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, 2019

FINANCIAL HIGHLIGHTS

	2019	2018	Change
	HK$ million	*HK$ million*	
Revenue	**1,194.1**	1,423.9	−16.1%
EBITDA*	**71.9**	133.7	−46.2%
			HK$ million
Operating (loss) profit**	**(22.9)**	38.9	−61.8
Net cash (loans)***	**75.4**	(1.7)	77.1

* *EBITDA represents earnings before finance cost, tax and depreciation of property, plant and equipment*

** *Operating (loss) profit represents (loss) profit after Hong Kong Profits Tax and PRC Enterprise Income Tax without taking into account the deferred tax credit*

*** *Bank balances and cash less total unsecured bank borrowings*

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, 2019 together with the comparative figures for the year ended 31st December, 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2019

	Notes	**2019** ***HK$'000***	2018 *HK$'000*
Revenue	*2*	**1,194,082**	1,423,860
Cost of sales		**(1,078,828)**	(1,223,626)
Gross profit		**115,254**	200,234
Other income		**20,584**	21,191
Other gains and losses		**(2,297)**	(7,563)
Impairment loss under expected credit loss model		**(551)**	–
Selling and distribution costs		**(45,689)**	(51,176)
Administrative expenses		**(83,662)**	(92,471)
Other expenses		**(18,168)**	(23,665)
Finance costs	*3*	**(6,189)**	(4,832)
(Loss) profit before taxation		**(20,718)**	41,718
Income tax credit (expense)	*4*	**12,799**	(11,246)
(Loss) profit for the year, attributable to owners of the Company	*5*	**(7,919)**	30,472
Other comprehensive expense for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(24,774)**	(57,209)
Total comprehensive expense for the year, attributable to owners of the Company		**(32,693)**	(26,737)
		HK cents	*HK cents*
(Loss) earnings per share	*7*		
– basic		**(0.98)**	3.82
– diluted		**(0.98)**	3.81

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31st December, 2019

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**1,343,204**	1,394,531
Right-of-use assets		**28,765**	–
Prepaid lease payments on land use rights		**–**	21,000
Deposits paid for the acquisition of property, plant and equipment		**63,790**	–
		1,435,759	1,415,531
Current assets			
Inventories		**93,861**	258,661
Trade and other receivables	*8*	**168,833**	174,875
Deposits and prepayments		**6,518**	20,363
Prepaid lease payments on land use rights		**–**	549
Bank balances and cash		**292,299**	219,398
		561,511	673,846
Current liabilities			
Trade, bills and other payables	*9*	**180,655**	232,030
Taxation payable		**3,133**	12,666
Lease liabilities		**7,832**	–
Unsecured bank borrowings		**183,263**	166,333
		374,883	411,029
Net current assets		**186,628**	262,817
Total assets less current liabilities		**1,622,387**	1,678,348
Capital and reserves			
Share capital		**81,764**	79,682
Reserves		**1,449,519**	1,470,540
Total equity, attributable to owners of the Company		**1,531,283**	1,550,222
Non-current liabilities			
Lease liabilities		**311**	–
Unsecured bank borrowings		**33,593**	54,722
Deferred taxation		**57,200**	73,404
		91,104	128,126
		1,622,387	1,678,348

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

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 in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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 financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 "Leases" ("HKFRS 16")

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17") and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not to apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1st January, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1st January, 2019.

As at 1st January, 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 3%.

	At 1st January, 2019 *HK$'000*
Operating lease commitments disclosed as at 31st December, 2018	**7,601**
Lease liabilities discounted at relevant incremental borrowing rates as at 1st January, 2019	**7,503**
Analysed as	
Current	**7,503**
Non-current	**—**
	7,503

The carrying amount of right-of-use assets as at 1st January, 2019 comprises the following:

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	**7,503**
Reclassified from prepaid lease payments *(note)*	**21,549**
	29,052

Note: Upfront payments for leasehold lands in the People's Republic of China (the "PRC") for own used properties were classified as prepaid lease payments on land use rights as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments on land use rights amounting to HK$549,000 and HK$21,000,000 respectively were reclassified to right-of-use assets.

