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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

Revenue decreased to approximately HK$224.4 million, representing a fall of approximately 47.1% as compared to that for 2022.

Loss attributable to owners of the Company was approximately HK$100.8 million as compared to loss attributable to owners of the Company for 2022 of approximately HK$192.7 million. Such loss is mainly due to (i) the decrease in revenue as a result of closure of a factory in China in 2022; (ii) impairment loss on the deposit paid for the acquisition of property, plant and machinery; (iii) the fixed cost such as depreciation of certain property, plant and equipment in respect of the temporary suspension of the upstream production; and (iv) the drop in average selling price.

Excluding the effect of the impairment loss of approximately HK$16.1 million recognised during the year (2022: HK$10.5 million), the EBITDA (earnings before finance costs, taxation, depreciation and amortisation) is loss of HK$25.3 million as compared to loss of HK$103.7 million for 2022.

Net cash (bank balances and cash less total bank borrowings) is net borrowings of HK$25.6 million for 2023 as compared to net cash balances of HK$12.7 million for 2022.

The board of directors (the "Board" or "Directors") of Hop Fung Group Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023 together with the comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	**2023** *HK$'000*	2022 *HK$'000*
Revenue	3	**224,357**	424,411
Cost of sales		**(210,429)**	(417,014)
Gross profit		**13,928**	7,397
Other income		**6,713**	10,903
Other gains and losses		**4,541**	(4,289)
Net (impairment loss recognised)/reversal of impairment loss recognised under expected credit loss model		**(174)**	151
Selling and distribution costs		**(12,451)**	(18,752)
Administrative expenses		**(47,042)**	(90,471)
Other expenses		**(62,421)**	(89,988)
Finance costs	4	**(3,555)**	(6,188)
Loss before taxation		**(100,461)**	(191,237)
Income tax expenses	5	**(343)**	(1,488)
Loss for the year, attributable to owners of the Company	6	**(100,804)**	(192,725)
Other comprehensive expense for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(18,218)**	(94,936)
Other comprehensive expenses for the year		**(18,218)**	(94,936)
Total comprehensive expense for the year, attributable to owners of the Company		**(119,022)**	(287,661)
Loss per share	8		
– basic (HK cents)		**(12.33)**	(23.57)
– diluted (HK cents)		**(12.33)**	(23.57)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment		**733,275**	798,330
Right-of-use assets		**19,223**	19,521
Deposits and prepayments		**143,319**	162,979
		895,817	980,830
Current assets			
Inventories		**22,068**	31,292
Trade and other receivables	9	**47,598**	60,334
Deposits and prepayments		**7,665**	7,857
Bank balances and cash		**47,272**	110,796
		124,603	210,279
Current liabilities			
Trade and other payables	10	**92,451**	119,885
Due to a director		**1,365**	–
Taxation payable		**1,354**	2,111
Lease liabilities		**611**	304
Bank borrowings		**52,959**	2,230
		148,740	124,530
Net current (liabilities)/assets		**(24,137)**	85,749
Total assets less current liabilities		**871,680**	1,066,579
Non-current liabilities			
Lease liabilities		**323**	–
Bank borrowings		**19,872**	95,875
Deferred taxation		**8,593**	8,790
		28,788	104,665
Net assets		**842,892**	961,914
Capital and reserves			
Share capital		**81,764**	81,764
Reserves		**761,128**	880,150
Total equity, attributable to owners of the Company		**842,892**	961,914

Notes:

1. GOING CONCERN BASIS

The Group incurred consecutive losses attributable to owners of the Company of approximately HK$100,804,000 and HK$192,725,000 for the years ended 31 December 2023 and 2022, respectively, and as at 31 December 2023 the Group had net current liabilities of HK$24,137,000. In addition, as disclosed in note to the consolidated financial statements, the Group has significant amounts of contingent liabilities in relation to the tax payments demanded by the tax bureau in the PRC. In the event that the potential obligation becomes materialised, the Group may not have sufficient cash and bank balances, which amounted to approximately HK$47,272,000 as at 31 December 2023, to fulfil the obligations. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

