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, 2018

FINANCIAL HIGHLIGHTS

	2018	2017	Change
	HK$ million	*HK$ million*	
Revenue	**1,423.9**	1,523.2	−6.5%
EBITDA	**133.7**	251.7	−46.9%
Profit for the year	**30.5**	137.7	−77.9%
Net gearing ratio	**0.1%**	−11.0%	+11.1pp

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, 2018 together with the comparative figures for the year ended 31st December, 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Revenue	*2*	**1,423,860**	1,523,210
Cost of sales		**(1,223,626)**	(1,117,744)
Gross profit		**200,234**	405,466
Other income		**21,191**	12,637
Selling and distribution costs		**(51,176)**	(67,123)
Administrative expenses		**(92,471)**	(149,824)
Other expenses		**(31,228)**	(27,493)
Finance costs	*3*	**(4,832)**	(2,096)
Profit before taxation		**41,718**	171,567
Income tax expense	*4*	**(11,246)**	(33,857)
Profit for the year, attributable to owners of the Company	*5*	**30,472**	137,710
Other comprehensive (expense) income for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(57,209)**	79,717
Total comprehensive (expense) income for the year, attributable to owners of the Company		**(26,737)**	217,427
		HK cents	*HK cents*
Earnings per share	*7*		
– basic		**3.82**	17.28
– diluted		**3.81**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31st December, 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**1,394,531**	1,399,143
Prepaid lease payments on land use rights		**21,000**	22,451
		1,415,531	1,421,594
Current assets			
Inventories		**258,661**	157,409
Trade and other receivables	*8*	**174,875**	178,639
Deposits and prepayments		**20,363**	19,355
Prepaid lease payments on land use rights		**549**	558
Bank balances and cash		**219,398**	335,541
		673,846	691,502
Current liabilities			
Trade, bills and other payables	*9*	**232,030**	241,186
Taxation payable		**12,666**	12,672
Unsecured bank borrowings		**166,333**	138,448
		411,029	392,306
Net current assets		**262,817**	299,196
Total assets less current liabilities		**1,678,348**	1,720,790
Capital and reserves			
Share capital		**79,682**	79,682
Reserves		**1,470,540**	1,558,631
Total equity, attributable to owners of the Company		**1,550,222**	1,638,313
Non-current liabilities			
Unsecured bank borrowings		**54,722**	17,489
Deferred taxation		**73,404**	64,988
		128,126	82,477
		1,678,348	1,720,790

Notes:

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

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and the related amendments
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle
Amendments to HKAS 40	Transfers of investment property

Except as described below, the application of the above new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 "Revenue from contracts with customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1st January, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

The Group recognises revenue from the manufacturing and sales of containerboard and corrugated packaging products which arise from contracts with customers.

The application of HKFRS 15 has no material impact on the timing and amount of revenue recognised in the current year. Information about the Group's accounting policies resulting from application of HKFRS 15 will be disclosed in the annual report of the Group.

HKFRS 9 "Financial instruments"

In the current year, the Group has applied HKFRS 9 "Financial instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial instruments: recognition and measurement".

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, which are grouped based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtors.

ECL for other financial assets at amortised cost, including other receivables and deposits and bank balances, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1st January, 2018, no additional credit loss allowance has been recognised against retained profits as the Directors of the Company consider that the amount is immaterial.

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 16	Leases[1]
HKFRS 17	Insurance contracts[2]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[1]
Amendments to HKFRS 3	Definition of a business[5]
Amendments to HKFRS 9	Prepayment features with negative compensation[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 1 and HKAS 8	Definition of a material[4]
Amendments to HKAS 19	Plan amendment, curtailment or settlement[1]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle[1]

1 Effective for annual periods beginning on or after 1st January, 2019.
2 Effective for annual periods beginning on or after 1st January, 2021.
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, 2020.
5 Effective for business combination and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020.

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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. Upon application of 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 cash flows by the Group.

Under HKAS 17, the Group has already recognised 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.

Other than certain requirements which are also applicable to lessor, 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, 2018, the Group has non-cancellable operating lease commitments of HK$ 7,601,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,243,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the initial measurement of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 "Leases" and HK(IFRIC) – Int 4 "Determining whether an arrangement contains a lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

HK(IFRIC) – Int 23 "Uncertainty over income tax treatments"

HK(IFRIC) – Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. The Directors of the Company has assessed the financial impact of the application of HK(IFRIC) – Int 23 and anticipate that the effect will be immaterial to the Group.

