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, 2019

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2019	30.6.2018	Change
	HK$ million	*HK$ million*	
Revenue	**596.9**	638.9	-6.6%
EBITDA	**50.4**	71.0	-29.0%
Profit for the period	**1.7**	20.2	-91.6%
	30.6.2019	31.12.2018	Change
Gearing ratio	**13.3%**	14.3%	-1.0pp
Net gearing ratio	**-4.9%***	0.1%	-5.0pp

* represents total bank balances and cash exceeding total bank borrowings

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, 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2019

		Six months ended	
		30.6.2019	30.6.2018
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**596,889**	638,922
Cost of sales		**(526,611)**	(548,390)
Gross profit		**70,278**	90,532
Other income		**11,080**	13,416
Selling and distribution costs		**(22,045)**	(25,353)
Administrative expenses		**(44,074)**	(42,983)
Other expenses		**(9,225)**	(9,646)
Finance costs		**(2,916)**	(1,757)
Profit before taxation	*4*	**3,098**	24,209
Income tax expense	*5*	**(1,378)**	(4,003)
Profit for the period, attributable to owners of the Company		**1,720**	20,206
Other comprehensive income for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**211**	41,533
Total comprehensive income for the period, attributable to owners of the Company		**1,931**	61,739
Dividends paid	*6*	**–**	63,746
		HK cents	*HK cents*
Earnings per share	*7*		
– basic		**0.21**	2.54
– diluted		**0.21**	–

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30th June, 2019

	Notes	**30.6.2019** **HK$'000** **(Unaudited)**	31.12.2018 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**1,367,834**	1,394,531
Right-of-use assets		**26,074**	–
Prepaid lease payments on land use rights		**–**	21,000
Deposits paid for the acquisition of property, plant and equipment		**23,729**	–
		1,417,637	1,415,531
Current assets			
Inventories		**138,738**	258,661
Trade and other receivables	*8*	**142,355**	174,875
Deposits and prepayments		**20,775**	20,363
Prepaid lease payments on land use rights		**–**	549
Bank balances and cash		**285,656**	219,398
		587,524	673,846
Current liabilities			
Trade, bills and other payables	*9*	**140,358**	232,030
Lease liabilities		**4,301**	–
Taxation payable		**12,787**	12,666
Unsecured bank borrowings		**175,333**	166,333
		332,779	411,029
Net current assets		**254,745**	262,817
Total assets less current liabilities		**1,672,382**	1,678,348
Capital and reserves			
Share capital		**81,764**	79,682
Reserves		**1,483,012**	1,470,540
Total equity, attributable to owners of the Company		**1,564,776**	1,550,222
Non-current liabilities			
Lease liabilities		**498**	–
Unsecured bank borrowings		**33,056**	54,722
Deferred taxation		**74,052**	73,404
		107,606	128,126
		1,672,382	1,678,348

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated 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 unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31st December, 2018, except as described below. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31st December, 2018.

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

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

The application of the above new and amendments to 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 unaudited condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group's manufacturing operations are all located in the People's Republic of China (the "PRC").

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, 2019
(Unaudited)

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	**296,153**	**300,736**	**596,889**	**–**	**596,889**
Inter-segment sales	**147,723**	**–**	**147,723**	**(147,723)**	**–**
Total	**443,876**	**300,736**	**744,612**	**(147,723)**	**596,889**
RESULT					
Segment profit	**13,639**	**10,848**	**24,487**	**–**	**24,487**
Central administrative expenses					**(18,473)**
Finance costs					**(2,916)**
Profit before taxation					**3,098**

For the six months ended 30th June, 2018
(Unaudited)

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	181,425	457,497	638,922	–	638,922
Inter-segment sales	176,371	–	176,371	(176,371)	–
Total	357,796	457,497	815,293	(176,371)	638,922
RESULT					
Segment profit	18,608	29,576	48,184	–	48,184
Central administrative expenses					(22,218)
Finance costs					(1,757)
Profit before taxation					24,209

Inter-segment sales are charged at prevailing market rates.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**526,611**	548,390
Depreciation of property, plant and equipment	**44,428**	44,725
Release of prepaid lease payments on land use rights	**–**	298
Interest income	**(877)**	(1,457)

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**298**	359
PRC Enterprise Income Tax	**432**	1,656
	730	2,015
Deferred tax	**648**	1,988
	1,378	4,003

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

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2019 and six months ended 30th June, 2018.

7. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,720**	20,206

	30.6.2019	30.6.2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**803,265,547**	796,824,000
Effect of dilutive potential ordinary shares in respect of share options	**403,897**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**803,669,444**	796,824,000

8. TRADE AND OTHER RECEIVABLES

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**144,164**	176,499
Less: allowance for credit losses	**(2,433)**	(2,433)
	141,731	174,066
Other receivables	**624**	809
Total trade and other receivables	**142,355**	174,875

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:

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**140,463**	172,181
31–60 days	**1,268**	1,480
61–90 days	**–**	405
	141,731	174,066

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$32,219,000 (31st December, 2018: HK$30,362,000) which were past due at the reporting date. 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 48 days (31st December, 2018: 45 days) based on invoice dates.

9. TRADE, BILLS AND OTHER PAYABLES

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

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**17,837**	86,254
Overdue 1 to 30 days	**72**	327
Overdue 31 to 60 days	**11**	270
Overdue for more than 60 days	**832**	1,449
Trade and bills payables	**18,752**	88,300
Payables for the acquisition of property, plant and equipment	**16,930**	19,207
PRC duties payables	**31,579**	30,215
Other payables and accrued charges	**73,097**	94,308
	140,358	232,030

The average credit period on purchases of goods is 38 days (31st December, 2018: 29 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2019 (six months ended 30th June, 2018: nil).

BUSINESS REVIEW

Due to the trade war between China and the US, and the ongoing "supply-side" reforms in China, the corrugated packaging business in China became even more challenging. Although the Chinese economy continues to grow, the trade war between China and the US had resulted in the loss of orders for companies, and some companies have withdrawn their business from China altogether. Demand for corrugated packaging saw a noticeable decline in the Chinese market. This plus increased efforts by the Chinese government on supply-side reforms have further eroded import volumes for wastepaper. Domestic wastepaper supply is inadequate for production demand, with the entire corrugated packaging industry hard hit as a result.

As the Group's upstream business did not have enough supply of wastepaper (main raw material) to make containerboard for the downstream business making corrugated paper boards and boxes, the Group was forced acquire containerboard from overseas suppliers. The Group's overseas purchases were almost entirely denominated in US dollars, but our revenue largely come from domestic sales denominated in Renminbi, and the fluctuation in Renminbi exchange rates had an impact on the Group's cost structure. The Renminbi to US dollars exchange rate appreciated slightly in the first quarter of 2019 but by the second quarter had fallen back down to levels below the start of the year. Although costs of raw materials (wastepaper and containerboard) fell in the first half, this was not enough to offset the impact of fluctuating exchange rates. Moreover, the Group also faced headwinds from negative jaws as selling costs fell by a lower percentage than the decline in revenue.

The Group's revenue in the first half of 2019 fell by 6.6% compared to the first half of 2018, primarily due to lower average selling prices and a fall in the Renminbi exchange rate, which was not fully offset by an increase in the total sales volume. Upstream containerboard and downstream corrugated packaging business accounted for 49.6% and 50.4% of total revenue respectively. In the first half of 2019, upstream and downstream revenue rose by 63.2% and fell by 34.3%, respectively, compared to the same period of last year.

Given lower production costs in the first half of 2019, the Group's inventory, trade receivables and trade payables all fell at the end of June 2019, and our inventory levels decreased significantly due to a lack of wastepaper for production. Given the Group's strong working capital situation, the Group's total gearing ratio remained extremely low at the end of June 2019, and was in a net cash position (total bank balances and cash exceeding total bank borrowings), with minimal bad debts and as a whole on a very solid financial footing.

FINANCIAL REVIEW

Operating results

Revenue fell from HK$638.9 million in the first half of 2018 to HK$596.9 million in the first half of 2019. Such a 6.6% decrease was primarily due to average selling price reduction in the first half of 2019, though the overall sales volume rose. The extent of the fall in selling price was larger than that in cost of sales, leading to a drop in gross profit of 22.3%. Gross profit fell from HK$90.5 million to HK$70.3 million. Gross profit margin decreased from 14.2% to 11.8%.

Other income fell HK$2.3 million, from HK$13.4 million to HK$11.1 million. It was mainly arisen from less tax refund from the PRC Government in the first half of 2019.