For the purpose of assessing going concern, the directors of the Company (the "Directors") have prepared a cash flow forecast of the Group covering a period of twelve months from the end of the reporting period (the "Cash Flow Forecast") with plans and measures to mitigate the liquidity pressure and to improve its financial position. In addition, the Group obtained the letter of intent from one of the principal bankers after the reporting period, under which loan facilities up to a maximum amount of approximately RMB300,000,000 are available to the Group for not less than twelve months from 31 December 2023. Based on the letter of intent and Cash Flow Forecast assuming the plans and measures can be successfully implemented as scheduled, the Directors are of the opinion that the Group is able to continue as a going concern and would have sufficient financial resources to finance the Group's operations and meet its financial obligations as and when they fall due. Accordingly, it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted all the new and revised HKFRSs and new interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2023. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SEGMENT INFORMATION

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

The Group's operations are organised based on the type of products. Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purpose of resource allocation and assessment of segment performance is analysed based on the type of products. No operating segments identified by CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, 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

Information regarding the above segments is reported below

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 31 December 2023

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	–	224,357	224,357	–	224,357
RESULT					
Segment (loss)/profit	(84,075)	10,258	(73,817)	–	(73,817)
Central administrative expenses					(23,089)
Finance costs					(3,555)
Loss before taxation					(100,461)

For the year ended 31 December 2022

	Containerboard *HK$'000*	Corrugated packaging *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	–	424,411	424,411	–	424,411
Inter-segment sales	31,711	–	31,711	(31,711)	–
Total	31,711	424,411	456,122	(31,711)	424,411
RESULT					
Segment loss	(120,361)	(41,026)	(161,387)	–	(161,387)
Central administrative expenses					(23,662)
Finance costs					(6,188)
Loss before taxation					(191,237)

Inter-segment sales are charged at prevailing market rates. No revenue from any single customer contributed over 10% of the total revenue of the Group for both years.

4. FINANCE COSTS

	2023	2022
	HK$'000	*HK$'000*
Interest on bank borrowings	**3,510**	5,922
Interest on lease liabilities	**45**	266
	3,555	6,188

5. INCOME TAX EXPENSES

	2023	2022
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**363**	53
Underprovision in prior years – Hong Kong Profit Tax	**–**	154
	363	207
Deferred tax	**(20)**	1,281
	343	1,488

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

No provision for Macau Complementary Tax has been made as the Group has no assessable profits arising in Macau for the years ended 31 December 2023 and 2022.

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% for both years. One of the Company's PRC subsidiaries was awarded with the High and New-Tech Enterprise and entitled to preferential rate of 15% for the Group's financial years ended 31 December 2023 and 31 December 2022.

6. LOSS FOR THE YEAR

	2023	2022
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	**210,166**	406,383
Exchange losses, net	**209**	4,570
Depreciation of property, plant and equipment	**54,317**	61,164
Depreciation of right-of-use assets	**1,153**	9,715
Staff costs	**60,934**	80,710
Impairment loss recognised on property, plant and equipment as expenses (included in cost of sales)	**–**	6,953
Written off of accruals and other payable	**(20,948)**	–
Impairment loss on the deposit paid for the acquisition of property, plant and machinery	**15,684**	–
Allowance for inventories (included in cost of sales)	**263**	3,678

7. DIVIDENDS

No dividend was declared or proposed for the years ended 31 December 2023 and 31 December 2022, nor has any dividend been proposed since the end of the reporting period.

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2023	2022
	HK$'000	*HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share	**(100,804)**	(192,725)

	2023	2022
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**817,644,000**	817,644,000

The computation of diluted loss per share for the years ended 31 December 2023 and 31 December 2022 did not assume the exercise of the Company's share options as the exercise price of these options was higher than the average market price for shares for both 2023 and 2022.

