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, 2012

FINANCIAL HIGHLIGHTS

	2012	2011	**Change**
	HK$ million	*HK$ million*	
Revenue	**1,051.1**	1,440.2	-27.0%
Gross profit	**170.6**	216.1	-21.1%
EBITDA*	**116.4**	147.0	-20.8%
Profit for the year	**20.6**	26.8	-23.1%
Net gearing ratio	**33.5%**	46.0%	-12.5pp

* *Excluding changes in fair value of 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, 2012 together with the comparative figures for the year ended 31st December, 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December, 2012

	Notes	**2012** **HK$'000**	2011 *HK$'000*
Revenue	*2*	**1,051,097**	1,440,233
Cost of sales		**(880,542)**	(1,224,150)
Gross profit		**170,555**	216,083
Other income		**11,556**	24,875
Selling and distribution costs		**(55,714)**	(68,624)
Administrative expenses		**(68,878)**	(71,108)
Other expenses		**(23,717)**	(34,181)
Finance costs	*3*	**(25,412)**	(24,370)
Changes in fair value of derivative financial instruments		**18,444**	(5,815)
Profit before taxation		**26,834**	36,860
Income tax expense	*4*	**(6,245)**	(10,067)
Profit for the year, attributable to owners of the Company	*5*	**20,589**	26,793
Other comprehensive income for the year:			
Exchange differences arising from translation of foreign operations		**31,750**	60,536
Total comprehensive income for the year, attributable to owners of the Company		**52,339**	87,329
			(Restated)
		HK cents	*HK cents*
Earnings per share	*7*		
– basic		**3.33**	5.28
– diluted		**3.33**	5.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31st December, 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Property, plant and equipment		**1,398,415**	1,352,900
Prepaid lease payments on land use rights		**23,216**	23,486
		1,421,631	1,376,386
Current assets			
Inventories		**143,637**	188,288
Trade and other receivables	*8*	**175,216**	193,336
Deposits and prepayments		**12,642**	6,923
Prepaid lease payments on land use rights		**621**	613
Derivative financial instruments		**1,489**	728
Bank balances and cash		**289,159**	299,747
		622,764	689,635
Current liabilities			
Trade, bills and other payables	*9*	**221,339**	213,783
Taxation payable		**10,501**	18,765
Derivative financial instruments		**1,186**	13,432
Unsecured bank borrowings		**313,049**	439,674
		546,075	685,654
Net current assets		**76,689**	3,981
Total assets less current liabilities		**1,498,320**	1,380,367
Capital and reserves			
Share capital		**72,439**	48,292
Share premium and reserves		**1,041,968**	971,513
Total equity, attributable to owners of the Company		**1,114,407**	1,019,805
Non-current liabilities			
Unsecured bank borrowings		**349,554**	329,428
Deferred taxation		**34,359**	31,134
		383,913	360,562
		1,498,320	1,380,367

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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to HKFRSs 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:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

HKFRS 9 Financial Instruments

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:

- 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. 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.

- 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 change in 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.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2015, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1st January, 2015 and that the application of this new Standard will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

HKFRS 13 Fair Value Measurement

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 on 1st January, 2013 and that the application of this new Standard may result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual period beginning on or after 1st July, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

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 segments:

Segment revenues and results

For the year ended 31st December, 2012

	Containerboard	**Corrugated Packaging**	**Segment total**	**Eliminations**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE					
External sales	**168,979**	**882,118**	**1,051,097**	**–**	**1,051,097**
Inter-segment sales	**713,374**	**2,794**	**716,168**	**(716,168)**	**–**
Total	**882,353**	**884,912**	**1,767,265**	**(716,168)**	**1,051,097**
RESULT					
Segment profit	**12,255**	**21,547**	**33,802**	**–**	**33,802**
Finance costs					**(25,412)**
Changes in fair value of derivative financial instruments					**18,444**
Profit before taxation					**26,834**

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

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

	2012	2011
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**25,412**	24,370

4. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**870**	1,644
PRC Enterprise Income Tax	**2,150**	608
	3,020	2,252
Underprovision in prior years		
Hong Kong Profits Tax	**–**	3,750
Deferred tax	**3,225**	4,065
	6,245	10,067

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 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 which 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, 2011 and 31st December, 2012.

