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合豐集團控股有限公司

**HOP FUNG GROUP HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 2320

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31ST DECEMBER, 2014**

**FINANCIAL HIGHLIGHTS**

	<b>2014</b>	<b>2013</b>	<b>Change</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Revenue	<b>1,097.1</b>	1,026.6	+6.9%
Profit from operation*	<b>11.3</b>	5.3	+113.2%
Gain on disposal of a subsidiary	<b>378.8</b>	–	n/a
Net gearing ratio	<b>8.1%</b>	35.3%	-27.2pp

\* *Excluding unrealized changes in fair value of derivative financial instruments*

The board of directors (the “Board” or “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, 2014 together with the comparative figures for the year ended 31st December, 2013 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
**For the year ended 31st December, 2014**

	<i>Notes</i>	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Revenue	2	<b>1,097,102</b>	1,026,623
Cost of sales		<b>(913,496)</b>	(853,037)
Gross profit		<b>183,606</b>	173,586
Other income		<b>15,888</b>	12,666
Selling and distribution costs		<b>(63,522)</b>	(60,423)
Administrative expenses		<b>(75,178)</b>	(71,602)
Other expenses		<b>(24,707)</b>	(23,735)
Finance costs	3	<b>(21,499)</b>	(24,737)
Changes in fair value of derivative financial instruments		<b>147</b>	4,329
Gain on disposal of a subsidiary	10	<b>378,802</b>	–
Profit before taxation		<b>393,537</b>	10,084
Income tax expense	4	<b>(4,365)</b>	(4,186)
Profit for the year, attributable to owners of the Company	5	<b>389,172</b>	5,898
Other comprehensive (expense) income for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		<b>(9,853)</b>	27,315
Total comprehensive income for the year, attributable to owners of the Company		<b>379,319</b>	33,213
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7		
– basic		<b>53.70</b>	0.81
– diluted		<b>52.90</b>	0.81

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**At 31st December, 2014**

	<i>Notes</i>	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>1,371,405</b>	1,429,963
Prepaid lease payments on land use rights		<b>16,684</b>	22,887
Receivables from disposal of a subsidiary	<i>10</i>	<b>229,068</b>	–
		<u><b>1,617,157</b></u>	<u>1,452,850</u>
<b>Current assets</b>			
Inventories		<b>111,361</b>	102,296
Trade and other receivables	<i>8</i>	<b>207,025</b>	220,132
Deposits and prepayments		<b>5,782</b>	7,490
Prepaid lease payments on land use rights		<b>425</b>	627
Derivative financial instruments		<b>68</b>	1,173
Bank balances and cash		<b>393,988</b>	239,767
		<u><b>718,649</b></u>	<u>571,485</u>
<b>Current liabilities</b>			
Trade, bills and other payables	<i>9</i>	<b>232,278</b>	180,592
Taxation payable		<b>11,509</b>	11,384
Derivative financial instruments		<b>48</b>	222
Unsecured bank borrowings		<b>297,249</b>	348,195
		<u><b>541,084</b></u>	<u>540,393</u>
<b>Net current assets</b>		<u><b>177,565</b></u>	<u>31,092</u>
<b>Total assets less current liabilities</b>		<u><b>1,794,722</b></u>	<u>1,483,942</u>
<b>Capital and reserves</b>			
Share capital		<b>72,831</b>	72,439
Share premium and reserves		<b>1,461,618</b>	1,077,359
<b>Total equity, attributable to owners of the Company</b>		<u><b>1,534,449</b></u>	<u>1,149,798</u>
<b>Non-current liabilities</b>			
Unsecured bank borrowings		<b>221,070</b>	297,425
Deferred taxation		<b>39,203</b>	36,719
		<u><b>260,273</b></u>	<u>334,144</u>
		<u><b>1,794,722</b></u>	<u>1,483,942</u>

