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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

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO THE DISPOSAL OF THE ISSUED SHARE CAPITAL OF
FUNG KONG HOP FUNG PAPER WARE FACTORY LIMITED
AND
RESUMPTION OF TRADING**

THE DISPOSALS

On 24 October 2014 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company) entered into the 49% Interest Disposal Agreement and the 51% Interest Disposal Agreement with each of Wai Fung and City Trend, respectively, pursuant to which each of Wai Fung and City Trend has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares at a cash consideration of RMB186.2 million (equivalent to HK\$236.3 million) and RMB193.8 million (equivalent to HK\$245.9 million), respectively. Completion shall be conditional, among other things, upon the approval of the Disposal Agreements and the transactions contemplated thereunder by the Shareholders at the EGM.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios set forth under Rule 14.07 of the Listing Rules in respect of the Disposals are 75% or more, the Disposals constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposals.

GENERAL

A circular containing, among other things, details of the Disposal Agreements, the financial information of the Group and the Disposal Company, the notice convening the EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 21 November 2014, so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

Completion of the Disposals is conditional upon the satisfaction or, if applicable, waiver of the conditions set out in the section headed “Principal Terms of the Disposal Agreements — Conditions precedent of the First Completion and the Second Completion” in this announcement, including the approval of the Disposal Agreements and the transactions contemplated thereunder by Shareholders at the EGM. Accordingly, the Disposals may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 27 October 2014 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 4 November 2014.

BACKGROUND INFORMATION

On 24 October 2014 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company) entered into the 49% Interest Disposal Agreement and the 51% Interest Disposal Agreement with each of Wai Fung and City Trend, respectively, pursuant to which each of Wai Fung and City Trend has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares at a cash consideration of RMB186.2 million (equivalent to HK\$236.3 million) and RMB193.8 million (equivalent to HK\$245.9 million), respectively. The Disposals constitute a very substantial disposal (as such term defined under Chapter 14 of the Listing Rules) for the Company. Further information on the implications of the Disposal under the Listing Rules is set forth in the paragraphs under “Implications under the Listing Rules” below.

PRINCIPAL TERMS OF THE DISPOSAL AGREEMENTS

The Disposal Agreements contain all of the terms and conditions for the Disposals which are negotiated on an arm’s length basis between the Vendor and each of Wai Fung and City Trend. A summary of the principal terms and conditions is set forth below:

Date: 24 October 2014 (after trading hours)

Parties: *In respect of the 49% Interest Disposal*

- (a) Hop Fung Group Company Limited, a wholly-owned subsidiary of the Company, as the vendor and
- (b) Wai Fung as the purchaser.

In respect of the 51% Interest Disposal

- (a) Hop Fung Group Company Limited, a wholly-owned subsidiary of the Company, as the vendor and
- (b) City Trend as the purchaser.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, each of Wai Fung and City Trend and their respective ultimate beneficial owner(s) is a third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules) as of the date of this announcement.

Assets to be disposed of:

The assets to be disposed of by the Vendor are the Sale Shares, representing 49% of the issued share capital of the Disposal Company under the 49% Interest Disposal Agreement and 51% of the issued share capital of the Disposal Company under the 51% Interest Disposal Agreement. The Disposal Company is a wholly-owned subsidiary of the Company as at the date of this announcement.

The Disposal will be made in the following manner:

- (a) transfer of 24% and 25% of the issued share capital of the Disposal Company to Wai Fung and City Trend, respectively, under the Disposal Agreements on the First Completion Date; and
- (b) transfer of 25% and 26% of the issued share capital of the Disposal Company to Wai Fung and City Trend, respectively, under the Disposal Agreements on the Second Completion Date.

Immediately upon the First Completion, the Company will hold 51% of the issued share capital of the Disposal Company and the Disposal Company will remain to be a subsidiary of the Company.

As at the date of this announcement, the principal assets of the Disposal Company include the Assets and a vehicle and the Disposal Company is the legal and beneficial owner of the Assets.

The PRC Property has been used by the Group as its production plant for its corrugated products whereas the Hong Kong Property has been used by the Group as its office for its accounting, financing and administrative services to the Group.

