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, 2011

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2011	30.6.2010	Change
	HK$ million	*HK$ million*	
Revenue	**721.0**	621.2	+16.1%
Gross profit	**122.8**	121.1	+1.4%
EBITDA*	**86.4**	85.4	+1.2%
Profit from operation*	**34.0**	34.9	–2.6%

* *Excluding changes in fair value of unsecured structured borrowing and derivative financial instruments (except net cash inflow from settlement of derivative)*

The board of directors (the "Board" or "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, 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30th June, 2011

		Six months ended	
		30.6.2011	30.6.2010
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	3	**721,030**	621,156
Cost of sales		**(598,233)**	(500,083)
Gross profit		**122,797**	121,073
Other income		**8,774**	8,519
Selling and distribution costs		**(38,358)**	(34,966)
Administrative expenses		**(37,493)**	(38,660)
Other expenses		**(9,180)**	(6,243)
Finance costs		**(11,711)**	(9,624)
Change in fair value of unsecured structured borrowing		**–**	214
Changes in fair value of derivative financial instruments	4	**2,395**	600
Profit before taxation	5	**37,224**	40,913
Income tax expense	6	**(3,935)**	(6,775)
Profit for the period		**33,289**	34,138
Other comprehensive income for the period:			
Exchange differences arising from translation of foreign operations		**37,582**	9,863
Total comprehensive income for the period		**70,871**	44,001
		HK cents	*HK cents*
Earnings per share	8		
– basic		**6.89**	7.07
– diluted		**6.78**	6.87

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2011

	Notes	**30.6.2011** *HK$'000* **(Unaudited)**	31.12.2010 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**1,336,428**	1,254,680
Prepaid lease payments on land use rights		**36,263**	35,863
		1,372,691	1,290,543
Current assets			
Inventories		**226,291**	236,240
Trade and other receivables	9	**251,536**	232,437
Deposits and prepayments		**15,240**	12,216
Prepaid lease payments on land use rights		**870**	852
Derivative financial instruments		**3,252**	2,642
Bank balances and cash		**213,637**	203,125
		710,826	687,512
Current liabilities			
Trade, bills and other payables	10	**210,877**	204,832
Taxation payable		**21,380**	20,296
Derivative financial instruments		**4,806**	3,527
Unsecured bank borrowings		**454,871**	439,308
		691,934	667,963
Net current assets		**18,892**	19,549
Total assets less current liabilities		**1,391,583**	1,310,092
Capital and reserves			
Share capital		**48,292**	48,292
Share premium and reserves		**954,747**	899,674
Total equity		**1,003,039**	947,966
Non-current liabilities			
Unsecured bank borrowings		**358,969**	335,057
Deferred taxation		**29,575**	27,069
		388,544	362,126
		1,391,583	1,310,092

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 the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2010, except as described below. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2010.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above new and revised standards, amendments and interpretations has 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 and amendments that have been issued but are not yet effective.

HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosures of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investment in Associates and Joint Ventures[4]

[1] Effective for annual periods beginning on or after 1st July, 2011
[2] Effective for annual periods beginning on or after 1st January, 2012
[3] Effective for annual periods beginning on or after 1st July, 2012
[4] Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of *HKAS 39 Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors of the Company anticipate that the application of the other new and revised standards and amendments will have no material impact on the consolidated financial statements of the Group.

3. SEGMENT INFORMATION

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

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

The following is an analysis of the Group's revenue and results by operating and reportable segments:

Six months ended 30th June, 2011
(Unaudited)

	Containerboard	Corrugated packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	**103,197**	**617,833**	**721,030**	**–**	**721,030**
Inter-segment sales	**378,213**	**1,494**	**379,707**	**(379,707)**	**–**
Total	**481,410**	**619,327**	**1,100,737**	**(379,707)**	**721,030**
RESULT					
Segment profit	**22,485**	**24,055**	**46,540**	**–**	**46,540**
Finance costs					**(11,711)**
Changes in fair value of derivative financial instruments					**2,395**
Profit before taxation					**37,224**
Income tax expense					**(3,935)**
Profit for the period					**33,289**

Six months ended 30th June, 2010
(Unaudited)

	Containerboard *HK$'000*	Corrugated packaging *HK$'000*	Segment Total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	52,524	568,632	621,156	–	621,156
Inter-segment sales	364,036	993	365,029	(365,029)	–
Total	416,560	569,625	986,185	(365,029)	621,156
RESULT					
Segment profit	23,327	26,396	49,723	–	49,723
Finance costs					(9,624)
Change in fair value of unsecured structured borrowing					214
Changes in fair value of derivative financial instruments					600
Profit before taxation					40,913
Income tax expense					(6,775)
Profit for the period					34,138

Inter-segment sales are charged at prevailing market rates.