**Notes:**

**1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

In the current year, the Group has applied the following amendments to HKFRSs and a new Interpretation issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKFRS 10, HKFRS 12 and Hong Kong Accounting Standard (“HKAS”) 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the amendments to HKFRSs and a new Interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>4</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>4</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>4</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>4</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle <sup>5</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle <sup>4</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1st January, 2018, with earlier application permitted.
- <sup>2</sup> Effective for annual periods beginning on or after 1st January, 2017, with earlier application permitted.
- <sup>3</sup> Effective for annual periods beginning on or after 1st July, 2014, with earlier application permitted.
- <sup>4</sup> Effective for annual periods beginning on or after 1st January, 2016, with earlier application permitted.
- <sup>5</sup> Effective for annual periods beginning on or after 1st July, 2014, with limited exceptions. Earlier application is permitted.

### ***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Directors of the Company will assess the impact of the application of HKFRS 9. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### ***HKFRS 15 Revenue from Contracts with Customers***

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors of the Company will assess the impact of the application of HKFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Other than as described above, the Directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 2. REVENUE AND SEGMENT INFORMATION

### Revenue

Revenue represents the gross proceeds received and receivable on the sale of goods during the year, net of discounts and sales related tax.

### Segment information

The Group's operations are organised based on the differences in products. Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purpose of resource allocation and assessment of segment performance is analysed based on the difference in products. No operating segments identified by CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments are categorised into the 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 segment:

### Segment revenues and results

For the year ended 31st December, 2014

	Containerboard <i>HK\$'000</i>	Corrugated Packaging <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales	291,621	805,481	1,097,102	-	1,097,102
Inter-segment sales	616,026	-	616,026	(616,026)	-
Total	<u>907,647</u>	<u>805,481</u>	<u>1,713,128</u>	<u>(616,026)</u>	<u>1,097,102</u>
<b>RESULT</b>					
Segment profit	<u>26,876</u>	<u>9,211</u>	<u>36,087</u>	<u>-</u>	36,087
Finance costs					(21,499)
Changes in fair value of derivative financial instruments					147
Sub-total					14,735
Gain on disposal of a subsidiary					378,802
Profit before taxation					<u>393,537</u>

For the year ended 31st December, 2013

	Containerboard <i>HK\$'000</i>	Corrugated Packaging <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales	186,790	839,833	1,026,623	–	1,026,623
Inter-segment sales	677,073	485	677,558	(677,558)	–
Total	<u>863,863</u>	<u>840,318</u>	<u>1,704,181</u>	<u>(677,558)</u>	<u>1,026,623</u>
<b>RESULT</b>					
Segment profit	<u>20,291</u>	<u>10,201</u>	<u>30,492</u>	<u>–</u>	30,492
Finance costs					(24,737)
Changes in fair value of derivative financial instruments					<u>4,329</u>
Profit before taxation					<u>10,084</u>

Inter-segment sales are charged at prevailing market rates. No revenue from any single customer during the year contributed over 10% of the total revenue of the Group for both years.

### 3. FINANCE COSTS

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	<u>21,499</u>	<u>24,737</u>

### 4. INCOME TAX EXPENSE

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	755	854
People's Republic of China ("PRC") Enterprise Income Tax	<u>1,126</u>	<u>972</u>
	<b>1,881</b>	1,826
Deferred tax	<u>2,484</u>	<u>2,360</u>
	<b>4,365</b>	<b>4,186</b>

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



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 complementary 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.

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.

## 5. PROFIT FOR THE YEAR, ATTRIBUTABLE TO OWNERS OF THE COMPANY

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Profit for the year, attributable to owners of the Company, has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	<b>913,496</b>	853,037
Allowance for inventories (included in "cost of sales" and "cost of inventories recognised as expenses")	–	145
Depreciation of property, plant and equipment	<b>79,140</b>	79,192
Provision for (reversal of) impairment losses on trade receivables (included in "other expenses")	<b>414</b>	(804)
Staff costs	<b>135,316</b>	87,118

## 6. DIVIDENDS

A final dividend of HK1.50 cents (2013: HK nil cents) per ordinary share amounting to HK\$10,925,000 (2013: HK\$ nil) in respect of the year ended 31st December, 2014 has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