Selling and distribution costs fell 13.4%, decreasing from HK$25.4 million to HK$22.0 million. The fall was attributed to the decrease in transportation cost which was in line with decrease in revenue in the first half of 2019.

Administrative expenses rose from HK$43.0 million to HK$44.1 million. The increase of 2.6% was predominantly due to the share based payment in the first half of 2019.

Other expenses decreased from HK$9.6 million to HK$9.2 million. It was mainly due to a fall in China duty and charges in the first half of 2019.

The rise in finance costs from HK$1.8 to HK$2.9 million, was owing to the increase in interest rates and average bank borrowing level in the first half of 2019.

EBITDA (earnings before interest, tax, depreciation and amortization) decreased HK$20.6 million, from HK$71.0 million to HK$50.4 million. Profit for the period fell 18.5 million, from HK$20.2 million to HK$1.7 million, representing a decrease of 91.6%. Basic earnings per share decreased from 2.54 HK cents to 0.21 HK cents.

Liquidity, financial and capital resources

At 30th June, 2019, the Group's total cash and cash equivalents were HK$285.7 million (31st December, 2018: HK$219.4 million) which was mostly denominated in Renminbi. The surge was primarily due to selling of a substantial level of inventories in the first half of 2019.

Net current assets and current ratio of the Group as at 30th June, 2019 were HK$254.7 million (31st December, 2018: HK$262.8 million) and 1.77 (31st December, 2018: 1.64) respectively.

The Group spent HK$43.0 million on capital expenditure, basically for general maintenance and deposit paid for acquiring pulp-making machinery in the first half of 2019.

The average inventory, debtors and creditors turnover days were 77 days (31st December, 2018: 65 days), 48 days (31st December, 2018: 45 days) and 38 days (31st December, 2018: 29 days) respectively.

The total bank borrowings reduced to HK$208.4 million as at 30th June, 2019 (31st December, 2018: HK$221.1 million). Gearing ratio fell from 14.3% to 13.3%. Net cash of HK$77.3 million (total bank balances and cash less total bank borrowing) was recorded as at 30th June, 2019. The current bank borrowings rose HK$9.0 million and non-current bank borrowings fell HK$21.7 million.

Contingent liabilities

The tax audits conducted by the Inland Revenue Department (the "IRD") on the Company and its subsidiaries for the years of assessment 2004/2005 to 2012/2013 are still on-going. The IRD had issued protective assessments for the years of assessment 2004/2005 to 2012/2013 to certain subsidiaries of the Group. Objections were lodged against all these assessments. The Directors of the Company has assessed the financial impact of the application of HK(IFRIC)-Int 23 and anticipate that the effect will be immaterial to the Group.

OUTLOOK

Given the increasingly interconnected global economy, the ongoing trade war between China and the US will weigh on the global economy, and the Chinese economy is still expected to be impacted. The Group's performance will furthermore be affected by the depreciation of the Renminbi. To meet the challenge of a shortage of raw materials, the Group has decided to move some production processes overseas, with plans to build new plants overseas to convert wastepaper into pulp for delivery into China for production of containerboard. This would allow our existing production lines to be fully utilized in order to reduce costs and improve efficiency. The Group is also planning technological improvements on our production lines to make more high value-added products and offset the pressure from failing to transfer higher costs to buyers.

The Group will continue to grasp the advantages and opportunities afforded by our vertically integrated business model, and maintain our stable financial situation and operating infrastructure, and deliver satisfactory returns to our shareholders. At the same time, the Group will raise our attention on environmental protection in order to give back to the community.

HUMAN RESOURCES

As at 30th June, 2019, the Group employed a total workforce of around 1,050 full time staff (31st December, 2018: 1,050). Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors namely, Messrs. Chee Man Sang, Eric, Wong Chu Leung and Chau Suk Ming. The audit committee has reviewed with the management this results announcement and the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2019 and has discussed risk management, 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, 2019.

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, 2019, except with the following deviations:

Code Provision A.2.1

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

- There are no written terms on division of responsibilities between the chairman and the chief executive officer. The Directors consider that the responsibilities of the chairman and 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 directors only but not the senior management.

- Currently, the remuneration of the senior management is attended by the chairman and 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 a 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, 2019.

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, 2019 will be dispatched to the Company's shareholders in September 2019 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 Ping
Chairman

Hong Kong, 29th August, 2019

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