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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

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2015**

FINANCIAL HIGHLIGHTS

	Six months ended		Change
	30.6.2015	30.6.2014	
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Revenue	501.9	496.4	+1.1%
Gross profit	95.8	85.3	+12.3%
Profit for the period	10.7	1.7	+529.4%
EBITDA	59.2	53.4	+10.9%
	30.6.2015	31.12.2014	Change
Gearing ratio	21.4%	33.8%	-12.4pp
Net gearing ratio	4.5%	8.1%	-3.6pp

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, 2015 together with the comparative figures for the corresponding period in 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2015

	Notes	Six months ended	
		30.6.2015 HK\$'000 (Unaudited)	30.6.2014 HK\$'000 (Unaudited)
Revenue	3	501,907	496,358
Cost of sales		<u>(406,137)</u>	<u>(411,084)</u>
Gross profit		95,770	85,274
Other income		6,572	6,327
Selling and distribution costs		(29,035)	(29,070)
Administrative expenses		(42,147)	(36,191)
Other expenses		(10,714)	(12,834)
Finance costs		(6,589)	(11,463)
Changes in fair value of derivative financial instruments		<u>323</u>	<u>39</u>
Profit before taxation	4	14,180	2,082
Income tax expense	5	<u>(3,487)</u>	<u>(335)</u>
Profit for the period, attributable to owners of the Company		<u>10,693</u>	<u>1,747</u>
Other comprehensive expense for the period:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		<u>(21,666)</u>	<u>(27,943)</u>
Total comprehensive expense for the period, attributable to owners of the Company		<u>(10,973)</u>	<u>(26,196)</u>
Dividend paid	6	<u>11,610</u>	<u>–</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7		
– basic		<u>1.43</u>	<u>0.24</u>
– diluted		<u>1.36</u>	<u>0.24</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30th June, 2015

	<i>Notes</i>	30.6.2015 HK\$'000 (Unaudited)	31.12.2014 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		1,346,363	1,371,405
Prepaid lease payments on land use rights		16,285	16,684
Receivables from disposal of a subsidiary	<i>10</i>	229,068	229,068
		1,591,716	1,617,157
Current assets			
Inventories		124,893	111,361
Trade and other receivables	<i>8</i>	174,042	207,025
Deposits and prepayments		8,175	5,782
Prepaid lease payments on land use rights		421	425
Derivative financial instruments		–	68
Bank balances and cash		257,806	393,988
		565,337	718,649
Current Liabilities			
Trade, bills and other payables	<i>9</i>	251,601	232,278
Taxation payable		11,968	11,509
Derivative financial instruments		–	48
Unsecured bank borrowings		194,208	297,249
		457,777	541,084
Net current assets		107,560	177,565
Total assets less current liabilities		1,699,276	1,794,722
Capital and reserves			
Share capital		77,396	72,831
Share premium and reserves		1,448,046	1,461,618
Total equity, attributable to owners of the Company		1,525,442	1,534,449
Non-current liabilities			
Unsecured bank borrowings		132,088	221,070
Deferred taxation		41,746	39,203
		173,834	260,273
		1,699,276	1,794,722

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 (the “Listing Rules”) 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, 2014, except as described below. The interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31st December, 2014.

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 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 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 operating and reportable segment:

Segment revenues and results

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

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

For the six months ended 30th June, 2014
(Unaudited)

	Container- board <i>HK\$'000</i>	Corrugated Packaging <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External sales	118,584	377,774	496,358	–	496,358
Inter-segment sales	301,919	–	301,919	(301,919)	–
Total	<u>420,503</u>	<u>377,774</u>	<u>798,277</u>	<u>(301,919)</u>	<u>496,358</u>
RESULT					
Segment profit	<u>8,690</u>	<u>4,816</u>	<u>13,506</u>	–	13,506
Finance costs					(11,463)
Changes in fair value of derivative financial instruments					<u>39</u>
Profit before taxation					<u><u>2,082</u></u>

Inter-segment sales are charged at prevailing market rates.

The majority of the Group's revenue and contribution to operating profit is attributable to customers who have their manufacturing base in the People's Republic of China (the "PRC"). Accordingly, no analysis of geographical location is presented.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2015	30.6.2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)

Profit before taxation has been arrived at after
charging (crediting):

Cost of inventories recognised as expenses	406,137	411,084
Depreciation of property, plant and equipment	38,264	39,564
Release of prepaid lease payments on land use rights	210	312
Interest income	(1,868)	(1,921)

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2015 <i>HK\$'000</i> (Unaudited)	30.6.2014 <i>HK\$'000</i> (Unaudited)
Current tax:		
Hong Kong Profits Tax	100	2
PRC Enterprise Income Tax	844	319
	<u>944</u>	<u>321</u>
Deferred tax	2,543	14
	<u>3,487</u>	<u>335</u>

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 (2013: HK nil cents) per ordinary share in respect of the year ended 31st December, 2014 was paid to the shareholders of the Company during the six months ended 30th June, 2015.

