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, 2020

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2020	30.6.2019	Change
	HK$ million	*HK$ million*	
Revenue	**324.4**	596.9	-45.7%
EBITDA	**21.7**	54.4	-60.1%
(Loss) profit for the period	**(27.9)**	1.7	-1,741.2%
	30.6.2020	31.12.2019	Change
Gearing ratio	**22.3%**	14.2%	+8.1pp
Net gearing ratio	**0.4%**	-4.9%*	+5.3pp

* represents total bank balances and cash exceeding total bank borrowings

The board of directors (the "Board" or "Directors") of Hop Fung Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June, 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2020

		Six months ended	
	Notes	**30.6.2020** ***HK$'000*** **(Unaudited)**	30.6.2019 *HK$'000* (Unaudited)
Revenue	*3*	**324,394**	596,889
Cost of sales		**(297,460)**	(526,611)
Gross profit		**26,934**	70,278
Other income		**8,067**	11,080
Other gains and losses		**(234)**	(1,471)
Selling and distribution costs		**(13,653)**	(22,045)
Administrative expenses		**(36,764)**	(44,074)
Other expenses		**(8,286)**	(7,754)
Finance costs		**(3,734)**	(2,916)
(Loss) profit before taxation	*4*	**(27,670)**	3,098
Income tax expense	*5*	**(182)**	(1,378)
(Loss) profit for the period, attributable to owners of the Company		**(27,852)**	1,720
Other comprehensive (expense) income for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(30,505)**	211
Total comprehensive (expense) income for the period, attributable to owners of the Company		**(58,357)**	1,931
		HK cents	*HK cents*
(Loss) earnings per share			
– basic	*7*	**(3.41)**	0.21
– diluted		**(3.41)**	0.21

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30th June, 2020

	Notes	30.6.2020 HK$'000 (Unaudited)	31.12.2019 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**1,282,486**	1,343,204
Right-of-use assets		**24,024**	28,765
Deposits paid for the acquisition of property, plant and equipment		**105,489**	63,790
		1,411,999	1,435,759
Current assets			
Inventories		**128,945**	93,861
Trade and other receivables	8	**106,039**	168,833
Deposits and prepayments		**51,586**	6,518
Bank balances and cash		**322,182**	292,299
		608,752	561,511
Current liabilities			
Trade, bills and other payables	9	**154,759**	180,655
Taxation payable		**2,952**	3,133
Lease liabilities		**3,788**	7,832
Unsecured bank borrowings		**159,932**	183,263
		321,431	374,883
Net current assets		**287,321**	186,628
Total assets less current liabilities		**1,699,320**	1,622,387
Capital and reserves			
Share capital		**81,764**	81,764
Reserves		**1,392,063**	1,449,519
Total equity, attributable to owners of the Company		**1,473,827**	1,531,283
Non-current liabilities			
Lease liabilities		**311**	311
Unsecured bank borrowings		**168,242**	33,593
Deferred taxation		**56,940**	57,200
		225,493	91,104
		1,699,320	1,622,387

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, 2019, 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, 2019.

In the current interim period, the Group has applied the amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

The Group's reportable and operating segments are categorised into the manufacture and sale of:

- Containerboard – corrugating medium and linerboard
- Corrugated packaging – corrugated paper boards and carton boxes

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

Segment revenues and results

For the six months ended 30th June, 2020
(Unaudited)

	Containerboard *HK$'000*	Corrugated Packaging *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	**98,902**	**225,492**	**324,394**	**–**	**324,394**
Inter-segment sales	**91,327**	**–**	**91,327**	**(91,327)**	**–**
Total	**190,229**	**225,492**	**415,721**	**(91,327)**	**324,394**
RESULT					
Segment (loss) profit	**(12,446)**	**873**	**(11,573)**	**–**	**(11,573)**
Central administrative expenses					**(12,363)**
Finance costs					**(3,734)**
Loss before taxation					**(27,670)**

For the six months ended 30th June, 2019
(Unaudited)

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

Inter-segment sales are charged at prevailing market rates.

4. (LOSS) PROFIT BEFORE TAXATION

	Six months ended **30.6.2020** ***HK$'000*** **(Unaudited)**	 30.6.2019 *HK$'000* (Unaudited)
(Loss) profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**41,409**	44,149
Depreciation of right-of-use assets	**4,226**	4,232
Total depreciation and amortisation	**45,635**	48,381
Less: Amount included in cost of inventories recognised as expenses	**(41,693)**	(44,152)
	3,942	4,229
Staff Costs (including directors' emoluments)	**47,027**	54,840
Cost of inventories recognised as expenses	**297,460**	526,611
Interest income	**(809)**	(877)

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2020	30.6.2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**350**	298
PRC Enterprise Income Tax	**92**	432
	442	730
Deferred tax	**(260)**	648
	182	1,378

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

The Macau subsidiaries of the Group incorporated under Decree-Law no.58/99/M are exempted from Macau complementary tax (Macau income tax) as long as they comply with the relevant regulations and do not sell their products to a Macau resident.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

6. DIVIDENDS

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2020 and six months ended 30th June, 2019.

7. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30.6.2020	30.6.2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(27,852)**	1,720

	30.6.2020	30.6.2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**817,644,000**	803,265,547
Effect of dilutive potential ordinary shares in respect of share options	**–**	403,897
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**817,644,000**	803,669,444

The computation of diluted loss per share for the six months ended 30th June, 2020 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 from the date of grant.

8. TRADE AND OTHER RECEIVABLES

	30.6.2020	31.12.2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**96,961**	149,495
Less: allowance for credit losses	**(2,877)**	(2,935)
	94,084	146,560
Other receivables	**11,955**	22,273
Total trade and other receivables	**106,039**	168,833

The Group allows credit periods ranging from 5 to 120 days to its trade customers which may be extended to selected trade customers depending on their trade volume and history of settlement with the Group. The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period:

	30.6.2020	31.12.2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**92,899**	146,212
31-60 days	**1,185**	348
	94,084	146,560

As at 30th June 2020, included in the Group's trade receivables balance are debtors with aggregate gross amount of HK$16,186,000 (31st December, 2019: HK$20,061,000) which were past due as at the reporting date. Out of the past due balances, no balance has been past due 90 days or more and is not considered as in default. 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, 2019: 49 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:

	30.6.2020	31.12.2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**29,564**	46,266
Overdue 1 to 30 days	**1,056**	351
Overdue 31 to 60 days	**323**	6
Overdue for more than 60 days	**1,899**	825
Trade and bills payables	**32,842**	47,448
Payables for the acquisition of property, plant and equipment	**13,761**	16,337
PRC other tax payables	**22,275**	27,150
Other payables and accrued charges	**85,881**	89,720
	154,759	180,655

The average credit period on purchases of goods is 37 days (31st December, 2019: 33 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, 2020 (six months ended 30th June, 2019: nil).

BUSINESS REVIEW

In the first quarter of 2020, the Chinese economy suffered from the outbreak of COVID-19 and consumer demand plunged. In the second quarter, the COVID-19 situation came under effective control in Mainland China, and enterprises started to restart production, but consumer demand remained subdued. The global outbreak of COVID-19 and the Sino-US trade war were additional contributing factors to a decline in demand from exports. Even though the Chinese economy improved in the second quarter, momentum for a full recovery was lacking and this deeply slashed market demand for corrugated packaging.

Since the Chinese government started to impose quotas on wastepaper imports, and steadily cut import volumes each quarter, upstream manufacturers of the corrugated packaging industry have found it difficult to source raw materials to make containerboard. At the same time, domestic wastepaper demand rose and pushed up prices to high levels. In the first half of 2020, global consumer demand plunged, and corrugated packaging products saw prices adjust downwards. Even though domestic wastepaper prices fell in the period, it remained at relatively high levels, putting a tremendous burden on the corrugated packaging industry.

As the Group's upstream business lacks wastepaper for making containerboard, the Group has been purchasing some containerboard overseas for feeding into our downstream business making corrugated paper boards and carton boxes. However, our containerboard imports are settled in US dollars, but the Group's revenue is mainly from Renminbi-denominated domestic sales, and fluctuations in the Renminbi exchange rate have as a result put pressure on the Group. The continued decline in the Renminbi exchange rate in the first half of 2020 substantially negatively impacted the Group's profitability.

As a result of the said factors, the Group's total sales volume plunged in the first half of 2020, and average selling prices fell as well. Revenue in the first half of 2020 fell 46% against both the first half and the second half of 2019. In the first half of 2020, containerboard and corrugated packaging accounted for 30% and 70% of revenue, and equipment utilization came to 35% and 40%, respectively. Compared to the first half of 2019, revenue from containerboard sales fell by 67% and revenue from corrugated packaging sales fell by 25%. Although production costs also fell due to lower sales volume and average selling prices, the relatively high cost of wastepaper and the operating deleverage from the Group's overheads resulted in the Group recording a loss in the first half of 2020.

The Group has always strived to strenuously control costs and expenses and focuses on producing containerboard and corrugated packaging products with shorter production lead times. Combined with a quality customer base, they have allowed us to maintain our bad debts ratio at close to zero level as of the end of June 2020. Our Group's overall financial situation remains extremely robust, with net gearing and gearing ratios still extremely low, at 0.4% and 22.3%, respectively.

To meet our raw materials requirements for making containerboard, the Group has installed a small pulp production line at a leased facility in Southeast Asia, for processing wastepaper into pulp as feedstock for our containerboard production lines in Mainland China. Trial production of the new pulp line was completed in the second quarter of 2020, and production will start in the second half of 2020, meeting about 10% of the raw materials requirements of our upstream business.

FINANCIAL REVIEW

Operating results

In the first half of 2020, the tremendous decrease in consumption in China and the continuous decline in the Group's production of containerboard led to a poor performance of the Group. Both sales volume and average selling price of the Group fell, resulting in a drop of revenue by 45.7%. Revenue fell from HK$596.9 million in the first half of 2019 to HK$324.4 million in the first half of 2020. Cost of sales fell in line with the fall in revenue. Gross profit fell from HK$70.3 million to HK$26.9 million. Gross profit margin dropped from 11.8% to 8.3%.

