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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2016	30.6.2015	Change
	HK$ million	*HK$ million*	
Revenue	**518.7**	501.9	+3.3%
Gross profit	**106.6**	95.8	+11.3%
Profit for the period	**25.3**	10.7	+136.4%
EBITDA	**68.2**	59.2	+15.2%
	30.6.2016	31.12.2015	Change
Gearing ratio	**12.8%**	13.2%	-0.4pp
Net gearing ratio	**0.1%**	2.9%	-2.8pp

The board of directors (the "Board" or "Directors") of Hop Fung Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June, 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30th June, 2016

		Six months ended	
		30.6.2016	30.6.2015
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**518,745**	501,907
Cost of sales		**(412,168)**	(406,137)
Gross profit		**106,577**	95,770
Other income		**6,327**	6,572
Selling and distribution costs		**(28,051)**	(29,035)
Administrative expenses		**(41,532)**	(42,147)
Other expenses		**(10,385)**	(10,714)
Finance costs		**(2,507)**	(6,589)
Changes in fair value of derivative financial instruments		**–**	323
Profit before taxation	*4*	**30,429**	14,180
Income tax expense	*5*	**(5,144)**	(3,487)
Profit for the period, attributable to owners of the Company		**25,285**	10,693
Other comprehensive expense for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(32,239)**	(21,666)
Total comprehensive expense for the period, attributable to owners of the Company		**(6,954)**	(10,973)
Dividend paid	*6*	**11,953**	11,610
		HK cents	*HK cents*
Earnings per share	*7*		
– basic		**3.22**	1.43
– diluted		**3.08**	1.36

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30th June, 2016

	Notes	**30.6.2016** **HK$'000** **(Unaudited)**	31.12.2015 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**1,237,731**	1,267,429
Prepaid lease payments on land use rights		**23,037**	23,982
		1,260,768	1,291,411
Current assets			
Inventories		**104,352**	91,348
Trade and other receivables	*8*	**169,933**	174,784
Receivables from disposal of a subsidiary	*10*	**225,874**	225,201
Deposits and prepayments		**9,605**	8,249
Prepaid lease payments on land use rights		**565**	433
Bank balances and cash		**186,639**	151,589
		696,968	651,604
Current Liabilities			
Trade, bills and other payables	*9*	**242,749**	211,803
Taxation payable		**12,316**	12,222
Unsecured bank borrowings		**115,053**	111,415
		370,118	335,440
Net current assets		**326,850**	316,164
Total assets less current liabilities		**1,587,618**	1,607,575
Capital and reserves			
Share capital		**79,682**	77,871
Reserves		**1,387,073**	1,402,467
Total equity, attributable to owners of the Company		**1,466,755**	1,480,338
Non-current liabilities			
Unsecured bank borrowings		**72,928**	83,404
Deferred taxation		**47,935**	43,833
		120,863	127,237
		1,587,618	1,607,575

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements ("interim financial statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31st December, 2015, except as described below. The interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31st December, 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to HKAS and Hong Kong Financial Reporting Standards ("HKFRSs") and new standard issued by the HKICPA:

HKFRS 14	Regulatory deferral accounts
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception

The application of the above amendments to HKAS and HKFRSs and new standard in the current interim period has had no material impact on the Group's financial performance and positions and/or on the disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group's reportable and operating segments are categorised into the manufacture and sale of:

- Containerboard – corrugating medium and linerboard
- Corrugated packaging – corrugated paper boards and carton boxes

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

Segment revenues and results

For the six months ended 30th June, 2016
(Unaudited)

	Containerboard *HK$'000*	**Corrugated Packaging** *HK$'000*	**Segment total** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
REVENUE					
External sales	**199,583**	**319,162**	**518,745**	**–**	**518,745**
Inter-segment sales	**248,660**	**–**	**248,660**	**(248,660)**	**–**
Total	**448,243**	**319,162**	**767,405**	**(248,660)**	**518,745**
RESULT					
Segment profit	**28,844**	**4,092**	**32,936**	**–**	**32,936**
Finance costs					**(2,507)**
Changes in fair value of derivative financial instruments					**–**
Profit before taxation					**30,429**

For the six months ended 30th June, 2015
(Unaudited)

	Containerboard *HK$'000*	Corrugated Packaging *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	152,702	349,205	501,907	–	501,907
Inter-segment sales	274,879	–	274,879	(274,879)	–
Total	427,581	349,205	776,786	(274,879)	501,907
RESULT					
Segment profit	14,709	5,737	20,446	–	20,446
Finance costs					(6,589)
Changes in fair value of derivative financial instruments					323
Profit before taxation					14,180

Inter-segment sales are charged at prevailing market rates.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2016	30.6.2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**412,168**	406,137
Depreciation of property, plant and equipment	**35,651**	38,264
Release of prepaid lease payments on land use rights	**286**	210
Interest income	**(685)**	(1,868)

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2016	30.6.2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**150**	100
PRC Enterprise Income Tax	**892**	844
	1,042	944
Deferred tax	**4,102**	2,543
	5,144	3,487

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

The Macau subsidiaries of the Group incorporated under Decree-Law no.58/99/M are exempted from Macau complementary tax (Macau income tax) as long as they comply with the relevant regulations and do not sell their products to a Macau resident.