On 9th December, 2004, a tax audit was commenced by the 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") (collectively referred to 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 abovementioned 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$19,841,668 (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") were 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 approximately HK$5,101,000 was 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 held 57.26% of the Company's shares in total as at 31st December, 2011) before the listing of the Company's shares on the Stock Exchange in the year 2003, the management estimated an amount of approximately HK$9,080,000 to be reimbursed from these shareholders. In the opinion of the 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 was recognised as other income for the year ended 31st December, 2011 and included in "trade and other receivables" as at 31st December, 2011 in accordance with the Group's accounting policy for provision and reimbursements of expenditures. The amount has been fully settled during the year ended 31st December, 2012.

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

	2012	2011
	HK$'000	*HK$'000*
Profit for the year, attributable to owners of the Company, has been arrived at after charging:		
Cost of inventories recognised as expenses	**880,542**	1,224,150
Allowance for inventories (included in "cost of sales" and "cost of inventories recognised as expenses")	**151**	64
Depreciation of property, plant and equipment	**76,587**	73,389
Impairment losses on trade receivables (included in "other expenses")	**185**	256
Staff costs	**75,743**	77,383

6. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Final dividend paid in respect of 2010 of 3.40 HK cents per share	**–**	16,419
	–	16,419

The Directors did not recommend the payment of a final dividend for the two years ended 31st December, 2012 and 31st December, 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:

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**20,589**	26,793

	2012	2011 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**618,103,136**	507,070,200
Effect of dilutive potential ordinary shares in respect of share options	**–**	1,139,979
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**618,103,136**	508,210,179

The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31st December, 2011 and 31st December, 2012 has been adjusted retrospectively for the bonus element of the rights issue completed on 10th July, 2012.

The computation of diluted earnings per share for the year ended 31st December, 2012 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for the year.

8. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**160,456**	169,958
Less: allowance for doubtful debts	**(1,276)**	(1,068)
	159,180	168,890
Other receivables *(Note)*	**16,036**	24,446
Total trade and other receivables	**175,216**	193,336

Note: As at 31st December, 2011, included in other receivables was reimbursement of tax and other charges of approximately HK$9,080,000, details of which are set out in note 4. The amount was fully settled during the year ended 31st December, 2012.

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". As at 31st December, 2011, the Group is still in the process of negotiating with the PRC local government for an amount of compensation.

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.

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:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**147,878**	148,701
31 – 60 days	**6,411**	10,392
61 – 90 days	**1,991**	3,357
Over 90 days	**2,900**	6,440
	159,180	168,890

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$40,764,000 (2011: HK$34,128,000) 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 57 days (2011: 51 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:

	2012	2011
	HK$'000	*HK$'000*
Current	**129,371**	118,775
Overdue 1 to 30 days	**12,705**	10,287
Overdue 31 to 60 days	**1,312**	520
Overdue for more than 60 days	**2,269**	826
	145,657	130,408
Payables for the acquisition of property, plant and equipment	**7,148**	5,734
Other payables and accrued charges	**68,534**	72,540
Interests and penalty payable *(note 4)*	**–**	5,101
	221,339	213,783

The average credit period on purchases of goods is 60 days (2011: 38 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 II, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 3rd June, 2013 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 Thursday, 30th May, 2013 to Monday, 3rd June, 2013, 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 attendance at the annual general meeting of the Company to be held on Monday, 3rd June, 2013, 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 Wednesday, 29th May, 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Weaker demand in Europe and the United States ("US") in 2012 resulted in a dramatic fall in export orders for the Group. With domestic economic growth slowing, Chinese demand growth also fell and selling prices were under pressure. This change, coupled with the Group's change in strategy of reducing sales of products with longer lead times meant sales in the first half fell 30%. In the second half, orders and selling prices recovered as a result of a healthier economy and sales in the second half of the year rose by 8% compared to the first half. For the full year of 2012, the Group's sales fell by 27% against 2011 levels.

The Group's export sales fell by nearly 50% and domestic sales fell by nearly 10%. The upstream containerboard business, producing corrugated medium and linerboard, mainly supplies to the downstream corrugated packaging business for use in making corrugated paperboards and carton boxes, with only limited sales to outside parties. The upstream and downstream businesses accounted for 16% and 84% of sales, respectively, with upstream sales down by 20% in revenue terms and 7% in volume terms, with utilisation at 66%; the downstream saw sales fall by 28% and volume by 15%, leaving utilization at 63%.

In 2012, the Group's selling prices were able to be adjusted according to raw materials prices, but some cost items such as labour and shipping were not adjusted as a result of slowing growth in China. That said, the Group was able to breakeven on the back of cost controls, a reduction in raw materials wastage, lower energy use and streamlined production costs.

