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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, 2018

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2018	30.6.2017	Change
	HK$ million	*HK$ million*	
Revenue	**638.9**	688.0	-7.1%
EBITDA	**71.0**	109.5	-35.2%
Profit for the period	**20.2**	59.4	-66.0%
	30.6.2018	31.12.2017	Change
Gearing ratio	**14.1%**	9.5%	+4.6pp
Net gearing ratio	**0.6%**	-11.0%	+11.6pp

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, 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30th June, 2018

	Notes	**Six months ended 30.6.2018** ***HK$'000*** **(Unaudited)**	30.6.2017 *HK$'000* (Unaudited)
Revenue	*3*	**638,922**	687,953
Cost of sales		**(548,390)**	(515,277)
Gross profit		**90,532**	172,676
Other income		**13,416**	7,196
Selling and distribution costs		**(25,353)**	(32,975)
Administrative expenses		**(42,983)**	(60,128)
Other expenses		**(9,646)**	(14,049)
Finance costs		**(1,757)**	(1,045)
Profit before taxation	*4*	**24,209**	71,675
Income tax expense	*5*	**(4,003)**	(12,313)
Profit for the period, attributable to owners of the Company		**20,206**	59,362
Other comprehensive income for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**41,533**	24,151
Total comprehensive income for the period, attributable to owners of the Company		**61,739**	83,513
Dividends paid	*6*	**63,746**	35,857
		HK cents	*HK cents*
Earnings per share	*7*	**2.54**	7.45

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2018

	Notes	**30.6.2018** *HK$'000* **(Unaudited)**	31.12.2017 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**1,418,542**	1,399,143
Prepaid lease payments on land use rights		**22,685**	22,451
		1,441,227	1,421,594
Current assets			
Inventories		**296,849**	157,409
Trade and other receivables	*8*	**183,607**	178,639
Deposits and prepayments		**31,070**	19,355
Prepaid lease payments on land use rights		**586**	558
Bank balances and cash		**222,139**	335,541
		734,251	691,502
Current liabilities			
Trade, bills and other payables	*9*	**227,961**	241,186
Taxation payable		**12,861**	12,672
Unsecured bank borrowings		**179,985**	138,448
		420,807	392,306
Net current assets		**313,444**	299,196
Total assets less current liabilities		**1,754,671**	1,720,790
Capital and reserves			
Share capital		**79,682**	79,682
Reserves		**1,556,624**	1,558,631
Total equity, attributable to owners of the Company		**1,636,306**	1,638,313
Non-current liabilities			
Unsecured bank borrowings		**51,389**	17,489
Deferred taxation		**66,976**	64,988
		118,365	82,477
		1,754,671	1,720,790

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, 2017, 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, 2017.

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

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and the related amendments
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle
Amendments to HKAS 40	Transfers of investment property

The application of the above new and revised 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 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, 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**

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	45,597	98,936	–	98,936
Central administrative expenses					(26,216)
Finance costs					(1,045)
Profit before taxation					71,675

Inter-segment sales are charged at prevailing market rates.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**548,390**	515,277
Depreciation of property, plant and equipment	**44,725**	36,525
Release of prepaid lease payments on land use rights	**298**	274
Interest income	**(1,457)**	(1,057)

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**359**	320
PRC Enterprise Income Tax	**1,656**	9,455
	2,015	9,775
Deferred tax	**1,988**	2,538
	4,003	12,313

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 (2016: HK1.5 cents) per ordinary share and a special final dividend of HK6.5 cents (2016: HK3.0 cents) per ordinary share in respect of the year ended 31st December, 2017 were paid to the shareholders of the Company during the six months ended 30th June, 2018.

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2018 and six months ended 30th June, 2017.

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	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of earnings per share	**20,206**	59,362

	30.6.2018	30.6.2017
Number of shares		
Weighted average number of ordinary shares for the purpose of earnings per share	**796,824,000**	796,824,000

8. TRADE AND OTHER RECEIVABLES

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**185,314**	180,021
Less: allowance for doubtful debts	**(2,595)**	(2,533)
	182,719	177,488
Other receivables	**888**	1,151
Total trade and other receivables	**183,607**	178,639

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:

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**181,008**	174,154
31–60 days	**1,274**	2,701
61–90 days	**437**	361
Over 90 days	**–**	272
	182,719	177,488

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$54,158,000 (31st December, 2017: HK$41,351,000) 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 51 days (31st December, 2017: 37 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:

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**49,693**	51,186
Overdue 1 to 30 days	**67**	103
Overdue 31 to 60 days	**9**	311
Overdue for more than 60 days	**1,292**	1,211
Trade and bills payables	**51,061**	52,811
Payables for the acquisition of property, plant and equipment	**20,869**	24,774
PRC duties payables	**33,102**	40,077
Other payables and accrued charges	**122,929**	123,524
	227,961	241,186

The average credit period on purchases of goods is 22 days (31st December, 2017: 39 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, 2018 (six months ended 30th June, 2017: nil).

BUSINESS REVIEW

The Chinese government's efforts to eliminate outdated capacity have been bearing fruit, but measures to restrict imports of waste paper destabilized the corrugated packaging market in the first half of 2018. As Chinese imports of waste paper fell, prices of imported waste paper rose sharply, and domestic waste paper prices followed suit as a result of a surge in demand. Chinese restrictions on waste paper imports resulted in a rise in supply in waste paper overseas and a subsequent decline in overseas waste paper prices, and allowed overseas containerboard manufacturing costs to fall. As imported containerboard prices fell below domestic prices, some domestic companies sourced their containerboard from overseas, and actually reduced demand for containerboard.

