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

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

FINANCIAL HIGHLIGHTS

	Six months ended		
	30.6.2014	30.6.2013	Change
	HK$ million	*HK$ million*	
Revenue	**496.4**	458.0	+8.4%
Gross profit	**85.3**	77.1	+10.6%
Profit from operation*	**2.51**	2.45	+2.4%

	30.6.2014	31.12.2013	Change
Gearing ratio	**53%**	56%	-3pp
Net gearing ratio	**33%**	35%	-2pp

* *Excluding unrealized change in fair value of derivative financial instruments*

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, 2014 together with the comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30th June, 2014

		Six months ended	
		30.6.2014	30.6.2013
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	3	**496,358**	458,023
Cost of sales		**(411,084)**	(380,902)
Gross profit		**85,274**	77,121
Other income		**6,327**	5,059
Selling and distribution costs		**(29,070)**	(26,812)
Administrative expenses		**(36,191)**	(32,140)
Other expenses		**(12,834)**	(10,187)
Finance costs		**(11,463)**	(12,185)
Changes in fair value of derivative financial instruments	4	**39**	879
Profit before taxation	5	**2,082**	1,735
Income tax expense	6	**(335)**	(498)
Profit for the period, attributable to owners of the Company		**1,747**	1,237
Other comprehensive (expense) income for the period:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(27,943)**	17,624
Total comprehensive (expense) income for the period, attributable to owners of the Company		**(26,196)**	18,861
		HK cents	*HK cents*
Earnings per share	8		
– basic		**0.24**	0.17
– diluted		**0.24**	0.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30th June, 2014

	Notes	**30.6.2014** ***HK$'000*** **(Unaudited)**	31.12.2013 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**1,382,587**	1,429,963
Prepaid lease payments on land use rights		**22,285**	22,887
		1,404,872	1,452,850
Current assets			
Inventories		**157,254**	102,296
Trade and other receivables	9	**174,718**	220,132
Deposits and prepayments		**6,639**	7,490
Prepaid lease payments on land use rights		**621**	627
Derivative financial instruments		**350**	1,173
Bank balances and cash		**224,621**	239,767
		564,203	571,485
Current liabilities			
Trade, bills and other payables	10	**193,912**	180,592
Taxation payable		**11,461**	11,384
Derivative financial instruments		**160**	222
Unsecured bank borrowings		**328,169**	348,195
		533,702	540,393
Net current assets		**30,501**	31,092
Total assets less current liabilities		**1,435,373**	1,483,942
Capital and reserves			
Share capital		**72,439**	72,439
Share premium and reserves		**1,054,399**	1,077,359
Total equity, attributable to owners of the Company		**1,126,838**	1,149,798
Non-current liabilities			
Unsecured bank borrowings		**271,802**	297,425
Deferred taxation		**36,733**	36,719
		308,535	334,144
		1,435,373	1,483,942

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements ("interim financial statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") 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 interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31st December, 2013, except as described below. The interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31st December, 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC*)-Int 21	Levies

* IFRIC represents the International Financial Reporting Interpretations Committee.

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial performance and positions and/or on the disclosures set out in these condensed consolidated financial statements.

3. **SEGMENT INFORMATION**

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, 2014
(Unaudited)

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	**118,584**	**377,774**	**496,358**	**–**	**496,358**
Inter-segment sales	**301,919**	**–**	**301,919**	**(301,919)**	**–**
Total	**420,503**	**377,774**	**798,277**	**(301,919)**	**496,358**
RESULT					
Segment profit	**8,690**	**4,816**	**13,506**	**–**	**13,506**
Finance costs					**(11,463)**
Changes in fair value of derivative financial instruments					**39**
Profit before taxation					**2,082**

For the six months ended 30th June, 2013
(Unaudited)

	Containerboard	Corrugated Packaging	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	64,169	393,854	458,023	–	458,023
Inter-segment sales	326,985	246	327,231	(327,231)	–
Total	391,154	394,100	785,254	(327,231)	458,023
RESULT					
Segment profit	6,974	6,067	13,041	–	13,041
Finance costs					(12,185)
Changes in fair value of derivative financial instruments					879
Profit before taxation					1,735

Inter-segment sales are charged at prevailing market rates.

The majority of the Group's revenue and contribution to operating profit is attributable to customers who have their manufacturing base in the People's Republic of China (the "PRC"). Accordingly, no analysis of geographical location is presented.

4. CHANGES IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

	Six months ended	
	30.6.2014	30.6.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash inflow from settlement of derivative financial instruments	**801**	2,091
Unrealized change in fair value of derivative financial instruments	**(762)**	(1,212)
	39	879

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2014	30.6.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	**411,084**	380,902
Depreciation of property, plant and equipment	**39,564**	39,161
Release of prepaid lease payments on land use rights	**312**	311
Interest income	**(1,921)**	(930)

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2014	30.6.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**2**	2
PRC Enterprise Income Tax	**319**	486
	321	488
Deferred tax	**14**	10
	335	498

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.