9. TRADE AND OTHER RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Trade receivables	**38,695**	51,056
Less: allowance for credit losses	**(867)**	(836)
	37,828	50,220
Other receivables *(note)*	**9,770**	10,114
Total trade and other receivables	**47,598**	60,334

Note: As at 31 December 2023, the balance included an advance to a third party amounting to HK$8,136,000 (2022: HK$8,309,000), which is unsecured, interest-free and repayable on demand.

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:

	2023	2022
	HK$'000	*HK$'000*
Within 30 days	**24,839**	32,000
31–60 days	**12,228**	17,441
61–90 days	**578**	737
Over 90 days	**183**	42
	37,828	50,220

Before accepting any new customer, the Group uses an external litigation search to assess the potential customer's credit quality and defines credit limits on a customer-by-customer basis. Limits and scoring attributed to customers are reviewed monthly.

As at 31 December 2023, included in the Group's trade receivable balance are debtors with aggregate gross amount of HK$13,856,000 (2022: HK$19,083,000) which were past due at the reporting date. Out of the past due balances, HK$867,000 (2022: HK$835,000) has been past due 90 days or more. The past due 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 62 days (2022: 43 days) based on invoice dates.

10. TRADE 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 payables presented based on the invoice due date at the end of the reporting period:

	2023	2022
	HK$'000	*HK$'000*
Current	**15,776**	13,574
Overdue 1 to 30 days	**38**	13
Overdue 31 to 60 days	**–**	5
Overdue for more than 60 days	**11,669**	11,948
Trade payables	**27,483**	25,540
Payables for the acquisition of property, plant and equipment	**3,121**	4,244
Other PRC tax payables	**12,576**	28,898
Accrued charges *(note)*	**46,758**	58,224
Other payables	**2,513**	2,979
	92,451	119,885

Notes:

Major items in accrued charges are accrued salaries and wages.

The average credit period on purchases of goods is 52 days (2022: 40 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

11. CONTINGENT LIABILITIES

Tax issues of a subsidiary in the PRC

(a) Tax issue in relation to the value-added tax invoices received from certain suppliers

As referred to the Company's announcement dated 17 March 2023, Green Forest (QingXin) Paper Industrial Limited (森葉(清新)紙業有限公司) ("Green Forest Paper"), an indirect wholly-owned subsidiary of the Company, received on 24 June 2022 (a) a decision on tax treatment dated 20 May 2022 ("Tax Treatment Decision") and (b) a decision on administrative penalty dated 20 May 2022 ("Tax Penalty Decision"), 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 "Six Suppliers") in 2013, 2014, 2017 and 2018 for the total invoiced amount of approximately RMB742,707,000 (consisting of price for product purchased of approximately RMB636,940,000 and VAT of approximately RMB105,767,000) and the tax deduction made by the Group in relation thereto.

Based on the Decisions, the VAT Invoices were found to be irregularly issued by the Six Suppliers, therefore Green Forest Paper was required to make up the tax payments amounted to approximately RMB109,142,000 (equivalent to approximately HK$127,057,000), comprising the VAT of approximately RMB85,450,000, other taxes and surcharges of approximately RMB10,064,000 and the Enterprise Income Tax of approximately RMB13,628,000 (collectively the "Outstanding Tax Amount"), as well as 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. In addition, Green Forest Paper was also required to pay an administrative penalty in the amount of approximately RMB44,070,000 (equivalent to approximately HK$51,304,000).

Upon receiving the Decisions, the Directors, after seeking legal advice from the Group's PRC legal advisor, considered that the Outstanding Tax Amount and the administrative penalty imposed under the Decisions lacked factual and legal support. Hence, Green Forest Paper has taken various actions to object to the Decisions.

The Tax Treatment Decision

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) ("Qingxin Court") to request for a revocation of the decision on not accepting the tax payment guarantee application. Pursuant to the administrative judgement dated 19 April 2023 from the Qingxin Court, the request for the revocation was rejected but the Group has the right to appeal within 15 days from the date of the judgement.

