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, 2021; AND RESUMPTION OF TRADING

Reference is made to (i) the announcement of Hop Fung Group Holdings Limited (the "Company") dated 24th June, 2022, 27th May, 2022, 20th May, 2022, 13th May, 2022 and 29th April, 2022 in relation to the delay in publication of the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2021 (the "2021 Annual Results") and annual report of the Group for the year ended 31st December, 2021 (the "2021 Annual Report"); (ii) the announcement of the Company dated 1st April, 2022 in relation to the unaudited annual results of the Group for the year ended 31st December, 2021 (the "2021 Unaudited Annual Results Announcement"); and (iii) the announcements of the Company dated 29th March, 2022 in relation to the delay in publication of the 2021 Annual Results.

The board of directors (the "Board") of the Company hereby announces that the auditing process of the audited annual results of the Group for the Reporting Period has been completed. The Board wishes to announce that on 26th July, 2022, the Company has obtained the agreement from the Group's auditor on the figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto as set out in this announcement. As certain adjustments have been made to the unaudited financial information of the Group as contained in the 2021 Unaudited Annual Results Announcement, the differences between the unaudited financial information and the audited financial information contained in this announcement are set out in the section headed "MATERIAL DIFFERENCES BETWEEN 2021 AUDITED ANNUAL RESULTS AND 2021 UNAUDITED ANNUAL RESULTS ANNOUNCEMENT" in this announcement in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules.

The Board hereby presents the 2021 Annual Results together with the comparative figures for the year ended 31st December, 2020 as follows:

FINANCIAL HIGHLIGHTS

Revenue decreased to approximately HK$755.6 million, representing a fall of approximately 27.4% as compared to that for 2020.

Loss attributable to owners of the Company was approximately HK$422.8 million as compared to a profit attributable to owners of the Company for 2020 of approximately HK$1.4 million. Such change from profit to loss is mainly due to (i) the decrease in revenue as a result of temporary suspension of the upstream production aggravated by the effect of loss of peak season sales in the fourth quarter; (ii) the increase in the cost of raw materials outweighed the increase in average selling prices, which could not be reasonably passed on to customers and (iii) the recognition of impairment loss on certain property, plant and equipment of approximately HK$420.6 million in respect of the temporary suspension of the upstream production.

Excluding the effect of the impairment loss of approximately HK$420.6 million recognized during the year, the EBITDA (earnings before finance costs, taxation, depreciation and amortisation) is HK$45.2 million as compared to HK$107.1 million for 2020.

Net cash (bank balances and cash less total bank borrowings) is HK$19.8 million as compared to HK$8.9 million for 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31st December, 2021

	Notes	**2021** **HK$'000**	2020 HK$'000
Revenue	2	**755,603**	1,040,369
Cost of sales		**(1,127,114)**	(912,500)
Gross (loss) profit		**(371,511)**	127,869
Other income		**17,896**	23,053
Other gains and losses		**12,793**	4,052
Net reversal of impairment loss recognised under expected credit loss model		**1,817**	–
Selling and distribution costs		**(31,233)**	(38,137)
Administrative expenses		**(77,477)**	(80,104)
Other expenses		**(22,881)**	(21,417)
Finance costs	3	**(8,440)**	(8,813)
(Loss) profit before taxation		**(479,036)**	6,503
Income tax credit (expense)	4	**56,249**	(5,140)
(Loss) profit for the year, attributable to owners of the Company	5	**(422,787)**	1,363
Other comprehensive income (expense) for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**56,785**	87,072
Reclassification of cumulative translation reserve upon liquidation of foreign operations		**(5,771)**	–
Other comprehensive income for the year		**51,014**	87,072
Total comprehensive (expense) income for the year, attributable to owners of the Company		**(371,773)**	88,435
		HK cents	*HK cents*
(Loss) earnings per share	7		
– basic		**(51.71)**	0.17
– diluted		**(51.71)**	0.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment		**944,206**	1,364,462
Right-of-use assets		**31,440**	29,092
Deposits and prepayments		**177,504**	169,843
		1,153,150	1,563,397
Current assets			
Inventories		**127,177**	143,471
Trade and other receivables	8	**112,704**	200,055
Deposits and prepayments		**3,737**	4,471
Bank balances and cash		**246,677**	291,561
		490,295	639,558
Current liabilities			
Trade and other payables	9	**147,233**	224,854
Taxation payable		**1,413**	2,427
Lease liabilities		**9,760**	7,970
Unsecured bank borrowings		**106,928**	138,496
		265,334	373,747
Net current assets		**224,961**	265,811
Total assets less current liabilities		**1,378,111**	1,829,208
Non-current liabilities			
Lease liabilities		**305**	–
Unsecured bank borrowings		**119,951**	144,118
Deferred taxation		**8,280**	64,034
		128,536	208,152
Net assets		**1,249,575**	1,621,056
Capital and reserves			
Share capital		**81,764**	81,764
Reserves		**1,167,811**	1,539,292
Total equity, attributable to owners of the Company		**1,249,575**	1,621,056