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.

6. DIVIDENDS

A final dividend of HK1.50 cents (2014: HK1.50 cents) per ordinary share in respect of the year ended 31st December, 2015 was paid to the shareholders of the Company during the six months ended 30th June, 2016.

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2016 and six months ended 30th June, 2015.

7. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2016	30.6.2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**25,285**	10,693

	30.6.2016	30.6.2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**784,295,686**	745,809,686
Effect of dilutive potential ordinary shares in respect of share options	**36,785,618**	43,030,631
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**821,081,304**	788,840,317

8. TRADE AND OTHER RECEIVABLES

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**174,286**	178,316
Less: allowance for doubtful debts	**(4,989)**	(3,625)
	169,297	174,691
Other receivables	**636**	93
Total trade and other receivables	**169,933**	174,784

The Group allows credit periods ranging from 5 to 90 days to its trade customers which may be extended to selected trade customers depending on their trade volume and history of settlement with the Group. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period:

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**162,510**	166,494
31–60 days	**5,702**	4,986
61–90 days	**1,085**	1,112
Over 90 days	**–**	2,099
	169,297	174,691

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$36,109,000 (31st December, 2015: HK$38,748,000) which were past due at the reporting date for which the Group has not provided for impairment loss. Such amount relates to a number of independent customers that have good trade and payment records with the Group. There has not been a significant change in credit quality of the relevant customers and the Group believes that the balances are still recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 60 days (31st December, 2015: 64 days) based on invoice dates.

9. TRADE, BILLS AND OTHER PAYABLES

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

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**94,544**	71,778
Overdue 1 to 30 days	**1,938**	1,050
Overdue 31 to 60 days	**166**	256
Overdue for more than 60 days	**1,480**	1,709
	98,128	74,793
Payables for the acquisition of property, plant and equipment	**19,557**	14,415
Other payables and accrued charges *(note)*	**125,064**	122,595
	242,749	211,803

Note: As at 30th June, 2016 included in other payables and accrued charges, amount of HK$19,807,000 (31st December, 2015: HK$19,807,000) represents transaction costs incurred for the disposal of a subsidiary during the year ended 31st December, 2014.

The average credit period on purchases of goods is 56 days (31st December, 2015: 42 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

10. DISPOSAL OF A SUBSIDIARY

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

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

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

During the six months ended 30th June, 2016, change of present value in respect of the receivables from disposal of a subsidiary and the corresponding exchange difference amounting to HK$3,788,000 and HK$3,115,000 respectively, were recognised in other expenses.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2016 (six months ended 30th June, 2015: nil).

BUSINESS REVIEW

The first half of 2016 saw a lackluster global economy, volatile financial and currency markets, a depreciating Renminbi and weak consumer demand. An unstable business environment suppressed business investment.

The Chinese government's policy of eliminating outdated capacity has alleviated the oversupply situation in the corrugated packaging industry, and our Group's performance has stabilized. The Group's average selling price rose slightly in the first half of 2016 and volumes also grew year on year, resulting in higher revenue for the Group for the period.

The Group's upstream containerboard (corrugating medium and linerboard) and downstream corrugated packaging (corrugated paper boards and carton boxes) accounted for 38% and 62% of revenue for the period, with upstream revenue up 31% but downstream revenue falling 9%. The shift in our sales mix between the upstream and downstream businesses came as a result of the Group's flexible sales strategy based on market and demand changes.

With domestic sales accounting for more than 80% of the Group's revenue, and raw materials (wastepaper) purchased in the United States (the "US") dollars, the depreciation of the Renminbi has an impact on the Group's operations. Fortunately, the Group's continued improvements in production workflow and efficiency, and reduction in energy use and raw materials wastage have resulted in lower production costs. Our improved liquidity position has also resulted in lower financing costs and thus improvements in our Group's earnings for the period.

The Group has historically steadfastly maintained low inventory and low gearing levels, and the first half of 2016 was no exception, with total liabilities and net liabilities falling in the period. Net gearing ratio and bad debts ratio remain close to zero. Our financial position is very healthy and we have abundant liquidity.

FINANCIAL REVIEW

Operating results

The Group recorded an increase in revenue by 3.3%, from HK$501.9 million in the first half of 2015 to HK$518.7 million in the first half of 2016, primarily resulting from the increase in sales volume despite depreciation in Renminbi. The management effort in cost control and efficiency enhancement led to improvement in gross profit margin, rising from 19.1% to 20.5%. Cost of sales increased 1.5% and gross profit rose 11.3%.

