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 30 JUNE 2024

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2024	30.6.2023	**Change**
	HK$ million	*HK$ million*	
Revenue	**107.8**	106.2	+1.51%
EBITDA*	**(16.9)**	(28.0)	-39.6%
Loss for the period	**(43.7)**	(59.1)	-26.1%
	30.6.2024	31.12.2023	**Change**
Gearing ratio	**11.6%**	8.6%	+3pp
Net gearing ratio**	**5.0%**	3.0%	+2pp

* 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 30 June 2024 together with the comparative figures for the corresponding period in 2023 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

		Six months ended	
		30.6.2024	30.6.2023
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	3	**107,821**	106,232
Costs of sales		**(98,586)**	(101,893)
Gross profit		**9,235**	4,339
Other income		**1,120**	6,214
Other gains and losses		**175**	(7,347)
Selling and distribution costs		**(5,867)**	(5,604)
Administrative expenses		**(17,983)**	(22,218)
Other expenses		**(29,546)**	(31,930)
Finance costs	4	**(1,831)**	(1,857)
Loss before taxation		**(44,697)**	(58,403)
Income tax credit/(expense)	5	**1,020**	(662)
Loss for the period, attributable to owners of the Company	6	**(43,677)**	(59,065)
Other comprehensive expense for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(22,724)**	(21,763)
Total comprehensive expense for the period, attributable to owners of the Company		**(66,401)**	(80,828)
		HK cents	*HK cents*
Loss per share			
– basic	8	**(5.34)**	(7.22)
– diluted		**(5.34)**	(7.22)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

	Notes	30.6.2024 HK$'000 (Unaudited)	31.12.2023 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**688,851**	733,275
Right-of-use assets		**17,937**	19,223
Deposits and prepayments		**140,762**	143,319
		847,550	895,817
Current assets			
Inventories		**15,836**	22,068
Trade and other receivables	9	**45,776**	47,598
Deposits and prepayments		**6,024**	7,665
Bank balances and cash		**50,894**	47,272
		118,530	124,603
Current liabilities			
Trade and other payables	10	**90,858**	92,451
Due to a director		**–**	1,365
Taxation payable		**1,600**	1,354
Lease liabilities		**150**	611
Bank borrowings		**4,266**	52,959
		96,874	148,740
Net current assets/(liabilities)		**21,656**	(24,137)
Total assets less current liabilities		**869,206**	871,680
Non-current liabilities			
Lease liabilities		**65**	323
Bank borrowings		**85,608**	19,872
Deferred taxation		**7,042**	8,593
		92,715	28,788
Net assets		**776,491**	842,892
Capital and reserves			
Share capital		**81,764**	81,764
Reserves		**694,727**	761,128
Total equity, attributable to owners of the Company		**776,491**	842,892

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").

Going concern basis

The Group incurred consecutive losses attributable to owners of the Company of approximately HK$43,677,000 and HK$59,065,000 for the six-months period ended 30 June 2024 and 2023. In addition, as disclosed in note 11 to the unaudited condensed consolidated financial statements, the Group has contingent liabilities of approximately HK$127,057,000 (excluding the late payment amount) in relation to the tax payments demanded by the tax bureau in the People's Republic of China (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$50,894,000 as at 30 June 2024, 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 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 30 June 2024. 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 unaudited condensed 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 unaudited condensed 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 unaudited condensed consolidated financial statements.

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 30 June 2024 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2023.

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

In the current interim period, the Group has adopted all the new and revised HKFRSs and new interpretations issued by HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2024. HKFRSs comprise Hong Kong Financial Reporting Standards; HKAS 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 financial statements and amounts reported for the current period and prior periods.

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. REVENUE AND SEGMENT INFORMATION

Segment information

The Group's manufacturing operations are located in 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 30 June 2024 (Unaudited)

	Containerboard	**Corrugated Packaging**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
REVENUE			
External sales	**–**	**107,821**	**107,821**
RESULT			
Segment loss	**(31,336)**	**(3,341)**	**(34,677)**
Central administrative expenses			**(8,189)**
Finance costs			**(1,831)**
Loss before taxation			**(44,697)**

For the six months ended 30 June 2023 (Unaudited)

	Containerboard	Corrugated Packaging	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
REVENUE			
External sales	–	106,232	106,232
RESULT			
Segment loss	(35,497)	(10,565)	(46,062)
Central administrative expenses			(10,484)
Finance costs			(1,857)
Loss before taxation			(58,403)

4. FINANCE COSTS

	Six months ended	
	30.6.2024	30.6.2023
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**1,826**	1,834
Interest on lease liabilities	**5**	23
	1,831	1,857

5. INCOME TAX (CREDIT)/EXPENSE

	Six months ended	
	30.6.2024	30.6.2023
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**390**	65
PRC Enterprise Income Tax	**–**	296
	390	361
Deferred tax (credit)/charge	**(1,410)**	301
	(1,020)	662

Under the two-tiered profits tax rates regime of Hong Kong Profit 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 PRC Enterprise Income Tax was provided for the six months ended 30 June 2024 as the Group did not derive any estimated assessable profits in PRC (2023: Income Tax expenses of HK$296,000). 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 year ending 31 December 2024.