## 7. 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:

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share	<b>389,172</b>	5,898

	2014	2013
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	724,686,539	724,386,000
Effect of dilutive potential ordinary shares in respect of share options	<u>10,931,187</u>	<u>172,406</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>735,617,726</u></u>	<u><u>724,558,406</u></u>

#### 8. TRADE AND OTHER RECEIVABLES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade receivables	202,457	202,222
Less: allowance for doubtful debts	<u>(907)</u>	<u>(496)</u>
	201,550	201,726
Other receivables ( <i>Note</i> )	<u>5,475</u>	<u>18,406</u>
Total trade and other receivables	<u><u>207,025</u></u>	<u><u>220,132</u></u>

*Note:* During the year ended 31st December, 2011, the Group received a notification from the PRC local government for the return of a piece of land for its redevelopment purposes. The Group paid RMB12,000,000 in prior years to acquire that piece of land and the amount was previously included in the “prepaid lease payments on land use rights”. The Group did not receive the formal legal title of that piece of land and the carrying amount of that piece of land as at 31st December, 2011 amounted to HK\$14,670,000. Upon receipt of the notification, the Group reclassified the amount of HK\$14,670,000 from “prepaid lease payments on land use rights” to “other receivables”.

During the year ended 31st December, 2012, the Higher People’s Court of Guangdong Province ordered the PRC local government to compensate the Group for an amount of RMB12,000,000 (equivalent to HK\$15,000,000) and the related interests.

On 21st March, 2014, an agreement (the “Agreement”) was entered into between a subsidiary of the Company and the PRC local government that the latter would repay the amount to the Group within 30 business days after the date of the Agreement. Accordingly, the amount of RMB12,000,000 (equivalent to HK\$15,000,000) was fully settled on 18th April, 2014.

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, which approximates the respective revenue recognition dates, at the end of the reporting period:

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within 30 days	<b>194,446</b>	189,018
31 – 60 days	<b>4,607</b>	10,010
61 – 90 days	<b>1,549</b>	909
Over 90 days	<b>948</b>	1,789
	<b>201,550</b>	201,726

Before accepting any new customer, the Group uses an external litigation search to assess the potential customer's credit quality and defines credit limits on a customer-by-customer basis. Limits and scoring attributed to customers are reviewed monthly. Trade receivables that are neither past due nor impaired relate to customers for whom there was no recent history of default.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK\$42,629,000 (2013: HK\$51,281,000) which were past due at the reporting date for which the Group has not provided for impairment loss. Such amount relates to a number of independent customers that have good trade and payment records with the Group. There has not been a significant change in credit quality of the relevant customers and the Group believes that the balances are still recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 67 days (2013: 64 days) based on invoice dates.

## 9. 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:

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current	<b>66,459</b>	77,279
Overdue 1 to 30 days	<b>7,312</b>	1,830
Overdue 31 to 60 days	<b>260</b>	4,720
Overdue for more than 60 days	<b>2,271</b>	2,434
	<b>76,302</b>	86,263
Payables for the acquisition of property, plant and equipment	<b>13,052</b>	13,289
Other payables and accrued charges ( <i>Note</i> )	<b>142,924</b>	81,040
	<b>232,278</b>	180,592

*Note:* Included in other payables and accrued charges, amount of HK\$61,055,000 represents transaction costs incurred for the disposal of a subsidiary during the year ended 31st December, 2014.

The average credit period on purchases of goods is 39 days (2013: 61 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

## 10. DISPOSAL OF A SUBSIDIARY

On 24th October, 2014, Hop Fung Group Company Limited (“HFGC”), a wholly-owned subsidiary of the Company, entered into two equity transfer agreements (the “Equity Transfer Agreements”) with two independent third parties (the “Purchasers”). Pursuant to the Equity Transfer Agreements, HFGC agreed to sell and the Purchasers agreed to purchase 51% and 49% equity interests in Fung Kong Hop Fung Paper Ware Factory Limited (“FKHF”), a wholly-owned subsidiary of HFGC, respectively for each purchaser, at an aggregate cash consideration of RMB380,000,000 (equivalent to HK\$481,173,000).

