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HOP FUNG GROUP

合豐集團控股有限公司
HOP FUNG GROUP HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2320

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2017

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2017	30.6.2016	Change
	HK$ million	*HK$ million*	
Revenue	**688.0**	518.7	+32.6%
Gross profit	**172.7**	106.6	+62.0%
Profit for the period	**59.4**	25.3	+134.8%
EBITDA	**109.5**	68.2	+60.6%
	30.6.2017	31.12.2016	Change
Gearing ratio	**6.3%**	19.7%	-13.4pp
Net gearing ratio	**-8.4%**	-17.9%	+9.5pp

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, 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2017

		Six months ended	
		30.6.2017	30.6.2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**687,953**	518,745
Cost of sales		**(515,277)**	(412,168)
Gross profit		**172,676**	106,577
Other income		**7,196**	6,327
Selling and distribution costs		**(32,975)**	(28,051)
Administrative expenses		**(60,128)**	(41,532)
Other expenses		**(14,049)**	(10,385)
Finance costs		**(1,045)**	(2,507)
Profit before taxation	*4*	**71,675**	30,429
Income tax expense	*5*	**(12,313)**	(5,144)
Profit for the period, attributable to owners of the Company		**59,362**	25,285
Other comprehensive income (expense) for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**24,151**	(32,239)
Total comprehensive income (expense) for the period, attributable to owners of the Company		**83,513**	(6,954)
Dividends paid	*6*	**35,857**	11,953
		HK cents	*HK cents*
Earnings per share			
– basic	*7*	**7.45**	3.22
– diluted		**7.45**	3.08

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2017

	Notes	30.6.2017 HK$'000 (Unaudited)	31.12.2016 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**1,295,155**	1,250,511
Prepaid lease payments on land use rights		**21,924**	21,876
		1,317,079	1,272,387
Current assets			
Inventories		**171,778**	117,262
Trade and other receivables	*8*	**185,196**	129,198
Deposits and prepayments		**34,897**	22,288
Prepaid lease payments on land use rights		**552**	544
Bank balances and cash		**220,115**	547,601
		612,538	816,893
Current Liabilities			
Trade, bills and other payables	*9*	**264,512**	282,207
Taxation payable		**11,919**	11,638
Unsecured bank borrowings		**89,099**	263,889
		365,530	557,734
Net current assets		**247,008**	259,159
Total assets less current liabilities		**1,564,087**	1,531,546
Capital and reserves			
Share capital		**79,682**	79,682
Reserves		**1,424,719**	1,377,063
Total equity, attributable to owners of the Company		**1,504,401**	1,456,745
Non-current liabilities			
Unsecured bank borrowings		**4,964**	22,617
Deferred taxation		**54,722**	52,184
		59,686	74,801
		1,564,087	1,531,546

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, 2016, except as described below. The interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31st December, 2016.

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") issued by the HKICPA:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle

The application of the above amendments to HKAS and HKFRSs 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 reportable and operating segments:

Segment revenues and results

For the six months ended 30th June, 2017
(Unaudited)

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	**277,280**	**410,673**	**687,953**	**–**	**687,953**
Inter-segment sales	**320,012**	**–**	**320,012**	**(320,012)**	**–**
Total	**597,292**	**410,673**	**1,007,965**	**(320,012)**	**687,953**
RESULT					
Segment profit	**53,339**	**19,381**	**72,720**	**–**	**72,720**
Finance costs					**(1,045)**
Profit before taxation					**71,675**

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)
Profit before taxation					30,429

Inter-segment sales are charged at prevailing market rates.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**515,277**	412,168
Depreciation of property, plant and equipment	**36,525**	35,651
Release of prepaid lease payments on land use rights	**274**	286
Interest income	**(1,057)**	(685)

5. INCOME TAX EXPENSE

	Six months ended 30.6.2017 HK$'000 (Unaudited)	30.6.2016 HK$'000 (Unaudited)
Current tax:		
Hong Kong Profits Tax	**320**	150
PRC Enterprise Income Tax	**9,455**	892
	9,775	1,042
Deferred tax	**2,538**	4,102
	12,313	5,144

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 HK1.5 cents (2015: HK1.5 cents) per ordinary share and a special final dividend of HK3.0 cents (2015: nil) per ordinary share in respect of the year ended 31st December, 2016 were paid to the shareholders of the Company during the six months ended 30th June, 2017.