7. DIVIDENDS

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June, 2014 and six months ended 30th June, 2013.

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2014	30.6.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,747**	1,237

	30.6.2014	30.6.2013
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**724,386,000**	724,386,000
Effect of dilutive potential ordinary shares in respect of share options	**4,024,333**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**728,410,333**	724,386,000

9. TRADE AND OTHER RECEIVABLES

	30.6.2014	31.12.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**169,896**	202,222
Less: allowance for doubtful debts	**(487)**	(496)
	169,409	201,726
Other receivables *(Note)*	**5,309**	18,406
Total trade and other receivables	**174,718**	220,132

Note: During the year ended 31st December, 2011, the Group received a notification from the PRC local government for the return of a piece of land for its redevelopment purposes. The Group paid RMB12,000,000 in prior years to acquire that piece of land and the amount was previously included in the "prepaid lease payments on land use rights". The Group did not receive the formal legal title of that piece of land and the carrying amount of that piece of land as at 31st December, 2011 amounted to HK$14,670,000. Upon receipt of the notification, the Group reclassified the amount of HK$14,670,000 from "prepaid lease payments on land use rights" to "other receivables".

During the year ended 31st December, 2012, the Higher People's Court of Guangdong Province ordered the PRC local government to compensate the Group for an amount of RMB12,000,000 (equivalent to HK$15,000,000) and the related interests.

On 21st March, 2014, an agreement (the "Agreement") was entered into between a subsidiary of the Company and the PRC local government that the latter would repay the amount to the Group within 30 business days after the date of the Agreement. Accordingly, the amount of RMB12,000,000 (equivalent to HK$15,000,000) was classified as current asset.

On 18th April, 2014, the amount of RMB12,000,000 (equivalent to HK$15,000,000) and the related interests were received in full.

The Group allows credit periods ranging from 5 to 150 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 doubtful debts presented based on the invoice date at the end of the reporting period:

	30.6.2014	31.12.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**158,624**	189,018
31 – 60 days	**5,449**	10,010
61 – 90 days	**4,464**	909
Over 90 days	**872**	1,789
	169,409	201,726

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$57,812,000 (31st December, 2013: HK$51,281,000) which were past due at the reporting date for which the Group has not provided for impairment loss. 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, 2013: 64 days) based on invoice dates.

10. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	30.6.2014	31.12.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**95,278**	77,279
Overdue 1 to 30 days	**3,799**	1,830
Overdue 31 to 60 days	**217**	4,720
Overdue for more than 60 days	**2,700**	2,434
	101,994	86,263
Payables for the acquisition of property, plant and equipment	**14,142**	13,289
Other payables and accrued charges	**77,776**	81,040
	193,912	180,592

The average credit period on purchases of goods is 45 days (31st December, 2013: 61 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, 2014 (six months ended 30th June, 2013: nil).

BUSINESS REVIEW

The global economic recovery remained slow in the first half of 2014. The European economy saw modest growth in the first half, and the economies of China and the United States ("US") both stalled in the first quarter, with growth resuming only in the second quarter. The Renminbi depreciated and the US Federal Reserve's reduction in bond purchases put even more pressure on the Renminbi. Only some domestic Chinese exporters benefited from this trend. The uncertain outlook in exchange rates resulted in slower economic growth.

The corrugated packaging industry has been in oversupply in recent years, and fierce competition has put a cap on prices. Demand growth remains modest due to a lack of growth in the wider economy, resulting in a number of closures and a business environment that remains difficult as a whole. Thankfully, the Group's management have been able to deliver overall sales growth in the first half of 2014 on the back of our experience and market acumen, a shift in our marketing strategy and the aggressive development of new customers.

Although the Group's average selling price fell slightly as a result of market demand and competition, the increase in domestic sales volume resulted in a 18% increase in domestic sales, accounting for approximately 90% of total sales. Though both export sales volume and average selling prices for exports fell, exports' share of overall sales remained low and its impact was limited. As a whole, the Group's overall sales revenue rose by 8.4% on a year on year basis in the first half of 2014.

The Group's upstream containerboard (corrugating medium and linerboard) and downstream corrugated packaging (corrugated paper boards and carton boxes) accounted for 24% and 76% of sales, respectively. The upstream saw sales growth of 8% while downstream sales fell 4%. The change in sales mix between the upstream and the downstream reflected the Group's flexible sales strategy on the back of market and demand changes.

The Group's main raw material, waste paper, saw prices fall slightly compared to the same period of last year. As around 50% of our wastepaper came from domestic purchases, the slight depreciation of the Renminbi saw production costs fall slightly. Improvements in production processes provided relief to cost pressure coming from the inflation in wages and other costs, keeping overall production costs relatively stable.