No provision for Macau Complementary Tax has been made as the Group has no assessable profits arising in Macau for the six months ended 30 June 2024 and 2023.

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2024	30.6.2023
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after (crediting) charging:		
Depreciation of property, plant and equipment	**25,652**	27,963
Depreciation of right-of-use assets	**342**	582
Gain from termination of a lease contract *(Note)*	**(10)**	–
Staff Costs (including directors' emoluments)	**19,574**	23,898
Cost of inventories recognised as expenses	**98,586**	101,893
Exchange (gains)/losses, net	**(81)**	141

Note: The Group's wholly owned subsidiary – Wah Wang Paper Ware Limited has agreed to early terminate the Macau office tenancy agreement with effective from 17 May 2024 with the landlord. The Group derecognise the right-of-use assets and lease liabilities of HK$636,000 (2023: Nil), which resulted in the Group recognised a gain from lease termination.

7. DIVIDENDS

No dividend was declared or proposed for the six months ended 30 June 2024 and 30 June 2023, 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:

	Six months ended	
	30.6.2024	30.6.2023
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	**(43,677)**	(59,065)

	30.6.2024	30.6.2023
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 six months ended 30 June 2024 and 30 June 2023 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 30 June 2024 and 30 June 2023.

9. TRADE AND OTHER RECEIVABLES

	30.6.2024	31.12.2023
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**37,174**	38,695
Less: allowance for credit losses	**(907)**	(867)
	36,267	37,828
Other receivables *(note)*	**9,509**	9,770
Total trade and other receivables	**45,776**	47,598

Note: As at 30 June 2024, balance included an advance to Batangas Paper Corporation ("Batangas"), an independent third party to the Group, amounting to HK$7,937,000 (31 December 2023: HK$8,136,000), 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 dates, which approximate the respective revenue recognition dates, at the end of the reporting period:

	30.6.2024	31.12.2023
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**34,183**	24,839
31-60 days	**1,278**	12,228
61-90 days	**806**	578
Over 90 days	**–**	183
	36,267	37,828

As at 30 June 2024, included in the Group's trade receivables balance are debtors with aggregate gross amount of HK$14,748,000 (31 December 2023: HK$13,856,000) which were past due as at the reporting date. Out of the past due balances, HK$842,000 (31 December 2023: HK$867,000) 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 (31 December 2023: 62 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 Group has financial risk management policies in place to ensure that all payables are within the credit time frame. The following is an aged analysis of trade payables presented based on the invoice due dates at the end of the reporting period:

	30.6.2024	31.12.2023
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**14,639**	15,776
Overdue 1 to 30 days	**32**	38
Overdue 31 to 60 days	**–**	–
Overdue for more than 60 days	**11,457**	11,669
Trade payables	**26,128**	27,483
Payables for acquisition of property, plant and equipment	**4,805**	3,121
Other PRC tax payables	**12,515**	12,576
Accrued charges (note (a))	**44,204**	46,758
Other payables	**3,206**	2,513
	90,858	92,451

Notes:

(a) Major items in accrued charges are accrued salaries and wages.

11. LITIGATION AND 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 (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.

The Tax Treatment Decision (Continued)

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 Higher People's Court was still processing the retrial application.

The Tax Penalty Decision

On 22 August 2022, Green Forest Paper disagreed with the Tax Penalty Decision and applied for an administrative review with the 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). 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 30 June 2024 and 31 December 2023 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.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

BUSINESS REVIEW

In 2024, The Company's customers have resumed the production after pandemic. There is increasing demand in major business – corrugated packaging material of the company. However, due to the rising prices of raw materials and the weak worldwide economic activities, the corrugated packaging industry was under relatively high pressure.

Corrugated papers is an ideal support for the die-cutting and printing of packaging and the company's products are able to maintain a favorable choice among customers, therefore, the revenue in the first half of 2024 increased by approximately 1.5%. Since there is tense competition and the weak worldwide economic activities after pandemic, the Group is not able to pass on high raw material costs to customers, the Group recorded a loss in the first half of 2024.

In relation to the upstream business, the Group continues to coordinate with the local government for the annual inspection procedures of the licenses for the existing coal-fuel boilers to resume production as soon as possible and in parallel carry out the works to change to gas boilers to meet environmental policies. In order to ensure the sufficient supply of containerboard for its downstream corrugated packaging business, the Group has been purchasing containerboard from overseas suppliers to support the downstream business.