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2017 and six months ended 30th June, 2016.

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	
	30.6.2017	30.6.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**59,362**	25,285

	30.6.2017	30.6.2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**796,824,000**	784,295,686
Effect of dilutive potential ordinary shares in respect of share options	**–**	36,785,618
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**796,824,000**	821,081,304

8. TRADE AND OTHER RECEIVABLES

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**187,427**	130,220
Less: allowance for doubtful debts	**(2,445)**	(2,406)
	184,982	127,814
Other receivables	**214**	1,384
Total trade and other receivables	**185,196**	129,198

The Group allows credit periods ranging from 5 to 150 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:

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**181,923**	123,091
31–60 days	**1,716**	2,361
61–90 days	**348**	2,073
Over 90 days	**995**	289
	184,982	127,814

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$30,517,000 (31st December, 2016: HK$4,434,000) 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 41 days (31st December, 2016: 47 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:

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**85,896**	103,290
Overdue 1 to 30 days	**3,902**	2,893
Overdue 31 to 60 days	**689**	1,185
Overdue for more than 60 days	**1,953**	2,720
	92,440	110,088
Payables for the acquisition of property, plant and equipment	**25,145**	24,149
Other payables and accrued charges *(note)*	**146,927**	147,970
	264,512	282,207

Note: As at 31st December, 2016, included in other payables and accrued charges, amount of HK$5,700,000 represented transaction costs incurred for the disposal of a subsidiary (please refer to note 10 to the financial statements) during the year ended 31st December, 2014.

The average credit period on purchases of goods is 46 days (31st December, 2016: 52 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). A cash consideration of HK$235,857,000 was received and a cash consideration receivable of HK$229,068,000 was recognised at fair value during the year ended 31st December, 2014.

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 was transferred on 21st December, 2016. Along with those Equity Transfer Agreements, there were 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 considered the overall commercial effect of the two transactions was 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 year ended 31st December, 2016, change of present value in respect of the receivables from disposal of FKHF and the corresponding exchange difference amounting to HK$8,335,000 and HK$13,616,000 respectively, were recognised in other expenses and the whole amount of cash consideration receivable from disposal of a subsidiary was received during the year ended 31st December, 2016.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2017 (six months ended 30th June, 2016: nil).

BUSINESS REVIEW

The Chinese government's aggressive measures on environmental protection and the elimination of outdated capacity have brought about improvements to the over-supply situation in the corrugated packaging industry. In the middle of the fourth quarter of 2016, tight supply in corrugated products squeezed prices massively upwards and reached new highs at the end of 2016. The demand in corrugated products fell back after the Chinese New Year period of 2017 and prices pulled back but not down to previous levels. The under-supply situation resurfaced towards the end of the second quarter of 2017, and selling prices have bounced back.

As more than 80% of the Group's revenue is domestic whilst some of the main raw materials, namely wastepaper, are sourced in US dollars, fluctuations in Renminbi exchange rates have an impact on the Group. Renminbi exchange rates have stabilized in the first quarter of 2017 following the depreciation in 2016, and appreciated again in the second quarter of 2017. Although it did not return to the same level as the same period of last year, higher exchange rates alleviated some of the pressure on the Group.

The Group's revenue rose by 32.6% in the first half of 2017 compared to the first half of 2016, due to higher average selling prices; sales volume were flat. Upstream containerboard (corrugating medium and linerboard) and downstream corrugated packaging (corrugated paper boards and carton boxes) accounted for 40% and 60% of total revenue, respectively. Compared to the same period of last year, the first half of 2017 saw upstream revenue rising by 38.9% and downstream revenue rising by 28.7%. Changes to the Group's sales mix between the upstream and the downstream arise from fluctuations in selling prices and Renminbi exchange rates as well as the Group's flexible sales strategy based on changes in market demand.

The Group's main raw materials, wastepaper, saw substantial increases in average prices in the first half of 2017, up around 35% to 45% compared to the first half of 2016. Fortunately, the Group was able to pass on our cost increases to our customers, which combined with stringent cost control and reduced wastage, keeping overall cost increases at relatively restrained levels. The Group's improved liquidity position also helped reduce finance costs. As a result of these factors, the Group's profit rose significantly in the first half of 2017.