The entire equity transfer would be completed by two stages and within two years after completion of the first stage. The first stage of the transactions for transfer of 49% equity interest was completed on 23rd December, 2014, and the remaining 51% interests will be transferred by the end of 2016. Along with that Equity Transfer Agreements, there are contractual arrangements between HFGC and the Purchasers, limiting the HFGC’s controlling power on FKHF after the completion of the first stage.

Based on all the terms and conditions of the arrangements (which were entered into at the same time and in contemplation of each other) and their economic effects, the Directors of the Company consider the overall commercial effect of the two transactions is to dispose of FKHF. Furthermore, the Group ceased to exercise powers to direct the relevant activities of FKHF after the completion of the first stage of the transactions. Accordingly, the transactions are treated as a single transaction whereby the Group has lost control over FKHF at the date of completion of the first stage of the transactions. Gain on disposal of FKHF of HK\$378,802,000, which is calculated as the difference between the fair value of the consideration, net of transaction costs, and the previous carrying amount of the assets and liabilities of FKHF, is recognised in profit or loss.

### Consideration received/receivables

	<i>HK\$’000</i>
Cash consideration	235,857
Present value of cash consideration receivables	229,068
	<hr/>
Total consideration	464,925
	<hr/> <hr/>

### Analysis of assets over which control was lost

	<i>HK\$’000</i>
Current assets	
Bank balances and cash	1
Other receivable	12
Prepaid lease payments on land use rights	200
Non-current assets	
Property, plant and equipment	8,629
Prepaid lease payments on land use rights	5,480
	<hr/>
Net assets disposed of	14,322
	<hr/> <hr/>

### Gain on disposal of a subsidiary

	<i>HK\$’000</i>
Total consideration	464,925
Net assets disposed of	(14,322)
Transaction costs incurred in connection with the disposal	(71,801)
	<hr/>
Gain on disposal	378,802
	<hr/> <hr/>

**Net cash inflow arising on disposal of a subsidiary**

	<i>HK\$'000</i>
Total cash consideration received	235,857
Transaction costs paid in connection with the disposal	(10,746)
Cash and cash equivalents disposed of	(1)
	<hr/>
	225,110
	<hr/> <hr/>

**FINAL DIVIDEND**

The Directors have proposed a final dividend of HK1.50 cents per share (2013: HK nil cents per share) for the year ended 31st December, 2014 payable to shareholders of the Company whose names appear on the Register of Members on 12th June, 2015. The final dividend is subject to approval by the shareholders of the Company in the forthcoming annual general meeting. It is expected that the final dividend will be paid in June 2015.

**ANNUAL GENERAL MEETING**

The annual general meeting of the Company will be held at Ming Room II, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 8th June, 2015 at 10:30 a.m. Notice of the annual general meeting will be published and issued to shareholders of the Company in due course.

**CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE**

The register of members of the Company will be closed from Thursday, 4th June, 2015 to Monday, 8th June, 2015, both dates inclusive, during which period no transfer of shares of the Company will be registered and no shares will be allotted and issued on the exercise of the subscription rights attaching to the outstanding share options granted by the Company. In order to qualify for attending the annual general meeting of the Company to be held on Monday, 8th June, 2015, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 3rd June, 2015.

For determining the entitlement to the proposed final dividend (subject to approval by the shareholders at the Annual General Meeting), the record date will be Friday, 12th June, 2015. In order to qualify for the proposed final dividend, all unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 11th June, 2015.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The corrugated packaging industry was still in over supply in 2014. Selling prices were under pressure, falling by around 3% to 7%, and market demand growth was limited due to a slowing economy. Thankfully, improvements to the Group's marketing strategy resulted in higher sales volume and revenue rose 6.9% for the year. For the first half of 2014, revenue rose 8.4% against the first half of 2013. Revenue for the second half of 2014 rose 21.0% compared to the first half of 2014, and 5.7% compared to the second half of 2013. Export and domestic revenue rose 10.8% and 6.1%, respectively, in 2014.