Notes:

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1st January, 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

The application of the amendments to HKFRSs 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.

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 and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30th June, 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[2]

[1] Effective for annual periods beginning on or after 1st April, 2021.

[2] Effective for annual periods beginning on or after 1st January, 2022.

[3] Effective for annual periods beginning on or after 1st January, 2023.

[4] Effective for annual periods beginning on or after a date to be determined.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate 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.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31st December, 2021, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

Amendments to HKAS 12 ***Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* ("HKAS 12") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The Group is still in the process of assessing the full impact of the application of the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest comparative period presented.

2. 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 type 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, 2021

	Containerboard	**Corrugated packaging**	**Segment total**	**Eliminations**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE					
External sales	**107,268**	**648,335**	**755,603**	**–**	**755,603**
Inter-segment sales	**227,148**	**–**	**227,148**	**(227,148)**	**–**
Total	**334,416**	**648,335**	**982,751**	**(227,148)**	**755,603**
RESULT					
Segment (loss) profit	**(462,370)**	**14,602**	**(447,768)**	**–**	**(447,768)**
Central administrative expenses					**(22,828)**
Finance costs					**(8,440)**
Loss before taxation					**(479,036)**

For the year ended 31st December, 2020

	Containerboard	Corrugated packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	442,094	598,275	1,040,369	–	1,040,369
Inter-segment sales	263,019	–	263,019	(263,019)	–
Total	705,113	598,275	1,303,388	(263,019)	1,040,369
RESULT					
Segment profit	24,584	19,037	43,621	–	43,621
Central administrative expenses					(28,305)
Finance costs					(8,813)
Profit before taxation					6,503

Inter-segment sales are charged at prevailing market rates. No revenue from any single customer contributed over 10% of the total revenue of the Group for both years.

3. FINANCE COSTS

	2021	2020
	HK$'000	*HK$'000*
Interest on bank borrowings	**8,255**	8,507
Interest on lease liabilities	**185**	306
	8,440	8,813

4. INCOME TAX (CREDIT) EXPENSE

	2021	2020
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**485**	1,202
PRC Enterprise Income Tax	**1,539**	638
Macau Complementary Tax	**68**	–
	2,092	1,840
Deferred tax	**(58,341)**	3,300
	(56,249)	5,140

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

For the year ended 31st December, 2021, a portion of the Group's profits is earned by a Macau subsidiary of the Group, which is subject to Macau Complementary Tax at a rate of 12% on the assessable income exceeding MOP600,000. For the year ended 31st December, 2020, a portion of the Group's profits was 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 was exempted from Macau complementary tax, which was then at 12% of the profits. Further, in the opinion of the directors of the Company, that portion of the Group's profit was 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% for both years. One of the Company's PRC subsidiaries was awarded with the High and New-Tech Enterprise and entitled to preferential rate of 15% for the Group's financial years ended 31st December, 2021 and 31st December, 2020.

5. (LOSS) PROFIT FOR THE YEAR

	2021	2020
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**706,480**	912,500
Exchange gains, net	**(6,345)**	(4,048)
Depreciation of property, plant and equipment	**86,038**	83,127
Depreciation of right-of-use assets	**9,084**	8,618
Staff costs	**88,292**	107,200
Impairment loss recognised on property, plant and equipment as expenses (included in cost of sales)	**420,634**	–

6. DIVIDENDS

No dividend was declared or proposed for the years ended 31st December, 2021 and 31st December, 2020, 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:

	2021	2020
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(422,787)**	1,363

	2021	2020
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**817,644,000**	817,644,000

The computation of diluted (loss) earnings per share for the years ended 31st December, 2021 and 31st December, 2020 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 for both 2021 and 2020.

