

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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, 2021**

FINANCIAL HIGHLIGHTS

	Six months ended		Change
	30.6.2021	30.6.2020	
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Revenue	410.0	324.4	+26.4%
EBITDA*	55.0	21.7	+153.5%
Profit (loss) for the period	1.1	(27.9)	+103.9%
	30.6.2021	31.12.2020	Change
Gearing ratio	15.9%	17.4%	-1.5pp
Net gearing ratio	5.0%	-0.5%**	+5.5pp

* EBITDA represents earnings before finance costs, taxation, depreciation and amortisation

** 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, 2021 together with the comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2021

		Six months ended	
		30.6.2021	30.6.2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	410,020	324,394
Cost of sales		(350,891)	(297,460)
Gross profit		59,129	26,934
Other income		7,662	8,067
Other gains and losses		5,031	(234)
Selling and distribution costs		(15,837)	(13,653)
Administrative expenses		(37,849)	(36,764)
Other expenses		(10,753)	(8,286)
Finance costs	4	(4,442)	(3,734)
Profit (Loss) before taxation		2,941	(27,670)
Income tax expense	5	(1,858)	(182)
Profit (loss) for the period, attributable to owners of the Company	6	1,083	(27,852)
Other comprehensive income (expense) for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		35,578	(30,505)
Total comprehensive income (expense) for the period, attributable to owners of the Company		36,661	(58,357)
		HK cents	HK cents
Earnings (loss) per share			
– basic	8	0.13	(3.41)
– diluted		0.13	(3.41)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2021

	<i>Notes</i>	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		1,365,175	1,364,462
Right-of-use assets		26,179	29,092
Deposits and prepayments		179,582	169,843
		1,570,936	1,563,397
Current assets			
Inventories		251,278	143,471
Trade, bills and other receivables	9	183,523	200,055
Deposits and prepayments		11,729	4,471
Bank balances and cash		179,731	291,561
		626,261	639,558
Current liabilities			
Trade, bills and other payables	10	204,525	224,854
Taxation payable		2,176	2,427
Lease liabilities		4,419	7,970
Unsecured bank borrowings		134,913	138,496
		346,033	373,747
Net current assets		280,228	265,811
Total assets less current liabilities		1,851,164	1,829,208
Non-current liabilities			
Lease liabilities		399	–
Unsecured bank borrowings		128,040	144,118
Deferred taxation		64,716	64,034
		193,155	208,152
Net assets		1,658,009	1,621,056
Capital and reserves			
Share capital		81,764	81,764
Reserves		1,576,245	1,539,292
Total equity, attributable to owners of the Company		1,658,009	1,621,056

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as 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”).

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30th June, 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31st December, 2020.

Application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied, 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 1st January, 2021 for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of 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. REVENUE AND SEGMENT INFORMATION

Segment information

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

The Group's operations are organized 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

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

Segment revenues and results

For the six months ended 30th June, 2021 (Unaudited)

	Containerboard <i>HK\$'000</i>	Corrugated Packaging <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External sales	101,215	308,805	410,020	–	410,020
Inter-segment sales	67,890	–	67,890	(67,890)	–
Total	<u>169,105</u>	<u>308,805</u>	<u>477,910</u>	<u>(67,890)</u>	<u>410,020</u>
RESULT					
Segment profit	<u>6,562</u>	<u>12,287</u>	<u>18,849</u>	<u>–</u>	18,849
Central administrative expenses					(11,466)
Finance costs					<u>(4,442)</u>
Profit before taxation					<u>2,941</u>

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

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

Inter-segment sales are charged at prevailing market rates.

4. FINANCE COSTS

	Six months ended	
	30.6.2021	30.6.2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank borrowings	4,358	3,578
Interest on lease liabilities	84	156
	<u>4,442</u>	<u>3,734</u>

5. INCOME TAX EXPENSE (CREDIT)

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	121	350
PRC Enterprise Income Tax	1,055	92
	<u>1,176</u>	<u>442</u>
Deferred tax	682	(260)
	<u>1,858</u>	<u>182</u>

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

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. One of the Company's PRC subsidiaries is entitled to preferential rate of 15% for the Group's financial year ending 31st December, 2021. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. PROFIT (LOSS) FOR THE PERIOD

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	43,062	41,409
Depreciation of right-of-use assets	4,530	4,226
Staff Costs (including directors' emoluments)	49,309	47,027
Cost of inventories recognised as expenses	350,891	297,460
Exchange (gains) losses, net	(5,015)	234

7. DIVIDENDS

No dividend was declared or proposed for the six months ended 30th June, 2021 and six months ended 30th June, 2020, nor has any dividend been proposed since the end of the reporting period.