The Group's upstream operation, producing linerboard and corrugating medium, mainly supplies to the Group's downstream business, making corrugated paperboards and carton boxes. In addition, depending on market conditions, our upstream products can also be sold directly to customers, and in 2014 around 32% of upstream products were directly sold to customers. The upstream and downstream businesses accounted for around 27% and 73% of revenue in 2014, respectively. Upstream revenue rose around 56%, with lower selling prices but higher volumes, and capacity utilization came to more than 80%. Downstream revenue fell around 4%, with lower selling prices and flat volumes, and capacity utilization came to more than 60%.

Prices for waste paper, our main raw materials, fell slightly year on year, but we saw pressure from higher wages and shipping costs. Continuous improvements in production methods to improve efficiency and reduce wastage have resulted in cost increases that were aligned to revenue gains.

The Group sold a subsidiary in December 2014, which had minimal impact on our core operations. We expect to move two downstream production lines in two years' time, and during removal the short fall in capacity can be taken up by other production lines. The subsidiary was sold for RMB380,000,000, of which 49% had already been received with the remaining 51% due in December 2016. This disposal results in a net gain of HK\$378,802,000 which substantially builds up our cash position and enhances our financial position.

### **FINANCIAL REVIEW**

#### **Operating results**

The Group recorded a rise in revenue by 6.9%, from HK\$1,026.6 million in 2013 to HK\$1,097.1 million in 2014. The effect of the drop in average selling price was offset by the growth in sales volume, leading to such increase.

The rise in cost of sales by 7.1% was in line with the rise in revenue. Gross profit increased 5.8%, from HK\$173.6 million to HK\$183.6 million. Gross profit margin was 16.7% (2013: 16.9%).

The increase in other income from HK\$12.7 million to HK\$15.9 million was mainly attributable to the interest income earned from receivable.

Selling and distribution costs increased in line with the rise in revenue by 5.1% from HK\$60.4 million to HK\$63.5 million.

There was an increase of 5.0% in administrative expenses from HK\$71.6 million to HK\$75.2 million. Such increment was caused by increasing staff cost and the share based payment arising from the grant of share options in October 2013.

Other expenses increased 4.2%, from HK\$23.7 million to HK\$24.7 million. The rise was predominantly due to exchange loss arising from the depreciation of Renminbi. Provision for doubtful debts of HK\$0.4 million was made for the year.

EBITDA from operation (earnings before interest, tax, depreciation and amortization and unrealized changes in fair value of derivative financial instruments) rose 2.5%, from HK\$114.0 million to HK\$116.9 million.

A decline in finance costs of 13.0%, from HK\$24.7 million to HK\$21.5 million, was owing to lower average borrowing level maintained throughout the year.

Unrealized changes in fair value of derivative financial instruments of HK\$0.9 million was only recognized for accounting purpose. It was non-cash in nature and would be reversed to zero at maturity date.

Profit from operation (excluding unrealized changes in fair value of derivative financial instruments) rose HK\$6.0 million from HK\$5.3 million to HK\$11.3 million. The profit margin from operation improved from 0.5% to 1.0%. The rise was mainly resulted from growth in sales volume and fall in finance cost.

Gain on disposal of a subsidiary of HK\$378.8 million arose from the disposal of FKHF, a subsidiary of HFGC. It represents the net gain from the disposal, being the cash consideration received and the present value of the cash consideration receivables less transaction costs and the carrying amount of assets and liabilities of FKHF before disposal. The details of the disposal were stated in the circular issued by the Group on 27th November, 2014.

Both basic and diluted earnings per share increased from 0.81 HK cents to 53.70 HK cents and 52.90 HK cents respectively.

### **Liquidity, financial and capital resources**

At 31st December, 2014, the Group's total cash and cash equivalents were HK\$394.0 million (31st December, 2013: HK\$239.8 million), mostly denominated in Renminbi. The surge was primarily come from the cash inflow from disposal of a subsidiary near year end.