8. TRADE AND OTHER RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Trade receivables	**102,709**	192,473
Less: allowance for credit losses	**(1,076)**	(3,108)
	101,633	189,365
Other receivables *(note)*	**11,071**	10,690
Total trade and other receivables	**112,704**	200,055

Note: As at 31st December, 2021, balance included an advance to a third party amounting to HK$9,108,000 (2020: HK$9,061,000), which is unsecured, interest-free and repayable on demand.

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 dates, which approximates the respective revenue recognition dates, at the end of the reporting period:

	2021	2020
	HK$'000	*HK$'000*
Within 30 days	**100,268**	175,169
31–60 days	**636**	13,565
61–90 days	**378**	631
Over 90 days	**351**	–
	101,633	189,365

As at 31st December, 2021, total bills received amounting to HK$1,178,000 (2020: HK$1,723,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

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.

As at 31st December, 2021, included in the Group's trade receivable balance are debtors with aggregate gross amount of HK$28,845,000 (2020: HK$26,776,000) which were past due as at the reporting date. Out of the past due balances, HK$351,000 (2020: nil) has been past due 90 days or more. The past due 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 (2020: 59 days) based on invoice dates.

Other than bills received amounting to HK$1,178,000 (2020: HK$1,723,000), the Group does not hold any collateral over these balances.

9. TRADE 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 payables presented based on the invoice due date at the end of the reporting period:

	2021	2020
	HK$'000	*HK$'000*
Current	**12,279**	47,474
Overdue 1 to 30 days	**24**	1,957
Overdue 31 to 60 days	**4**	1,085
Overdue for more than 60 days	**11,337**	8,204
Trade payables	**23,644**	58,720
Trade payables under supplier finance arrangements *(note a)*	**6,081**	10,538
Payables for the acquisition of property, plant and equipment	**6,150**	9,143
Other PRC tax payables	**29,780**	28,158
Accrued charges *(note b)*	**74,330**	97,518
Other payables	**7,248**	20,777
	147,233	224,854

Notes:

(a) These relate to trade payables in which the Group has issued bills to the relevant suppliers for future settlement trade payables. The Group continues to recognise these trade payables as the relevant banks are obliged to make payments only on due dates of the bills, under the same conditions as agreed with the suppliers without further extension.

(b) Major items in accrued charges are accrued salaries and wages.

The average credit period on purchases of goods is 37 days (2020: 32 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

MATERIAL DIFFERENCES BETWEEN 2021 AUDITED ANNUAL RESULTS AND 2021 UNAUDITED ANNUAL RESULTS ANNOUNCEMENT

Since the financial information contained in the 2021 Unaudited Annual Results Announcement was not audited by the Group's auditor as at the date of its publication and subsequent adjustments have been made to such information upon completion of the auditing process, shareholders and potential investors of the Company are advised to pay attention to the following differences between the financial information of the audited annual results of the Group for the Reporting Period disclosed in this announcement and that disclosed in the 2021 Unaudited Annual Results Announcement. Set forth below are details and reasons for the material differences in such financial information in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules:

Items for the year ended 31st December, 2021	**Disclosure in this audited annual results announcement** *HK$'000*	**Disclosure in 2021 Unaudited Annual Results Announcement** *HK$'000*	**Difference** *HK$'000*	*Notes*
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME				
Cost of sales	(1,127,114)	(706,480)	(420,634)	1
Impairment loss recognised on property, plant and equipment	–	(110,016)	110,016	1 & 2
Income tax credit (expense)	56,249	(3,936)	60,185	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Non-current assets				
Property, plant and equipment	944,206	1,254,824	(310,618)	1 & 2
Non-current liabilities				
Deferred taxation	8,280	68,465	(60,185)	3

Notes:

1. The difference was due to increase in impairment loss recognized as expense included in cost of sales in respect of the property, plant and equipment recorded under non-current assets according to a revised value-in-use calculation with revised discount rate and expected future cash flows. An additional impairment loss amounting to HK$310,618,000 was recorded.