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2015 and six months ended 30th June, 2014.

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	
	30.6.2015 <i>HK\$'000</i> (Unaudited)	30.6.2014 <i>HK\$'000</i> (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>10,693</u>	<u>1,747</u>
	30.6.2015	30.6.2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	745,809,686	724,386,000
Effect of dilutive potential ordinary shares in respect of share options	<u>43,030,631</u>	<u>4,024,333</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>788,840,317</u>	<u>728,410,333</u>

8. TRADE AND OTHER RECEIVABLES

	30.6.2015 <i>HK\$'000</i> (Unaudited)	31.12.2014 <i>HK\$'000</i> (Audited)
Trade receivables	174,690	202,457
Less: allowance for doubtful debts	(1,396)	(907)
	173,294	201,550
Other receivables	748	5,475
Total trade and other receivables	174,042	207,025

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:

	30.6.2015 <i>HK\$'000</i> (Unaudited)	31.12.2014 <i>HK\$'000</i> (Audited)
Within 30 days	165,305	194,446
31–60 days	6,343	4,607
61–90 days	798	1,549
Over 90 days	848	948
	173,294	201,550

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK\$46,150,000 (31st December, 2014: HK\$42,629,000) 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 68 days (31st December, 2014: 67 days) based on invoice dates.

9. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	30.6.2015 <i>HK\$'000</i> (Unaudited)	31.12.2014 <i>HK\$'000</i> (Audited)
Current	97,036	66,459
Overdue 1 to 30 days	3,610	7,312
Overdue 31 to 60 days	349	260
Overdue for more than 60 days	3,113	2,271
	104,108	76,302
Payables for the acquisition of property, plant and equipment	13,009	13,052
Other payables and accrued charges	134,484	142,924
	251,601	232,278

The average credit period on purchases of goods is 46 days (31st December, 2014: 39 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 the 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 are treated as a single transaction whereby the Group has 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 is 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, is recognised in profit or loss.

Consideration received/receivables

	<i>HK\$'000</i>
Cash consideration	235,857
Present value of cash consideration receivables	229,068
	<hr/>
Total consideration	464,925
	<hr/> <hr/>

Analysis of assets over which control was lost

	<i>HK\$'000</i>
Current assets	
Bank balances and cash	1
Other receivable	12
Prepaid lease payments on land use rights	200
Non-current assets	
Property, plant and equipment	8,629
Prepaid lease payments on land use rights	5,480
	<hr/>
Net assets disposed of	14,322
	<hr/> <hr/>

Gain on disposal of a subsidiary

	<i>HK\$'000</i>
Total consideration	464,925
Net assets disposed of	(14,322)
Transaction costs incurred in connection with the disposal	(71,801)
	<hr/>
Gain on disposal	378,802
	<hr/> <hr/>

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2015 (six months ended 30th June, 2014: nil).

BUSINESS REVIEW

The global economy recovered at a snail's pace in the first half of 2015. The first quarter saw weak economic growth, exchange rate volatility and a fall in consumer spending power. The economy stabilized in the second quarter with demand recovering slightly. An unstable business environment meant corporate bankruptcies for some enterprises and business sentiment turned cautious as a whole.

Despite this backdrop, the Group's performance in the first half of 2015 went well. The Group benefited from policies driving closures of outdated capacity in Guangdong Province, eliminating containerboard packaging plants that are sub-scale and those that do not meet environmental protection requirements. This has improved the over-supply situation, and, combined with continuous improvements in production processes by the Group and reduced interest expenses from proceeds from the disposal of a subsidiary at the end of last year, have resulted in satisfactory growth in the Group's earnings.

The Group's average selling price fell from the same period of last year but have rebounded from the bottom seen in the second half of last year. Sales by volume saw modest growth, which resulted in revenue for the Group rising slightly for the first half of 2015. Domestic sales and exports accounted for 85% and 15% of sales, respectively.

The Group's upstream containerboard (corrugating medium and linerboard) and downstream corrugated packaging (corrugated paper boards and carton boxes) accounted for 30% and 70% of revenue, respectively. Upstream sales rose by 29% but downstream sales fell by 8% in the period. The change in the business mix came from the Group's overall flexible marketing strategy based on market and demand changes.

