HOP FUNG GROUP

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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2320

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2011

FINANCIAL HIGHLIGHTS

	2011	2010	**Change**
	HK$ million	*HK$ million*	
Revenue	**1,440.2**	1,428.9	+0.8%
Gross profit	**216.1**	261.0	–17.2%
EBITDA*	**147.0**	172.6	–14.8%
Profit from operation*	**38.6**	71.3	–45.9%
Net debt-to-equity ratio	**46%**	60%	–14.0pp

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

The board of directors (the "Board" or "Directors") of Hop Fung Group Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2011 together with the comparative figures for the year ended 31st December, 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December, 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	2	**1,440,233**	1,428,886
Cost of sales		**(1,224,150)**	(1,167,934)
Gross profit		**216,083**	260,952
Other income		**24,875**	19,317
Selling and distribution costs		**(68,624)**	(80,963)
Administrative expenses		**(71,108)**	(82,325)
Other expenses		**(34,181)**	(15,746)
Finance costs	3	**(24,370)**	(21,126)
Changes in fair value of unsecured structured borrowing		**–**	297
Changes in fair value of derivative financial instruments		**(5,815)**	2,829
Profit before taxation		**36,860**	83,235
Income tax expense	4	**(10,067)**	(11,525)
Profit for the year, attributable to owners of the Company	5	**26,793**	71,710
Other comprehensive income for the year: Exchange differences arising from translation of foreign operations		**60,536**	34,214
Total comprehensive income for the year, attributable to owners of the Company		**87,329**	105,924
		HK cents	*HK cents*
Earnings per share	7		
– basic		**5.55**	14.85
– diluted		**5.54**	14.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31st December, 2011

	Notes	31st December 2011 HK$'000	31st December 2010 HK$'000
Non-current assets			
Property, plant and equipment		**1,352,900**	1,254,680
Prepaid lease payments on land use rights		**23,486**	35,863
		1,376,386	1,290,543
Current assets			
Inventories		**188,288**	236,240
Trade and other receivables	*8*	**193,336**	232,437
Deposits and prepayments		**6,923**	12,216
Prepaid lease payments on land use rights		**613**	852
Derivative financial instruments		**728**	2,642
Bank balances and cash		**299,747**	203,125
		689,635	687,512
Current liabilities			
Trade, bills and other payables	*9*	**213,783**	204,832
Taxation payable		**18,765**	20,296
Derivative financial instruments		**13,432**	3,527
Unsecured bank borrowings		**439,674**	439,308
		685,654	667,963
Net current assets		**3,981**	19,549
Total assets less current liabilities		**1,380,367**	1,310,092
Capital and reserves			
Share capital		**48,292**	48,292
Share premium and reserves		**971,513**	899,674
Total equity, attributable to owners of the Company		**1,019,805**	947,966
Non-current liabilities			
Unsecured bank borrowings		**329,428**	335,057
Deferred taxation		**31,134**	27,069
		360,562	362,126
		1,380,367	1,310,092

Notes:

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these financial statements and/or disclosures set out in these financial statements.

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

Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[1]
	Disclosure – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investment in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1st July, 2011
[2] Effective for annual periods beginning on or after 1st January, 2013
[3] Effective for annual periods beginning on or after 1st January, 2015
[4] Effective for annual periods beginning on or after 1st January, 2012
[5] Effective for annual periods beginning on or after 1st July, 2012
[6] Effective for annual periods beginning on or after 1st January, 2014

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting 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.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Based on the Group's financial assets and financial liabilities as at 31st December, 2011, the application of HKFRS 9 is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretation 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 purposes of resource allocation and assessment of segment performance are analysed based on the difference in products.