Consideration:

The consideration to be paid by each of Wai Fung and City Trend to the Vendor is RMB186.2 million (equivalent to HK\$236.3 million) and RMB193.8 million (equivalent to HK\$245.9 million), respectively. The consideration will be paid in cash to the Group in the following manner:

- (a) deposit in the amount of RMB25.0 million (equivalent to HK\$31.7 million) and RMB25.0 million, respectively, by Wai Fung and City Trend upon the signing of the Disposal Agreements (the “**Deposit**”);

- (b) RMB66.2 million (equivalent to HK\$84.0 million) and RMB70.0 million (equivalent to HK\$88.8 million) by Wai Fung and City Trend, respectively, upon the First Completion; and
- (c) RMB95.0 million (equivalent to HK\$120.6 million) and RMB98.8 million (equivalent to HK\$125.4 million) by Wai Fung and City Trend, respectively, upon the Second Completion.

The consideration was determined after arm's length negotiations between the Vendor and each of Wai Fung and City Trend with reference to income generated from the management service business in the amount of approximately HK\$5.8 million for the nine months ended 30 September 2014, valuation of the Assets in the aggregate amount of approximately HK\$404.0 million as at 30 September 2014, estimated costs in the amount of approximately HK\$15.0 million to relocate the group offices and production facilities, if required and a reasonable gain over the above. The Hong Kong stamp duty arising from the share transfers contemplated in the Disposal Agreements shall be solely borne by the Vendor.

The Directors (including the independent non-executive Directors) confirm that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent of the First Completion and the Second Completion:

The First Completion is conditional upon fulfilment of, among other things, the following conditions:

- (a) all financial derivative purchased by the Disposal Company having either expired or terminated;
- (b) all loans of the Disposal Company obtained from banks, shareholders or associated companies having been repaid or transferred to third party;
- (c) there has been no tax or debt liabilities (other than those disclosed to and consented by the Purchasers);
- (d) the Vendor being the beneficial owner of the entire interest in the Assets;
- (e) there has been no existing litigation, arbitration or investigation by any governmental organisation involving the Disposal Company (save and except those disclosed to the Purchasers);
- (f) the Company having issued an announcement in respect of the transactions contemplated under the Disposal Agreements as required under the Listing Rules;

- (g) the passing by the requisite majority of Shareholders in a general meeting of all resolutions required under the Listing Rules of the transactions contemplated under the Disposal Agreements;
- (h) all consent, permission, authorisation and approval which are required for the Disposal Agreements and the transactions contemplated thereunder having been obtained by the Vendor, the Purchasers and the Disposal Company;
- (i) the Shareholders' Agreement, Escrow Agreement and Deed of Indemnity having been duly entered into;
- (j) the Purchasers having been reasonably satisfied with the results of the legal and financial due diligence performed on the Disposal Company;
- (k) to the extent permissible by law, the Vendor having cancelled the issued non-voting deferred shares of the Disposal Company and the rights attached thereto. If such cancellation has not been completed, the Vendor having agreed to transfer the issued non-voting deferred shares to the Purchasers at the consideration of HK\$1.0; and
- (l) the Vendor having provided the Purchasers the management account of the Disposal Company as at the First Completion Date and the representations remain true and accurate in material respect.

The Purchasers may at its absolute discretion at any time waive in writing any of the conditions precedent (other than condition (g), (h), and (j) above).

The parties agree to use their best endeavours to procure the fulfilment of all of the above conditions on or before 31 December 2014.

If the Vendor is not able to fulfil all of the conditions for which it is responsible (other than condition (g) above) on or before the First Completion Date, the Vendor shall return the Deposit to the Purchasers and pay each of the Purchasers RMB25.0 million (equivalent to HK\$31.7 million) as liquidated damages. If condition (g) could not be fulfilled by the Vendor on or before the First Completion Date, the Vendor shall return the Deposit to the Purchasers.

The Deposit shall be forfeited by the Vendor if all the conditions have been fulfilled or waived (as the case may be) but the Purchasers do not proceed with the First Completion as contemplated under the Disposal Agreements or condition (h) is not fulfilled on the part of the Purchasers before the First Completion Date. In any of such events, the rights and obligations of the parties under the Disposal Agreements will automatically lapse and be of no further effect.

The First Completion is expected to take place within two Business Days upon the fulfilment of the conditions to the First Completion.