Other income slightly fell from HK$6.6 million to HK$6.3 million. Selling and distribution costs fell from HK$29.0 million to HK$28.1 million. There was also a slight decline in administrative expenses from HK$42.1 million to HK$41.5 million. Other expenses decreased from HK$10.7 million to HK$10.4 million. The reductions were predominantly due to depreciation in Renminbi.

Other expenses included provision for bad debts of HK$2.5 million, and change in present value (gain) of HK$3.8 million and exchange difference (loss) of HK$3.1 million in respect of receivables from disposal of a subsidiary.

The decline in finance costs by 62.1%, from HK$6.6 million to HK$2.5 million was owing to lower average borrowing level in the first half of 2016.

EBITDA (earnings before interest, tax, depreciation and amortization and change in present value and exchange difference in respect of receivables from disposal of a subsidiary) increased HK$9.0 million, from HK$59.2 million to HK$68.2 million.

Net profit (profit for the period less change of present value and exchange difference in respect of receivables from disposal of a subsidiary) rose HK$13.9 million from HK$10.7 million to HK$24.6 million. Basic earnings per share increased from 1.43 HK cents to 3.22 HK cents.

Liquidity, financial and capital resources

At 30th June, 2016, the Group's total cash and cash equivalents were HK$186.6 million (31st December, 2015: HK$151.6 million), mostly denominated in Renminbi and Hong Kong Dollars.

Net current assets and current ratio of the Group were HK$326.9 million (31st December, 2015: HK$316.2 million) and 1.88 (31st December, 2015: 1.94) respectively.

The Group spent HK$34.7 million on capital expenditures for maintenance and construction of environmental protection facilities.

The average inventory, debtors and creditors turnover days were 56 days, 60 days and 56 days respectively. They were stable and reasonable.

The total bank borrowings declined from HK$194.8 million to HK$188.0 million. Gearing ratio fell from 13.2% to 12.8%. The current bank borrowings rose HK$3.6 million and non-current bank borrowings declined HK$10.4 million. The balance for total bank borrowings net of bank balances and cash fell HK$41.8 million. Net gearing ratio dropped from 2.9% to 0.1%.

Contingent liabilities

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

OUTLOOK

The global economy faces uncertainty in the second half of 2016. The impact of "Brexit" will become more apparent and financial and currency markets will remain volatile. The Federal Reserve in the US could still raise interest rates, and the Renminbi is expected to continue to depreciate. The global economic recovery is expected to face headwinds. Individual countries are adopting different measures to spur economic growth. China remains the main driver for growth for the global economy. The Chinese government is in a position to implement effective policies in the face of future challenges, and the Chinese economy should move towards a period of stable growth.

Stable economic growth should in turn drive demand for corrugated packaging. Given improvements in the oversupply situation in the corrugated packaging industry, selling prices should rebound gradually to more reasonable levels. The Group is planning to invest in technology improvements for the upstream production lines, improving capacity and efficiency at minimal cost, providing relief to the pressure from rising production costs. The Group will continue to grasp the advantages and opportunities from our vertically integrated business model, and maintain our prudent financial situation and operational framework, in order to deliver satisfactory returns for our shareholders.

HUMAN RESOURCES

As at 30th June, 2016, the Group and the processing factory employed a total workforce of around 1,100 full time staff (31st December, 2015: 1,100). Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors namely, Messrs. Chee Man Sang, Eric, Yip Kwok Kwan and Wong Chu Leung. The audit committee has reviewed with the management this results announcement and the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2016 and has discussed internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

CORPORATE GOVERNANCE

The Directors strive to maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The corporate governance principles of the Company emphasize the importance of a quality Board, effective internal controls and accountability to shareholders. The Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the six months ended 30th June, 2016, except with the following deviations:

Code Provision A.2.1

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

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

Code Provision B.1.2

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

- Currently, the remuneration of the senior management is attended by the chairman and/or the 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 six months ended 30th June, 2016.

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 six months ended 30th June, 2016.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM 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 interim report of the Company for the six months ended 30th June, 2016 will be dispatched to the Company's shareholders in September 2016 and it will be available at the Company's website and HKEX's website.

APPRECIATION

The Directors would like to take this opportunity to express our sincere thanks to our shareholders and all other associates for their supports and to our staff for their commitment and diligence during the period.

On behalf of the Board
Hui Sum Kwok
Chairman

Hong Kong, 22nd August, 2016

As at the date of this announcement, the executive directors of the Company are Messrs. Hui Sum Kwok, Hui Sum Ping, Hui Sum Tai and Miss Hui Yuen Li and the independent non-executive directors of the Company are Messrs. Chee Man Sang, Eric, Yip Kwok Kwan and Wong Chu Leung.