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, 2011

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	**213,666**	**1,226,567**	**1,440,233**	**–**	**1,440,233**
Inter-segment sales	**839,067**	**3,118**	**842,185**	**(842,185)**	**–**
Total	**1,052,733**	**1,229,685**	**2,282,418**	**(842,185)**	**1,440,233**
RESULT					
Segment profit	**11,854**	**55,191**	**67,045**	**–**	**67,045**
Finance costs					**(24,370)**
Changes in fair value of derivative financial instruments					**(5,815)**
Profit before taxation					**36,860**

For the year ended 31st December, 2010

	Containerboard *HK$'000*	Corrugated Packaging *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	156,383	1,272,503	1,428,886	–	1,428,886
Inter-segment sales	773,388	2,522	775,910	(775,910)	–
Total	929,771	1,275,025	2,204,796	(775,910)	1,428,886
RESULT					
Segment profit	39,145	62,090	101,235	–	101,235
Finance costs					(21,126)
Changes in fair value of unsecured structured borrowing					297
Changes in fair value of derivative financial instruments					2,829
Profit before taxation					83,235

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

	2011 ***HK$'000***	2010 *HK$'000*
Interest on bank borrowings wholly repayable within five years	**24,370**	21,126

4. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**1,644**	1,015
PRC Enterprise Income Tax	**608**	1,351
	2,252	2,366
Underprovision in prior years		
Hong Kong Profits Tax	**3,750**	–
Deferred tax	**4,065**	9,159
	10,067	11,525

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 complimentary tax, which is currently at 12% of the profits. Further, in the opinion of the directors of the Company, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

Under the law of the People's Republic of China ("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.

One PRC subsidiary is exempted from PRC EIT for two years starting from the first profit-making year, followed by a 50% reduction for the next three years pursuant to the relevant laws and regulations in the PRC, was subject to PRC EIT rate of 12.5% for the years ended 31st December, 2010 and 2011.

On 9th December, 2004, a tax audit was commenced by the Hong Kong Inland Revenue Department ("IRD") on certain subsidiaries of the Company, namely, Gong Ming Hop Fung Paper Ware Factory Limited ("GMHF"), Fung Kong Hop Fung Paper Ware Factory Limited ("FKHF") and Hop Fung (Overseas) Trading Limited ("HFO") (the "Subsidiaries"), in respect of the years of assessment 1998/1999 to 2003/2004. On 26th January, 2005, 5th January, 2006 and 2nd June, 2006, whilst these cases were still under investigation, the IRD issued protective assessments for the years of assessment 1998/1999, 1999/2000 and 2000/2001 to 2003/2004 respectively to the above-mentioned subsidiaries in order not to jeopardise the assessment powers of the IRD which will be timebarred after 6 years of assessment. The taxes demanded under the protective assessments amounted to HK$71,835,527 in aggregate. The Group had lodged objections with the IRD against all these assessments.

Subsequent to the lodgement of objections by the Subsidiaries, tax reserve certificates of HK$480,000 and HK$1,400,000 in respect of the assessments for GMHF and FKHF, pending the outcome of the tax audits and the objections, were purchased in March 2005 and March 2006 respectively. A banker's undertakings of HK$9,369,022 were arranged by the Group and had been accepted by the IRD as security for payment of the mentioned tax. The remaining amounts of tax of HK$60,586,505 demanded by the IRD have been held over unconditionally.

During the year ended 31st December, 2011, the Company reached an agreement with the IRD on the tax filing basis of GMHF, FKHF and HFO for the years of assessment 1998/1999 to 2003/2004. Under this settlement basis, the Group was obliged to pay the total amount of HK$19.8 million (including tax undercharged of HK$12,706,955, penalty of HK$1,600,000 and interest of HK$5,534,713) for the settlement of the tax case up to the year of assessment 2003/04. Additional tax provision of HK$2,458,309 and the related interests and penalty of HK$7,134,713 (included in "other expenses") are recognised in profit or loss for the year ended 31st December, 2011. As at 31st December, 2011, the related interests and penalty payable amounted to HK$5,100,994 is included in "trade, bills and other payables". Based on the Deed of Indemnity entered into between the Company and the then shareholders of the companies (which currently hold 57.26% of the Company's shares in total) before the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the year 2003, the management has estimated an amount of HK$9,079,436 to be reimbursed from these shareholders. In the opinion of Directors of the Company, this amount to be reimbursed under the Deed of Indemnity is not contributions from equity participants as it is contractually payable by the covenantors based on the terms set out in the Deed of Indemnity. Such amount is recognised as other income for the year and included in "trade and other receivables" at 31st December, 2011 in accordance with the Group's accounting policy for provision and reimbursements of expenditures.

5. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**1,224,150**	1,167,934
Allowance (reversal of allowance) for inventories (included in "cost of sales" and "cost of inventories recognised as expenses")	**64**	(54)
Depreciation of property, plant and equipment	**73,389**	68,027
Impairment losses (reversal of impairment losses) on trade receivables (included in "other expenses")	**256**	(3,589)
Staff costs	**77,383**	93,464

6. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Final dividend paid in respect of 2010 of 3.40 HK cents per share (2010: Final dividend paid in respect of 2009 of 2.20 HK cents per share)	**16,419**	10,625
Interim dividend paid in respect of 2010 of 1.00 HK cent per share	**–**	4,829
	16,419	15,454

The Directors did not recommend the payment of a final dividend for the year ended 31st December, 2011. The final dividend in respect of 2010 of 3.40 HK cents per share proposed by the Directors was approved by the shareholders in the annual general meeting held in 2011.

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:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**26,793**	71,710

	2011	2010
Number of shares		
Number of ordinary shares in issue during the year, for the purpose of basic earnings per share	**482,924,000**	482,924,000
Effect of dilutive potential ordinary shares in respect of share options	**1,085,694**	13,912,834
Number of ordinary shares in issue during the year, for the purpose of diluted earnings per share	**484,009,694**	496,836,834

8. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**169,958**	232,964
Less: allowance for doubtful debts	**(1,068)**	(784)
	168,890	232,180
Other receivables *(Note)*	**24,446**	257
Total trade and other receivables	**193,336**	232,437

Note: Included in other receivables is reimbursement of tax and other charges of approximately HK$9,080,000 (see note 4). In addition, during the current year, the Group received a notification from the PRC local government for the return of a piece of land for the local government's redevelopment of the land for other purposes. The Group paid RMB 12,000,000 in prior years to acquire that piece of land. The Group had not received the formal legal title of that piece of land and the carrying amount of that piece of land amounted to HK$14,670,000. Accordingly, the Group has reclassified the carrying amount from prepaid lease payments to other receivables upon receipt of the notification. The Group is in the process of negotiating with the PRC local government for the amount of compensation. In the opinion of Directors of the Company, the Group will at least receive the cost paid for the land by the Group in prior years amounting to RMB 12,000,000 (equivalent to HK$14,670,000) and hence the carrying amount of the land is included in "other receivables" as at 31st December, 2011.

The Group allows credit periods ranging from 5 to 150 days to its trade customers which may be extended to selected trade customers depending on their trade volume and history of settlement with the Group. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**148,701**	194,621
31 – 60 days	**10,392**	17,949
61 – 90 days	**3,357**	10,471
Over 90 days	**6,440**	9,139
	168,890	232,180

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$34,128,000 (2010: HK$29,820,000) 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 51 days based on invoice dates (2010: 51 days).

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:

	2011	2010
	HK$'000	*HK$'000*
Current	**118,775**	107,498
Overdue 1 to 30 days	**10,287**	3,488
Overdue 31 to 60 days	**520**	1,904
Overdue for more than 60 days	**826**	1,743
	130,408	114,633
Payables for the acquisition of property, plant and equipment	**5,734**	19,151
Other payables and accrued charges	**72,540**	71,048
Interests and penalty payable (Note 4)	**5,101**	–
	213,783	204,832

The average credit period on purchases of goods is 38 days (2010: 32 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Ming Room I, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on 4th June, 2012 at 10:30 a.m. Notice of the annual general meeting will be published and issued to shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 31st May, 2012 to 4th June, 2012, both dates inclusive, during which period no transfer of shares 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 attendance at the annual general meeting of the Company to be held on 4th June, 2012, 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 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 30th May, 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2011, export sales fell 27% due to a worsening environment in the United States and Europe as well as the slow global economic recovery. The 9.2% growth in Chinese GDP however helped drive domestic sales up by 25%. With domestic sales growth offsetting the decline in exports, the Group's overall sales rose slightly, with domestic sales accounting for over 60% of total sales in the year and over 70% in the fourth quarter, pointing to solid market share in the domestic market for the Group. The upstream and downstream businesses accounted for 15% and 85% of sales, compared to 11% of sales last year, illustrating the development potential of the upstream.

