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, 2016

FINANCIAL HIGHLIGHTS

	2016 ***HK$ million***	2015 *HK$ million*	Change
Revenue	**1,179.4**	1,066.5	+10.6%
Profit from operation*	**81.7**	40.2	+103.2%
Proposed final dividend per share	**HK1.5 cents**	HK1.5 cents	–
Proposed special final dividend per share	**HK3.0 cents**	–	n/a
Net gearing ratio	**-17.9%**	2.9%	-20.8pp

* *Profit for the year excluding change of present value and exchange difference on receivables from disposal of a subsidiary*

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, 2016 together with the comparative figures for the year ended 31st December, 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	*2*	**1,179,444**	1,066,541
Cost of sales		**(911,748)**	(853,879)
Gross profit		**267,696**	212,662
Other income		**14,710**	13,319
Selling and distribution costs		**(67,590)**	(61,400)
Administrative expenses		**(97,243)**	(88,619)
Other expenses		**(24,571)**	(23,170)
Finance costs	*3*	**(5,045)**	(10,698)
Changes in fair value of derivative financial instruments		**–**	323
Profit before taxation		**87,957**	42,417
Income tax expense	*4*	**(11,570)**	(6,129)
Profit for the year, attributable to owners of the Company	*5*	**76,387**	36,288
Other comprehensive expense for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(93,352)**	(94,074)
Total comprehensive expense for the year, attributable to owners of the Company		**(16,965)**	(57,786)
		HK cents	*HK cents*
Earnings per share	*7*		
– basic		**9.66**	4.77
– diluted		**9.62**	4.52

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**1,250,511**	1,267,429
Prepaid lease payments on land use rights		**21,876**	23,982
		1,272,387	1,291,411
Current assets			
Inventories		**117,262**	91,348
Trade and other receivables	*8*	**129,198**	174,784
Receivables from disposal of a subsidiary	*10*	**–**	225,201
Deposits and prepayments		**22,288**	8,249
Prepaid lease payments on land use rights		**544**	433
Bank balances and cash		**547,601**	151,589
		816,893	651,604
Current liabilities			
Trade, bills and other payables	*9*	**282,207**	211,803
Taxation payable		**11,638**	12,222
Unsecured bank borrowings		**263,889**	111,415
		557,734	335,440
Net current assets		**259,159**	316,164
Total assets less current liabilities		**1,531,546**	1,607,575
Capital and reserves			
Share capital		**79,682**	77,871
Reserves		**1,377,063**	1,402,467
Total equity, attributable to owners of the Company		**1,456,745**	1,480,338
Non-current liabilities			
Unsecured bank borrowings		**22,617**	83,404
Deferred taxation		**52,184**	43,833
		74,801	127,237
		1,531,546	1,607,575

Notes:

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

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 HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to Hong Kong Accounting Standards ("HKAS") 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 - 2014 cycle

Except as described below, 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.

Amendments to HKAS 1 "Disclosure initiative"

The Group has applied the amendments to HKAS 1 "Disclosure Initiative" for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instrument[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial investments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]

1 Effective for annual periods beginning on or after 1st January, 2018.
2 Effective for annual periods beginning on or after 1st January, 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1st January, 2017.
5 Effective for annual periods beginning on or after 1st January, 2017 or 1st January 2018, as appropriate.

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. 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.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Management of the Group anticipate that the initial application of the new HKFRS 9 will result in changes to the accounting policies relating to the impairment provisions of financial assets and liabilities. Management will consider whether a lifetime or 12-month expected credit losses on financial assets and liabilities should be recognised, which is dependent on whether there has been a significant increase in the credit risk of the assets and liabilities from initial recognition to the date of initial application of HKFRS 9. Additional disclosures will also be made in respect of financial instruments including any significant judgement and estimation made. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the Group's financial statements in the period of initial application as the management has yet to complete its detailed assessment. Management does not plan to early adopt the new HKFRS 9.

HKFRS 15 "Revenue from contracts with customers"

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

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

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

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

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2016, the Group has non-cancellable operating lease commitments of HK$27,424,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

Amendments to HKAS 7 "Disclosure initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1st January, 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The management anticipates that the application of amendments to HKAS 7 in the future may result in more disclosures, however, the management does not anticipate that the application of HKAS 7 will have a material impact on the consolidated financial statements.

Other than as described above, the management anticipates that the application of other new and amendments to HKFRSs will have no material impact on the result 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 manufacturing operations are located in the People's Republic of China (the "PRC").