   As at 31st December, 2021, the Group's property, plant and equipment and right-of-use assets are mainly related to a cash generating unit ("CGU") of containerboard segment, operated by Green Forest (QingXin) Paper Industrial Limited (the "Green Forest Paper"), a wholly-owned subsidiary of the Company.

   The management has carried out an impairment assessment on the property, plant and equipment relating to the containerboard segment at 31st December, 2021 by preparing a value-in-use calculation to determine the recoverable amount of the cash-generating unit to which the property, plant and equipment belong to. Based on the best estimation and information on hand by the management of the Group, an impairment of HK$110,016,000 was recognised in the profit and loss as disclosed in 2021 Unaudited Annual Results Announcement on 31st March, 2022. However, regarding to the rapidly changing market and the prolonged COVID-19 situation in Mainland China in the first quarter of 2022, the management was difficult to collect reliable information to support the value in use calculation for the Group's consolidated financial statements for the year ended 31st December, 2021. Therefore, in May 2022, the directors of the Company decided to engage an expertise to carry out a more in-depth valuation review on the CGU to measure the recoverable amount of the relevant assets resulting an additional impairment loss of HK$310,618,000 recorded.

The recoverable amount had been determined based on value in use calculation using discounted cash flow technique, covering detailed five-year budget plans, followed by an extrapolation of expected cash flows with 2% annual growth rate. The pre-tax discount rate used for value in use calculation is 18.7% per annum, which reflects specific risks relating to the relevant CGU.

The key assumptions for the value in use calculation includes (i) discount rate; (ii) the success of obtaining the approval from the relevant government bureau for the renewal of licences after completion of the change to gas-fuel boilers in order to resume the production relating to the containerboard segment; (iii) the expected sale volume of the containerboard segment after resumption of production; (iv) budgeted gross margin; and (v) growth rate, could materially affect the recoverable amount. Particularly, the discount rate, the success of obtaining the approval from the relevant government bureau for the renewal of licences after completion of the change to gas-fuel boilers in order to resume the production relating to the containerboard segment, and the expected sale volume of the containerboard segment after resumption of production, are subject to greater uncertainties due to uncertainty on the market condition.

Apart from the considerations described above in determining the recoverable amount of the CGU, the Group's management is not currently aware of any other probable changes that would necessitate changes in their key assumptions. However, the estimate of recoverable amount of the Group's CGU is particularly sensitive to the discount rate and the expected sales volume of the containerboard segment after resumption of production applied.

The recoverable amount has been determined by an independent professional valuer, Valtech Valuation Advisory Limited with the discounted cash flow approach.

2. Being reclassification of impairment loss recognised on property, plant and equipment to cost of sales.

3. Being the deferred tax asset recognised in respect of approximately HK$240,741,000 of the deductible temporary difference arising from the impairment of property, plant and equipment of HK$420,634,000. No deferred tax asset has been recognised in respect of the remaining approximately HK$179,893,000 as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Save as disclosed in this announcement and the corresponding adjustments related to the above material differences, there is no material change in other information contained in the 2021 Unaudited Annual Results Announcement.

The audited consolidated financial statements of the Group for the year ended 31st December, 2021 have been reviewed by the Audit Committee of the Company and were approved by the Board on 26th July, 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2021, the demand for corrugated packaging in the PRC market slowly recovered as COVID-19 pandemic alleviated. The Group's average selling price and sales volume increased, and revenue increased by 26.4% compared with the first half of 2020. In the second half of 2021, despite the increase in the Group's average selling price, it is still slower than the increase in raw material costs. As for the sale volume, it has declined mainly because the Group's upstream business being affected by local policies, resulted in temporary suspension of production. As a result, the Group's revenue in the second half of the year decreased by 15.7% compared with the first half of the year, and decreased by 51.7% compared with the second half of 2020 and revenue decreased 27.4% for the year.

The Group's upstream containerboard business produces corrugating medium and linerboard, mainly supplied to the Group's downstream corrugated packaging business (manufacturing of corrugated paperboards and carton boxes), and directly sold to customers in response to changes in market demand. In 2021, the upstream and downstream businesses accounted for 14.2% and 85.8% of the revenue respectively, mainly due to the temporary suspension of production of the Qingyuan Factory. The upstream revenue decreased by 75.7% compared with last year, while the downstream revenue increased by 8.4% compared with last year.