As the Group reduced sales of products with a longer sales lead time, inventories, receivables and financing requirements fell as a result. The rights issue in June 2012 also raised HK$ 42.1 million, substantially improving the debt and gearing levels, resulting in a healthier financial status.

FINANCIAL REVIEW

Operating results

The Group recorded a fall in revenue by 27.0%, from HK$1,440.2 million in 2011 to HK$1,051.1 million in 2012, resulting from weak global market demand, drop in average selling price and reduction in sales of long-cycle products. The fall in cost of sales by 28.1% was in line with the fall in revenue. Gross profit margin slightly improved from 15.0 % to 16.2%.

The drop in other income by 53.4%, from HK$24.9 million to HK$11.6 million, was mainly attributable to the reimbursement of tax and other charges of HK$9.1 million in 2011. Excluding the above mentioned, other items slid HK$4.2 million, representing a fall by 16.9% only. The fall was primarily due to less canteen service income received from reduced number of staff and less scrap sales from declined production volume.

Selling and distribution costs fell 18.8% from HK$68.6 million to HK$55.7 million. The drop was not in line with the fall in revenue, owing to increase in petrol price for delivering finished products to customers.

There was only a slight decline in administrative expenses by 3.1% from HK$71.1 million to HK$68.9 million. Though some items under administrative expenses fell in line with the fall in revenue, fees were incurred for newly raised bank loans and staff cost kept on rising.

Other expenses slid 30.7% from HK$34.2 million to HK$23.7 million. The drop was mainly due to the interests and tax penalty of HK$7.1 million incurred in 2011.

EBITDA (earnings before interest, tax, depreciation and amortisation and change in fair value of derivative financial instruments, excluding net cash inflow from settlement of derivative) fell 20.8%, from HK$147.0 million to HK$116.4 million.

The rise in finance costs by 4.1%, from HK$24.4 million to HK$25.4 million, was the results of more new bank loans raised during the year.

Profit from operation (profit for the year before change in fair value of derivative financial instruments, excluding net cash inflow from settlement of derivative) slid to HK$7.6 million from HK$38.6 million. The great fall by 80.3% was mainly due to weak global market demand and inflation. The profit margin from operation fell from 2.7% to 0.7%.

Profit for the year fell 23.1% from HK$26.8 million to HK$20.6 million. Basic earnings per share dropped accordingly from 5.28 HK cents to 3.33 HK cents.

Liquidity, financial and capital resources

At 31st December, 2012, the Group's total cash and cash equivalents were HK$289.2 million (31st December, 2011: HK$299.7 million), mostly denominated in Renminbi. HK$42.1 million was the net proceeds raised from the rights issue exercise.

Net current assets and current ratio of the Group were HK$76.7 million (31st December, 2011: HK$4.0 million) and 1.14(31st December, 2011: 1.01) respectively.

The Group spent HK$94.2 million on capital expenditures for annual maintenance, dock construction, and facilities upgrade on waste water processing.

Average inventory turnover was slightly increased by 6 days, from 63 days to 69 days. Basically, two-month shipment was required for delivering waste paper from Europe or the US to China.

Trust receipt loans decreased HK$72.2 million as less waste paper was bought from overseas suppliers. The current bank borrowings other than trust receipt loans were down by HK$54.5 million while non-current bank borrowings were up by HK$20.1 million. The balance for total bank borrowings net of bank balances and cash was greatly fell by HK$95.9 million, owing to additional funds raised from the rights issue exercise and less funds required for financing long-cycle products. Net gearing ratio dropped from 46.0% to 33.5%.

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 issued protective assessments for the years of assessment 2004/2005 to 2006/2007 to certain subsidiaries of the Group. Objections were lodged 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.

OUTLOOK

The Group expects the economy to improve after leadership changes in the US and in the PRC. This should drive demand growth in both export and domestic markets. That said, inflation pressures should return. Our strategy is still to improve production efficiency, raise sales, reduce raw materials wastage and energy usage to combat the effects of higher costs. We will continue to develop potential markets, take a pro-active lead in selling prices and strive to improve profits for the Group.

HUMAN RESOURCES

As at 31st December, 2012, the Group and the processing factory employed a total workforce of around 1,300 full time staff (2011: 1,300). 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, 2012 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, 2012.

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, 2012, 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 auditors.

- Since the Company has not engaged its auditors to review the financial information in its interim report, the audit committee has met with the Company's auditors 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 auditors once during the year ended 31st December, 2012.

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, 2012 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, 2012.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The annual report of the Company for the year ended 31st December, 2012 will be dispatched to the Company's shareholders in April 2013 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, 28th March, 2013

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.