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, 2016

	Containerboard	**Corrugated Packaging**	**Segment total**	**Eliminations**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE					
External sales	**450,297**	**729,147**	**1,179,444**	**–**	**1,179,444**
Inter-segment sales	**524,385**	**–**	**524,385**	**(524,385)**	**–**
Total	**974,682**	**729,147**	**1,703,829**	**(524,385)**	**1,179,444**
RESULT					
Segment profit	**56,324**	**36,678**	**93,002**	**–**	**93,002**
Finance costs					**(5,045)**
Profit before taxation					**87,957**

For the year ended 31st December, 2015

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	340,356	726,185	1,066,541	–	1,066,541
Inter-segmet sales	584,136	–	584,136	(584,136)	–
Total	924,492	726,185	1,650,677	(584,136)	1,066,541
RESULT					
Segment profit	34,698	18,094	52,792	–	52,792
Finance costs					(10,698)
Changes in fair value of derivative financial instruments					323
Profit before taxation					42,417

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

	2016	2015
	HK$'000	*HK$'000*
Interest on bank borrowings	**5,045**	10,698

4. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**465**	425
PRC Enterprise Income Tax	**2,754**	1,074
	3,219	1,499
Deferred tax	**8,351**	4,630
	11,570	6,129

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

A portion of the Group's profits are earned by the Macau subsidiaries of the Group incorporated under the Macau SAR's Offshore Law. Pursuant to the Macau SAR's Offshore Law, such portion of profits are exempted from Macau complementary tax, which is currently at 12% of the profits. Further, in the opinion of the Directors of the Company, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

5. PROFIT FOR THE YEAR

	2016 *HK$'000*	2015 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Allowance for inventories (included in "Cost of sales" and "Cost of inventories recognised as expenses")	**40**	–
Cost of inventories recognised as expenses	**911,748**	853,879
Depreciation of property, plant and equipment	**70,661**	74,952
(Reversal of) provision for impairment losses on trade receivables*	**(973)**	2,858
Change of present value in respect of receivables from disposal of a subsidiary*	**(8,335)**	(7,914)
Exchange difference on receivables from disposal of a subsidiary*	**13,616**	11,781
Staff costs	**132,775**	121,593

* Amounts included in "Other expenses".

6. DIVIDENDS

	2016 *HK$'000*	2015 *HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2015 final – HK1.50 cents per share	**11,952**	11,610

The final dividend of HK1.5 cents (2015: HK1.5 cents) and special final dividend of HK3.0 cents (2015: nil) per ordinary share in respect of the year ended 31st December, 2016 have been proposed by the Directors and are subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	2016 *HK$'000*	2015 *HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**76,387**	36,288

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**790,594,074**	761,329,439
Effect of dilutive potential ordinary shares in respect of share options	**3,498,358**	41,590,183
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**794,092,432**	802,919,622

8. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**130,220**	178,316
Less: allowance for doubtful debts	**(2,406)**	(3,625)
	127,814	174,691
Other receivables	**1,384**	93
Total trade and other receivables	**129,198**	174,784

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**123,091**	166,494
31-60 days	**2,361**	4,986
61-90 days	**2,073**	1,112
Over 90 days	**289**	2,099
	127,814	174,691

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$4,434,000 (2015: HK$38,748,000) 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 47 days (2015: 64 days) based on invoice dates.

9. TRADE, BILLS, AND OTHER PAYABLES

The suppliers of the Group grant credit periods ranging from 30 to 90 days. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
Current	**103,290**	71,778
Overdue 1 to 30 days	**2,893**	1,050
Overdue 31 to 60 days	**1,185**	256
Overdue for more than 60 days	**2,720**	1,709
	110,088	74,793
Payables for the acquisition of property, plant and equipment	**24,149**	14,415
Other payables and accrued charges *(Note)*	**147,970**	122,595
	282,207	211,803

Note: As at 31st December, 2016 included in other payables and accrued charges, amount of HK$5,700,000 (2015: HK$19,807,000) represents transaction costs incurred for the disposal of a subsidiary during the year ended 31st December, 2014.

The average credit period on purchases of goods is 52 days (2015: 42 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

10. DISPOSAL OF A SUBSIDIARY

On 24th October, 2014, Hop Fung Group Company Limited ("HFGC"), a wholly-owned subsidiary of the Company, entered into two equity transfer agreements (the "Equity Transfer Agreements") with two independent third parties (the "Purchasers"). Pursuant to the Equity Transfer Agreements, HFGC agreed to sell and the Purchasers agreed to purchase 51% and 49% equity interests in Fung Kong Hop Fung Paper Ware Factory Limited ("FKHF"), a wholly-owned subsidiary of HFGC, respectively for each purchaser, at an aggregate cash consideration of RMB380,000,000 (equivalent to HK$481,173,000). A cash consideration of HK$235,857,000 was received and a cash consideration receivable of HK$229,068,000 was recognised at fair value during the year ended 31st December, 2014.

