HOP FUNG GROUP

HOP FUNG GROUP HOLDINGS LIMITED
合豐集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2320)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2005

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, 2005 together with the comparative figures for the year ended 31st December, 2004 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
Turnover	*3*	**788,555**	760,981
Cost of sales		**(634,422)**	(610,163)
Gross profit		**154,133**	150,818
Other income		**16,202**	11,554
Distribution costs		**(37,277)**	(38,069)
Administrative expenses		**(37,724)**	(35,200)
Other expenses		**(18,601)**	(12,582)
Finance costs		**(5,924)**	(1,871)
Profit before taxation		**70,809**	74,650
Taxation	*4*	**(1,096)**	(7,719)
Profit for the year		**69,713**	66,931
Dividends	*5*	**21,115**	9,235
Earnings per share	*6*		
– basic (HK cents)		**18.95**	18.27
– diluted (HK cents)		**18.69**	18.16

CONSOLIDATED BALANCE SHEET

		2005 **HK$'000**	2004 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment		**290,925**	148,480
Prepaid lease payments on land use rights		**18,652**	17,385
Prepayments under processing arrangement		**2,179**	2,240
Deposits paid for the acquisition of property, plant and equipment		**10,088**	22,428
		321,844	190,533
Current assets			
Inventories		**74,737**	59,033
Trade and other receivables	*7*	**102,986**	88,535
Deposits and prepayments		**6,767**	7,764
Prepaid lease payments on land use rights		**432**	200
Prepayments under processing arrangement		**61**	61
Investment in equity-linked deposit		**–**	2,002
Derivative financial instruments		**862**	–
Bank balances and cash		**156,037**	133,446
		341,882	291,041
Current liabilities			
Trade and other payables	8	**81,696**	88,407
Taxation		**20,767**	12,495
Derivative financial instruments		**388**	–
Bank borrowings		**103,515**	50,504
		206,366	151,406
Net current assets		**135,516**	139,635
		457,360	330,168

Capital and reserves		
Share capital	**36,792**	36,783
Share premium and reserves	**301,533**	249,239
	338,325	286,022
Non-current liabilities		
Bank borrowings	**118,369**	35,655
Deferred taxation	**666**	8,491
	119,035	44,146
	457,360	330,168

Notes

1. **APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES**

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group has not applied HKFRS 2 to share options that were granted after 7th November, 2002 and had vested before 1st January, 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005. Comparative figures have been restated (see below for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: disclosure and presentation" and HKAS 39 "Financial Instruments: recognition and measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on the presentation of financial instruments in the financial statement of the Group. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of the financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The application of HKAS 39 has had no material effect on the results for the current or prior accounting periods. As at 1st January 2005, the equity-linked deposit was classified as "loans and receivables" under HKAS 39.

Derivatives

By 31st December, 2004, the Group did not recognise derivative embedded in a non-derivative host contract on its financial statements.

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the year in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. In the opinion of the Directors of the Company, the fair value of the embedded derivative from the equity-linked deposit as at 1st January, 2005 is immaterial.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. The financial impact is set out in note 2. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The HK(IFRIC) - INT 4 provides guidance for determining whether arrangements, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, are or contain leases that should be accounted for in accordance with HKAS 17. The classification of such lease as finance lease or operating lease is dealt with under HKAS 17. During the year, the Group reassessed the "Prepayments under processing arrangements" under HK(IFRIC) - INT 4 and considered that it contains a lease which should be classified under HKAS 17. Accordingly, the elements related to a finance lease of factory premises in the PRC are reclassified to property, plant and equipment and the remaining balance of the prepayments under processing arrangement is an operating lease of land use rights. This change has been applied retrospectively. There is no material impact on the results for the current or prior years.

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Recognition of share-based payments as expenses	**1,923**	221
Gain arising from fair value changes in derivative financial instruments	**(474)**	–
Decrease in profit for the year	**1,449**	221

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) *HK$'000*	Adjustments *HK$'000*	**As at 31st December, 2004 and 1st January, 2005 (restated)** ***HK$'000***
Balance sheet items			
Impact of HKAS 17 and HK(IFRIC) - INT 4			
Property, plant and equipment	151,563	(3,083)	**148,480**
Prepaid lease payments on land use rights	–	17,585	**17,585**
Prepayments under processing arrangement	16,803	(14,502)	**2,301**
Total effects on assets and liabilities	168,366	–	**168,366**
Impact of HKFRS 2			
Retained profits	185,337	(221)	**185,116**
Share options reserve	–	221	**221**
Total effects on equity	185,337	–	**185,337**

3. SEGMENT INFORMATION

All of the Group's turnover and contribution to operating profit are attributable to the manufacturing and sales of paper-ware products and over 90% of the Group's turnover and contribution to operating profit is attributable to customers who have their manufacturing base in The People's Republic of China ("PRC"). Accordingly, no analysis of segment is presented.

As at 31st December, 2004 and 31st December, 2005, all the Group's assets and liabilities are located in the PRC, including Hong Kong and Macau.