The Group's inventory levels are seasonally higher at the end of the first half compared to the end of the second half due to the need to prepare for the upcoming peak season. Total liabilities and total bank borrowings both fell, and came in at relatively low levels. Accounts receivables fell and bad debts remained negligible. The Group's financial situation remains healthy with an abundance of liquidity.

FINANCIAL REVIEW

Operating results

The Group recorded a rise in revenue by 8.4%, from HK$458 million in the first half of 2013 to HK$496.4 million in the first half of 2014, primarily resulting from the increase in sales volume. The rise in cost of sales was in line with the growth in revenue. Gross profit margin slightly improved from 16.8% to 17.2%.

Other income climbed by HK$1.2 million from HK$5.1 million to HK$6.3 million. It was mainly attributable to the bank interest income earned from the increased bank deposits.

The rise in selling and distribution costs was in line with the growth in revenue. The increase of 8.4% was mainly due to the delivery cost for increasing sales volume.

There was an increase of 12.8% in administrative expenses from HK$32.1 million to HK$36.2 million. Such increment was mainly caused by the accounting treatment for the share options granted in the second half of 2013.

Other expenses increased by HK$2.6 million from HK$10.2 million to HK$12.8 million. The rise was predominantly due to exchange loss arising from the depreciation of Renminbi. No provision for bad debts was considered necessary.

EBITDA (earnings before interest, tax, depreciation and amortization and unrealized change in fair value of derivative financial instruments) slightly fell HK$0.4 million, from HK$54.6 million to HK$54.2 million.

The decline in finance costs by 5.7%, from HK$12.2 million to HK$11.5 million was owing to lower average borrowing level in the first half of 2014.

Unrealized change in fair value of derivative financial instruments of HK$0.8 million was recognized only for accounting purpose. It was non-cash in nature and would be reversed to zero at maturity date.

Profit from operation (profit for the period before unrealized change in fair value of derivative financial instruments) slightly increased from HK$2.45 million to HK$2.51 million. The profit margin from operation maintained at 0.5%.

Profit for the period rose by 41.1% from HK$1.24 million to HK$1.75 million. Basic earnings per share increased from 0.17 HK cents to 0.24 HK cents.

Liquidity, financial and capital resources

At 30th June 2014, the Group's total cash and cash equivalents were HK$224.6 million (31st December 2013: HK$239.8 million), mostly denominated in Renminbi and Hong Kong Dollars.

Net current assets and current ratio of the Group were HK$30.5 million (31st December 2013: HK$31.1 million) and 1.06 (31st December 2013: 1.06) respectively.

The Group spent HK$17.1 million on capital expenditures for maintenance and technical upgrades to production lines and facilities.

The average inventory turnover was 57 days. Two-month shipment is basically required for delivering waste paper from Europe or the United States to the plants in China.

The total bank borrowings fell HK$45.6 million. Gearing ratio fell from 56.2% to 53.2%. The current bank borrowings were down by HK$20 million and the non-current bank borrowings were down by HK$25.6 million. The balance for total bank borrowings net of bank balances and cash fell by HK$30.5 million. Net gearing ratio declined from 35.3% to 33.3%.

Contingent liabilities

The tax audits conducted by the Inland Revenue Department ("IRD") on the Company and its subsidiaries for the years of assessment 2004/2005 to 2010/2011 are still ongoing. The IRD had issued protective assessments for the years of assessment 2004/2005 to 2007/2008 to the Group and certain of its subsidiaries. Objections were lodged against all these assessments. Tax reserve certificate of HK$175,000 in respect of the 2007/2008 assessment for the Company, pending the outcome of the tax audits and the objections, were purchased in June 2014. The Directors believe that no additional provision for Hong Kong profits tax is necessary at the present stage. The outcome and impact of this matter cannot be determined with reasonable certainty.

OUTLOOK

At present, loose monetary policies and stable fiscal policies on the part of many countries should facilitate economic growth. The Renminbi has returned to a path of modest appreciation and the Chinese economy is expected to see sustained improvements. Chinese policies tightening environmental protection regulations and eliminating enterprises with outdated capacity should allow the current oversupply issues to see improvements. That said, competition should remain fierce in the short term.

We expect to see gradual improvements in the business environment in the second half with growth in demand. The Group will grasp the advantages and opportunities from our vertically integrated business model, expand market share, improve production efficiency and reduce wastage, maintain our prudent financial situation and operating infrastructure, in order to deliver satisfactory returns to our shareholders.

HUMAN RESOURCES

As at 30th June, 2014, the Group and the processing factory employed a total workforce of around 1,150 full time staff (31st December, 2013: 1,150). 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, