



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)

Interim Report
2005

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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, 2005 together with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Notes	Six months ended	
		30.6.2005 HK\$'000 (unaudited)	30.6.2004 HK\$'000 (unaudited and restated)
Turnover	5	376,794	361,513
Cost of sales		(302,995)	(289,176)
Gross profit		73,799	72,337
Other operating income		7,053	5,858
Distribution costs		(16,904)	(15,395)
Administrative expenses		(18,415)	(18,472)
Other operating expenses		(6,865)	(7,517)
Finance costs		(3,348)	(1,259)
Profit before taxation	6	35,320	35,552
Taxation	7	(436)	(4,012)
Profit for the period		34,884	31,540
Dividend	8	5,592	4,635
Earnings per share			
– basic (HK cents)	9	9.5	8.6
– diluted (HK cents)		9.4	8.5

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2005

	Notes	30.6.2005 HK\$'000 (unaudited)	31.12.2004 HK\$'000 (audited and restated)
Non-current assets			
Property, plant and equipment	10	212,434	143,883
Prepaid lease payments on land use rights		7,380	7,480
Prepayments under processing arrangement		16,385	16,803
Deposits paid for the acquisition of property, plant and equipment		29,199	22,428
		265,398	190,594
Current assets			
Inventories		70,095	59,033
Trade and other receivables	11	106,645	88,535
Deposits and prepayments		4,965	7,764
Prepaid lease payments on land use rights		200	200
Investment in equity-linked deposit		2,002	2,002
Bank balances and cash		175,501	133,446
		359,408	290,980
Current liabilities			
Trade and other payables	12	78,271	88,407
Taxation		21,422	12,495
Bank borrowings	13	107,719	50,504
Interest rates swap financial liabilities		177	–
		207,589	151,406
Net current assets			
		151,819	139,574
		417,217	330,168
Capital and reserves			
Share capital	14	36,792	36,783
Share premium and reserves		269,998	249,239
		306,790	286,022
Non-current liabilities			
Bank borrowings	13	110,427	35,655
Deferred taxation		–	8,491
		110,427	44,146
		417,217	330,168

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2004	36,504	168,468	(107,444)	–	–	127,420	224,948
Profit for the period	–	–	–	–	–	31,540	31,540
Recognition of equity-settled share based payments	–	–	–	–	259	–	259
Final dividend paid in respect of 2003 (note 8)	–	–	–	–	–	(4,600)	(4,600)
At 30th June, 2004	36,504	168,468	(107,444)	–	259	154,360	252,147
At 1st January, 2005							
– as originally stated	36,783	171,346	(107,444)	–	–	185,337	286,022
– recognition of equity-settled share based payments	–	–	–	–	221	(221)	–
– as restated	36,783	171,346	(107,444)	–	221	185,116	286,022
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	381	–	–	381
Profit for the period	–	–	–	–	–	34,884	34,884
Total recognised income for the period	–	–	–	381	–	34,884	35,265
Shares issued upon exercise of share options	9	100	–	–	–	–	109
Recognition of equity-settled share based payments	–	–	–	–	917	–	917
Final dividend paid in respect of 2004 (note 8)	–	–	–	–	–	(15,523)	(15,523)
At 30th June, 2005	36,792	171,446	(107,444)	381	1,138	204,477	306,790

Note: Special reserve represents the difference between the costs of investments in subsidiaries of the Company and the aggregate amount of the non-voting deferred share capital of Fung Kong Hop Fung Paper Ware Factory Limited and Gong Ming Hop Fung Paper Ware Factory Limited and the nominal value of the share capital of the subsidiaries acquired as a result of the group reorganisation in 2003.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Six months ended	
	30.6.2005 <i>HK\$'000</i> (unaudited)	30.6.2004 <i>HK\$'000</i> (unaudited)
Net cash from operating activities	12,441	45,974
Investing activities		
Purchases of property, plant and equipment	(78,795)	(31,164)
Other investing cash flows	(5,265)	1,104
Net cash used in investing activities	(84,060)	(30,060)
Financing activities		
New bank loans raised	144,329	–
Repayment of bank loans	(12,063)	(13,711)
Dividend paid	(15,523)	(4,600)
Other financing cash flows	(2,790)	(3,098)
Net cash from (used in) financing activities	113,953	(21,409)
Net increase (decrease) in cash and cash equivalents	42,334	(5,495)
Cash and cash equivalents at beginning of the period	133,118	79,299
Cash and cash equivalents at end of the period	175,452	73,804
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	175,501	73,804
Bank overdraft	(49)	–
	175,452	73,804

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 28th March, 2003 and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Hop Fung Industries (Holdings) Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, 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 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 income statement, balance sheet and the 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 period, 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”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-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 Note 4 for the financial impact).

Financial Instruments

In the current period, 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 statements of the Group. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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.

Derivatives

By 31st December, 2004, the Group did not recognise derivative embedded in a non-derivative host contract in 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 period 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 and 30th June, 2005 is immaterial.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, 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 4. 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 Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 19 Amendment	Employee benefits-actuarial gains and losses, group plans and disclosures
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS-Int 4	Determining whether an arrangement contains a lease
HKFRS-Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

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

The effects of the changes in the accounting policies described in note 3 on the results for the current and prior periods are as follows:

	Six months ended	
	30.6.2005 HK\$'000	30.6.2004 HK\$'000
Expenses in relation to share options granted to directors and employees	917	259
Losses arising from changes in fair value of interest rates swap financial liabilities	177	–
Decrease in profit for the period	1,094	259

Analysis of decrease in profit for the period by line items presented according to their functions:

	Six months ended	
	30.6.2005 HK\$'000	30.6.2004 HK\$'000
Increase in administrative expenses	917	259
Increase in finance costs	177	–
	1,094	259

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) <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	As at 31st December, 2004 and 1st January, 2005 (restated) <i>HK\$'000</i>
Balance sheet items			
Property, plant and equipment	151,563	(7,680)	143,883
Prepaid lease payments on land use rights	–	7,680	7,680
Total effects on assets and liabilities	151,563	–	151,563
Retained profits	185,337	(221)	185,116
Share options reserve	–	221	221
Total effects on equity	185,337	–	185,337

5. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amount received and receivable for goods sold during the period.

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 segment analysis is presented.

As at 31st December, 2004 and 30th June, 2005, all the Group's assets and liabilities are located in the PRC, including Hong Kong and Macau.

6. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2005 <i>HK\$'000</i>	30.6.2004 <i>HK\$'000</i> (restated)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation on prepaid lease payments	100	100
Depreciation of property, plant and equipment	9,824	7,727
Unrealised loss on investment in securities	–	210
Interest income	(486)	(144)

7. TAXATION

	Six months ended	
	30.6.2005 <i>HK\$'000</i>	30.6.2004 <i>HK\$'000</i>
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	8,927	1,552
Deferred taxation	(8,491)	2,460
	436	4,012

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30th June, 2004: 17.5%) on the estimated assessable profit for the period.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. 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.

8. DIVIDENDS

On 24th May, 2004, a dividend of 1.26 HK cents per share, totalling HK\$4,600,000, was paid to the shareholders as final dividend for the year ended 31st December, 2003.

On 16th June, 2005 and 17th June, 2005, a dividend of 4.22 HK cents per share, totalling HK\$15,523,000, was paid to the shareholders as final dividend for the year ended 31st December, 2004.

An interim dividend for the six months ended 30th June, 2005 of 1.52 HK cents per share, totalling HK\$5,592,000, has been declared by the Directors (six months ended 30th June, 2004: 1.26 HK cents per share, totalling HK\$4,635,000).

9. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2005 <i>HK\$'000</i>	30.6.2004 <i>HK\$'000</i> (restated)
Earnings		
Profit for the period	34,884	31,540
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	367,846,939	365,042,000
Effect of dilutive potential shares in respect of share options	4,904,372	3,857,557
Weighted average number of shares for the purpose of diluted earnings per share	372,751,311	368,899,557

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies is as follows:

	Basic <i>HK cents</i>	Diluted <i>HK cents</i>
Reconciliation of earnings per share for the six month ended 30th June, 2004:		
As originally stated	8.7	8.6
Adjustments arising from the changes in accounting policies	(0.1)	(0.1)
As restated	8.6	8.5

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$29 million on the final stage of construction of its new factory in the PRC and acquired approximately HK\$50 million on other plant and equipment in order to upgrade its manufacturing capabilities.

11. TRADE AND OTHER RECEIVABLES

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

An aged analysis of trade receivables is as follows:

	30.6.2005 <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i>
Current	86,773	83,101
Overdue 1 to 30 days	14,723	4,133
	101,496	87,234
Other receivables	5,149	1,301
	106,645	88,535

12. TRADE AND OTHER PAYABLES

	30.6.2005 <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i>
An aged analysis of the trade payables is as follows:		
Current	39,370	46,597
Overdue 1 to 30 days	134	5,745
Overdue 31 to 60 days	214	43
Overdue for more than 60 days	2,530	1,032
	42,248	53,417
Other payables and accrued charges	36,023	34,990
	78,271	88,407

13. BANK BORROWINGS

	30.6.2005 <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i>
Bank borrowings comprise:		
Trust receipts loans	68,665	24,336
Bank loans	149,432	61,495
Bank overdraft	49	328
	218,146	86,159

The bank loans obtained by the Group were used to finance the acquisition of property, plant and equipment.

14. SHARE CAPITAL

	Number of shares	Nominal value <i>HK\$'000</i>
Shares of HK\$0.10 each		
Authorised:		
At 1st January, 2005 and 30th June, 2005	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2005	367,836,000	36,783
Shares issued upon exercise of share options	90,000	9
At 30th June, 2005	367,926,000	36,792

15. CAPITAL COMMITMENTS

	30.6.2005 <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	41,328	40,392

16. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group had the following transactions with related companies:

Name of related company	Notes	Nature of transactions	Six months ended	
			30.6.2005 HK\$'000	30.6.2004 HK\$'000
Fung Kong Wing Lung Paper Ware Factory Limited				
("Fung Kong Wing Lung")	(i)	Sales of goods to	-	2,219
Hop Fung (Australia) Pty Ltd	(ii)	Agency services	-	-

Notes:

- (i) Fung Kong Wing Lung is a company owned by a sister of certain directors of the Company. Sales to Fung Kong Wing Lung were terminated subsequent to 31st March, 2004.
- (ii) The Group has engaged Hop Fung (Australia) Pty Ltd, a company in which a director of the Company has beneficial interest, as the Group's purchase agent in Australia at an annual fee of HK\$1 for the agency services rendered to the Group.
- (b) Key management compensation:

	Six months ended	
	30.6.2005 HK\$'000	30.6.2004 HK\$'000
Salaries and other short-term employee benefits	5,053	5,406
Post employment benefits	53	61

17. CONTINGENT LIABILITIES

On 9th December, 2004, tax audits have been commenced by the Hong Kong Inland Revenue Department (the "IRD") on certain subsidiaries of the Company, namely, Gong Ming Hop Fung Paper Ware Factory Limited, Fung Kong Hop Fung Paper Ware Factory Limited and Hop Fung (Overseas) Trading Limited, in respect of the years of assessment 1998/1999 to 2003/2004. On 26th January, 2005, whilst these cases are still under investigation, the IRD issued protective assessments for the year of assessment 1998/1999 to the above-mentioned subsidiaries in order not to jeopardise the assessment powers of the IRD which will be time-barred after 6 years of assessment. The Group's potential tax liabilities on these assessments amounted to approximately HK\$15,965,000. Objections have been filed against all these assessments and, accordingly, no provision has been made in the financial statements in respect of any potential tax liabilities.

Tax reserve certificates totaling HK\$480,000 in respect of the assessments for Gong Ming Hop Fung Paper Ware Factory Limited and Fung Kong Hop Fung Paper Ware Factory Limited, pending the outcome of the tax audits and the objections, were purchased in March 2005. The remaining amounts of tax demanded by the IRD have been held over unconditionally.

In the opinion of the Company's Directors, the potential tax liabilities that may arise as a result of the tax audits, if any, would not have any significant effects on the financial statements of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With sustainable economic growth in the PRC during the first half of 2005, the development in the manufacturing industry fostered the market demand for corrugated paper-ware products and thereby maintaining the corrugated paper-ware business of the Group. The increase of 7.2% in output as compared to the corresponding period last year was mainly attributable to the establishment of a wholly-owned foreign investment enterprise in Dongguan, Guangdong Province in March last year. Apart from that, the Group continued to provide high quality and high value-added products to customers by installing advanced and efficient carton boxes production facilities in different plants in addition to researching into and exploring new production technology.

During the period under review, the rapid rise in crude oil prices led to increase in transportation costs and raw material prices, thus casting pressure on the operating costs of the manufacturing industry. To minimize the influence, the Group strived for stricter cost control and internal capital management aside from improving production workflow and introducing flexible procurement and marketing strategies in providing customers with high quality corrugated paper-ware products. Hence, the Group's profit margin was maintained.