The Second Completion is expected to take place on the second anniversary of the First Completion. If the Vendor does not proceed with the Second Completion as contemplated under the Disposal Agreement, the Vendor shall return all monies paid by the each of the Purchasers together with an additional amount of damages in the amount of RMB50.0 million (equivalent to HK\$63.5 million) within three Business Days of the contemplated Second Completion. If any of the Purchasers does not proceed with the Second Completion as contemplated under the Disposal Agreement, the Vendor shall return RMB41.2 million (equivalent to HK\$52.3 million) to Wai Fung and RMB45.0 million (equivalent to HK\$57.1 million) to City Trend (as the case may be) and be entitled to retain an aggregate of RMB100.0 million (equivalent to HK\$126.9 million) (Wai Fung and City Trend RMB50.0 million (equivalent to HK\$63.5 million) each) as damages pursuant to each of the Disposal Agreements. In any of such events, the Purchasers agree to transfer its respective interest in issued share capital of the Disposal Company being the subject at the First Completion in accordance with the terms and conditions of the Escrow Agreement.

Undertakings by the Vendor and cap on liabilities of the Vendor:

In addition to the customary undertakings given by the Vendor, the Vendor agrees to pay within 12 months from the First Completion Date all the land management fee due to 深圳市公明合水口股份合作公司 incurred up till the First Completion Date. If the Vendor does not make such payment, the Vendor and Purchasers may negotiate further on the payment and the sum may be deducted from the amount to be paid by the Purchasers upon the Second Completion.

In any event, the maximum amount to be paid by the Vendor for damages of breach of each of the Disposal Agreements will be RMB50.0 million (equivalent to HK\$63.5 million).

Governing law and dispute resolution:

The laws of Hong Kong with the non-exclusive jurisdiction of the courts in Hong Kong.

SHAREHOLDERS' AGREEMENT

Pursuant to the Disposal Agreements, the Shareholders' Agreement will be entered into between the Vendor, the Purchasers and the Disposal Company on or before the First Completion Date. The principal terms of the Shareholders' Agreement are set forth below:

1. Object of the Disposal Company

The Disposal Company will not carry out business other than the management of the Assets within two years from the date of the Shareholders' Agreement.

2. Restriction on transfer of shares of the Disposal Company

No shareholder of the Disposal Company shall transfer, sell, mortgage, charge, pledge or otherwise dispose of their respective shares without the prior written consent of all the other shareholders of the Disposal Company.

3. Financing

The parties to the Shareholders' Agreement agree not to carry out any financing activities or providing any mortgage or guarantee to third party within two years from the date of the Shareholders' Agreement, unless such financing activities are requested by Wai Fung and/or City Trend and prior written consent to the financing activities is given by the Vendor, Wai Fung and City Trend. The proceeds from the financing activities and interests costs incurred therefrom will be appropriated according to the respective shareholding in the Disposal Company of each of the Vendor, Wai Fung and City Trend. Save as to the above, each of the shareholders of the Disposal Company does not have obligation to provide additional capital contribution or guarantee to the Disposal Company.

4. Composition of the board of the Disposal Company

The board of directors of the Disposal Company shall comprise five directors, of whom three shall be appointed by the Vendor, one shall be appointed by Wai Fung and one shall be appointed by City Trend.

5. Quorum of meetings of the board

The quorum of a meeting of the board of directors of the Disposal Company shall be three directors provided that one of the directors present is a nominee of Wai Fung or City Trend.

6. Undertakings

Wai Fung and City Trend unconditionally agree to lease the factory on the PRC Property at nil consideration for two years from the First Completion Date to the Vendor or its affiliates, in breach of which the Vendor is entitled to claim for the damages in respect of the expenses involving in renting and moving into a similar factory on the market.

Wai Fung and City Trend further agree that upon the second anniversary of the First Completion, the Vendor or its affiliates shall have the right to extend the lease of the PRC Property for an additional term of up to three years. This right granted to the Vendor

shall be exercised within the expiry of the first anniversary of the First Completion. Terms and conditions of the lease so extended shall be determined upon negotiation of the parties.

Wai Fung, City Trend and the Disposal Company agree to lease the Hong Kong Property to the Vendor or its affiliates at market rate since the date of the Shareholders' Agreement. Term of the lease is to be negotiated by the parties.

7. Duration of the Shareholders' Agreement

The Shareholders' Agreement shall take effect from the First Completion Date and shall continue in full force and effect against each shareholder of the Disposal Company throughout so long as such shareholder holds shares in the Disposal Company.