Upstream containerboard (corrugating medium and linerboard) sales rose by 37% in the year, with sales volume up by 30% as the Group added new customers and managed production flexibility through its vertically integrated business model. Upstream utilisation reached 78%, same level as last year. Downstream corrugated packaging (corrugated paper boards and carton boxes) saw sales decline by 8% year on year in volume terms and 4% in sales terms. Although the Qingyaun plant's new production line started operations in the second quarter, demand fell in the second half, which pushed down equipment utilisation from 88% to 76%.

Average selling prices for upstream and downstream rose 5.4% and 2.7% respectively, but the rise in costs pressured margins. Prices for waste paper and coal, and labour costs rose on average by over 10%, and new china duty and taxes were introduced. Although the Group managed to transfer some costs to customers, the increase in various expenses still significantly exceed the rise in selling prices, weighting on profits for the Group.

FINANCIAL REVIEW

Operating results

The Group recorded a slight increase in revenue, from HK$1,428.9 million in 2010 to HK$1,440.2 million in 2011. The overall average selling price rose 3.1% while the fall in sales volume in the second half of the year offset against the rise in the first half of the year.

High raw material costs led to rise in cost of sales by 4.8%, from HK$1,167.9 million to HK$1,224.2 million. As the Group was unable to pass on higher costs to customers, gross profit dropped 17.2%, representing HK$216.1 million. Gross profit margin shrunk to 15.0% from 18.3%.

Other income surged 29% from HK$19.3 million to HK$24.9 million. HK$7.1 million was contributed by the tax interest and penalty arisen from the tax case which could be reimbursed from the shareholders of the group before listing. Apart from the above, other income slid 18.2% which was mainly attributable to less canteen service income received from the reduced number of staff.

Selling and distribution costs fell 15.3% from HK$81.0 million to HK$68.6 million. The sharp decrease was primarily due to reduction in sales commission rate for low-margin products.

The decline in administrative expenses by 13.6% from HK$82.3 million to HK$71.1 million was mainly owing to the drop in the number of staff and drop in salaries accordingly.

Other expenses surged 117.8% from HK$15.7 million to HK$34.2 million. HK$7.1 million was contributed by the tax interest and penalty charged by the IRD for the tax case. Apart from the above, other expenses surged 71.8%. The surge was due to (i) china duty charged for higher domestic sales level and new duty incurred in 2011, and (ii) the reversal effect from provision for bad debts in 2010.

EBITDA (earnings before interest, tax, depreciation and amortisation and unrealised change in fair value of derivative financial instruments) fell 14.8%, from HK$172.6 million to HK$147.0 million.

Additional bank loans were raised to finance the acquisition for a new downstream production line and the technical upgrades to upstream production lines in Qingyuan city. In addition, more short-term loans were raised for financing high-cost raw materials, leading to higher finance costs. As a result, finance costs rose 15.6%, from HK$21.1 million to HK$24.4 million.

Same as previous years, unrealised change in fair value of derivative financial instruments was recognised only for accounting purpose. It was non-cash in nature and would be reversed to zero at maturity date.

Profit from operation (profit for the year exclusive of changes in fair value of unsecured structured borrowing and derivative financial instruments except net cash inflow from settlement of derivative) slid to HK$38.6 million from HK$71.3 million. The great fall by 45.9% was mainly due to high raw material costs. The profit margin from operation fell from 5% to 2.7%.

Profit for the year fell 62.6% from HK$71.7 million to HK$26.8 million. In addition to the high raw material costs, the unrealised change in fair value of derivative financial instruments (without cash effect) led to such decline. Basic earnings per share dropped accordingly to 5.55 HK cents (2010: 14.85 HK cents).