Subsequently, the Group filed an appeal against the aforesaid judgement at the Intermediate People's Court of Qingyuan City, Guangdong Province (廣東省清遠市中級人民法院) ("Intermediate Court"). Pursuant to the judgement dated 5 July 2023 from the Intermediate Court, the Intermediate Court concluded that the appeal was rejected, and the administrative judgement dated 19 April 2023 was upheld.

On 10 August 2023, the Group filed a retrial application against the judgement dated 5 July 2023 at Guangdong Higher People's Court, Guangdong Province (廣東省高級人民法院) ("Higher People's Court"). On 14 August 2023, the Higher People's Court accepted the Group's retrial application and will proceed with the retrial hearing if it considers the case meets the grounds and conditions for retrial after the verification procedures.

Up to the date of the consolidated financial statements, the decision on the retrial from the Higher People's Court was not available.

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.

In order to apply the administrative review application to Guangdong Province Tax Bureau, the Group has paid a certain portion of the Outstanding Tax Amount of approximately RMB20,297,000 (equivalent to approximately HK$23,628,000) and recognised in "Other expenses" during the year ended 31 December 2022.

Pursuant to the administrative judgement dated 30 June 2023 from the Guangzhou Railway Transport Court, the decision of administrative review made by the Guangdong Province Tax Bureau on 8 November 2022 to uphold the Tax Penalty Decision shall be revoked, but the Guangdong Province Tax Bureau has the right to appeal within 15 days from the date of the judgement.

The Group subsequently received a summons from the Guangzhou Railway Transport Intermediate Court (廣州鐵路運輸中級法院) dated 2 November 2023, in which the Guangdong Province Tax Bureau filed an appeal against the administrative judgement dated 30 June 2023. The appeal hearing was held on 13 November 2023, and no order was made from the court up to the date of the consolidated financial statements.

(b) Tax Matter Notice

On 8 February 2023, Green Forest Paper received a tax matter notice ("Tax Matter Notice") 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 approximately RMB32,070,000 (equivalent to approximately HK$37,334,000) 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 the 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 completed the tax payment guarantee procedures and was confirmed by the Qingxin Tax Bureau on 23 March 2023.

On 7 April 2023, Green Forest Paper disagreed with the Tax Matter Notice and applied for an administrative review with the Qingxin Tax Bureau.

On 2 June 2023, the State Administration of Taxation Qingyuan City Qingxin District Taxation Bureau (國家稅務總局清遠市清新區稅務局) issued an administrative review decision stating that the Qingyuan Tax Bureau shall revoke the Tax Matter Notice and re-handle it in accordance with the applicable laws.

Save as disclosed above, there was no further development with regard to the Decisions and the Tax Matter Notice as at the date of the consolidated financial statements.

The Directors are of the view that no provision of the relevant tax amounts concerning the Decisions and the Tax Matter Notice as at 31 December 2023 and 2022 as stated in the above should be provided on the basis that the Group is in the process of making appeals against the relevant judgements and the judgements on the Tax Penalty Decision and the Tax Matter Notice received by the Group up to the date of the consolidated financial statements were favourable to the Group. However, the results of the appeal applications made by the Group and the appeal applications made against the Group were not yet available up to the date of these consolidated financial statements, which led to significant uncertainties regarding the extent and financial impact arising from the Decisions and the Tax Matter Notice on the consolidated financial statement of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2023, dragged by various unfavorable factors such as weak economic activities and low customer sentiment after pandemic in Mainland China, the Group's average selling price and sales volume decreased, and revenue decreased by 56.1% compared with the first half of 2022. In the second half of 2023, the Group's revenue in the second half of the year increased by 11.2% compared with the first half of the year, and decreased by 35.3% compared with the second half of 2022 and total revenue decreased 47.1% for the year.

