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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2009

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, 2009 together with the comparative figures for the corresponding period in 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended** **30.6.2009** ***HK$'000*** **(unaudited)**	30.6.2008 *HK$'000* (unaudited)
Revenue	*3*	**355,333**	500,383
Cost of sales		**(289,444)**	(390,387)
Gross profit		**65,889**	109,996
Other income		**6,961**	10,646
Distribution costs		**(14,776)**	(23,533)
Administrative expenses		**(25,051)**	(32,674)
Other expenses		**(15,339)**	(12,204)
Finance costs		**(4,245)**	(3,524)
Realised changes in fair value of derivative financial instruments		**458**	3,926
Unrealised changes in fair value of derivative financial instruments		**19,388**	190
Change in fair value of structured borrowing		**2,352**	(2,896)
Profit before taxation	*4*	**35,637**	49,927
Taxation	*5*	**(499)**	(2,506)
Profit for the period		**35,138**	47,421
Dividends	*6*	**4,829**	–
Earnings per share – basic (HK cents)	*7*	**7.28**	9.82

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30.6.2009	30.6.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**35,138**	47,421
Other comprehensive income		
Translation reserve:		
Exchange differences arising on translation to presentation currency	**(559)**	3,040
Total comprehensive income for the period	**34,579**	50,461

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30.6.2009** *HK$'000* **(Unaudited)**	31.12.2008 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**1,141,370**	1,098,640
Prepaid lease payments on land use rights		**34,607**	34,854
		1,175,977	1,133,494
Current assets			
Inventories		**113,519**	65,631
Trade and other receivables	*8*	**115,615**	115,419
Deposits and prepayments		**8,051**	10,537
Prepaid lease payments on land use rights		**809**	809
Derivative financial instruments		**669**	706
Bank balances and cash		**213,011**	254,795
		451,674	447,897
Current liabilities			
Trade, bills and other payables	*9*	**146,327**	102,788
Taxation payable		**19,280**	18,995
Derivative financial instruments		**5,122**	24,547
Unsecured bank borrowings		**254,630**	282,974
Unsecured structured borrowing		**7,750**	7,750
		433,109	437,054
Net current assets		**18,565**	10,843
Total assets less current liabilities		**1,194,542**	1,144,337
Capital and reserves			
Share capital		**48,292**	48,292
Share premium and reserves		**758,626**	723,785
Total equity		**806,918**	772,077
Non-current liabilities			
Unsecured bank borrowings		**360,063**	338,685
Unsecured structured borrowing		**19,098**	25,325
Deferred taxation		**8,463**	8,250
		387,624	372,260
		1,194,542	1,144,337

Notes:

1. **BASIS OF PREPARATION**

The unaudited condensed consolidated financial statements ("interim 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 accounting policies used in the preparation of these interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2008, except as described below. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2008.

In the current period, the Group has applied a number of new and revised standards, amendments or interpretations issued by the HKICPA which are effective for the annual periods beginning on or after 1st January, 2009.

The adoption of these new and revised standards, amendments or interpretations has resulted in the following changes in presentation and disclosure:

HKAS 1 (Revised)	*Presentation of financial statements* The revised standard has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements). Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements. The interim financial statements have been prepared under the revised disclosure requirements.
HKFRS 8	*Operating segments* It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The details of the operating segments of the Group are set out in Note 3. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive directors who make strategic decisions.

The adoption of the new and revised standards, amendments or interpretations other than the above had no material effect on how the financial statements of the Group are prepared and presented for the current or prior accounting periods.

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 the results and the financial position of the Group.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 3 (Revised)	Business combinations[1]
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – Int 18	Transfer of assets from customers[3]

1 Effective for annual periods beginning on or after 1st July, 2009

2 Amendments that are effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010, as appropriate

3 Effective for transfers on or after 1st July, 2009

3. SEGMENT INFORMATION

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

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

The segment information (unaudited) is as follows:

	Containerboard *HK$'000*	Corrugated packaging *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Six months ended 30th June, 2009				
Segment Revenue				
External sales	**34,651**	**320,682**	**–**	**355,333**
Inter-segment sales	**167,949**	**–**	**(167,949)**	**–**
Total	**202,600**	**320,682**	**(167,949)**	**355,333**
Segment Results	**5,046**	**12,638**	**–**	**17,684**
Finance costs				**(4,245)**
Realised changes in fair value of derivative financial instruments				**458**
Unrealised changes in fair value of derivative financial instruments				**19,388**
Change in fair value of structured borrowing				**2,352**
Profit before taxation				**35,637**
Taxation				**(499)**
Profit for the period				**35,138**

Inter-segment sales are charged by reference to market prices.