More than 80% of the Group's revenue is domestic and a portion of the main raw material used by the Group, waste paper, is sourced overseas and paid for in United States Dollars ("USD"). As a result, Renminbi exchange rates have an impact on the Group. The Renminbi appreciated in 2017 and continued to rise in the first half of 2018 until around the middle of June 2018, and this appreciation alleviated some pressure on the Group from higher domestic waste paper prices.

The Group's revenue in the first half of 2018 fell by around 7% compared to the first half of 2017, mainly due to a lack of domestic waste paper supplies, reducing the Group's production of upstream containerboard (corrugating medium and linerboard). Containerboard demand also fell, reducing upstream revenue, and the rise in selling prices and the Renminbi exchange rate failed to fully offset the impact of slower sales. Upstream containerboard and downstream corrugated packaging (corrugated paper boards and carton boxes) accounted for around 28% and 72% of revenue respectively. Upstream and downstream revenues in the first half of 2018 fell by around 35% and rose by around 11%, respectively, compared to the first half of 2017.

The average cost of acquiring the main raw material used by the Group, waste paper, rose substantially in the first half of 2018, up around 30% compared to the first half of 2017. As the substantially higher waste paper costs were not fully transferred to customers, the Group's overall profit fell substantially in the first half of 2018.

The Group's inventories level was higher at the end of June 2018 compared to the end of 2017, in order to meet demand for peak season, and inventory costs are higher due to higher raw materials prices. That said, the Group's working capital situation remains robust, and our total gearing and net gearing levels stayed at extremely low levels, and, together with our near-zero bad debts level, present a picture of robust financial health.

FINANCIAL REVIEW

Operating results

There was a fall in revenue by 7.1%, from HK$688.0 million in the first half of 2017 to HK$638.9 million in the first half of 2018, primarily resulting from the decrease in sales volume of upstream business. The Group could not pass on the cost increase of waste paper to customers, leading to a decrease in gross profit margin from 25.1% to 14.2%. Cost of sales rose 6.4% and gross profit fell 47.6%.

Other income increased from HK$7.2 million to HK$13.4 million, mainly arising from tax refund from the PRC Government.

Selling and distribution costs fell 23.0%, decreasing from HK$33.0 million to HK$25.4 million. The fall was attributed to the decrease in transportation.

Administrative expenses declined from HK$60.1 million to HK$43.0 million. The fall was predominantly due to fall in provision for performance bonus.

Other expenses decreased from HK$14.0 million to HK$9.6 million. It was mainly due to the loss on disposal of fixed assets incurred in 2017.

The rise in finance costs from HK$1.0 million to HK$1.8 million, was owing to increase in interest rate and average bank borrowing level.

EBITDA (earnings before interest, tax, depreciation and amortization) decreased HK$38.5 million, from HK$109.5 million to HK$71.0 million. Profit for the period fell HK$39.2 million, from HK$59.4 million to HK$20.2 million, representing a decrease of 66.0%. Earnings per share decreased from 7.45 HK cents to 2.54 HK cents.

Liquidity, financial and capital resources

At 30th June, 2018, the Group's total cash and cash equivalents were HK$222.1 million (31st December, 2017: HK$335.5 million), mostly denominated in Renminbi and USD. The fall was primarily due to increase in inventories level in the first half of 2018.

Net current assets and current ratio of the Group as at 30th June, 2018 were HK$313.4 million (31st December, 2017: HK$299.2 million) and 1.74 (31st December, 2017: 1.76) respectively.

The Group spent HK$34.8 million on capital expenditure, basically for the technical upgrade of production facilities and general maintenance in the first half of 2018.

The average inventory, debtors and creditors turnover days were 68 days (31st December, 2017: 51 days), 51 days (31st December, 2017: 37 days) and 22 days (31st December, 2017: 39 days) respectively.

The total bank borrowings increased to HK$231.4 million as at 30th June, 2018 (31st December, 2017: HK$155.9 million). Gearing ratio and net gearing ratio rose to 14.1% and 0.6% respectively (31st December, 2017: 9.5% and -11.0% respectively). The current bank borrowings rose HK$41.6 million and non-current bank borrowings rose HK$33.9 million. The total bank borrowings net of bank balances and cash amounted to HK$9.3 million as at 30th June, 2018.

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 2011/2012 are still on-going. The IRD had issued protective assessments for the years of assessment 2004/2005 to 2011/2012 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

We are anxious towards the global political situation in the second half of 2018. Chinese economic growth will be hampered by the ongoing trade war between China and the US, and the US Federal Reserve appears poised to raise interest rates further. Raw materials prices remain stubbornly high, and the depreciation of the Renminbi will put more pressure on corporates. We still however firmly believe that the Chinese government will launch new policies and measures to mitigate the impact from the said challenges and this should help market demand for corrugated packaging.

The Group will continue to improve our production process and our technical upgrades, in order to raise capacity and efficiency at minimal cost, alleviating the pressure from production cost increases. The Group will also grasp the advantages and opportunities from our vertically integrated business model, and maintain our stable financial position and operations, and deliver satisfactory returns to our shareholders. In addition, the Group will step up our efforts on environmental protection to contribute more to the wider society.

HUMAN RESOURCES

As at 30th June, 2018, the Group employed a total workforce of around 1,100 full time staff (31st December, 2017: 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, 2018 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, 2018.

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, 2018, 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 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, 2018.

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, 2018 will be dispatched to the Company's shareholders in September 2018 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, 28th August, 2018

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, Yip Kwok Kwan and Wong Chu Leung.