DEED OF INDEMNITY

In connection with the Disposal Agreements, the Company will enter into the Deed of Indemnity in favour of the Purchasers pursuant to which the Company shall indemnify the Purchasers from and against, and agree to hold each of them harmless from, any and all economic loss suffered arising from, among others, tax liability as may be adjudicated by the Inland Revenue Department of Hong Kong within six financial years prior to the Second Completion Date.

INFORMATION ON THE GROUP, THE DISPOSAL COMPANY AND THE PURCHASERS

The Group is principally engaged in the manufacture and sale of containerboard and corrugated packaging. The Disposal Company is a wholly-owned subsidiary of the Group and the principal business of which is the provision of intra-group management service to the Group such as the leasing of the PRC Property to a Group company for use as production plant for the corrugated packaging business, the leasing of the Hong Kong Property to another Group company for use as administrative, accounting and financing office and acting as the financing arm of the Group. There have been or will be other Group companies providing similar intra-group management service to the Group after completion of the Disposals.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, the principal business activities of Wai Fung and City Trend are investment holding and each of Wai Fung and City Trend and their respective ultimate beneficial owner(s) is a third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules) as at the date of this announcement.

REASONS FOR AND BENEFIT OF THE DISPOSALS

The Directors consider that the Disposals are a good opportunity to realise a considerable gain and generate cash inflow for the Group thereby strengthening the cash position of the Group. Improvement of the cash position of the Group will enable the Group to capture business growth which may arise in the long run. As at the date of this announcement, the Company has not identified any specific targets to be acquired and therefore currently intends to use the net proceeds from the Disposals for the general working capital of the Group.

The Group currently has six production plants. Four of the production plants are used for the manufacture of corrugated packaging and two of them used for the manufacture of containerboard. The production plant located on the PRC Property is currently used for the manufacture of corrugated packaging accounting for approximately 30% of the production capacity for the manufacture of corrugated packaging. After the Disposals, manufacture of corrugated packaging will be taken up by the other three production plants of the Group. Based on the utilization rate as at 30 September 2014, it is estimated that the utilization rate of the other three plants for corrugated packaging after the Disposals and having taken up the manufacture function of the production plant under the Disposals will be approximately 92%. For purpose of a smooth transition, the Purchasers have agreed to lease the Assets to the Vendor or its affiliates for two years from the First Completion Date and hence, the Group could continue its business activities thereon accordingly. Even if the above leases of the Assets to the Group were not renewed upon expiry of the two-year term, the Directors believe that the current production process carried out at the PRC Property could be taken up by the other three production plants owned by the Group or alternatively, be relocated to another leased production plant. Similarly, the Group would search for other similar office premises in Hong Kong should the lease of the Hong Kong Property was not renewed upon expiry. As such, the Directors (including the independent non-executive Directors) confirm that completion of the Disposals would not have any adverse impact on the business activities of the Group.

As of 31 December 2013, the audited net asset value of the Disposal Company was HK\$42,747,543. For the years ended 31 December 2012 and 2013, the net profit/(loss) before taxation attributable to the Disposal Company was HK\$6,600,063 and HK\$(1,211,393), respectively. For the years ended 31 December 2012 and 2013, the net profit/(loss) after taxation attributable to the Disposal Company was HK\$5,836,204 and HK\$(2,044,770), respectively.

Based on the unaudited net book value of the Disposal Company as at 30 September 2014, it is estimated that the Group will record a gain of approximately HK\$438.0 million from the Disposals.

Upon completion of the Disposals, the Group would continue to be principally engaged in the manufacture and sale of containerboard and corrugated packaging on its five owned production plants in the PRC.

In light of the reasons above, the Directors (including the independent non-executive Directors) confirm that the terms of the Disposals are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios set forth under Rule 14.07 of the Listing Rules in respect of the Disposals are 75% or more, the Disposals constitute a very substantial disposal for the Company and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Disposal Agreements and the transactions contemplated thereafter. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of Wai Fung and City Trend and its ultimate beneficial owner is an Independent Third Party and hence no Shareholder shall be required to abstain from voting at the EGM.

A circular containing, amongst other things, details of the Disposal Agreements, the financial information of the Group and the Disposal Company, the notice convening the EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 21 November 2014 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 27 October 2014 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 4 November 2014.