The Group's inventory level at the end of June 2024 decreased as a result of the Group relies on overseas suppliers to support the downstream business. As the Group has sufficient working capital, its gearing ratio remained low at the end of June 2024 and the bad debt ratio was close to zero, which presents a stable financial position of the Group.

FINANCIAL REVIEW

Operating results

Revenue increased from HK$106.2 million in the first half of 2023 to HK$107.8 million in the first half of 2024. Such a 1.5% increase was due to the increase in customer demand after pandemic. The decrease in cost of sales was due to the cost control measure in procurement. Gross profit changed from HK$4.3 million to gross profit of HK$9.2 million. Gross profit margin changed from 4.1% to 8.6%, which was due to lower cost of recurring overheads.

Other income fell HK$5.1 million, from HK$6.2 million to HK$1.1 million. It was mainly due to less interest income and service income.

Other gains and losses changed from net loss of HK$7.3 million in the first half of 2023 to net gains of HK$0.1 million in the first half of 2024, primarily due to the loss on disposal of the assets of Shenzhen factory in 2023 only.

Selling and distribution costs increased from HK$5.6 million to HK$5.9 million. The increase of 5.4% was attributed to the increase in transportation costs which was in line with the increase in revenue in the first half of 2024.

Administrative expenses decreased from HK$22.2 million to HK$17.9 million in the first half of 2024 due to decrease of number of administrative staff and the cessation of business operation of the subsidiary.

Other expenses decreased from HK$31.9 million to HK$29.5 million. It was mainly due to decrease in depreciation expenses in the first half of 2024. The decrease in depreciation expenses is due to the decrease in purchase of property, plant and equipment in the first half of 2024.

The decrease in finance costs from HK$1.9 million to HK$1.8 million, was owing to repayment of bank borrowings in the first half of 2024 as well as the interest rate for the new bank borrowings started in the first half of 2024 decreased compared with 2023.

EBITDA (earnings before interest, tax, depreciation and amortization) decreased HK$11.1 million, from HK$-28.0 million to HK$-16.9 million. Loss for the period of HK$43.7 million was recorded in the first half of 2024 while loss for the period of HK$59.1 million was recorded in the first half of 2023.

Liquidity, financial and capital resources

At 30 June 2024, the Group's total cash and cash equivalents were HK$50.9 million (31 December 2023: HK$47.3 million) which was mostly denominated in Renminbi.

Net current assets and current ratio of the Group as at 30 June 2024 were HK$21.7 million (31 December 2023: Net current liabilities: HK$24.1 million) and 1.22 (31 December 2023: 0.84) respectively.

In the first half of 2024, the Group spent HK$1.06 million on capital expenditure for property, plant and equipment in Mainland China.

At 30 June, 2024, the average inventory, debtors and creditors turnover days were 39 days (31 December 2023: 46 days), 62 days (31 December 2023: 62 days) and 64 days (31 December 2023: 52 days) respectively.

The total bank borrowings were HK$89.9 million as at 30 June 2024 (31 December 2023: HK$72.8 million). Gearing ratio (total bank borrowings over total equity) increased from 8.6% as at 31 December 2023 to 11.6% as at 30 June 2024. Net borrowings level (net of bank balances and cash less total bank borrowings) of HK$39.9 million was recorded as at 30 June 2024 (31 December 2023: net borrowings level HK$25.6 million). Net gearing ratio (total bank borrowings net of bank balances and cash over total equity) increased from 3.0% as at 31 December 2023 to 5.0% as at 30 June 2024. The current bank borrowings fell HK$48.7 million and non-current bank borrowings increased HK$65.7 million.

OUTLOOK

Looking forward to the second half of 2024, against the backdrop of surging manufacturing costs and weakening of market demand, the business environment of the corrugated packaging industry is expected to remain challenging. The Group will strive to maintain good capital management and low debt levels to cope with unstable market conditions. Meanwhile, the Group expect the upstream business to resume operation after completion of the annual review of its boiler license and this will give the Group a competitive advantage in vertical integration. It is expected that in the future, the PRC government will continue to tighten control on plastic packaging, which may stimulate the use of paper packaging as a substitute, and the Group's packaging paper business will thus be benefited. Also, the experiential growth of E-commerce will increase the need of corrugated packaging material for safety and efficiently ship products to consumers. The Group will focus on the key strategies of pricing power, increasing sales volume, raising production efficiency, reduction on energy usage and raw material wastage and ultimately enhance the Group's performance.

HUMAN RESOURCES

As at 30 June 2024, the Group employed a total workforce of around 240 full time staff (31 December 2023: 246). 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 unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2024 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 30 June 2024.

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 30 June 2024, 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 the 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 the senior management.

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

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 30 June 2024 will be dispatched to the Company's shareholders in September 2024 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, 26 August, 2024

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. Tso Sze Wai, Wong Chu Leung and Chau Suk Ming.