The entire equity transfer would be completed by two stages and within two years after completion of the first stage. The first stage of the transactions for transfer of 49% equity interest was completed on 23rd December, 2014, and the remaining 51% interest was transferred on 21st December, 2016. Along with those Equity Transfer Agreements, there were contractual arrangements between HFGC and the Purchasers, limiting those HFGC's controlling power on FKHF after the completion of the first stage.

Based on all the terms and conditions of the arrangements (which were entered into at the same time and in contemplation of each other) and their economic effects, the Directors of the Company considered the overall commercial effect of the two transactions was to dispose of FKHF. Furthermore, the Group ceased to exercise powers to direct the relevant activities of FKHF after the completion of the first stage of the transactions. Accordingly, the transactions were treated as a single transaction whereby the Group lost control over FKHF at the date of completion of the first stage of the transactions. Gain on disposal of FKHF of HK$378,802,000, which was calculated as the difference between the fair value of the consideration, net of transaction costs, and the previous carrying amount of the assets and liabilities of FKHF, was recognised in profit or loss during the year ended 31st December, 2014.

During the year ended 31st December, 2016, change of present value in respect of the receivables from disposal of FKHF and the corresponding exchange difference amounting to HK$8,335,000 (2015: HK$7,914,000) and HK$13,616,000 (2015: HK$11,781,000) respectively, were recognised in other expenses and the whole amount of cash consideration receivable from disposal of a subsidiary was received during the year ended 31st December, 2016..

FINAL DIVIDENDS

The Directors have proposed a final dividend of HK1.5 cents per share (2015: HK1.5 cents per share) and a special final dividend of HK3.0 cents per share (2015: nil) for the year ended 31st December, 2016 payable to shareholders of the Company whose names appear on the Register of Members on 5th June, 2017. The final dividend and the special final dividend are subject to approval by the shareholders of the Company in the forthcoming annual general meeting. It is expected that the payment will be made on 22nd June, 2017.

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, 29th May, 2017 at 10:30 a.m. Notice of the annual general meeting will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

For determining the entitlement to attend and vote at the annual general meeting of the Company, the register of members of the Company will be closed from Wednesday, 24th May, 2017 to Monday, 29th May, 2017, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting of the Company to be held on Monday, 29th May, 2017, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 23rd May, 2017.

For determining the entitlement to the proposed final dividend and the proposed special final dividend (subject to approval by the shareholders at the annual general meeting of the Company), the record date will be Monday, 5th June, 2017. The register of members of the Company will be closed on Monday, 5th June, 2017, during which day no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend and the proposed special final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 2nd June, 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2016, the supply and demand situation in the corrugated paper packaging industry became more balanced, and the Group's sales volume and average selling prices both made gains, lifting overall revenue by 10.6% compared to 2015. Domestic sales and exports accounted for 80% and 20% of revenue. Revenue in the first half rose by 3% compared to the first half of 2015. Revenue in the second half rose by 27% compared to the first half, and by 17% compared to the second half of 2015, primarily due to increases in both sales volume and pricing in the latter half of the fourth quarter of the year.

The Group's upstream containerboard business produces corrugating medium and linerboard primarily for the Group's downstream corrugated packaging business, making corrugated paper boards and carton boxes, but the Group can also sell upstream products directly to customers depending on market conditions. Due to improvements in production capacity and efficiency after technical improvements, more than 40% of upstream products could be directly sold to customers. Upstream and downstream sales accounted for 38% and 62% of revenue respectively, with upstream sales rising 32% and equipment utilization reaching nearly 90%; downstream sales rose slightly by 0.4% with equipment utilization reaching nearly 60%. Excluding the impact of Renminbi depreciation, revenue growth exceeded 20%.

The Group's main raw material, waste paper, is sourced from both domestic and overseas markets. Although average price for waste paper rose by around 10% compared to 2015, and wages and related costs also faced upward pressure, the technical improvements resulted in improved productivity and reduced wastage. This combined with improved working capital for the Group and the resulting reduction in financing costs meant the Group was able to deliver 103% growth in profit from operation for the full year.