Other than as described above, the Directors of the Company anticipates that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. SEGMENT INFORMATION

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

Information regarding the above segments is reported below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 31st December, 2018

	Containerboard *HK$'000*	**Corrugated Packaging** *HK$'000*	**Segment total** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
REVENUE					
External sales	**553,617**	**870,243**	**1,423,860**	**—**	**1,423,860**
Inter-segment sales	**412,818**	**—**	**412,818**	**(412,818)**	**—**
Total	**966,435**	**870,243**	**1,836,678**	**(412,818)**	**1,423,860**
RESULT					
Segment profit	**63,238**	**15,790**	**79,028**	**—**	**79,028**
Central administrative expenses					**(32,478)**
Finance costs					**(4,832)**
Profit before taxation					**41,718**

For the year ended 31st December, 2017

	Containerboard *HK$'000*	Corrugated Packaging *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	497,871	1,025,339	1,523,210	—	1,523,210
Inter-segment sales	746,920	—	746,920	(746,920)	—
Total	1,244,791	1,025,339	2,270,130	(746,920)	1,523,210
RESULT					
Segment profit	152,581	95,597	248,178	—	248,178
Central administrative expenses					(74,515)
Finance costs					(2,096)
Profit before taxation					171,567

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

	2018	2017
	HK$'000	*HK$'000*
Interest on bank borrowings	**4,832**	2,096

4. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**417**	887
PRC Enterprise Income Tax	**2,413**	20,166
	2,830	21,053
Deferred tax	**8,416**	12,804
	11,246	33,857

The Directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rate regime as insignificant to the consolidated financial statements. 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

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Impairment loss recognised on inventories (included in "cost of sales" and "cost of inventories recognised as expenses")	**1,413**	—
Cost of inventories recognised as expenses	**1,222,213**	1,117,744
Exchange losses, net	**6,256**	1,239
Depreciation of property, plant and equipment	**86,594**	77,490
Staff costs	**114,527**	187,618

6. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 final – HK1.5 cents (2016: HK1.5 cents) per share	**11,953**	11,953
2017 special final – HK6.5 cents (2016: HK3.0 cents) per share	**51,793**	23,906
	63,746	35,859

The Directors did not recommend the payment of a final dividend for the year ended 31st December, 2018.

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:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (2017: basic earnings per share)	**30,472**	137,710

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**796,824,000**	796,824,000
Effect of dilutive potential ordinary shares in respect of share options	**2,991,100**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**799,815,100**	796,824,000

8. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**176,499**	180,021
Less: allowance for credit losses	**(2,433)**	(2,533)
	174,066	177,488
Other receivables	**809**	1,151
Total trade and other receivables	**174,875**	178,639

The Group allows credit periods ranging from 5 to 120 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 credit losses presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**172,181**	174,154
31-60 days	**1,480**	2,701
61-90 days	**405**	361
Over 90 days	**—**	272
	174,066	177,488

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.

As at 31st December, 2018, included in the Group's trade receivable balance are debtors with aggregate gross amount of HK$30,362,000 which were past due at the reporting date. Out of the past due balances, HK$490,000 has been past due 90 days or more and is not considered as in default. 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.

As at 31st December, 2017, trade receivables amounting to HK$41,351,000 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 45 days (2017: 37 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:

	2018	2017
	HK$'000	*HK$'000*
Current	**86,254**	51,186
Overdue 1 to 30 days	**327**	103
Overdue 31 to 60 days	**270**	311
Overdue for more than 60 days	**1,449**	1,211
Trade and bills payables	**88,300**	52,811
Payables for the acquisition of property, plant and equipment	**19,207**	24,774
PRC duties payables	**30,215**	40,077
Other payables and accrued charges *(Note)*	**94,308**	123,524
	232,030	241,186

Note: Major items of other payables and accrued charges are accrued salaries and wages.

The average credit period on purchases of goods is 29 days (2017: 39 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, 2019 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

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, 29th May, 2019 to Monday, 3rd June, 2019, 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, 3rd June, 2019, 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, 28th May, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Corrugated packaging demand fell slightly in 2018 while market supply was in abundance. Although the Group's average selling price actually rose in the year, the shortage in raw materials resulted in a 10% fall in sales volume and a 6.5% fall in revenue. Domestic and export sales accounted for 80% and 20% of total sales, respectively. In the first half, revenue fell by 7% year on year compared to 2017, while second half 2018 revenue was 23% higher than the first half of 2018, and declining by 6% compared to the same half of 2017.

The Group's upstream containerboard business, producing corrugating medium and linerboard, mainly supplies our downstream corrugated packaging business for manufacturing corrugated paper boards and carton boxes, and we would also sell containerboard directly to customers depending on market demand. The upstream and downstream businesses accounted for 39% and 61% respectively of revenue in the year, with upstream revenue up by 11% due to rising average selling prices, with equipment utilization at approximately 60%; the downstream business saw revenue decline by 15% due to lower sales volume, with equipment utilization at approximately 50%.