For the first half of 2005, the Group's turnover registered a growth of approximately 4.2% compared to the same period in the preceding year. The Group's net profit margin was approximately 9.3% (for the period ended 30th June, 2004: approximately 8.7%).

FINANCIAL REVIEW

Operating results

In the first half of 2005, the Group recorded 4.2% growth in turnover, rising from HK\$361.5 million to HK\$376.8 million. The growth was mainly contributed by the increase in sales of carton boxes. With effective cost control, gross profit margin only slightly fell by 0.4%, from 20% to 19.6% despite the rising prices of raw materials and oil. The administrative expenses and other operating expenses further declined by 0.3% and 8.7% respectively.

Net profit increased by approximately 10.6%, from HK\$31.5 million to HK\$34.9 million. The surge of net profit margin from 8.7% to 9.3% was primarily due to the reduction in effective tax rate. Basic earnings per share thus increased to 9.5 HK cents (2004: 8.6 HK cents). The Directors had recommended the payment of an interim dividend of 1.52 HK cents per share (2004: 1.26 HK cents).

Liquidity, financial and capital resources

The net cash inflow increased by HK\$42.1 million to HK\$175.5 million. (31st December, 2004: HK\$133.4 million). Net current assets and current ratio (current assets divided by current liabilities) was HK\$151.8 million (31st December, 2004: HK\$139.6 million) and 1.73 (31st December, 2004: 1.92) respectively.

During the first half of 2005, the Group spent HK\$15.5 million on dividend payment and further spent HK\$85.6 million on capital resources for new factory construction in Qingyuan, Guangdong Province for upstream production, and new production facilities in existing factories for expansion. The acquisition of fixed assets was wholly financed by the term loans newly raised from banks.

As at 30th June, 2005, the Group did not pledge any assets as security for borrowings. The Group's total borrowings increased from HK\$86.2 million (as at 31st December, 2004) to HK\$218.1 million. The increase was attributable to the rise in long-term borrowings of HK\$74.8 million and short-term borrowings of HK\$57.1 in financing fixed assets and procurement respectively. The ratio of long-term borrowings to short-term borrowings was 51:49 (31st December, 2004: 41:59). The Group has entered into agreements of interest rate swaps to minimize the adverse effect of increasing interest rates.

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 1998/1999 to certain subsidiaries of the Group during the period. 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 forward, the PRC should be able to maintain its economic growth in the second half of 2005. To maintain its advantageous competitive edge, the Group will further install advanced production equipment to raise productivity and to manufacture various kinds of corrugated paper-ware products. The Group's GongMing processing plant in Shenzhen, Guangdong Province installed a new production line for corrugated paperboards in mid 2005. This production line will be fully operated in the second half year, further raising the Group's total output.

Furthermore, as a major supplier of corrugated paper-ware products, the Group will continue to expand and strengthen its marketing team so that customers be provided with higher quality corrugated paper-ware products and more efficient services so as to enlarge the Group's market share.

As part of its effort in expanding into upstream corrugated paper-ware business, the Group has invested capital and technology in the construction of a medium paper plant in Qingyuan, Guangdong Province in the first half of the year. The project is now near completion and the new plant is expected to carry out pilot run in the fourth quarter of the year and commence production in early 2006. By then, the Group will have its own source of steady raw material supply, thus reducing dependence on outsourcing of high-cost raw materials and creating synergies which further lower the production costs and strengthen the competitive edge of the Group.

The Group is committed to carrying out stringent financial strategy, effective cost management and marketing strategies and further improving the production workflow for a stronger foundation and greater return in the future.

DISCLOSURE OF INTERESTS

Directors' interests in shares, underlying shares and debentures

As at 30th June, 2005, the interests and/or short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Shares

Name of director	Company/ Name of associated corporation	Capacity	Number and class of securities	Approximate percentage of issued share capital of the Company/ associated corporation
Mr. Hui Sum Kwok	Company	Founder of a discretionary trust/interest of controlled corporations	252,000,000 shares Long position (Note 1)	68.49%
Mr. Hui Sum Kwok	Company	Beneficial owner	2,522,000 shares Long position	0.69%
Mr. Hui Sum Kwok	Company	Interest of spouse	250,000 shares Long position	0.07%
Mr. Hui Sum Ping	Company	Founder of a discretionary trust/interest of controlled corporations	252,000,000 shares Long position (Note 1)	68.49%
Mr. Hui Sum Ping	Company	Beneficial owner	510,000 shares Long position	0.14%
Mr. Hui Sum Tai	Company	Beneficial owner	200,000 shares Long position	0.05%
Mr. Wong Wing Por	Company	Founder of a discretionary trust/interest of controlled corporations	Nil (Note 1)	-