Net current assets and current ratio of the Group were HK\$177.6 million (31st December, 2013: HK\$31.1 million) and 1.33 (31st December, 2013: 1.06) respectively.

The Group spent HK\$37.5 million on capital expenditures for maintenance and technical upgrade to the production lines and the ancillary facilities.

Stock turnover days decreased from 53 days to 43 days. Debtors turnover days increased from 64 days to 67 days. Creditors turnover days decreased from 61 days to 39 days.

Total bank borrowings fell HK\$127.3 million, from HK\$645.6 million to HK\$518.3 million. Gearing ratio was greatly improved, declining from 56.2% to 33.8%. The current bank borrowings were down HK\$51.0 million and the non-current bank borrowings were down HK\$76.3 million. The balance for total bank borrowings net of bank balances and cash dropped HK\$281.5 million, from HK\$405.8 million to HK\$124.3 million. Net gearing ratio was enormously improved, falling from 35.3% to 8.1%.

Receivable from disposal of a subsidiary of HK\$229.1 million represents the present value of the remaining 51% of the cash consideration receivable from the completion of the disposal in December 2016.

### **Contingent liabilities**

The tax audits conducted by the Inland Revenue Department (“IRD”) on the Company and its subsidiaries for the years of assessment 2004/2005 to 2010/2011 are still on-going. The IRD had issued protective assessments for the years of assessment 2004/2005 to 2010/2011 to certain subsidiaries of the Group. Objections were lodged against all these assessments. The Directors believe that no additional provision for Hong Kong profits tax is necessary at the present stage. The outcome and impact of this matter cannot be determined with reasonable certainty.

### **OUTLOOK**

We expect gradual improvements to the global economy. Both exports and domestic sales should see growth. The Renminbi exchange rate is fluctuating but is less volatile compared to other global currencies. Tightening environmental protection regulations in China are prompting capacity closures in the corrugated packaging industry. We expect relief on the over-supply situation in the industry to prompt a recovery in pricing to more reasonable levels. Our strategy is to improve our production efficiency, increase our sales volume and reduce our raw materials wastage and energy usage to offset the impact of rising costs, in order to improve profitability for the Group.

### **HUMAN RESOURCES**

As at 31st December, 2014, the Group and the processing factory employed a total workforce of around 1,100 full time staff (2013: 1,150). 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, Messrs. Chee Man Sang, Eric, Yip Kwok Kwan and Wong Chu Leung. The audit committee has reviewed with the management this results announcement and the audited consolidated financial statements of the Group for the year ended 31st December, 2014 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**

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31st December, 2014.

## **CORPORATE GOVERNANCE**

The Directors strive 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 met the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31st December, 2014, 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 B.1.2**

- A deviation from the code provision B.1.2 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.

### **Code Provision C.3.3**

- Code Provision C.3.3 stipulates that the audit committee must meet, at least twice a year, with the Company's auditor.

- Since the Company has not engaged its auditor to review the financial information in its interim report, the audit committee has met with the Company's auditor once a year to discuss matters arising from the audit of the Company's annual results and other matters the auditor may wish to raise. The audit committee has met with the Company's auditor once during the year ended 31st December, 2014.

### **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31st December, 2014 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

### **PUBLIC FLOAT**

As far as the Company is aware, more than 25% of the issued shares of the Company were held in public hands as at 31st December, 2014.

### **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This results announcement is published on the Company's website ([www.hopfunggroup.com](http://www.hopfunggroup.com)) and the website of Hong Kong Exchanges and Clearing Limited (the "HKEX") ([www.hkexnews.hk](http://www.hkexnews.hk)).

The annual report of the Company for the year ended 31st December, 2014 will be dispatched to the Company's shareholders in April 2015 and it will be available at the Company's website and HKEX's website.

### **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.

On behalf of the Board  
**Hui Sum Kwok**  
*Chairman*

Hong Kong, 30th March, 2015

*As at the date of this announcement, the executive directors of the Company are Messrs. Hui Sum Kwok, Hui Sum Ping, Hui Sum Tai and Miss 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.*