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	1,083	(27,852)
	30.6.2021	30.6.2020
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	817,644,000	817,644,000

The computation of diluted earnings (loss) per share for the six months ended 30th June, 2021 and 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 for the six months ended 30th June, 2021 and 30th June, 2020.

9. TRADE, BILLS AND OTHER RECEIVABLES

	30.6.2021	31.12.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade and bills receivables	170,286	192,473
Less: allowance for credit losses	(2,942)	(3,108)
	167,344	189,365
Other receivables	16,179	10,690
Total trade, bills and other receivables	183,523	200,055

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 and bills receivables net of allowance for credit losses presented based on the invoice dates, which approximate the respective revenue recognition dates, at the end of the reporting period:

	30.6.2021 <i>HK\$'000</i> (Unaudited)	31.12.2020 <i>HK\$'000</i> (Audited)
Within 30 days	165,279	175,169
31–60 days	2,065	13,565
61–90 days	–	631
	167,344	189,365

As at 30th June, 2021, included in the Group's trade and bills receivables balance are debtors with aggregate gross amount of HK\$36,735,000 (31st December, 2020: HK\$26,776,000) which were past due as at the reporting date. Out of the past due balances, no balance (31st December, 2020: Nil) 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 79 days (31st December, 2020: 59 days) based on invoice dates.

10. 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 due dates at the end of the reporting period:

	30.6.2021 <i>HK\$'000</i> (Unaudited)	31.12.2020 <i>HK\$'000</i> (Audited)
Current	49,754	58,012
Overdue 1 to 30 days	789	1,957
Overdue 31 to 60 days	–	1,085
Overdue for more than 60 days	14,696	8,204
Trade and bills payables	65,239	69,258
Payables for the acquisition of property, plant and equipment	9,114	9,143
Other PRC tax payables	30,915	28,158
Accrued charges	88,188	97,518
Other payables	11,069	20,777
	204,525	224,854

The average credit period on purchases of goods is 36 days (31st December, 2020: 32 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, 2021 (six months ended 30th June, 2020: nil).

BUSINESS REVIEW

In the first half of 2021, the pandemic remained severe around the globe. The first quarter saw a promising growth in GDP, which was slowed down again in the second quarter. This reflected that the pace of economic recovery was volatile and relied on the control of the outbreak. This, coupled with the outbreak in Guangdong in May, has left market demand for corrugated packaging in a precarious state.

Since 2021, the Chinese government has prohibited wastepaper imports, and thus 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. Despite the increase in corrugated packaging products prices, the cost of wastepaper was too high that the Group could not pass on the rising costs to our customers entirely. In addition, global consumer demand remained highly unstable. As a result, the corrugated packaging industry was under tremendous pressure.

As the Group's upstream business has been affected by the supply of waste paper and the rising costs of other raw materials for making containerboard, on the basis of costs consideration, the Group has been purchasing some containerboard overseas for supplying our downstream business for the production of corrugated paper boards and carton boxes. The payment of containerboard imports was settled in US dollars, but the Group's revenue was mainly generated from domestic sales denominated in Renminbi. Fluctuations in the Renminbi exchange rate have as a result put pressure on the Group. Fortunately, the Renminbi exchange rate remained relatively stable in the first half of 2021, which had no adverse effects on the Group's profitability.

As China is gradually recovering from the COVID-19 pandemic, the Group's total sales volume and average selling prices increased. Revenue in the first half of 2021 rose 26% against the first half of 2020. In the first half of 2021, containerboard and corrugated packaging accounted for 25% and 75% of revenue, respectively. Compared to the first half of 2020, revenue from containerboard sales rose by 2% and revenue from corrugated packaging sales rose by 37%. Despite the increase in total sales volume and average selling prices, the cost of raw materials and operating overheads costs were relatively high, which resulted in the Group recording a small profit in the first half of 2021.

The Group's inventory level was higher at the end of June 2021 as compared to that at the end of last year to meet demand during peak season. Additionally, high raw material prices also contributed to the higher inventory costs. As the Group has sufficient working capital, its gearing ratio and net gearing ratio remained at very low levels at the end of June 2021, and the bad debt ratio was close to zero, which presents a strong financial position of the Group.

In addition, the Group is still in the process of installing a pulp production line at the leased facility in the Philippines. However, the construction period becomes hardly predictable as the COVID-19 pandemic is still prevalent in the region. The Group will actively monitor the local situation so as to facilitate the commencement of production as soon as possible. Consequently, it could satisfy the business needs of our Group's upstream business, bringing the Group's production volume and overall business back on track.

FINANCIAL REVIEW

Operating results

Revenue increased from HK\$324.4 million in the first half of 2020 to HK\$410.0 million in the first half of 2021. Such a 26.4% increase was due to the increase in both average selling price and sales volume, which was attributed to the rebound of Chinese economy since the second half of 2020. Cost of sales increased in line with the rise in revenue. Gross profit increased from HK\$26.9 million to HK\$59.1 million. Gross profit margin increased from 8.3% to 14.4%, which was consistent with the level in the second half of 2020.