DEFINITIONS USED IN THIS ANNOUNCEMENT

Unless the context requires otherwise, the capitalised terms used herein shall have the same meanings as set forth below:

“49% Interest Disposal”	means the proposed disposal of 49% of the issued share capital of the Disposal Company pursuant to the terms and conditions of the 49% Interest Disposal Agreement;
“49% Interest Disposal Agreement”	means the conditional sale and purchase agreement dated 24 October 2014 entered into by the Vendor and Wai Fung in relation to the 49% Interest Disposal;
“51% Interest Disposal”	means the proposed disposal of 51% of the issued share capital of the Disposal Company pursuant to the terms and conditions of the 51% Interest Disposal Agreement;
“51% Interest Disposal Agreement”	means conditional sale and purchase agreement dated 24 October 2014 entered into by the Vendor and City Trend in relation to the 51% Interest Disposal;
“Assets”	means the Hong Kong Property and the PRC Property;
“Board”	means the board of Directors;
“Business Day”	means any day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in Hong Kong;
“City Trend”	means City Trend Holding Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party;
“Company”	means Hop Fung Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Stock Exchange;
“Deed of Indemnity”	means the deed of indemnity to be entered into by the Company in favour of Wai Fung and City Trend at the First Completion in an agreed form;
“Director(s)”	means the director(s) of the Company;

“Disposals”	means the 49% Interest Disposal and the 51% Interest Disposal;
“Disposal Agreements”	means the 49% Interest Disposal Agreement and the 51% Interest Disposal Agreement;
“Disposal Company”	means Fung Kong Hop Fung Paper Ware Factory Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company as at the date of this announcement;
“EGM”	means the extraordinary general meeting of the Company to be convened and held to approve, among other matters, the Disposal Agreement and the transactions contemplated thereunder;
“Escrow Agreement”	means the escrow agreement to be entered into between the Vendor, the Purchasers and the escrow agent named therein;
“First Completion”	means completion of the sale and purchase of the 24% and 25% of the issued share capital of the Disposal Company to Wai Fung and City Trend, respectively, in accordance with the terms and conditions of the Disposal Agreements;
“First Completion Date”	means the date of the First Completion and is expected to be on or before 31 December 2014, the date of which may be postponed for one month for reason in relation to approval of the Stock Exchange on the circular to be issued by the Company;
“Group”	means the Company and its subsidiaries;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong Property”	means Workshops E, F and H, 22nd Floor, and Car Parking Spaces Nos.14 & 17, Ground Floor, Superluck Industrial Centre (Phase 2), No. 57 Sha Tsui Road and Nos 30–38 Tai Chung Road, Tsuen Wan, New Territories, Hong Kong;
“Independent Third Party(ies)”	means any person(s) or company(ies) and their respective ultimate beneficial owner(s) who are third parties independent of the Company and its connected persons (as defined in the Listing Rules);
“Listing Rules”	means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	means the People’s Republic of China;
“PRC Property”	means 中國廣東省深圳市寶安區公明街道合水口居委第五工業區合豐工業城;
“Purchasers”	means Wai Fung and City Trend;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Sale Shares”	means the entire issued share capital of the Disposal Company;

“Second Completion”	means completion of the sale and purchase of the 25% and 26% of the issued share capital of the Disposal Company to Wai Fung and City Trend, respectively, in accordance with the terms and conditions of the Disposal Agreements;
“Second Completion Date”	means the date of the Second Completion;
“Shareholder(s)”	means the shareholder(s) of the Company;
“Shareholders’ Agreement”	means the shareholders’ agreement of the Disposal Company to be entered into by the Vendor and the Purchasers at the First Completion in an agreed form;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Wai Fung”	means Wai Fung Development Holding Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party; and
“%”	means per cent.

By order of the Board of
Hui Yuen Li
Company Secretary

Hong Kong, 4 November 2014

Unless the context requires otherwise, the translations of RMB into HK\$ in this announcement are based on the rate of RMB1.0 = HK\$1.269. No representation is made that any amount in RMB and HK\$ can be or could have been converted at the relevant dates at this rate or any other rates at all. All time and dates referred to in this announcement are Hong Kong time and dates.

As at the date of this announcement, the Directors are:

Executive Directors

Hui Sum Kwok
Hui Sum Ping
Hui Sum Tai
Hui Yuen Li

Independent Non-executive Directors

Chee Man Sang, Eric
Yip Kwok Kwan
Wong Chu Leung