4 TAXATION

	2005 *HK$'000*	2004 *HK$'000*
The charge comprises:		
Current taxation – Hong Kong Profits Tax	**8,921**	2,719
Deferred taxation	**(7,825)**	5,000
	1,096	7,719

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on 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 subsidiary of the Group is exempted from PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction in the income tax rate in the following three years. No provision for PRC income tax has been made in the financial statements as the PRC subsidiary was exempted from PRC income tax during the year.

5. DIVIDENDS

	2005 *HK$'000*	2004 *HK$'000*
Final dividend paid in respect of 2004 of 4.22 HK cents (2003: 1.26 HK cents) per share	**15,523**	4,600
Interim dividend paid in respect of 2005 of 1.52 HK cents (2004: 1.26 HK cents) per share	**5,592**	4,635
	21,115	9,235

The final dividend in respect of 2005 of 4.17 HK cents (2004: 4.22 HK Cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

6. EARNINGS PER SHARE

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

	2005 *HK$'000*	2004 *HK$'000* (Restated)
Earnings		
Earnings for the purposes of basic and diluted earnings per share – Profit for the year	**69,713**	66,931

	2005	2004 (Restated)
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**367,886,794**	366,362,661
Effect of dilutive potential shares in respect of share options	**5,202,216**	2,210,705
Weighted average number of shares for the purpose of diluted earnings per share	**373,089,010**	368,573,366

7. **TRADE AND OTHER RECEIVABLES**

The Group has a policy of allowing a credit period of 5 - 120 days which may be extended to selected trade customers depending on their trade volume and history of settlement with the Group.

An aged analysis of trade receivables is as follows:

	2005	2004
	HK$'000	*HK$'000*
Current	**93,252**	83,101
Overdue 1 to 30 days	**9,221**	4,133
	102,473	87,234
Other receivables	**513**	1,301
	102,986	88,535

8. **TRADE AND OTHER PAYABLES**

An aged analysis of the trade payables is as follows:

	2005	2004
	HK$'000	*HK$'000*
Current	**36,006**	46,597
Overdue 1 to 30 days	**4,270**	5,745
Overdue 31 to 60 days	**56**	43
Overdue for more than 60 days	**507**	1,032
	40,839	53,417
Other payables and accrued charges	**40,857**	34,990
	81,696	88,407

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Ching Room, 4/F, Sheraton Hong Kong Hotels & Towers, 20 Nathan Road, Kowloon, Hong Kong on 29th May, 2006 at 10:30a.m.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had resolved to recommend the payment of a final dividend of 4.17 HK cents per share for the year ended 31st December, 2005 (2004: 4.22 HK cents per share) to be payable on or about 16th June, 2006 to those shareholders whose names appear on the register of members of the Company on 29th May, 2006.

The register of members of the Company will be closed from 24th May, 2006 to 29th May, 2006, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and attendance at the annual general meeting to be held on 29th May, 2006, all transfers accompanied by the relevant share certificates and completed transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 23rd May, 2006.

BUSINESS REVIEW

With a sustaining growth in the global demand for products from the PRC, the demand of corrugated paper-ware for packaging exhibited a corresponding rise. Meanwhile, the Group's GongMing processing plant in Shenzhen, Guangdong installed a corrugated paper board production line in the second half of the year under review. This enabled the Group to record a rise in its turnover and output of approximately 3.6% and 5.8% respectively despite a difficult business environment of escalating raw materials price and interest rate.

Since March, 2004, through its wholly-owned foreign enterprise in Dongguan, Guangdong, the Group began developing the domestic corrugated paper-ware market of the PRC. This also fulfilled our international customers' needs in entering or expanding the PRC market. The Group thus established a more long term and stable business relationship with its customers. Together with its effective sales strategy, the Group's market share in the PRC market was expanded, resulting in an increase in its 2005 domestic sales.

In order to provide high-quality and high value-added products and quality on-time services to its customers, the Group makes continuous effort to improve the production process, strengthen the computerized production procedure, and acquires advanced carton box production facilities. To achieve economy of scale and maximize production efficiency, the Group allocates different types of products to different factories for production, which enables different types of production lines and facilities to attain their highest effectiveness. On the other hand, since the production process of paper boards is shorter and simplier than that of carton boxes, the proportion of corrugated paper boards and carton boxes produced by the Group in 2005 remained at approximately 2:1, which enabled the utilisation of production facility to reach approximately 85%.

FINANCIAL REVIEW

Operating results

In 2005, turnover of the Group increased approximately 3.6% to HK$788,555,000 (2004: HK$760,981,000). The increase was mainly attributable to the new equipment acquired in 2004 which was put into full operation in 2005, and commencement of operation of other new equipment in the second half of 2005. Increase in cost of sales was due to an increase in turnover, while various factors such as the appreciation of RMB, the rise of crude oil and raw material prices also exerted pressure on cost of sales. Hence gross profit margin slightly decreased from 19.80% in 2004 to 19.5%.

The continuous rising crude oil price in 2005 resulted in an increase in transportation cost. Nevertheless, as the Group has adopted stringent cost control and internal control measures, distribution costs were maintained at the level of the last year. Administrative expenses increased approximately 7.2% to HK$37,724,000. The increase in administrative expenses was the result of treating share options as an expense following the adoption of new accounting standards.