Name of director	Company/ Name of associated corporation	Capacity	Number and class of securities	Approximate percentage of issued share capital of the Company/ associated corporation
Mr. Wong Wing Por	Company	Beneficial owner	600,000 shares Long position	0.16%
Ms. Hui Yuen Li	Company	Beneficial owner	250,000 shares Long position	0.07%
Mr. Hui Sum Kwok	Hop Fung Industries Limited ("Hop Fung Industries")	Founder of a discretionary trust/interest of controlled corporations	7,886 shares of US\$0.01 each Long position (Notes 1 and 2)	78.86%
Mr. Hui Sum Ping	Hop Fung Industries	Founder of a discretionary trust/ interest of controlled corporations	7,886 shares of US\$0.01 each Long position (Notes 1 and 2)	78.86%
Mr. Wong Wing Por	Hop Fung Industries	Founder of a discretionary trust/ interest of a controlled corporation	1,257 shares of US\$0.01 each Long position (Notes 1 and 2)	12.57%
Mr. Hui Sum Kwok	Hop Fung Industries (Holdings) Limited ("Hop Fung Industries BVI")	Beneficial owner/founder of a discretionary trust/ interest of a controlled corporation	5,000 shares of US\$0.01 each Long position (Notes 1 and 3)	50%
Mr. Hui Sum Ping	Hop Fung Industries BVI	Beneficial owner/founder of a discretionary trust/ interest of a controlled corporation	5,000 shares of US\$0.01 each Long position (Notes 1 and 3)	50%
Mr. Hui Sum Kwok	Gong Ming Hop Fung Paper Ware Factory Limited ("Hop Fung G/M")	Interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1 and 4)	100%

Name of director	Company/ Name of associated corporation	Capacity	Number and class of securities	Approximate percentage of issued share capital of the Company/ associated corporation
Mr. Hui Sum Ping	Hop Fung GM	Founder of a discretionary trust/interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1 and 4)	100%
Mr. Wong Wing Por	Hop Fung GM	Interest of controlled corporations/short position of a controlled corporation	Nil (Notes 1 and 4)	–
Mr. Hui Sum Kwok	Fung Kong Hop Fung Paper Ware Factory Limited ("Hop Fung FG")	Interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1, 4 and 5)	100%
Mr. Hui Sum Ping	Hop Fung FG	Founder of a discretionary trust/interest of controlled corporations/short position of controlled corporations	3,000,000 non-voting deferred shares of HK\$1 each Long and short positions (Notes 1, 4 and 5)	100%
Mr. Wong Wing Por	Hop Fung FG	Interest of a controlled corporation/short position of a controlled corporation	Nil (Notes 1, 4 and 5)	–
Mr. Hui Sum Kwok	Applewood Forest Limited	Founder of a discretionary trust	1 share of US\$1 Long position (Notes 1 and 6)	100%
Mr. Hui Sum Kwok	Profit Luck Limited	Founder of a discretionary trust	100 shares of HK\$1 each Long position (Notes 1, 6 and 7)	100%

Notes:

1. The 252,000,000 shares are owned by Hop Fung Industries. The issued share capital of Hop Fung Industries is owned as to 78.86%, 12.57% and 8.57% by Hop Fung Industries BVI, Delight Ocean Limited ("Delight") and Mr. Shum Lit Ki respectively.

The issued share capital of Hop Fung Industries BVI is owned as to 11.81%, 11.81%, 38.19% and 38.19% by Mr. Hui Sum Kwok, Mr. Hui Sum Ping, Fullwood Holdings Limited ("Fullwood") and Goldspeed Holdings Limited ("Goldspeed") respectively. Fullwood is wholly owned by Pinicity Investments Limited ("Pinicity") and Pinicity is wholly owned by HSBC International Trustee Limited ("HSBC") in its capacity as the trustee of Hui & Wong 2004 Family Trust, a discretionary trust the founder of which is Hui Sum Kwok and the discretionary objects of which include family members of Hui Sum Kwok. Goldspeed is wholly owned by Goldkeen Assets Management Limited ("Goldkeen") and Goldkeen is wholly owned by HSBC in its capacity as the trustee of HSP 2004 Family Trust, a discretionary trust the founder of which is Hui Sum Ping and the discretionary objects of which include family members of Hui Sum Ping. Accordingly, each of Hui Sum Kwok and Hui Sum Ping will be deemed to be interested in the 252,000,000 shares under the SFO.