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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
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 Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1st January, 2021.
[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020.
[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.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1st January, 2020.

2. SEGMENT INFORMATION

Segment information

The Group's manufacturing operations are located in the PRC.

The Group's operations are organised based on the types of 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 type of 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, 2019

	Containerboard *HK$'000*	**Corrugated Packaging** *HK$'000*	**Segment total** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
REVENUE					
External sales	**573,716**	**620,366**	**1,194,082**	**–**	**1,194,082**
Inter-segment sales	**295,292**	**–**	**295,292**	**(295,292)**	**–**
Total	**869,008**	**620,366**	**1,489,374**	**(295,292)**	**1,194,082**
RESULT					
Segment profit	**3,900**	**6,826**	**10,726**	**–**	**10,726**
Central administrative expenses					**(25,255)**
Finance costs					**(6,189)**
Loss before taxation					**(20,718)**

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

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

	2019	2018
	HK$'000	*HK$'000*
Interest on bank borrowings	**6,059**	4,832
Interest on lease liabilities	**130**	–
	6,189	4,832

4. INCOME TAX (CREDIT) EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**1,970**	417
PRC Enterprise Income Tax	**186**	2,413
PRC withholding tax	**1,249**	–
	3,405	2,830
Deferred tax	**(16,204)**	8,416
	(12,799)	11,246

The Directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rate regime is 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. One of the Company's PRC subsidiaries was awarded with the High and New-Tech Enterprise and entitled to a preferential tax rate of 15% for the Group's financial year ended 31st December, 2019 and 31st December, 2018.

5. (LOSS) PROFIT FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Write-down of inventories (included in "cost of sales")	**–**	1,413
Cost of inventories recognised as expenses	**1,078,828**	1,222,213
Exchange losses, net (included in "other gain and losses")	**2,405**	6,256
Depreciation of property, plant and equipment	**86,379**	86,594
Staff costs	**108,879**	114,527

6. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 final – HK1.5 cents per share	**–**	11,953
2017 special final – HK6.5 cents per share	**–**	51,793
	–	63,746

The Directors did not recommend the payment of a final dividend for the year ended 31st December, 2019, nor has any dividend been proposed since the end of the reporting period.

7. (LOSS) EARNINGS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(7,919)**	30,472

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**810,513,864**	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 (loss) earnings per share	**810,513,864**	799,815,100

The computation of diluted loss per share for the year ended 31st December, 2019 did not assume the exercise of the Company's share options as the exercise price of these options was higher than the average market price for shares from the date of grant.

8. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**149,495**	176,499
Less: allowance for credit losses	**(2,935)**	(2,433)
	146,560	174,066
Other receivables *(note)*	**22,273**	809
Total trade and other receivables	**168,833**	174,875

Note: Balance included a service fee prepayment to an independent third party amounting to HK$21,403,000, which will be utilised in year 2020.

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:

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**146,212**	172,181
31 - 60 days	**348**	1,480
61 - 90 days	–	405
	146,560	174,066

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 past due relate to customers for whom there was no recent history of default.

As at 31st December, 2019, included in the Group's trade receivable balance are debtors with aggregate gross amount of HK$20,061,000 (2018: HK$30,362,000) which were past due at the reporting date. Out of the past due balances, no balance 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.

The average age of these receivables is 49 days (2018: 45 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:

	2019	2018
	HK$'000	*HK$'000*
Current	**46,266**	86,254
Overdue 1 to 30 days	**351**	327
Overdue 31 to 60 days	**6**	270
Overdue for more than 60 days	**825**	1,449
Trade and bills payables	**47,448**	88,300
Payables for the acquisition of property, plant and equipment	**16,337**	19,207
PRC other tax payables	**27,150**	30,215
Other payables and accrued charges *(note)*	**89,720**	94,308
	180,655	232,030

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

The average credit period on purchases of goods is 33 days (2018: 29 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, 8th June, 2020 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, 3rd June, 2020 to Monday, 8th June, 2020, 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, 8th June, 2020, 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, 2nd June, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Chinese economic growth slowed down in 2019 and demand for corrugated packaging declined. Although the Group's overall sales volume was flat, average selling prices fell, resulting in a 16.1% fall in revenue for the year. Domestic and export sales accounted for 90% and 10% of total revenue. The revenue in first half of 2019 fell by 6.6% compared to the first half of 2018. The revenue in second half of 2019 were flat compared to the first half of 2019, but fell by 23.9% compared to the second half of 2018.

