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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

INSIDE INFORMATION – TAX ISSUES OF A SUBSIDIARY

This announcement is made by Hop Fung Group Holdings Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

1. TAX ISSUE ABOUT VAT INVOICES FROM SUPPLIERS

On 24 June 2022, 森葉(清新)紙業有限公司 (unofficially translated as “Green Forest (QingXin) Paper Industrial Limited” (the “**Green Forest Paper**”), an indirect wholly-owned subsidiary of the Company, which is incorporated in the People’s Republic of China (“**PRC**”) and principally engaged in the production and trading of containerboard and corrugated packaging, received (a) a decision on tax treatment (清稅二稽處 [2022]18號) dated 20 May 2022 (“**Tax Treatment Decision**”); and (b) a decision on administrative penalty dated 20 May 2022 (“**Tax Penalty Decision**”) (清稅二稽罰 [2022]10號), each issued by the Second Investigation Bureau of Qingyuan District Administration of Taxation of the State Administration of Taxation (“**Qingyuan Tax Bureau**”) (國家稅務局清遠市稅務局第二稽查局) (collectively the “**Decisions**”), in relation to 1,073 value-added tax (“**VAT**”) invoices (the “**VAT Invoices**”) received from six suppliers of the Group (the “**Suppliers**”) in 2013, 2014, 2017 and 2018 for the total invoiced amount of Renminbi (“**RMB**”) 742,707,288.82 (consisting of price for product purchased of RMB636,939,968.56 and VAT of RMB105,767,320.26) and the tax deduction made by the Group in relation thereto (the “**Tax Deduction**”).

Based on the Decisions, the VAT Invoices were found to be irregularly issued by the Suppliers. Under the Tax Treatment Decision, Green Forest Paper was required to make up the following tax payments (collectively the “**Outstanding Tax Amount**”):

Tax	Amount <i>RMB</i>
Value added tax	85,449,667.56
Urban maintenance and construction tax	5,791,837.32
Education surcharge	2,563,490.03
Local educational surcharge	1,708,993.35
Corporate income tax	13,627,585.11
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Total	<u>109,141,573.37</u>

A late payment at a daily rate of 0.05% on the Outstanding Tax Amount from the date such Outstanding Tax Amount was due until the date of actual payment.

Under the Tax Penalty Decision, Green Forest Paper was required to pay an administrative penalty in the amount of RMB44,070,205.82.

Based on the opinion of the PRC legal advisor of the Group, the Outstanding Tax Amount and the administrative penalty imposed under the Decisions lacks factual and legal support. Hence, Green Forest Paper has objected to the Decisions.

The Tax Treatment Decision

Pursuant to the Tax Treatment Decision, in case Green Forest Paper disagrees with the Tax Treatment Decision, Green Forest Paper must pay the Outstanding Tax Amount within the prescribed period or otherwise provide relevant tax payment guarantee on the Outstanding Tax Amount. Once the Outstanding Tax Amount is paid or the tax payment guarantee is confirmed, Green Forest Paper may submit an administrative review application to Guangdong Province Administration of Taxation of the State Administration of Taxation (“**Guangdong Province Tax Bureau**”) (國家稅務局廣東省稅務局) to review the Tax Treatment Decision within 60 days from the date of the tax payment or confirmation of the tax payment guarantee.

Green Forest Paper has made an application for tax payment guarantee. However, the Qingyuan Tax Bureau has repeatedly rejected or avoided accepting the tax payment guarantee application submitted in person. In early August 2022, the Group submitted the tax payment guarantee application by post. On 18 August 2022, Qingyuan Tax Bureau replied in writing that it would not accept the tax payment guarantee application of Green Forest Paper because the application was made beyond the application deadline.

On 20 August 2022, Green Forest Paper disagreed with the decision of Qingyuan Tax Bureau not accepting the tax payment guarantee application and therefore applied for an administrative review with Qingyuan Tax Bureau relating to this rejection.

On 20 October 2022, Qingyuan Tax Bureau decided to uphold its decision of not accepting the tax payment guarantee application.