The Group's inventory level was slightly higher as at 30th June, 2017 than the level at the end of last year because of anticipating strong demand ahead of the peak season. Raw materials prices as at 30th June, 2017 were more than 20% higher than the prices at the end of last year. That said, the Group's overall financial situation remained very healthy as at 30th June, 2017, with ample liquidity, significantly lower total borrowing levels, and nearly zero bad debts.

FINANCIAL REVIEW

Operating results

There was an increase in revenue by 32.6%, from HK$518.7 million in the first half of 2016 to HK$688.0 million in the first half of 2017, primarily resulting from the increase in selling prices. The Group strived to control cost, pass on the cost increases to customers and enhance the production efficiency, leading to a significant improvement in gross profit margin from 20.5% to 25.1%. Cost of sales increased 25.0% and gross profit surged 62.0%.

Other income slightly rose from HK$6.3 million to HK$7.2 million, as a result of increases in bank interest income and selling prices of scrap materials.

Selling and distribution costs increased 17.4%, rising from HK$28.1 million to HK$33.0 million. The rise was attributed to the increase in transportation costs.

Administrative expenses climbed from HK$41.5 million to HK$60.1 million. The increment was predominantly due to rise in staff cost and provision for performance bonus.

Other expenses increased from HK$10.4 million to HK$14.0 million. It was mainly contributed by the exchange loss arising from the depreciation of Renminbi.

The decline in finance costs by 60.0%, from HK$2.5 million to HK$1.0 million, was owing to lower interest rate and bank borrowing level throughout the first half of 2017.

EBITDA (earnings before interest, tax, depreciation and amortization) increased HK$41.3 million, from HK$68.2 million to HK$109.5 million. Profit for the period rose HK$34.1 million, from HK$25.3 million to HK$59.4 million, representing an increase of 134.8%. Basic earnings per share increased from HK3.22 cents to HK7.45 cents.

Liquidity, financial and capital resources

At 30th June, 2017, the Group's total cash and cash equivalents were HK$220.1 million (31st December, 2016: HK$547.6 million), mostly denominated in Renminbi and Hong Kong Dollars. The fall was primarily due to repayment of loans in the first half of 2017 after receiving the remaining proceeds from the disposal of a subsidiary in December 2016.

Net current assets and current ratio of the Group as at 30th June, 2017 were HK$247.0 million (31st December, 2016: HK$259.2 million) and 1.68 (31st December, 2016: 1.46) respectively.

The Group spent HK$64.9 million on capital expenditure, basically for the upgrade projects of production facilities and environmental protection facilities in the first half of 2017.

The average inventory, debtors and creditors turnover days were 54 days (31st December, 2016: 42 days), 41 days (31st December, 2016: 47 days) and 46 days (31st December, 2016: 52 days) respectively.

The total bank borrowings declined to HK$94.1 million as at 30th June, 2017 (31st December, 2016: HK$286.5 million). Gearing ratio fell to 6.3% (31st December, 2016: 19.7%). The current bank borrowings fell HK$174.8 million and non-current bank borrowings declined HK$17.6 million. The balance for bank balances and cash net of total bank borrowings amounted to HK$126.0 million (31st December, 2016: HK$ 261.1 million).

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 on-going. 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

With the tense global geo-political situation, the possibility of the US Federal Reserve raising interest rates and rising raw materials prices, the second half of 2017 is poised for another period of uncertainty. That said, with Renminbi exchange rates rising, and effective environmental protection measures from the Chinese government reducing raw materials supply, we expect the Chinese economy to maintain stable growth and drive market demand for corrugated packaging.

The Group will proceed with technical improvements towards our upstream production facilities in order to raise capacity and efficiency at minimal cost, relieving the pressure from rising production costs. The Group will continue to grasp the advantages and opportunities from our vertically integrated business model, maintain our healthy financial situation and business infrastructure and deliver satisfactory returns to our shareholders. At the same time, the Group will strengthen our attention to environmental protection and contribute to the wider society.

HUMAN RESOURCES

As at 30th June, 2017, the Group and the processing factory employed a total workforce of around 1,100 full time staff (31st December, 2016: 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, 2017 and has discussed internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED 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, 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange.

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, 2017, 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, 2017.

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, 2017 will be dispatched to the Company's shareholders in September 2017 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, 29th August, 2017

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.