The Group's upstream containerboard business produces corrugating medium and linerboard primarily for our downstream corrugated packaging business (making corrugated paper boards and carton boxes). Some upstream products are sold directly to customers, depending on market conditions. The upstream and downstream businesses accounted for 48% and 52% of revenue, respectively. Upstream revenue rose by 3.6% even though average selling prices fell, with equipment utilization at around 55%. Downstream revenue fell by 28.7%, primarily due to a decline in average selling prices, with equipment utilization at around 52%.

The Group's main raw material, waste paper, is sourced from both domestic and overseas sources, and average prices fell by around 20% from 2018 levels. Due to the raw materials shortage, the Group's equipment utilization fell. Even though the

Group has consistently strived to tightly control costs and expenses, some overhead costs remain and the operational deleverage from reduced selling prices ultimately resulted in the Group recording a loss for the year.

FINANCIAL REVIEW

Operating results

The Group recorded a decrease in revenue of HK$229.8 million in 2019, representing a fall of 16.1% from HK$1,423.9 million in 2018 to HK$1,194.1 million in 2019. The drop in revenue was mainly attributed to the fall in Renminbi exchange rates and average selling prices.

The average costs of main raw material, waste paper fell but overhead fell by less, leading to a decrease in cost of sales only by 11.8%. Cost of sales dropped from HK$1,223.6 million in 2018 to HK$1,078.8 million in 2019.

Gross profit declined from HK$200.2 million in 2018 to HK$115.3 million in 2019, representing a 42.4% decrease. Gross profit margin fell from 14.1% to 9.7%.

There was no much change for other income, falling from HK$21.2 million in 2018 to HK$20.6 million in 2019.

Other gains and losses reducing HK$5.3 million from HK$7.6 million to HK$2.3 million, were mainly due to a fall in exchange loss.

Selling and distribution costs reduced 10.7% from HK$51.2 million in 2018 to HK$45.7 million in 2019. The decrease was arisen from stringent control on transportation cost though sales volume was flat.

Due to the fall in salaries, administrative expenses fell 9.5% from HK$92.5 million in 2018 to HK$83.7 million in 2019.

Other expenses fell HK$5.5 million from HK$23.7 million in 2018 to HK$18.2 million in 2019. The fall was primarily resulted from the decrease in China duty and charges.

An increase in finance costs by HK$1.4 million, from HK$4.8 million in 2018 to HK$6.2 million in 2019, was owing to higher HIBOR rates charged by banks throughout 2019.

HK$12.8 million was credited to income tax expense, being deferred tax credit of HK$16.2 million net provision for profits tax of HK$2.2 million and withholding tax of HK$1.2 million.

Loss of HK$7.9 million was recorded in 2019 while profit of HK$30.5 million was recorded in 2018, representing a decrease of profit by HK$38.4 million. Profit margin fell from 2.1% to -0.7%.

Liquidity, financial and capital resources

At 31st December, 2019, the Group's bank balances and cash were HK$292.3 million (31st December, 2018: HK$219.4 million), mostly denominated in Renminbi.

All bank borrowings were unsecured, falling from HK$221.1 million to HK$216.9 million. Current unsecured bank borrowings increased HK$16.9 million while non-current unsecured bank borrowings declined HK$21.1 million. At 31st December, 2019, the group recorded a net cash level (total bank balances and cash less total bank borrowings) of HK$75.4 million.

