sales accounting for over 40% of total sales of the Group in the fourth quarter of 2008, compared to over 20% in the first three quarters.

FINANCIAL REVIEW

Operating results

Revenue of the group in 2008 increased by 11.6%, from HK$925.5 million to HK$1,033.2 million. It was mainly contributed by the growth in sales volume and rising selling price in the first three quarters of 2008. The global financial crisis led to tremendous drop in export sales and selling price in the last quarter. However, the fall in export sales was offset by the growth in domestic sales, resulting in a slight drop in revenue in the last quarter of 2008 as compared to the last quarter of 2007.

With continuous rising cost throughout the first three quarters, the group maintained a high stock level in September 2008. The high raw material cost but low selling price in the last quarter gave rise to an overall decrease in gross profit in 2008 by 6.5%, from HK$211.6 million to HK$197.8 million. Gross profit margin also dropped from 22.9% to 19.1%.

Other income increased by 11.9% from HK$18.5 million to HK$20.7 million. Such increase was primarily due to the increase in selling price of scrap.

Selling and distribution costs increased by 3.3% from HK$45.4 million to HK$46.8 million. The increase was mainly attributable to the transportation cost incurred in the second half of 2008 for delivering kraft linerboard from upstream plant in Qingyuan city to the downstream plants in Dongguan city and Shenzhen city.

Administrative expenses increased by 6.3% from HK$58.5 million to HK$62.2 million. The increment was the costs for staff and insurance for the new operation of the linerboard plant in Qingyuan city.

Other expenses decreased by 9.1% from HK$24.7 million to HK$22.4 million. The main reason was the reversal of allowance for doubtful debts provided in 2007 which indicated the group's high capability in receivable management.

The Group recorded a drop in earnings before interest and tax ("EBIT") by 14.3% to HK$87.1 million. EBIT margin was 8.4% (2007: 11%).

In 2008, additional bank loans and trade loans were raised to finance the new upstream linerboard project (including power plant) and higher raw material cost respectively, resulting in increase in finance costs by 73.6%, from HK$6.8 million to HK$11.9 million.

Same as last year, unrealised change in fair value 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 2008, the Group continued to enter into certain new forward exchange contracts to minimize the exchange rate risk in acquiring linerboard plant and raw materials. The structured borrowing contract again was proved to be effective as no interest had been incurred.

Net profit from operation (net profit for the year before unrealised change in fair value of derivative financial instruments and change in fair value of structured borrowing) dropped by 23.9% from HK$96.4 million to HK$73.4 million. The respective net profit margin fell from 10.4% to 7.1%.

Net profit for the year tremendously decreased by 62.9% from HK$111.7 million to HK$41.4 million. In addition to the negative effect from the global financial crisis, it was also affected by the unrealised change in fair value of derivative financial instruments and change in fair value of structured borrowing amounting to HK$24.8 million and HK$7.2 million respectively.

Net profit margin for the year was 4.0%. Basic earnings per share was 8.58 HK cents (2007: 24.85 HK cents). The directors did not recommend the payment of a final dividend for the year ended 31st December 2008 (2007: 4.32 HK cents).

Liquidity, financial and capital resources

At 31st December 2008, the Group's total cash and cash equivalents were mostly denominated in Hong Kong dollars and Renminbi. Bank balances and cash amounted to HK$254.8 million (2007: HK$153.7 million). Net current assets and current ratio of the Group were HK$10.9 million (2007: HK$121.9 million) and 1.03 (2007: 1.32) respectively. The fall in current ratio was due to reduction in both volume and cost of stock, rise in current portion of term loans and surge in unrealised change in fair value of derivative financial instruments (non-cash in nature).

The Group had capital expenditures amounting to HK$290.6 million during the year, comprising the costs for the construction of the upstream linerboard project and downstream machinery enhancement.

Inventory turnover rate decreased to 56 days as compared to 69 days in last year as the group reduced the purchase of raw materials in the last quarter of 2008. The group also used up most of the high-cost raw materials in stock and sold to customers before year end.

At 31st December 2008, trust receipt loans decreased by HK$100.3 million and other trade loans increased by HK$124.7 million. New bank loans amounting to HK$243.0 million were raised for financing the upstream linerboard project. As a result, short term and long term bank borrowings (including bank borrowings and structured borrowings) increased by HK$46.1 million and HK$99.9 million respectively. Net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was 50.5% (2007: 46.4%).

Contingent liabilities

A tax audit had been conducted by the Inland Revenue Department in December 2004. The Inland Revenue Department issued protective assessments for the years of assessment 1998/1999 to 2004/2005 to certain subsidiaries of the Group. 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

Despite the impact on the global economic crisis on the outlook for the corrugated containers sector, our Group's long term view towards the corrugated containers industry in China remains optimistic. Even though we expect raw materials prices to remain volatile in 2009, our vertically integrated business model should help reduce dependence on external sourcing and the impact of price fluctuations to operating costs.

The difficult operating environment has resulted in numerous paper makers and box makers closing doors. We are taking advantage of this opportunity to gain more market share by building a new corrugator at Green Forest, which would start production in the third quarter of this year. This would increase our annual capacity by 9% and help develop the northern Guangdong Province market for us.

HUMAN RESOURCES

As at 31st December, 2008, the Group and the processing factories employed a total workforce of around 1,700 full time staff (2007: 1,700). Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors namely, Mr. Liu Kwok Fai, Alvan, Mr. Chee Man Sang, Eric and Mr. Wong Chu Leung. The audit committee has reviewed with the management this results announcement and the audited consolidated financial statements of the Group for the year ended 31st December, 2008 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, 2008, 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").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Company's Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Company's Code throughout the year ended 31st December 2008. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company are also subject to compliance with the written guidelines on no less exacting terms than the Model Code.

CORPORATE GOVERNANCE

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

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, 2008 will be dispatched to the Company's shareholders in late April 2009 and it will be available at the Company's and the Stock Exchange's websites.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere thanks to our shareholders and all other associates for their supports and to our staff for their commitment and diligence during the year.

By Order of the Board
HUI Sum Kwok
Chairman

Hong Kong, 22nd April, 2009

As at the date of this announcement, the executive directors of the Company are Messrs. Hui Sum Kwok, Hui Sum Ping, Hui Sum Tai, Wong Wing Por and Miss Hui Yuen Li and the independent non-executive directors of the Company are Messrs. Liu Kwok Fai, Alvan, Chee Man Sang, Eric and Wong Chu Leung.