The Group's main raw materials, waste paper and containerboard are sourced both in the domestic and overseas markets. Due to the shortage of raw material supply, and the prices of bulk commodities and shipping costs continued to rise, these resulted in high overall raw material costs in 2021. In addition, affected by the sharp fall in the sales volume of the Group's upstream business, although the sales and distribution costs and administrative expenses decreased due to the decrease in revenue, the proportion of recurring overhead costs remained high, resulting in the Group recording a loss for the year.

For the upstream business of the Group, since receiving a notice from the local government regarding the establishment of the Prohibition Zone for High-Pollution Fuels in Qingyuan City in March 2020, the Group has taken active measures and plans to change its boilers to use clean energy. However, upon receipt of legal advice in respect of the related notice, the management noted that the content of the notice was unreasonable and contradicted the existing regulations. In addition, annual inspection of licences of the relevant boilers was renewed successfully in October 2020 and the Group's upstream factory was awarded Environmental Integrity Enterprise (Green Label Enterprise) which could meet the ultra-low emission standards as required by the relevant policies set by the government of the Guangdong Province and continue to use it. With reference to the legal advice, the relevant policies of the notice was invalid and not applicable to the Group at that time and no law or regulation having concrete timetable for existing coal-fuel boiler to change to use clean energy, the Group's upstream business did not violate any valid and existing laws or regulation but in itself a voluntary action taken by the Group. Entering October 2021, the local government suspended the annual inspection of the licence of the boilers, resulting in the temporary suspension of the Group's upstream business. During the period of temporary suspension of production, the Group continues to coordinate with the local government for the annual inspection procedures of the licences for the coal-fuel boilers to resume production and in parallel to resume the project to change its boilers from coal-fuel boilers to gas-fuel boilers pursuant to the environmental policies of the local government that was cancelled by the management of the Group in last year. The Group has engaged a supplier and entered into a contract to carry out the project for the works to change to gas-fuel boilers and assist the Group in completing the annual inspection procedures of the licences for the boilers, and expects to resume production in 2023. For the impact of change to gas-fuel boilers, the management expects that for the containerboard segment, cost per ton should increase by around RMB350. With the completion of installation of large-scale pulp production lines in the Philippines in 2023, the cost of raw material should greatly decrease . Overall, the impact on gross profit margin on containerboard segment is not significant.

FINANCIAL REVIEW

Operating results

The Group recorded a decrease in revenue of HK$284.8 million in 2021, representing a fall of 27.4% from HK$1,040.4 million in 2020 to HK$755.6 million in 2021. The drop in revenue was mainly attributed to the decline in sales volume resulting from the temporary suspension of production of Green Forest (QingXin) Paper Industrial Limited, a wholly-owned subsidiary of the Company.

Cost of sales increased from HK$912.5 million in 2020 to HK$1,127.1 million in 2021. Impairment loss on property, plant and equipment attributable to the temporary suspension of the upstream production, amounting to HK$420.6 million was included in cost of sales (2020: nil). Excluded the effect of the impairment loss, the extent of the decline in cost of sales was less than that in revenue due to the increase in the average cost of raw materials outweighed the increase in average selling price.

Because of the impairment loss recognised this year, gross profit declined from HK$127.9 million in 2020 to gross loss of HK$371.5 million in 2021, representing a 390.5% decrease. Gross profit margin dropped from 12.3% to -49.2%. Eliminated this effect, gross profit of 6.5% resulted in 2021.

Other income decreased from HK$23.1 million in 2020 to HK$17.9 million in 2021. Such decrease was mainly attributed to less scrap sales and less tax refund from the Chinese Government.

Other gains and losses rose from HK$4.1 million in 2020 to HK$12.8 million in 2021, primarily due to exchange gain resulting from appreciation of Renminbi and gain on liquidation of a subsidiary.

Selling and distribution costs reduced 18.1% from HK$38.1 million in 2020 to HK$31.2 million in 2021. The decrease was in line with the decrease in revenue.

Administrative expenses fell 3.2% from HK$80.1 million in 2020 to HK$77.5 million in 2021. No significant change was recorded.