Delight is wholly owned by Richfaith Assets Management Limited ("Richfaith") and Richfaith is wholly owned by HSBC in its capacity as the trustee of Wong's 2004 Family Trust, a discretionary trust the founder of which is Wong Wing Por and the discretionary objects of which include family members of Wong Wing Por.

2. Hop Fung Industries is a holding company of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung Industries is US\$100 divided into 10,000 shares of US\$0.01 each which is owned as to 7,886, 1,257 and 857 shares by Hop Fung Industries BVI, Delight and Mr. Shum Lit Ki respectively. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to be interested in the 7,886 shares of US\$0.01 each and Mr. Wong Wing Por is deemed to be interested in the 1,257 shares of US\$0.01 each in Hop Fung Industries.
3. Hop Fung Industries BVI is a holding company of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung Industries BVI is US\$100 divided into 10,000 shares of US\$0.01 each which is owned as to 1,181, 1,181, 3,819 and 3,819 shares by Mr. Hui Sum Kwok, Mr. Hui Sum Ping, Fullwood and Goldspeed respectively. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is interested and/or deemed to be interested in an aggregate of 5,000 shares of US\$0.01 each in Hop Fung Industries BVI.
4. Hop Fung GM is a subsidiary of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung GM is HK\$3,000,100 divided into 100 ordinary shares of HK\$1 each and 3,000,000 non-voting deferred shares of HK\$1 each. The 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung GM are beneficially owned by Hop Fung Group (HK) Limited ("Hop Fung Group HK") which is owned as to 78.86%, 12.57% and 8.57% by Hop Fung Holdings Limited ("Hop Fung Holdings (BVI)"), Mr. Wong Wing Por and Mr. Shum Lit Ki respectively.

The issued share capital of Hop Fung Holdings (BVI) is owned as to 50%, 11.81% and 38.19% by Mr. Hui Sum Kwok, Mr. Hui Sum Ping and Goldspeed respectively. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to be interested in the 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung GM.

Pursuant to an option deed dated 19th August, 2003, Hop Fung Group HK and its nominee granted to Hop Fung Group Company Limited ("Hop Fung Group (BVI)"), a wholly owned subsidiary of the Company, an option to purchase from them such 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung GM. Accordingly, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to have a short position in the underlying shares of the option granted under the option deed pursuant to the SFO.

5. Hop Fung FG is a subsidiary of the Company and therefore an associated corporation of the Company under the SFO. The entire issued share capital of Hop Fung FG is HK\$3,000,100 divided into 100 ordinary shares of HK\$1 each and 3,000,000 non-voting deferred shares of HK\$1 each. The 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung FG are beneficially owned by Hop Fung Group HK. Under the SFO, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to be interested in the 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung FG.

Pursuant to an option deed dated 19th August, 2003, Hop Fung Group HK and its nominee granted to Hop Fung Group (BVI) an option to purchase from them such 3,000,000 non-voting deferred shares of HK\$1 each in Hop Fung FG. Accordingly, each of Mr. Hui Sum Kwok and Mr. Hui Sum Ping is deemed to have a short position in the underlying shares of the option granted under the option deed pursuant to the SFO.

6. Applewood Forest Limited ("Applewood") is a company incorporated in the British Virgin Islands. The entire issued share capital of Applewood is US\$1 comprising 1 share of US\$1 which is owned by HSBC in its capacity as the trustee of Hui & Wong 2004 Family Trust. Applewood is an associated corporation of the Company under the SFO. Under the SFO, Mr. Hui Sum Kwok is deemed to be interested in the 1 share of US\$1 in Applewood owned by HSBC in its capacity as the trustee of Hui & Wong 2004 Family Trust.
7. Profit Luck Limited ("Profit") is a company incorporated in Hong Kong. The entire issued share capital of Profit is HK\$100 comprising 100 shares of HK\$1 each which is indirectly owned by HSBC through its wholly owned subsidiary, Applewood. Details of Applewood are set out in note 6 above.