	Containerboard	Corrugated packaging	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30th June, 2008				
Segment Revenue				
External sales	34,504	465,879	–	500,383
Inter-segment sales	211,610	–	(211,610)	–
Total	246,114	465,879	(211,610)	500,383
Segment Results	28,760	23,471	–	52,231
Finance costs				(3,524)
Realised changes in fair value of derivative financial instruments				3,926
Unrealised changes in fair value of derivative financial instruments				190
Change in fair value of structured borrowing				(2,896)
Profit before taxation				49,927
Taxation				(2,506)
Profit for the period				47,421

Inter-segment sales are charged by reference to market prices.

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 geographical location is presented.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2009	30.6.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Release of prepaid lease payments on land use rights	**247**	247
Depreciation of property, plant and equipment	**30,217**	18,211
Interest income	**(762)**	(372)

5. TAXATION

	Six months ended	
	30.6.2009	30.6.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**176**	950
PRC Enterprise Income Tax	**110**	275
	286	1,225
Deferred taxation		
Charge for the period	**213**	1,281
	499	2,506

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) 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 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.

During the six months ended 30th June, 2009, no payment of a final dividend was made for the year ended 31st December, 2008.

An interim dividend for the six months ended 30th June, 2009 of 1.0 HK cents per share, amounting to approximately HK$4,829,000, has been declared by the directors (six months ended 30th June, 2008: Nil).

7. **EARNINGS PER SHARE**

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

	Six months ended	
	30.6.2009	30.6.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period	**35,138**	47,421

	30.6.2009	30.6.2008
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**482,924,000**	482,924,000

No diluted earnings per share has been presented for the periods ended 30th June, 2009 and 30th June, 2008 because the exercise price of the Company's share options was higher than the average market price for shares for the periods.

8. **TRADE AND OTHER RECEIVABLES**

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**115,736**	109,684
Less: allowance for doubtful debts	**(802)**	(803)
	114,934	108,881
Other receivables	**681**	6,538
Total trade and other receivables	**115,615**	115,419

The Group allows credit periods 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 reporting date:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**99,552**	97,603
Overdue 1 to 30 days	**15,382**	11,278
	114,934	108,881

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$15,382,000 (2008: HK$11,278,000) which were past due at the reporting date but 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 57 days (2008: 41 days).

9. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of trade, bills and other payables at the reporting date:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**52,506**	41,799
Overdue 1 to 30 days	**2,588**	1,143
Overdue 31 to 60 days	**8**	48
Overdue for more than 60 days	**1,149**	636
	56,251	43,626
Other payables and accrued charges	**90,076**	59,162
	146,327	102,788

The average credit period on purchases of goods is 57 days (2008: 31 days). The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had declared an interim dividend of 1.0 HK cents per share for the six months ended 30th June, 2009 (corresponding period in 2008: nil) to be payable on or about 23rd October, 2009 to those shareholders whose names appear on the register of members of the Company on 16th October, 2009.

The register of members of the Company will be closed from 14th October, 2009 to 16th October, 2009, 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 13th October, 2009.

BUSINESS REVIEW

Despite the lingering impact of the global financial tsunami, the Group was able to survive the shakedown and move forward through aggressively adjusting our business strategy and react to the challenges we faced in the first half.

Demand for consumer products from Europe and the US were dismal in the first quarter of the period, dealing a blow to exports and hence demand for packaging. However, export orders rebounded in the second quarter as Europe and the US economies stabilized. The Chinese government's economic stimulus packages helped raise domestic demand, and its effects were more apparent in the second quarter, offsetting the slower demand from Europe and the US. Sales of the group's paper boards and carton boxes (downstream corrugated packaging) rose by 0.5% in volume terms in the first half, whilst sales of medium and linerboard (upstream containerboard) rose by around 45%. Utilization reached 70% and 79% respectively for the upstream and the downstream in the second quarter.

As the Group has been developing the domestic market since the middle of last year, expanding into a more diversified group of end customers including consumer products, building materials and drinks, as well as developing our containerboard and corrugated packaging businesses in northern Guangdong, the Group's sales to domestic customers rose to around 45% in the period from around 25% last year. Sales to domestic customers exceeded 50% in June. This cemented our position as one of the largest corrugated container makers in Guangdong province.

To strengthen our competitive advantages, the Group has long recognized the importance of achieving self-sufficiency in raw materials. Our linerboard line started production in July last year, and technology upgrades to our medium line were completed at the end of last year. During the period under review, the Group's upstream production line produced in a flexible setting various high grade medium and linerboard to downstream factories, creating competitive advantages for the Group. We have also strived to control production costs, adjust inventory levels and improve our production workflow, whilst adopting a conservative financial policy to reduce risks. Our tight credit controls meant our Group's bad debts were close to zero in the period under review.

With both upstream and downstream businesses fully ramped-up, our vertically integrated business model has delivered satisfactory results, creating solid foundations for future growth.