Net current assets and current ratio of the Group were HK$193.7 million (31st December, 2018: HK$262.8 million) and 1.51 (31st December, 2018: 1.64) respectively.

The Group spent HK$60.5 million on capital expenditures for upgrading existing facilities and spent HK$63.8 million for paying deposit for property, plant and equipment for Southeast Asia project.

Debtors and creditors turnover were 49 days (2018: 45 days) and 33 days (2018: 29 days) respectively. Inventory turnover has been increased from 65 days to 84 days as inventory level was exceptionally high at year end of 2018.

Contingent Liabilities

Tax audits were conducted by the Inland Revenue Department ("IRD") on the Company and its subsidiaries for the years of assessment from 2004/2005 to 2012/2013 in the previous years. On 28th October, 2019, a settlement proposal (the "Settlement Proposal") regarding the above tax audits and the year of assessment from 2013/2014 to 2018/2019 was submitted by the Company to the IRD, which was approved by the IRD on 17th December, 2019. Based on the Settlement Proposal, no additional tax provision need to be provided by the Group and previous year's tax provision amounting to HK$8,310,000 and interest payable of HK$1,773,000 were settled by the tax reserve certificates of HK$11,171,000 purchased in prior years. Further, a tax penalty of HK$1,385,000 was charged by the IRD.

OUTLOOK

We expect the global economy and the Chinese economy to slow going forward, and for overall demand to decline slightly. In order to resolve the raw materials shortage facing our Group, we are now actively pursuing the installation of brand new production facilities at a new factory leasing in Southeast Asia, to convert waste paper into pulp prior to shipping back to our Chinese Mainland facilities for production of containerboard, in order to reduce production cost and increase our sales volume. We will continue to strive to gain pricing power and reasonably transfer our operating costs to our customers. We promise that we will continue to strive to improve production efficiency, increase our sales volume, reduce raw materials wastage and energy use, in order to offset the impact of rising costs, and endeavor to improve the Group's profitability.

CLARIFICATION TO PROFIT WARNING ANNOUNCEMENTS

Reference is made to the announcements of the Company dated 28th February, 2020 and 5th March, 2020 (the "**Profit Warning Announcements**") in relation to the profit warning of the results of the Company for the year ended 31st December, 2019. The Company would like to clarify that the actual loss attributable to owners of the Company for the year ended 31st December, 2019 is amounted to HK$7.9 million, which is less than the expected amount stated in the Profit Warning Announcements.

The Board would like to emphasize that the information contained in the Profit Warning Announcements was based on the preliminary assessment by the Board of the Group's unaudited consolidated management accounts for the year ended 31st December, 2019 and the latest information available to the Board up to the date of the Profit Warning Announcements. Due to the outbreak of coronavirus disease (COVID-19) since January 2020, more time had been required to gather the financial information of the Group's PRC subsidiaries (the "**Subsidiaries**") by the Company. The operations of the Subsidiaries returned to normal in mid-March 2020. Subsequent to the issue of the Profit Warning Announcements and on 26th March, 2020, the Company noted that a deferred tax credit of approximately HK$21.5 million was recorded for the annual tax losses incurred by the Subsidiaries, release of withholding tax in relation to the undistributed earnings of the Subsidiaries and reversal of deferred tax expense. As a result of such deferred tax credit which was an information not available to the Board at the time of issuing the Profit Warning Announcements, there is a discrepancy between the expected loss attributable to owners of the Company stated in the Profit Warning Announcements and the actual loss attributable to owners of the Company.

Without taking into account the deferred tax credit, the Group would record a loss after Hong Kong Profit Tax and PRC Enterprise Income Tax of approximately HK$22.9 million for the year ended 31st December, 2019.

HUMAN RESOURCES

As at 31st December, 2019, the Group employed a total workforce of around 1,000 full time staff (2018: 1,050). Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors namely, Messrs. Chee Man Sang, Eric, 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, 2019 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, 2019.

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, 2019, 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, 2019.

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, 2019 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, 2019.

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, 2019 will be dispatched to the Company's shareholders in April 2020 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, 2020

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.