On 7 December 2022, Green Forest Paper filed an administrative proceeding against Qingyuan Tax Bureau at the People's Court of Qingxin District, Qingyuan City, Guangdong Province (廣東省清遠市清新區人民法院) to request for a revocation of the decision on not accepting the tax payment guarantee application. The hearing of the proceeding was held on 15 February 2023 and no order was made from the court up to the date of this announcement.

The Tax Penalty Decision

Pursuant to the Tax Penalty Decision, if Green Forest Paper disagrees with the Tax Penalty Decision, Green Forest Paper may submit an administrative review application to Guangdong Province Tax Bureau within 60 days from the date of the Tax Penalty Decision, or may file a proceeding at the People's Court within 6 months from the date of receipt of the Tax Penalty Decision.

On 22 August 2022, Green Forest Paper disagreed with the Tax Penalty Decision and applied for an administrative review with Guangdong Province Tax Bureau.

On 23 August 2022, Guangdong Province Tax Bureau accepted the administrative review on the Tax Penalty Decision.

On 8 November 2022, Guangdong Province Tax Bureau decided to uphold the Tax Penalty Decision.

On 24 November 2022, Green Forest Paper filed an administrative proceeding against Guangdong Province Tax Bureau and Qingyuan Tax Bureau at Guangzhou Railway Transport Court (廣州鐵路運輸法院) to request for a review of the Tax Penalty Decision.

2. TAX ISSUE ABOUT PAYMENT OF PREVIOUS VAT REFUND

On 8 February 2023, Green Forest Paper received a tax matter notice (“**Tax Matter Notice**”) (清新稅二分局稅通[2023]230208號) issued by the Second Branch Bureau of Qingxin District Qingyuan City Administration of Taxation of the State Administration of Taxation (“**Qingxin Tax Bureau**”) (國家稅務總局清遠市清新區稅務局第二稅務分局).

Based on the Tax Matter Notice, since the tax credit level of Green Forest Paper was adjusted to D-level for the assessment years from 2015 to 2020, as a result, Green Forest Paper has to pay the previous VAT refund amounted to RMB32,069,739.5 for the period from July 2015 to October 2020 according to the relevant regulations.

Pursuant to the Tax Matter Notice, in case Green Forest Paper disagrees with the Tax Matter Notice, Green Forest Paper must pay the outstanding VAT within the prescribed period or otherwise provide relevant tax payment guarantee on the outstanding VAT. Once the VAT payments or the tax payment guarantee is confirmed, Green Forest Paper may submit an administrative review application to Qingxin Tax Bureau within 60 days from the date of the tax payments or confirmation of the tax payment guarantee.

Green Forest Paper has made application for tax payment guarantee and is pending for confirmation from Qingxin Tax Bureau about the acceptance of the tax payment guarantee.

The Company would stress that:

- (a) the paper product purchase made from the Suppliers were genuine, and the Group had paid up the respective total price of the paper products under the VAT Invoices, and had received the paper products with the then understanding that appropriate taxation arrangement would be made with the Suppliers;
- (b) the directors of the Company, and the staff members of our Group who were responsible for the Tax Deduction, had no knowledge of any irregular circumstances under which such VAT Invoices were issued;
- (c) Green Forest Paper obtained the irregular VAT Invoices from the Suppliers and made the Tax Deduction due to mere inadvertence and it has no intention to evade tax, and does not involve any fraud, dishonesty or corruption on the part of our Directors or management; and
- (d) the Group has established internal control policies for the management of procurement and accounts payable, including the review and approval of invoices issued by its suppliers.

Further announcement(s) will be made by the Company as and when appropriate in compliance with the Listing Rules as the above matter progress further.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Hop Fung Group Holdings Limited
Hui Sum Ping
Chairman

Hong Kong, 17 March 2023

As at the date of this announcement, the executive directors of the Company are Mr. Hui Sum Ping and Mr. Hui Sum Tai; and the independent non-executive directors of the Company are Mr. Tso Sze Wai, Mr. Wong Chu Leung and Mr. Chau Suk Ming.