The majority 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. CHANGES IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

	Six months ended	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash inflow from settlement of derivative financial instruments	**3,064**	1,591
Other changes in fair value of derivative financial instruments	**(669)**	(991)
	2,395	600

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**598,233**	500,083
Depreciation of property, plant and equipment	**36,403**	33,774
Release of prepaid lease payments on land use rights	**432**	301
Interest income	**(440)**	(265)

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**742**	695
PRC Enterprise Income Tax	**687**	580
	1,429	1,275
Deferred tax	**2,506**	5,500
	3,935	6,775

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

A portion of the Group's profit is 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 profit is exempted from Macau complimentary tax, which is currently at 12% of the profits. Further, in the opinion of the Directors of the Company, 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 for the next three years.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

7. DIVIDENDS

	Six months ended	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Final dividend paid in respect of 2010 of 3.40 HK cents per share (2010: Final dividend paid in respect of 2009 of 2.20 HK cents per share)	**16,419**	10,624

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2011 (six months ended 30th June, 2010: 1.0 HK cent per share, amounting to approximately HK$4,829,000).

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**33,289**	34,138

	30.6.2011	30.6.2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**482,924,000**	482,924,000
Effect of dilutive potential ordinary shares in respect of share options	**8,017,357**	13,819,227
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**490,941,357**	496,743,227

9. TRADE AND OTHER RECEIVABLES

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**250,959**	232,964
Less: allowance for doubtful debts	**(739)**	(784)
	250,220	232,180
Other receivables	**1,316**	257
Total trade and other receivables	**251,536**	232,437

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 for doubtful debts presented based on the invoice date at the end of the reporting period:

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**206,783**	194,621
31-60 days	**26,084**	17,949
61-90 days	**9,631**	10,471
Over 90 days	**7,722**	9,139
	250,220	232,180

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$47,180,000 (2010: HK$29,820,000) which were past due at the reporting 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 61 days based on invoice dates (2010: 51 days).

10. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**109,375**	107,498
Overdue 1 to 30 days	**6,758**	3,488
Overdue 31 to 60 days	**1,616**	1,904
Overdue for more than 60 days	**2,260**	1,743
	120,009	114,633
Payables for the acquisition of property, plant and equipment	**15,420**	19,151
Other payables and accrued charges	**75,448**	71,048
	210,877	204,832

The average credit period on purchases of goods is 36 days (2010: 32 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2011 (corresponding period in 2010: 1.0 HK cent per share).

BUSINESS REVIEW

In the first half of 2011, although global economic growth continued to slow down, the Chinese economy as a whole maintained its growth momentum. The Group has strived to develop domestic sales and has now obtained solid market share. As a result the Group's domestic sales rose by 40% in the first half, accounting for more than 60% of total sales.

Prospects for global economic development remain cloudy due to factors such as sovereign debt crisis in Europe, the situation in the Middle East, volatile oil prices, a weak economy in the United States ("US") and concerns over US debt, and this resulted in a drop of 8% in export sales. That said, the growth in domestic sales had more than offset the impact of the decline in exports, and average selling prices also rose by 7% in the period, pushing up total sales of the Group by 16%.

In the period under review, the Qingyuan plant added a new corrugator which started operations in the second quarter, raising total annual production capacity by 10%. The Group's downstream corrugated packaging sales (corrugated paper boards and carton boxes) rose slightly in volume terms and sales rose by 8.7%. The upstream containerboard business (corrugating medium and linerboard) saw rise by 80% in volume terms in the period, due to our Group's vertically integrated business model, which has allowed us to flexibly adjust operations, as well as our sales and marketing capability. On the back of the significant rise in volumes, sales for this business rose by nearly 100%.

Our upstream and downstream businesses accounted for 14% and 86% of sales, compared to 8.5% for the upstream business in the first half of last year. Utilisation for the upstream business reached 75%, fell by 5%, as the Group's upstream business stopped for two weeks during Chinese New Year whereas operations were in full swing in 2010. Utilisation for the downstream business was similar to the first half of last year at around 80%.

As the domestic economy heats up, inflationary pressures and prices have been rising. Although the Chinese government has started tightening measures, production costs for companies have yet to decline. In the period under review, the Group's production costs have risen substantially more than selling prices. Even as the Group has managed to transfer some cost pressure to selling prices, selling price increases have lagged behind rising inflation, dampening gross profit growth for the Group in the first half to 1.4%. The Group's business strategy remains prudent and solid, and we maintained strict credit policies, and managed to keep the bad debts ratio close to zero in the period under review.