Other expenses increased approximately 47.8% from 2004 to HK$18,601,000. It is mainly due to an increase in depreciation charges for renovation and decoration of new and existing plant, warehouse employees' dormitories and professional expenses in 2005. As the Group funded the construction and decoration of the new plant of Green Forest (QingXin) Paper Industrial Limited ("Green Forest") by bank loans, finance costs increased by approximately 216.6% to HK$5,924,000.

The net profit margin of the Group in 2005 was 8.8%. Earnings per share thus increased to 19 HK cents (2004: 18.3 HK cents). The Directors proposed a final dividend of 4.17 HK cents per share (2004: 4.22 HK cents).

Liquidity, financial and capital resources

Bank balances and cash increased to HK$156 million. (2004: HK$133.4 million) representing cash inflow of HK22.6 million. Net current assets and current ratio (current assets divided by current liabilities) was HK$135.5 million (2004: HK$139.6 million) and 1.66 (2004: 1.92) respectively.

During 2005, the Group spent HK$21.1 million (2004: HK$9.2 million) on dividend payment. The Group further spent HK$112 million for new factory construction and facilities of Green Forest for upstream medium paper production, and HK$34 million for new production facilities in existing factories for expansion. The acquisition of property, plant and equipments was wholly financed by the term loans newly raised from banks.

As at 31st December, 2005, the Group did not pledge any assets as security for bank borrowings. The Group's total bank borrowings increased by HK$135.7 million to HK$221.9 million. It was attributable to the rise in long-term borrowings of HK$82.7 million and short-term borrowings of HK$53 million, mainly for financing acquisition of property, plant and equipments. The ratio of long-term borrowings to short-term borrowings was 53:47(2004: 41:59). The net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was 19% (2004: -17%, represented net cash position of HK$47.3 million).

The Group has entered into agreements of interest rate swaps (covering 60% of total term loans) to minimize the adverse effect of increasing interest rates. The Group's financial position remains strong and healthy.

Contingent Liabilities

Tax audit has been conducted by the Inland Revenue Department in December, 2004. The Inland Revenue Department issued protective assessments for the year of assessment 1999/2000 to certain subsidiaries of the Group during the year. As the tax audit is still in progress, in the opinion of the Directors, the outcome and impact of this matter cannot be determined with reasonable certainty at this stage.

PROSPECTS

Looking ahead, China's economy will continue to grow and remain as the world's industrial production base. With sustained growth in the corrugated paper-ware packaging market, the Group aims at increasing its market share, and ensures a stable growth through formulating long term and effective marketing policies. The Group will continue in acquiring new technology and equipment to enhance the production process in various aspects and increase its competitiveness, through which the Group will be well prepared to grasp the business opportunity arising in China and abroad.

To achieve a vertical integration of our operation model, the Group has planned at an early stage to produce one of the main raw materials for corrugated paper boards and carton boxes – corrugating medium, and we have already established our first corrugating medium plant, Green Forest. The plant was constructed in Taihe Industrial District, Qingxin County, Qingyuan City, Guangdong Province and commenced commercial production in February, 2006. It occupies a site area of about 700,000 sq. m. and its main product is high strength corrugating medium. With an annual production capacity of 100,000 tonnes, it will satisfy up to 30-40% of the Group's demand for raw materials.

In addition, the Group has also planned to construct (1) a new production line for another main raw material – kraft liner and (2) the Group's fourth plant for corrugated paper boards and carton boxes at the Green Forest site. The plant for kraft liner was founded in March, 2006 and is expected to be completed by the end of 2007. The completion of this production line will further reduce the Group's reliance on imported raw materials and would lower production cost and enhance product quality. The Group's fourth plant for corrugated paper boards and carton boxes is expected to be completed by mid-2007, paving the way for the Group to achieve the aim of increasing its market share.

HUMAN RESOURCES

As at 31st December, 2005, the Group and the processing factories employed a total workforce of around 1,200 full time staff (2004: 850). The increase was mainly attributable to our continuous business growth and upstream production. Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors namely, Mr. Liu Kwok Fai, Alvan, Mr. Chee Man Sang, Eric and Mr. Wong Chu Leung. The audit committee has reviewed with the management the audited consolidated financial statements of the Group for the year ended 31st December, 2005 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, 2005, the Company and its subsidiaries had not purchased, redeemed or sold any of the Company's listed securities on the Stock Exchange.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, during the year ended 31st December, 2005, 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 Board of Directors considers 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 relevant provision of the existing 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 and C.3.3

- Code provisions B.1.3 and C.3.3 stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective provisions.
- The terms of reference of the Remuneration Committee and the Audit Committee of the Company have been revised in May, 2005 to comply with the above code provisions with certain deviations. A major deviation from the code provision B.1.3 is that the Remuneration Committee of the Company should, pursuant to its revised terms of reference, review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of the Executive Directors only but not senior management.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) (both paragraphs inclusive) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

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, 19th April, 2006

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.