Since October 2021, the Group's upstream containerboard business has been temporarily suspended. Currently, the Group continues to coordinate with the local government for the annual inspection procedures of the licenses for the coal-fuel boilers. At the same time, the Group has carried out the project to change its boilers from coal-fuel boilers to gas-fuel boilers pursuant to the environmental policies of the local government and it is expected to resume production in the second half of 2024. To ensure stable supply for the Group's downstream corrugated packaging business, the Group purchases containerboard from third party suppliers. There was no external revenue from upstream business in both 2023 and 2022.

Against the backdrop of high level of inflation and interest rate around the globe, the costs of containerboard, which is the Group's main raw materials costs, put high pressure on the Group. However, the Group is able to pass on part of the rising containerboard costs to customers. As a result, the gross profit margin has improved in 2023 compared with last year. Apart from this, the Group has taken effort to strengthen the cost control management and efficiency enhancement. Therefore, the Group has recorded lower operating losses in 2023.

FINANCIAL REVIEW

Operating results

The Group recorded a decrease of HK$200 million in revenue in 2023, representing a fall of 47.1% from HK$424.4 million in 2022 to HK$224.4 million in 2023. The drop in revenue was mainly attributed to the decline in sales volume resulting from the temporary suspension of production of Green Forest (QingXin) Paper Industrial Limited, a wholly-owned subsidiary of the Company. The closure of a factory in China led to a decrease in sales volume of downstream business and decrease in revenue.

Cost of sales dropped from HK$417.0 million in 2022 to HK$210.4 million in 2023. The decrease in cost of sales was in line with decrease in revenue.

Gross profit from HK$7.4 million in 2022 increased to HK$13.9 million in 2023. Gross profit margin changed from 1.7% to gross profit margin of 6.2%. The increase in gross profit margin was mainly due to decrease in the cost of materials outweighing the decrease in revenue. Implementation of effective cost control measures also contributed to the increase in gross profit margin.

Other income decreased from HK$10.9 million in 2022 to HK$6.7 million in 2023. Such decrease was mainly attributed to less bank interest income and service income.

Other gains and losses changed from losses of HK$4.3 million in 2022 to gain of HK$4.5 million in 2023. The increase was mainly due to the written off of accruals and payables of 20.9 million and impairment loss on the deposit paid for the acquisition of property, plant and machinery of HK$15.7 million.

Selling and distribution costs reduced by 33.6% from HK$18.8 million in 2022 to HK$12.5 million in 2023. The decrease was in line with decrease in revenue.

Administrative expenses decreased by 48.0% from HK$90.5 million in 2022 to HK$47.0 million in 2023. Such decrease was due to the closure of the factory in China and was in line with decrease in revenue.

Other expenses decreased from HK$90.0 million in 2022 to HK$62.4 million in 2023. Such decrease was attributed to value-added tax payments of HK$23.6 million paid in 2022 and there was no value-added tax payment in 2023.

Finance costs decreased from HK$6.2 million in 2022 to HK$3.6 million in 2023. The decrease was owing to lower borrowing level in 2023.

In 2023, HK$0.3 million was charged to income tax expense, representing Hong Kong Profits tax charge of HK$0.4 million and deferred tax credit of HK$0.02 million.

Loss for the year of HK$192.7 million was recorded in 2022 while loss for the year of HK$100.8 million was recorded in 2023, representing a decrease in loss by HK$91.9 million. Net loss margin decreased from 45.4% to 44.9%.

Liquidity, financial and capital resources

As at 31 December 2023, the Group’s bank balances and cash were HK$47.3 million (31 December 2022: HK$110.8 million), mostly denominated in Renminbi.

Bank borrowings were decreased from HK$98.1 million at 31 December 2022 to HK$72.8 million at 31 December 2023.

As at 31 December 2023, the current bank borrowings increased by HK$50.7 million while non-current bank borrowings fell by HK$76.0 million. The group recorded a net borrowings level (net of bank balances and cash less total bank borrowings) of HK$25.6 million (31 December 2022: net cash level HK$12.7 million). Gearing ratio (total bank borrowings to total equity) and net gearing ratio (net balance of total bank borrowings less bank balances and cash to equity) were 8.6% and 3.0% respectively (31 December 2022: 10.2% and –1.3% respectively).