FINANCIAL REVIEW

Operating results

In the period under review, the average selling price was increased by 7.2% and the surge in domestic upstream containerboard sales contributed 7.4% to the Group's revenue. As a result, a rise in revenue by 16.1%, from HK$621.2 million to HK$721.0 million, was recorded.

Cost of sales rose by 19.6% from HK$500.1 million to HK$598.2 million. As the Group could only partially pass on the cost increase to customers, the gross profit rose by 1.4% from HK$121.1 million to HK$122.8 million. The gross profit margin fell from 19.5% to 17.0%.

Other income, mainly representing sales of scraps, slightly increased by 3.5% from HK$8.5 million to HK$8.8 million.

Selling and distribution costs rose by 9.7% from HK$35.0 million to HK$38.4 million. The increment was mainly due to the increase in transportation costs for rising sales volume.

Administrative expenses fell by 3.1% from HK$38.7 million to HK$37.5 million. The drop was mainly attributable to less equity-settled share based payment recognised, and tight control on cost and number of administrative staff.

Other expenses climbed by 48.4% from HK$6.2 million to HK$9.2 million. The rise was attributable to various new charges imposed on the Group in China.

EBITDA (earnings before interest, tax, depreciation and amortisation and changes in fair value of unsecured structured borrowing and derivative financial instruments except net cash inflow from settlement of derivative) slightly increased by 1.2% from HK$85.4 million to HK$86.4 million.

Finance costs increased by 21.9% from HK$9.6 million to HK$11.7 million. The increase was mainly due to additional bank loans raised to finance the new downstream production line (corrugator) in Qingyuan city.

Profit from operation (profit for the period exclusive of changes in fair value of unsecured structured borrowing and derivative financial instruments except net cash inflow from settlement of derivative) slightly dropped by 2.6% from HK$34.9 million to HK$34.0 million.

The profit margin from operation also fell from 5.6% to 4.7%. Profit for the period dropped by 2.3% from HK$34.1 million to HK$33.3 million. Basic earnings per share were 6.89 HK cents (2010: 7.07 HK cents).

Liquidity, financial and capital resources

At 30th June, 2011, the Group's total cash and cash equivalents were mostly denominated in Hong Kong dollars and Renminbi. Bank balances and cash amounted to HK$213.6 million (31st December, 2010: HK$203.1 million). Net current assets and current ratio of the Group were HK$18.9 million (31st December, 2010: HK$19.5 million) and 1.03 (31st December, 2010: 1.03) respectively.

The Group spent HK$83.6 million on capital expenditures, mainly for the acquisition of a new corrugator, its ancillary equipments and the improvement work on factory premises.

At the balance sheet date, trust receipt loans dropped by HK$5.8 million as the Group consumed less imported waste paper and more Mainland domestic waste paper for containerboard production. Additional bank loans were raised for financing the capital expenditures. The current and non-current bank borrowings were HK$454.9 million and HK$359.0 million respectively. Net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was slightly dropped to 59.8% (31st December, 2010: 60.3%).

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 2005/2006 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

Given weak economies in Europe and the US, worsening financial and debt issues, slowing economic growth in China due to tightening measures, and appreciating Renminbi and rising inflation, we anticipate a more challenging environment for all businesses in the second half. The Group continues to monitor the costs, reduce waste across all parts of the production chain, and strengthen cooperation between production and sales to reduce inventories and improve the overall production efficiency to reduce the impact of rising costs. The Group will more prudently manage the financial resources, retain a solid balance sheet and become more cautious in the capex plans in order to achieve more sustainable returns.

Since the Group's shift in operations to the domestic Chinese market, volumes have continued to record satisfactory growth. The Group will continue to raise the efficiency of the vertically integrated business model, expand domestic market share, maintain flexibility in pricing and transfer rising costs to customers, in order to stabilise the Group's margins.

HUMAN RESOURCES

As at 30th June, 2011, the Group and the processing factory had a total workforce of around 1,710 (31st December, 2010: 2,050). 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. Chee Man Sang, Eric, Mr. Yip Kwok Kwan 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, 2011 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 six months ended 30th June, 2011, 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 Directors strives to maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The corporate governance principles of the Company emphasize the importance of a quality Board, effective internal controls and accountability to shareholders. The Company has applied the principles as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the period ended 30th June, 2011, 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 are 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 reviews and makes 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.

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, 25th August, 2011

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 Chee Man Sang, Eric, Yip Kwok Kwan and Wong Chu Leung.