Other income fell HK\$0.4 million, from HK\$8.1 million to HK\$7.7 million. It was mainly due to less scrap sales in the first half of 2021.

Other gains and losses rose from net loss of HK\$0.2 million in the first half of 2020 to net gain of HK\$5.0 million in the first half of 2021, primarily due to more deposit denominated in Renminbi placed in Hong Kong and the effect of appreciation of Renminbi.

Selling and distribution costs increased from HK\$13.6 million to HK\$15.8 million. The increase of 16.2% was attributed to the increase in transportation costs which was in line with the increase in revenue in the first half of 2021.

Administrative expenses slightly increased from HK\$36.8 million to HK\$37.8 million in the first half of 2021. No significant change was recorded.

Other expenses increased from HK\$8.3 million to HK\$10.8 million. It was mainly due to an increase in China duties and charges in the first half of 2021.

The rise in finance costs from HK\$3.7 million to HK\$4.4 million, was owing to higher bank borrowings in PRC with higher interest rate in the first half of 2021.

EBITDA (earnings before interest, tax, depreciation and amortization) increased HK\$33.3 million, from HK\$21.7 million to HK\$55.0 million. Profit for the period of HK\$1.1 million was recorded in the first half of 2021 while loss for the period of HK\$27.9 million was recorded in the first half of 2020.

Liquidity, financial and capital resources

At 30th June, 2021, the Group's total cash and cash equivalents were HK\$179.7 million (31st December, 2020: HK\$291.6 million) which was mostly denominated in Renminbi.

Net current assets and current ratio of the Group as at 30th June, 2021 were HK\$280.2 million (31st December, 2020: HK\$265.8 million) and 1.8 (31st December, 2020: 1.7) respectively.

In the first half of 2021, the Group spent HK\$9.9 million on capital expenditure for property, plant and equipment in China and paid HK\$5.5 million for deposit for acquisition of property, plant and equipment for the Philippines project in the first half of 2021.

At 30th June, 2021, the average inventory, debtors and creditors turnover days were 92 days (31st December, 2020: 53 days), 79 days (31st December, 2020: 59 days) and 36 days (31st December, 2020: 32 days) respectively.

The total bank borrowings were HK\$262.9 million as at 30th June, 2021 (31st December, 2020: HK\$282.6 million). Gearing ratio (total bank borrowings over total equity) fell from 17.4% as at 31st December, 2020 to 15.9% as at 30th June, 2021. Net loan (total bank borrowings less total bank balances and cash) of HK\$83.2 million was recorded as at 30th June, 2021 (31st December, 2020: net cash HK\$9.0 million). Net gearing ratio (total bank borrowings net of bank balances and cash over total equity) rose from -0.5% as at 31st December, 2020 to 5.0% as at 30th June 2021. The current bank borrowings fell HK\$3.6 million and non-current bank borrowings fell HK\$16.1 million.

OUTLOOK

Subject to the evolution of the COVID-19 pandemic and the pace of recovery of economies in various parts of the world, the global economy will remain uncertain in the second half of 2021. Even saying that the Group is confident that the Chinese government will place the pandemic under control effectively, and the efforts on mass vaccinations are yielding results, we are looking forward to a speedy recovery of the Chinese economy, which in turn facilitating the market demand for corrugated packaging.

The Group pledges to strive for price leadership and to pass on operating costs to customers reasonably. The Group improves our production efficiency, increases our sales volume, and minimises raw material and energy consumption to mitigate the pressure of rising costs. By doing this, the Group's profitability will be sustainable and stable in terms of growth. Besides, the Group seizes every advantage and opportunity brought by the vertically integrated business model and maintains a solid financial position and operating fundamentals to deliver substantial returns to our shareholders. Meanwhile, the Group continues to place greater emphasis on environmental protection to contribute to our society.

HUMAN RESOURCES

As at 30th June, 2021, the Group employed a total workforce of around 950 full time staff (31st December, 2020: 1,050). 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, 2021 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 SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30th June, 2021.

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, 2021, 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/or the chief executive officer of the Company.

Code Provision C.3.3

- Code Provision C.3.3 stipulates that the audit committee must meet, at least twice a year, with the company's auditor.
- Since the Company has not engaged its auditor to review the financial information in its interim report, the audit committee has met with the Company's auditor once a year to discuss matters arising from the audit of the Company's annual results and other matters the auditor may wish to raise. The audit committee has met with the Company's auditor once during the six months ended 30th June, 2021.

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, 2021 will be dispatched to the Company's shareholders in September 2021 and it will be available at the Company's website and HKEX's website.

ACKNOWLEDGEMENT

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.

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

Hong Kong, 26th August, 2021

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