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合豐集團控股有限公司

HOP FUNG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2320

**UNAUDITED ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2021**

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\$172.4 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\$110 million in respect of the temporary suspension of the upstream production.

Excluding the effect of the impairment loss of approximately HK\$110 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.

The board of directors (the “Board” or “Directors”) of Hop Fung Group Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st December, 2021 together with the comparative figures for the year ended 31st December, 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2021

	<i>Notes</i>	2021 HK\$'000 (unaudited)	2020 HK\$'000 (audited)
Revenue	2	755,603	1,040,369
Cost of sales		(706,480)	(912,500)
Gross profit		49,123	127,869
Other income		17,896	23,053
Other gains and losses		12,793	4,052
Reversal of impairment loss under expected credit loss model, net of reversal		1,817	–
Impairment loss on property, plant and equipment		(110,016)	–
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		(168,418)	6,503
Income tax expense	4	(3,936)	(5,140)
(Loss) profit for the year, attributable to owners of the Company	5	(172,354)	1,363
Other comprehensive income 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 disposal of a foreign operation		(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		(121,340)	88,435
		HK cents	HK cents
(Loss) earnings per share	7		
– basic		(21.08)	0.17
– diluted		(21.08)	0.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2021

	<i>Notes</i>	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment		1,254,824	1,364,462
Right-of-use assets		31,440	29,092
Deposits and prepayments		177,504	169,843
		1,463,768	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		1,688,729	1,829,208
Non-current liabilities			
Lease liabilities		305	–
Unsecured bank borrowings		119,951	144,118
Deferred taxation		68,465	64,034
		188,721	208,152
Net assets		1,500,008	1,621,056
Capital and reserves			
Share capital		81,764	81,764
Reserves		1,418,244	1,539,292
Total equity, attributable to owners of the Company		1,500,008	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 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

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

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures (“HKFRS 7”).

As at 1 January 2021, the Group has several financial liabilities, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform.

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year.

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:

HKFRS17	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 new and 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 (2021)*

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.

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 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, 2021

	Containerboard <i>HK\$'000</i> (unaudited)	Corrugated packaging <i>HK\$'000</i> (unaudited)	Segment total <i>HK\$'000</i> (unaudited)	Eliminations <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
REVENUE					
External sales	107,268	648,335	755,603	-	755,603
Inter-segment sales	227,148	-	227,148	(227,148)	-
Total	<u>334,416</u>	<u>648,335</u>	<u>982,751</u>	<u>(227,148)</u>	<u>755,603</u>
RESULT					
Segment (loss) profit	<u>(151,752)</u>	<u>14,602</u>	<u>(137,150)</u>	<u>-</u>	<u>(137,150)</u>
Central administrative expenses					(22,828)
Finance costs					<u>(8,440)</u>
Loss before taxation					<u>(168,418)</u>

For the year ended 31st December, 2020

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

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

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Interest on bank borrowings	8,255	8,507
Interest on lease liabilities	<u>185</u>	<u>306</u>
	<u>8,440</u>	<u>8,813</u>

4. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Current tax:		
Hong Kong Profits Tax	485	1,202
PRC Enterprise Income Tax	1,539	638
Macau Complementary Tax	<u>68</u>	<u>–</u>
	<u>2,092</u>	<u>1,840</u>
Deferred tax	<u>1,844</u>	<u>3,300</u>
	<u>3,936</u>	<u>5,140</u>

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.

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 year ended 31st December, 2021 and 31st December, 2020.

5. (LOSS) PROFIT FOR THE YEAR

	2021 <i>HK\$’000</i> (unaudited)	2020 <i>HK\$’000</i> (audited)
(Loss) profit for the year has been arrived at after charging:		
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	<u>110,016</u>	<u>–</u>

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 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	<u>(172,354)</u>	<u>1,363</u>
	2021	2020
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	<u>817,644,000</u>	<u>817,644,000</u>

The computation of diluted (loss) earnings per share for the year 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 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Trade receivables	102,709	192,473
Less: allowance for credit losses	<u>(1,076)</u>	<u>(3,108)</u>
	101,633	189,365
Other receivables (<i>note</i>)	<u>11,071</u>	<u>10,690</u>
Total trade and other receivables	<u>112,704</u>	<u>200,055</u>

Note: At at 31st December, 2021, balance included a prepaid service fee to an independent third party amounting to HK\$9,108,000, which will be utilised in year 2022 (2020: HK\$9,061,000, which would be utilised in 2021).