The Group's sources its key raw material, wastepaper, from both domestic and overseas markets. Costs for wastepaper rose by more than 30% on average compared to the whole of 2017, but the Group's tight control of costs and expenses meant that most costs fell along with the lower sales volume achieved. Due to the shortage in raw materials and higher costs, the Group needed more working capital for its inventory, resulting in higher financing costs, and resulting in the 78% decline in profit for the year.

FINANCIAL REVIEW

Operating results

The Group recorded a decrease in revenue of HK$99.3 million in 2018, representing a fall of 6.5% from HK$1,523.2 million in 2017 to HK$1,423.9 million in 2018. In view of the shortage in raw materials for production in 2018, sales volume dropped leading to a fall in revenue.

The average cost of wastepaper, the main raw material of the group, rose sharply by more than 30% in 2018 compared to the average cost in 2017. With lower sales volume but higher raw material cost, cost of sales rose 9.5% from HK$1,117.7 million to HK$1,223.6 million.

Gross profit dropped from HK$405.5 million to HK$200.2 million, representing a 50.6% decrease. Gross profit margin fell from 26.6% to 14.1%.

The rise in other income from HK$12.6 million to HK$21.2 million was primarily due to the refund from the Chinese Government in 2018.

Selling and distribution costs reduced 23.7% from HK$67.1 million to HK$51.2 million. The decrease was arisen from the fact that less finished goods were delivered to customers in 2018 as a result of the reduction in sales volume.

As there was no recommendation of directors' performance bonus in 2018 leading to salaries decrease, the administrative expenses fell 38.3% from HK$149.8 million to HK$92.5 million.

Other expenses rose HK$3.7 million from HK$27.5 million to HK$31.2 million. The increment was mainly attributed to the rise in exchange losses which was the result of depreciation of Renminbi in the second half of 2018.

An increase in finance costs by HK$2.7 million, from HK$2.1 million to HK$4.8 million, was owing to higher average interest rate incurred and higher financing level required during 2018.

HK$11.2 million was charged to taxation, being profits tax amounting to HK$2.8 million and deferred tax amounting to HK$8.4 million.

Profit for the year declined from HK$137.7 million to HK$30.5 million, representing a decrease of 77.9%. Profit margin fell from 9.0% to 2.1%.

Liquidity, financial and capital resources

At 31st December, 2018, the Group's total cash and cash equivalents were HK$219.4 million (31st December, 2017: HK$335.5 million), mostly denominated in Renminbi. More funds were required in 2018 to maintain a higher safety inventory level as a result of raw material shortage and higher raw material cost.

Total unsecured bank borrowings rose from HK$155.9 million to HK$221.1 million. Current and non-current unsecured bank borrowings increased HK$27.9 million and HK$37.3 million respectively. At 31st December, 2018, net gearing ratio was 0.1%. The group recorded a net borrowing (total unsecured bank borrowings less bank balances and cash) of HK$1.7 million.

Net current assets and current ratio of the Group were HK$262.8 million (31st December, 2017: HK$299.2 million) and 1.64 (31st December, 2017: 1.76) respectively.

The Group spent HK$146.6 million in 2018 on capital expenditures for maintenance and technical upgrade to the production lines and the ancillary facilities.

Debtors and creditors turnover were 45 days (2017: 37 days) and 29 days (2017: 39 days) respectively. Inventory turnover has been increased from 51 days to 65 days as a higher safety inventory level was required in 2018 in view of the shortfall of raw materials.

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 2012/2013 are still on-going. The IRD had issued protective assessments for the years of assessment 2004/2005 to 2012/2013 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 as well as the Chinese economy to slow, and for overall demand to decline marginally. To resolve our current shortage in raw materials, the Group is considering purchasing pulp overseas or to build pulp production lines overseas, in order to reduce production costs and increase sales. We will continue to seek more pricing power and reasonably transfer higher operating costs to customers. Our key priorities continue to improve production efficiency, increase sales volume, reduce raw materials wastage and energy use, in order to counter rising costs, and to strive to improve the Group's profitability.

HUMAN RESOURCES

As at 31st December, 2018, the Group employed a total workforce of around 1,050 full time staff (2017: 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, Wong Chu Leung and Chau Suk Ming. 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, 2018 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, 2018.

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 of Hong Kong Limited throughout the year ended 31st December, 2018, 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 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, 2018.

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, 2018 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, 2018.

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, 2018 will be dispatched to the Company's shareholders in April 2019 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 support and to our staff for their commitment and diligence during the year.

On behalf of the Board
Hui Sum Ping
Chairman

Hong Kong, 27th March, 2019

As at the date of this announcement, the executive directors of the Company are Messrs. 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, Wong Chu Leung and Chau Suk Ming.