As at 31 December 2023, net current liabilities (2022: net current assets) and current ratio of the Group were HK$24.1 million (31 December 2022: HK$85.7 million) and 0.84 (31 December 2022: 1.7) respectively. This was mainly due to a bank loan of HK$52.4 million which would be fully repaid in 2024.

In 2023, the Group spent HK$8.5 million on capital expenditures for property, plant and equipment in China.

Debtors, creditors and inventory turnover were 62 days (2022: 43 days), 52 days (2022: 40 days) and 46 days (2022: 69 days) respectively.

OUTLOOK

Although the global economy has been gradually rebounding after the outbreak of the COVID-19 pandemic, the business environment of the corrugated packaging industry was still challenging as the pace of economic recovery from the COVID-19 pandemic was slower than expected with tensing geo-political relationship and deepening slump in China's property market.

Going forward, the Group will strive to maintain low debt levels and healthy balance sheet position to achieve good capital management. In respect of business development, the Group will complete the annual inspection procedures for the boilers license and resume production for upstream business and this will make the Group enjoy competitive advantage in vertical integration. The Group will also focus on the key strategies of price rising power, raising production efficiency and reduction on raw material wastage to realize a turnaround from loss to profit in foreseeable future.

HUMAN RESOURCES

As at 31 December 2023, the Group employed a total workforce of around 246 full time staff (2022: 360). 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. Tso Sze Wai, Wong Chu Leung and Chau Suk Ming. The audit committee has reviewed with the management this results announcement and the consolidated financial statements of the Group for the year ended 31 December 2023 and has discussed auditing, risk management and internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2023.

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 C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2023, except with the following deviations:

Code Provision C.2.1

- Code provision C.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 chief executive officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Code Provision D.3.3

- Code Provision D.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 year ended 31 December 2023.

Code Provision E.1.2

- A deviation from the code provision E.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 senior management.

- Currently, the remuneration of senior management is attended by the chairman and/or chief executive officer of the Company.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited ("Zhonghui"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Zhonghui in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Zhonghui on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2023.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Provision for tax payment amounts

Due to the uncertainties in relation to the contingent liabilities as disclosed in note 30 to the consolidated financial statements, we have been unable to obtain sufficient appropriate evidence for us to assess whether no provision of relevant tax amounts has been provided concerning the Decisions and the Tax Matter Notice (as defined in note 30) as at 31 December 2023 and 2022 are fairly stated and the profit or loss effect on the provision of relevant tax amounts for the year ended 31 December 2023 and 2022 are properly reflected. In addition, we have been unable to obtain sufficient appropriate audit evidence to justify whether the other tax expenses of approximately HK$23,628,000 recognised in the profit or loss for the year ended 31 December 2022 in relation to the Decisions should be made in the last year or in the prior years.

Any adjustments to the figures as described above might have a consequential effect on the Group's consolidated financial performance and its consolidated cash flows for the year ended 31 December 2023 and 2022 and the consolidated financial position of the Group as at 31 December 2023 and 2022, and the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements, which mentions that the Group incurred consecutive losses attributable to owners of the Company of approximately HK$100,804,000 and HK$192,725,000 for the years ended 31 December 2023 and 2022, respectively, and as at 31 December 2023 the Group had net current liabilities of HK$24,137,000. In addition, as disclosed in note 30 to the consolidated financial statements, the Group has significant amounts of contingent liabilities in relation to the tax payments demanded by the tax bureau in the PRC. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PUBLIC FLOAT

As far as the Company is aware, more than 25% of the issued shares of the Company were held in public hands as at 31 December 2023.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual 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 annual report of the Company for the year ended 31 December 2023 will be published on the Company's website and HKEX's website and will be dispatched to the Company's shareholders in accordance with the Listing Rules in April 2024.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere thanks to our shareholders and all other associates for their support and to our staff for their commitment and diligence during the year.

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

Hong Kong, 28 March 2024

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.