(b) Share Options

Details of the directors' and their associates' interests in share options of the Company are set out in the section headed "Share Options" below.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2005.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of shareholder	Capacity	Number of issued shares held	Note(s)	Approximate percentage of issued share capital
Hop Fung Industries	Beneficial owner	252,000,000	1	68.49%
Hop Fung Industries BVI	Interest of a controlled corporation	252,000,000	1 and 2	68.49%
Fullwood	Interest of controlled corporations	252,000,000	1, 2, 3 and 4	68.49%
Pinecity	Interest of controlled corporations	252,000,000	1, 2, 3 and 4	68.49%
Goldspeed	Interest of controlled corporations	252,000,000	1, 2, 3 and 5	68.49%
Goldkeen	Interest of controlled corporations	252,000,000	1, 2, 3 and 5	68.49%
HSBC	Trustee of discretionary trust/interest of controlled corporations	253,146,000	1, 2, 3, 4 and 5	68.80%
Mr. Hui Sum Kwok	Beneficial owner/founder of a discretionary trust/interest of controlled corporations/ interest of spouse	254,772,000	1, 2, 3 and 4	69.25%
Mr. Hui Sum Ping	Beneficial owner/founder of a discretionary trust/interest of controlled corporations	252,510,000	1, 2, 3 and 5	68.63%
Ms. Wong Mui	Beneficial owner/interest of spouse	254,772,000	1, 2, 3, 4 and 6	69.25%
Ms. Jian Jian Yi	Interest of spouse	252,510,000	1, 2, 3, 5 and 7	68.63%
Hallgain Management Limited	Interest of controlled corporations	29,382,000	8	7.99%
Kingboard Chemical Holdings Limited	Beneficial owner/interest of controlled corporations	29,382,000	9	7.99%

Notes:

1. The 252,000,000 shares are owned by Hop Fung Industries.
2. The issued share capital of Hop Fung Industries is owned as to 78.86%, 12.57% and 8.57% by Hop Fung Industries BVI, Delight and Mr. Shum Lit Ki respectively and Hop Fung Industries BVI is deemed to be interested in the 252,000,000 shares under the SFO.
3. The issued share capital of Hop Fung Industries BVI is owned as to 11.81%, 11.81%, 38.19% and 38.19% by Mr. Hui Sum Kwok, Mr. Hui Sum Ping, Fullwood and Goldspeed respectively.

4. The entire issued share capital of Fullwood is indirectly held by HSBC through its 100% controlled corporation, Pinacity in its capacity as the trustee of Hui & Wong 2004 Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Kwok and the discretionary objects of which include family members of Mr. Hui Sum Kwok. Accordingly, each of Fullwood, Pinacity, HSBC and Mr. Hui Sum Kwok is deemed to be interested in the 252,000,000 shares under the SFO.
5. The entire issued share capital of Goldspeed is indirectly held by HSBC through its 100% controlled corporation Goldkeen in its capacity as the trustee of HSP 2004 Family Trust, a discretionary trust the founder of which is Mr. Hui Sum Ping and the discretionary objects of which include family members of Mr. Hui Sum Ping. Accordingly, each of Goldspeed, Goldkeen, HSBC and Mr. Hui Sum Ping is deemed to be interested in the 252,000,000 shares under the SFO.
6. Ms. Wong Mui is directly interested in 500,000 shares of the Company and is deemed to be interested in 254,272,000 shares under the SFO as she is the spouse of Mr. Hui Sum Kwok, a director of the Company.
7. Ms. Jian Jian Yi is deemed to be interested in these 252,510,000 shares under the SFO as she is the spouse of Mr. Hui Sum Ping, a director of the Company.
8. Hallgain Management Limited is deemed to be interested in 29,382,000 shares of the Company, which are directly or indirectly held by Kingboard Chemical Holdings Limited, by virtue of its holdings of approximately 36.2% interests in the issued share capital of Kingboard Chemical Holdings Limited.
9. Kingboard Chemical Holdings Limited is directly interested in 3,922,000 shares of the Company and is deemed to be interested in 25,460,000 shares of the Company as held by certain of its subsidiaries.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2005.

SHARE OPTIONS

The Company's share option scheme ("the Scheme") was adopted pursuant to a resolution passed on 4th September, 2003 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Scheme will expire on 3rd September, 2013.