Other expenses increased from HK$21.4 million in 2020 to HK$22.9 million in 2021. No significant change was recorded.

Finance costs decreased from HK$8.8 million in 2020 to HK$8.4 million in 2021. The decrease was owing to lower borrowing level in 2021.

In 2021, HK$56.2 million was credited to income tax expense, being the sum of Hong Kong Profits Tax charge of HK$0.5 million, PRC Enterprise Income Tax charge of HK$1.5 million, Macau Complementary Tax of HK$0.1 million and deferred tax credit of HK$58.3 million.

Loss for the year of HK$422.8 million was recorded in 2021 while profit for the year of HK$1.4 million was recorded in 2020, representing a decrease in profit by HK$424.2 million. Profit margin fell from 0.1% to -56.0%.

Liquidity, financial and capital resources

At 31st December, 2021, the Group's bank balances and cash were HK$246.7 million (31st December, 2020: HK$291.5 million), mostly denominated in Renminbi.

All bank borrowings were unsecured, falling from HK$282.6 million at 31st December, 2020 to HK$226.9 million at 31st December, 2021. At 31st December, 2021, the current unsecured bank borrowings declined HK$31.6 million while non-current unsecured bank borrowings fell HK$24.1 million. The group recorded a net cash level (net of bank balances and cash less total bank borrowings) of HK$19.8 million (31st December, 2020: HK$8.9 million). Gearing ratio (total bank borrowings to total equity) and net gearing ratio (net balance of total bank borrowings less bank balances and cash to equity) were 18.2% and -1.6% respectively (31st December, 2020: 17.4% and -0.5% respectively).

At 31st December, 2021, net current assets and current ratio of the Group were HK$225.0 million (31st December, 2020: HK$265.8 million) and 1.8 (31st December, 2020: 1.7) respectively.

In 2021, the Group spent HK$18.8 million on capital expenditures for property, plant and equipment in China and spent HK$17.6 million for paying deposit for acquisition of property, plant and equipment in the Philippines.

Debtors, creditors and inventory turnover were 49 days (2020: 59 days), 37 days (2020: 32 days) and 44 days (2020: 47 days) respectively.

OUTLOOK

We expect that the global economy will still be affected by the novel coronavirus variant in 2022, but the Chinese economy is expected to grow steadily amid the continuous and effective prevention and control measures, which will drive consumption to increase the market demand for corrugated packaging. In terms of upstream business, the Group will carry out the works to change to gas boilers in order to complete the annual inspection procedures of the licences for the boilers and resume production. As for the new factory leased in the Philippines, when the local epidemic situation stabilizes, it will continue to complete the installation of large-scale pulp production lines, thereby reducing production costs and increasing sales volume, so as to solve the shortage of raw materials and strive to improve the Group's profits.

HUMAN RESOURCES

As at 31st December, 2021, the Group employed a total workforce of around 805 full time staff (2020: 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, 2021 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, 2021.

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 Corporate Governance Code (as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the "Code") has been amended with effect from 1st January, 2022, the requirements under the "Corporate Governance Code" applies to the Company for financial year commencing on or after 1st January, 2022. As this announcement covers the year ended 31st December, 2021, all the code provisions mentioned herein refer to those stated in the Code, instead of the revised "Corporate Governance Code". The Company has met the code provisions set out in the Code throughout the year ended 31st December, 2021, 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, 2021.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31st December, 2021 as set out in this further announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 26th July, 2022. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on this further 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, 2021.

ANNUAL GENERAL MEETING

A notice convening the forthcoming annual general meeting of the Company will be issued and dispatched to the shareholders of the Company in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual 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, 2021 will be dispatched to the Company's shareholders and made available at the Company's website and HKEX's website in due course.

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.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 20th May, 2022 pending publication of this 2021 Annual Results. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 27th July, 2022.

By Order of the Board
Hop Fung Group Holdings Limited
Hui Sum Ping
Chairman

Hong Kong, 26th July, 2022

As at the date of this announcement, the executive directors of the Company are Messrs. Hui Sum Ping and Hui Sum Tai and the independent non-executive directors of the Company are Messrs. Chee Man Sang, Eric, Wong Chu Leung and Chau Suk Ming.