Other income fell HK$3.0 million, from HK$11.1 million to HK$8.1 million. It was mainly arisen from less scrap sales in the first half of 2020.

Selling and distribution costs fell by 38.0%, decreasing from HK$22.1 million to HK$13.7 million. The fall was attributed to the decrease in transportation cost in line with decrease in revenue in the first half of 2020.

Administrative expenses declined from HK$44.1 million to HK$36.8 million in the first half of 2020. The fall of 16.6% was predominantly due to exemption of payment of certain insurance schemes of the social security fund in China and reduction in share-based payments.

Other expenses slightly increased from HK$7.8 million to HK$8.3 million. No much change was recorded.

The rise in finance costs from HK$2.9 million to HK$3.7 million, was owing to higher average bank borrowing level and higher interest rate in the first half of 2020.

EBITDA (earnings before interest, tax, depreciation and amortization) decreased HK$32.7 million, from HK$54.4 million to HK$21.7 million. Loss for the period of HK$27.9 million was recorded in the first half of 2020 while profit for the period of HK$1.7 million was recorded in the first half of 2019.

Liquidity, financial and capital resources

At 30th June, 2020, the Group's total cash and cash equivalents were HK$322.2 million (31st December, 2019: HK$292.3 million) which was mostly denominated in Renminbi.

Net current assets and current ratio of the Group as at 30th June, 2020 were HK$287.3 million (31st December, 2019: HK$186.6 million) and 1.9 (31st December, 2019: 1.5) respectively.

In the first half of 2020, the Group spent HK$52.2 million on capital expenditure, basically for general maintenance and deposit paid for acquiring pulp-making machinery in the first half of 2020.

At 30th June, 2020, the average inventory, debtors and creditors turnover days were 76 days (31st December, 2019: 84 days), 68 days (31st December, 2019: 49 days) and 37 days (31st December, 2019: 33 days) respectively.

The total bank borrowings increased to HK$328.2 million as at 30th June, 2020 (31st December, 2019: HK$216.9 million). Gearing ratio rose from 14.2% to 22.3%. Net loan of HK$6.0 million (total bank borrowings less total bank balances and cash) was recorded as at 30th June, 2020 (31st December, 2019: net cash HK$75.4 million). Net gearing ratio rose from -4.9% to 0.4%. The current bank borrowings fell HK$23.4 million and non-current bank borrowings rose HK$134.7 million.

OUTLOOK

The Group expects a still subdued global economy in the second half of 2020 due to the COVID-19 pandemic, and the Chinese economy to remain impacted by the ongoing Sino-US trade war, with Chinese market demand for corrugated packaging ahead of levels seen in the first half of 2020 but below second half 2019 levels. That said, the Group remains confident that the Chinese government will implement effective mitigating policies and measures. We remain hopeful that the Chinese economy can achieve stable growth and hence lift demand for corrugated packaging.

The Group is active in preparing to lease new plant at our location in Southeast Asia to install another new pulp production line. That plant is currently under construction and production is due to start by the end of 2020, and this would allow us to fully meet the Group's upstream raw materials requirements. The removal of a small portion of our production process overseas lets the Group meet Chinese government import requirements and normalize the Group's production volume and business.

The Group promises to remain proactive in our pricing, reasonably transferring our operating costs to our customers. We promise that we will continue to target to improve production efficiency, increase our sales volume, reduce raw materials wastage and energy use, in order to offset the impact of rising costs, and endeavor to steadily improve the Group's profitability over the long term.

HUMAN RESOURCES

As at 30th June, 2020, the Group employed a total workforce of around 1,000 full time staff (31st December, 2019: 1,000). Competitive remuneration packages were offered to employees. The Group may also grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors namely, Messrs. Chee Man Sang, Eric, Wong Chu Leung and Chau Suk Ming. The audit committee has reviewed with the management this results announcement and the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2020 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, 2020.

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, 2020, except with the following deviations:

Code Provision A.2.1

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

- There are no written terms on division of responsibilities between the chairman and the chief executive officer. The Directors consider that the responsibilities of the chairman and the chief executive officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Code Provision B.1.2

- A deviation from the code provision B.1.2 is that the remuneration committee of the Company reviews and makes recommendations to the Directors on the remuneration packages of the Directors only but not the senior management.

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

Code Provision C.3.3

- Code Provision C.3.3 stipulates that the audit committee must meet, at least twice a year, with a company's auditor.

- Since the Company has not engaged its auditor to review the financial information in its interim report, the audit committee has met with the Company's auditor once a year to discuss matters arising from the audit of the Company's annual results and other matters the auditor may wish to raise. The audit committee has met with the Company's auditor once during the six months ended 30th June, 2020.

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, 2020 will be dispatched to the Company's shareholders in September 2020 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, 2020

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