The following table discloses movements in the Company's share options during the period:

Category	Option type (Note 1)	Date of grant	Exercisable price HK\$	Outstanding at beginning of period	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at end of period
Directors								
Mr. Hui Sum Kwok (Note 2)	A	3.11.2003	1.130	1,614,000	-	-	-	1,614,000
	B	29.7.2004	1.330	450,000	-	-	-	450,000
	C	4.11.2004	1.104	2,250,000	-	-	-	2,250,000
Mr. Hui Sum Ping	A	3.11.2003	1.130	2,726,000	-	-	-	2,726,000
	B	29.7.2004	1.330	950,000	-	-	-	950,000
	C	4.11.2004	1.104	2,250,000	-	-	-	2,250,000
Mr. Hui Sum Tai	A	3.11.2003	1.130	3,600,000	-	-	-	3,600,000
	B	29.7.2004	1.330	70,000	-	-	-	70,000
	C	4.11.2004	1.104	2,250,000	-	-	-	2,250,000
Mr. Wong Wing Por	A	3.11.2003	1.130	2,100,000	-	-	-	2,100,000
	B	29.7.2004	1.330	970,000	-	-	-	970,000
	C	4.11.2004	1.104	2,250,000	-	-	-	2,250,000
Ms. Hui Yuen Li	A	3.11.2003	1.130	250,000	-	-	-	250,000
	B	29.7.2004	1.330	3,170,000	-	-	-	3,170,000
Mr. Liu Kwok Fai, Alvan	A	3.11.2003	1.130	250,000	-	-	-	250,000
Mr. Chee Man Sang, Eric	A	3.11.2003	1.130	250,000	-	-	-	250,000
				25,400,000	-	-	-	25,400,000
Other employees								
	A	3.11.2003	1.130	1,932,000	-	(50,000)	(10,000)	1,872,000
	B	29.7.2004	1.330	5,390,000	-	(40,000)	(20,000)	5,330,000
				7,322,000	-	(90,000)	(30,000)	7,202,000
Total all categories				32,722,000	-	(90,000)	(30,000)	32,602,000

Notes:

- The vesting period of the share options granted is determined by directors each time when the options are granted. Holders of share options granted under the Scheme may only exercise their options during the exercisable periods as follows:

Option type A	Option type B	Option type C	Maximum % of share options exercisable
3.5.2004 - 3.11.2004	1.1.2005 - 31.12.2005	1.3.2005 - 28.2.2006	up to 50%
4.11.2004 - 3.11.2005	1.1.2006 - 31.12.2006	1.3.2006 - 28.2.2007	up to 75% (to the extent not already exercised)
4.11.2005 - 3.11.2006	1.1.2007 - 31.12.2007	1.3.2007 - 29.2.2008	up to 100% (to the extent not already exercised)

- Out of the 1,614,000 share options granted, Mr. Hui Sum Kwok was directly interested in 1,364,000 share options granted to him and was deemed to be interested in 250,000 share options granted to Ms. Wong Mui, who is the spouse of Mr. Hui Sum Kwok and a member of the senior management of the Group.

The closing prices of the Company's shares on 25th May, 2005 and 9th June, 2005, the dates immediately before the dates on which the options were exercised were HK\$1.48 and HK\$1.32 per share respectively.

OTHER INFORMATION

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors had declared an interim dividend of 1.52 HK cents per share for the six months ended 30th June, 2005 (2004: 1.26 HK cents per share) to be payable on or about 21st October, 2005 to those shareholders whose names appear on the register of members of the Company on 14th October, 2005.

The register of members of the Company will be closed from 12th October, 2005 to 14th October, 2005, 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, Abacus Share Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 10th October, 2005.

HUMAN RESOURCES

As at 30th June, 2005, the Group and the processing factories employed a total workforce of around 880 full time staff (31st December, 2004: 850). 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the six months ended 30th June, 2005.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed with the management the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2005, and has also discussed the internal control, the accounting principles and practices adopted by the Group.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30th June, 2005 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has adopted on 21st April, 2005 its own code of conduct regarding securities transactions by the Directors on fee no less exacting than the required standard as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange. All the Directors confirmed they have complied with the Model Code during the six months ended 30th June, 2005.

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, 22nd September, 2005

Board of Directors:

Executive

Mr. Hui Sum Kwok

Mr. Hui Sum Ping

Mr. Hui Sum Tai

Mr. Wong Wing Por

Ms. Hui Yuen Li

Independent Non-Executive

Mr. Liu Kwok Fai, Alvan

Mr. Chee Man Sang, Eric

Mr. Wong Chu Leung