Liquidity, financial and capital resources

At 31st December, 2011, the Group's total cash and cash equivalents were HK$299.7 million (2010: HK$203.1 million), mostly denominated in Hong Kong dollars and Renminbi. The additional bank balances and cash of HK$96.6 million was generated from operating activities by managing trade receivables and inventories to lower levels.

Net current assets and current ratio of the Group were HK$4.0 million (2010: HK$19.5 million) and 1.01 (2010: 1.03) respectively.

The Group spent HK$118.9 million on capital expenditures for new downstream line and its ancillary machinery, and technical upgrades to upstream production lines.

Only a slight increase in the average inventory turnover was recorded, from 61 days to 63 days. Two-month shipment was basically required for delivering waste paper from Europe or the United States to the PRC.

Trust receipt loans increased HK$15.9 million for financing high-cost raw materials. The current and non-current bank borrowings excluding trust receipt loans were down by HK$15.5 million and HK$5.6 million respectively. Net debt (measured by total bank borrowings net of cash) was down by HK$101.9 million, owing to cash inflow from reducing the levels of trade receivable and inventories. Net debt-to-equity ratio dropped from 60% to 46%.

Contingent liabilities

The tax audits conducted by the IRD on the Company and its subsidiaries are still on-going for the years of assessment 2004/2005 to 2010/2011. The IRD had previously issued protective assessments for the years of assessment 2004/2005 to 2005/2006 to certain subsidiaries of the Group. Objections have been filed against all these assessments. In the opinion of the Directors, the outcome and impact of this matter could not be determined with reasonable certainty at this stage.

PROSPECTS

The global economy remains complicated and China has cut its growth targets for the first time in years. The next year should see reduced risks and pressure on companies from an overheating economy. The Group sees challenges in pricing and inflation and will stick to our strategy of raising production efficiency, increasing sales volume, reducing raw materials use and energy consumption to offset cost increases. We will also aggressively develop new markets, grasp real growth, expand market share, and strive for pricing power in order to increase earnings.

HUMAN RESOURCES

As at 31st December, 2011, the Group and the processing factory employed a total workforce of around 1,300 full time staff (2010: 2,050). Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors namely, 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, 2011 and has discussed auditing, internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st December, 2011, the Company and its subsidiaries had not purchased, redeemed or sold any of the Company's listed securities on the Stock Exchange.

CORPORATE GOVERNANCE

The Directors strives to maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The corporate governance principles of the Company emphasize the importance of a quality Board, effective internal controls and accountability to shareholders. The Company has applied the principles as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31st December, 2011, except with the following deviations:

Code Provision A.2.1

- Code provision A.2.1 stipulates that the division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing.

- There are no written terms on division of responsibilities between the chairman and the chief executive officer. The Directors consider that the responsibilities of the chairman and chief executive officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Code Provision A.4.2

- Code provision A.4.2 stipulates that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

- In accordance with the Company's Articles of Association, Directors appointed to fill a casual vacancy are subject to re-election at next annual general meeting.

Code Provision B.1.3

- A major deviation from the code provision B.1.3 is that the Remuneration Committee of the Company reviews and makes recommendations to the Directors on the remuneration packages of the Executive Directors only but not senior management.

- Currently, the remuneration of senior management is attended by the chairman and/or chief executive officer of the Company.

The Board proposed to amend the Company's Articles of Association at the coming annual general meeting (AGM) to be held on 4th June, 2012 in order to comply with Code Provision A.4.2. The proposed amendment is subject to approval of the shareholders by way of a special resolution at the AGM.

ESTABLISHMENT OF NOMINATION COMMITTEE

The Board has established a nomination committee (the "Nomination Committee") on 29th March, 2012. The Board has appointed Messrs. Chee Man Sang, Eric, Yip Kwok Kwan, Wong Chu Leung and Miss. Hui Yuen Li, as the member of the Nomination Committee and Mr. Yip Kwok Kwan has been appointed as the chairman of the Nomination Committee.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December, 2011 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 of 31st December, 2011.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The annual report of the Company for the year ended 31st December, 2011 will be dispatched to the Company's shareholders in April 2012 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, 29th March, 2012

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.