FINANCIAL REVIEW

Operating results

In the first half of 2009, around 90.2% and 9.8% of the Group's revenue were contributed by corrugated packaging and containerboard respectively. The PRC domestic sales grew sharply by 20%, contributing 45% to the Group's revenue. This offset the adverse impact from the fall in export volume, leading to a slight growth in the overall sales volume in the period under review.

Though the average selling price started to rise in Mid-March and kept rising in the second quarter, the price level was far less than the corresponding price level of last year. Thus, the Group's revenue dropped by 29% to HK$355.3 million (2008: HK$500.4 million) in the period under review.

The financial crisis adversely affected our performance in the first quarter of 2009. No upstream production in January and low export and demand for corrugated packaging led to utilization of 50% only. However, with increasing demand in the second quarter and the new self-supply of linerboard (since July 2008) from the upstream to the downstream, the gross profit margin in the period under review only dropped by 3.5%, from 22.0% to 18.5%.

Other income decreased by around 34.6% to HK$7 million (2008: HK$10.7 million) as there was no exchange gain from appreciation of Renminbi as in same period last year. Distribution costs and administrative expenses decreased by around 37.2% and 23.3% respectively, falling in line with revenue.

Other expenses increased by around 25.7% to HK$15.3 million (2008: HK$12.2 million). It was the depreciation charge for the new linerboard plant and other ancillary facilities. The increase in finance costs by 20.5% to HK$4.2million (2008: HK$3.5 million) was primarily attributable to less interest capitalization. Bank loan interests for financing the linerboard plant were charged to income statement when production began in July last year.

Unrealised gain in fair value of derivative financial instruments and structured borrowing of HK$19.4 million (2008: HK$0.2 million) and HK$2.4 million (2008: loss of HK$2.9 million) respectively were recorded. Fair value was non-cash in nature and would be reversed to zero at maturity date. No interest was incurred for structured borrowing during the period under review.

EBITDA reduced by 34.9% from HK$74.6 million to HK$48.6 million. 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) declined by 73.3% to HK$13.4 million (2008: HK$50.1 million). Profit for the period dropped by 25.9% to HK$35.1 million (2008: HK$47.4 million).

Basic earnings per share was 7.28 HK cents (2008: 9.82 HK cents).

Liquidity, financial and capital resources

As at 30th June, 2009, the Group's total cash and cash equivalents, mostly denominated in Hong Kong dollars and Renminbi, amounted to approximately HK$213 million (31st December, 2008: HK$254.8 million). The shortfall of HK$41.8 million was mainly used for repaying some short term loans. There was slight improvement in net current assets and current ratio of the Group, amounting to HK$18.6 million (31st December, 2008: HK$10.8 million) and 1.04 (31st December, 2008: 1.03) respectively.

In the first half of 2009, the Group spent approximately HK$72.9 million as capital expenditures for constructing the new office building and acquiring and installing an additional boiler into the power station at the Qingyuan plant.

As at 30th June, 2009, the Group's total bank borrowings decreased by HK$10.9 million to HK$634.1 million. Short term bank borrowings decreased by HK$28.3 million and long term bank borrowings increased by HK$17.5 million. All repayments to banks were made on schedule and new bank loans were raised for financing the capital expenditures incurred for in the first half of 2009. Net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was 52.2% (31st December, 2008: 50.5%).

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.

OUTLOOK

The Chinese government's economic stimulating policy led the way in a global recovery. China's 7.9% GDP growth in the second quarter should improve market confidence towards the economy and consumption. The lackluster export market has seen sufficient pent-up demand which should be released in the second half of this year.

The Chinese domestic market has become the Group's key growth driver, accounting for around 50% of total sales. We will continue to reap the rich potential offered by the domestic market and develop a more diversified customer network. In addition, we will also closely monitor the export sector and strive to increase export orders when the market recovers.

In the downstream business, the Group's Green Forest business has added new corrugated box lines and corrugator which started production in early September, raising our capacity by around 9%. The new capacity gives us the opportunity to meet recovering demand for paper products and expand our market share in Guangdong Province.

In the upstream business, the Group's two production lines can now meet the raw materials requirements of the downstream business, reducing the impact of price fluctuations on our margins and enhancing earnings.

Although uncertainties persist in the market, but difficulties and hopes, and challenges and opportunities always come together. In a rapidly consolidating market, we are still optimistic towards our future. We remain cautious towards mergers and acquisition activities, and anticipate greater synergies between our upstream and downstream businesses. Given our Group's solid business foundations, our management is confident of delivering satisfactory long-term returns to our shareholders.

HUMAN RESOURCES

As at 30th June, 2009, the Group and the processing factory have a total workforce of around 1,800 full time staff (31st December, 2008: 1,700). The increase was mainly attributable to the manpower for the new corrugated packaging production in early September. 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, 2009 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, 2009, 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, 2009, 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, 2009.

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, 17th September, 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 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.