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:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
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

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 at the reporting date. Out of the past due balances, HK\$1,056,000 (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.

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 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
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	<u>11,337</u>	<u>8,204</u>
Trade payables	23,644	58,720
Trade payables under supplier finance arrangements (<i>note a</i>)	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 (<i>note b</i>)	74,330	97,518
Other payables	<u>7,248</u>	<u>20,777</u>
	<u><u>147,233</u></u>	<u><u>224,854</u></u>

Note:

- (a) These relate to trade payables in which the Group has issued bills to the relevant supplier 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.

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.

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 dropped from HK\$912.5 million in 2020 to HK\$706.5 million in 2021. The extent of the decline in costs of sales was less than that in revenue due to the increase in the average costs of raw materials outweighed the increase in average selling price.

Gross profit declined from HK\$127.9 million in 2020 to HK\$49.1 million in 2021, representing a 61.6% decrease. Gross profit margin dropped from 12.3% to 6.5%.

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.

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.

During the year, impairment loss on property, plant and equipment amounting to HK\$110.0 million was attributed to the temporary suspension of the upstream production.

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\$3.9 million was charged 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 charge of HK\$1.8 million.

Loss for the year of HK\$172.4 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\$173.8 million. Profit margin fell from 0.1% to -22.8%.

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 15.1% and -1.3% 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 64 days (2020: 53 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 continue to coordinate with the local government on the annual licence review of the existing coal-fuel boilers, in order to resume production as soon as possible, and in parallel carry out the works to change to gas boilers. 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 unaudited results announcement and the unaudited 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.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31st December, 2021 has not been completed due to the implementation of COVID-19 pandemic prevention and control measures including the quarantine, lockdown and travel restriction measures imposed in Hong Kong and various cities in the PRC, the audit process of the Group for the year ended 31st December, 2021 has experienced in delays as (i) at the date of this announcement, the auditor of the Company has not received audit confirmations from the banks in the PRC; (ii) the asset valuation could not be completed as scheduled due to the delay in the asset inspection and assessment conducted by a third party engineer in the PRC; and (iii) the audit field works on our subsidiary in the Philippines were delayed, all of these are necessary to complete the audit procedures. The auditor requires additional time to conduct its audit works. The unaudited annual results contained herein have not been agreed with the Company's auditor as the audit is yet to be completed and the management is following up with the outstanding audit requests to facilitate completion of audit procedures. The unaudited annual results contained herein have not been agreed by the Company's auditors as required under Rule 13.49(2) of the Rules

Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. An announcement relating to the audited annual results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The audit committee has reviewed the unaudited consolidated financial statements of the Group for the year ended 31st December, 2021.

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.

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.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will make further announcement(s) in relation to (i) the audited results for the year ended 31st December, 2021 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein; (ii) the proposed date on which the forthcoming Annual General Meeting ("AGM") will be held; and (iii) the arrangement to ascertain shareholders' eligibility to attend and vote at the AGM (including the period during which the register of members of the Company will be closed). In addition, the Company will make further announcement as and when necessary if there is other material development in relation to the completion of the auditing process. It is expected that the audited annual results will be published by 30th April, 2022 after they have been agreed with the Company's auditor.

PUBLICATION OF UNAUDITED ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This unaudited annual results announcement is published on the Company's website (www.hopfungroup.com) and the website of Hong Kong Exchanges and Clearing Limited (the "HKEX") (www.hkexnews.hk).

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the Company's auditors, and is subject to possible adjustments. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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.

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

Hong Kong, 31st March, 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.