The Group's main raw material, waste paper, saw prices stabilize compared to the same period of last year. Although exchange rates were volatile, the Group mainly purchases wastepaper in United States Dollars (USD) and Renminbi (RMB), both of which were relatively stable. The Group's continuous improvements in production processes to reduce waste and improve efficiency have offset the impact from higher wages and other costs, resulting in slightly lower production costs.

Befitting seasonal trends, the Group's inventory levels in the mid year came above levels seen at the end of last year, as the Group prepares for business opportunities for the upcoming peak season. The Group's total bank borrowings and net bank borrowings both fell substantially and are now at low levels. Bad debts remained close to zero, and the Group's overall financial situation is very stable and with ample liquidity.

FINANCIAL REVIEW

Operating results

The Group recorded a slight increase in revenue by 1.1%, from HK\$496.4 million in the first half of 2014 to HK\$501.9 million in the first half of 2015, primarily resulting from the slight increase in sales volume. Cost of sales declined 1.2% and gross profit rose 12.3%. Gross profit margin surged from 17.2% to 19.1%. The improvement was mainly due to management effort in cost control and efficiency enhancement.

Other income maintained at similar level, increasing from HK\$6.3 million to HK\$6.6 million. Selling and distribution costs also maintained at similar level at around HK\$29.0 million.

There was an increase of 16.3% in administrative expenses from HK\$36.2 million to HK\$42.1 million. Such increment was predominantly due to rising staff cost.

Other expenses fell HK\$2.1 million from HK\$12.8 million to HK\$10.7 million. It was mainly due to exchange loss arising from the depreciation of Renminbi in the first half of 2014. Provision for bad debts of HK\$0.5 million was made in the first half of 2015.

The decline in finance costs by 42.6%, from HK\$11.5 million to HK\$6.6 million was owing to lower average borrowing level in the first half of 2015.

EBITDA (earnings before interest, tax, depreciation and amortization) increased HK\$5.8 million, from HK\$53.4 million to HK\$59.2 million.

Profit for the period rose 9.0 million from HK\$1.7 million to HK\$10.7million. Basic earnings per share increased from 0.24 HK cents to 1.43 HK cents.

Liquidity, financial and capital resources

At 30th June, 2015, the Group's total cash and cash equivalents were HK\$257.8 million (31st December, 2014: HK\$394.0 million), mostly denominated in Renminbi and Hong Kong Dollars.

Net current assets and current ratio of the Group were HK\$107.6 million (31st December, 2014: HK\$177.6 million) and 1.23 (31st December, 2014: 1.33) respectively.

The Group spent HK\$30.1 million on capital expenditures for maintenance and construction of environmental protection facilities.

The average inventory turnover was 66 days. Two-month shipment is basically required for delivering waste paper from Europe to the plants in China.

The total bank borrowings fell HK\$192.0 million. Gearing ratio fell from 33.8% to 21.4%. The current bank borrowings were down by HK\$103.0 million and non-current bank borrowings were down by HK\$89.0 million. The balance for total bank borrowings net of bank balances and cash fell HK\$55.8 million. Net gearing ratio declined from 8.1% to 4.5%.

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 the Group and certain of its subsidiaries. Certain tax reserve certificates were purchased and 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

Financial markets have recently been volatile. The US Federal Reserve may start to raise interest rates by the end of the year, and the global economic recovery may slow as a result. A variety of measures to spur economic growth have been seen from major governments, and key data points are seeing gains. For China, gradual cuts to interest rates and the required reserve ratios and substantial cuts to the RMB fixing against the USD by the People’s Bank of China should stabilize economic growth.

A stable and growing economy should lift market demand for corrugated packaging, and the improvements in the persistent oversupply situation in the corrugated packaging industry should result in selling prices rebounding to more reasonable levels.

We expect improvements in the business environment in the second half of 2015 and demand should see growth as well. The Group is cautiously optimistic towards our prospects. We promise to grasp the advantages and opportunities from our vertically integrated business model, improve production efficiency, maintain a prudent financial situation and a sound operating structure, delivering satisfactory returns to our shareholders.

HUMAN RESOURCES

As at 30th June, 2015, the Group and the processing factory employed a total workforce of around 1,100 full time staff (31st December, 2014: 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, 2015 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, 2015, 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, 2015.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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, 2015.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This 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 interim report of the Company for the six months ended 30th June, 2015 will be dispatched to the Company's shareholders in September 2015 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, 19th August, 2015

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.