FINANCIAL REVIEW

Operating results

Despite Renminbi depreciation in 2016, surge in demand in the latter half of the fourth quarter of 2016 led to steep rise in selling prices and sales volume, resulting in growth in revenue by 10.6%. Revenue climbed from HK$1,066.5 million in 2015 to HK$1,179.4 million in 2016.

Cost of sales rose 6.8% from HK$853.9 million to HK$911.7 million. The rise in costs of sales was less than the rise in revenue on account of improvement in production process, contributing 25.9% increase to gross profit. Gross profit soared from HK$212.7 million to HK$267.7 million. Gross profit margin rose from 19.9% to 22.7%.

The increase in other income from HK$13.3 million to HK$14.7 million was primarily due to exchange gain arising from fixed deposits.

Selling and distribution costs increased 10.1% from HK$61.4 million to HK$67.6 million. The change was in line with the growth in revenue.

There was an increase of 9.7% in administrative expenses from HK$88.6 million to HK$97.2 million. It was predominantly due to increment in staff cost and performance bonus.

Other expenses rose HK$1.4 million from HK$23.2 million to HK$24.6 million. The increase was mainly attributed to the exchange loss arising from receivables from disposal of a subsidiary, from HK$3.9 million to HK$5.3 million.

A decline in finance costs of HK$5.7 million, from HK$10.7 million to HK$5.0 million, was owing to less bank borrowings required throughout the year.

Profit from operation (profit for the year excluding the change in present value in respect of receivables from disposal of a subsidiary and the corresponding exchange difference) climbed from HK$40.2 million to HK$81.7 million, representing an increase of 103.2%. Profit margin from operation improved from 3.8% to 6.9%.

Profit for the year surged HK$40.1 million, from HK$36.3 million in 2015 to HK$76.4 million in 2016.

Liquidity, financial and capital resources

At 31st December, 2016, the Group's total cash and cash equivalents were HK$547.6 million (31st December, 2015: HK$151.6 million), mostly denominated in Renminbi. The tremendous increase was mainly due to the remaining 49% cash consideration received near year end of 2016 in respect of the disposal of a subsidiary.

Total bank borrowings increased from HK$194.8 million to HK$286.5 million in view of the restriction imposed by the Chinese government in transferring Renminbi out of the PRC. Current bank borrowings rose HK$152.5 million while non-current bank borrowings dropped HK$60.8 million. At 31 December 2016, net gearing ratio fell from 2.9% to -17.9%. The group recorded net cash (total cash and cash equivalents less total bank borrowings) of HK$261.1 million.

Net current assets and current ratio of the Group were HK$259.2 million (31st December, 2015: HK$316.2 million) and 1.46 (31st December, 2015: 1.94) respectively.

The Group spent HK$131.4 million on capital expenditures for maintenance, environmental protection facilities, and technical upgrade to the production lines and the ancillary facilities.

Debtors turnover days improved from 64 days to 47 days. It was mainly contributed by cash received in advance from customers in December 2016 for the surge in sales orders. Stock and creditors turnover days were regarded as stable, being 42 days (2015: 56 days) and 52 days (2015: 42 days) respectively.

Contingent liabilities

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

OUTLOOK

We expect the global economy to continue to improve but at a slow pace, and Renminbi depreciation is expected to be on a more limited scale. Although selling prices fell in the first quarter of 2017, the over-supply situation in the industry has seen improvements, and we expect to regain pricing power and reasonably transfer increases in operating costs to our customers. We will stay the course with our core strategy to improve production efficiency, increase sales volume, reduce raw materials wastage and energy use in order to alleviate cost increases, and strive to improve the Group's earnings.

HUMAN RESOURCES

As at 31st December, 2016, the Group and the processing factory employed a total workforce of around 1,100 full time staff (2015: 1,100). 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, 2016 and has discussed auditing, risk management and 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, 2016.

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, 2016, except with the following deviations:

Code Provision A.2.1

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

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

Code Provision B.1.2

- A deviation from the code provision B.1.2 is that the remuneration committee of the Company reviews and makes recommendations to the Directors on the remuneration packages of the executive directors only but not senior management.

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

Code Provision C.3.3

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

- Since the Company has not engaged its auditor to review the financial information in its interim report, the audit committee has met with the Company's auditor once a year to discuss matters arising from the audit of the Company's annual results and other matters the auditor may wish to raise. The audit committee has met with the Company's auditor once during the year ended 31st December, 2016.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31st December, 2016 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, 2016.

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, 2016 will be dispatched to the Company's shareholders in April 2017 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, 31st March, 2017

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.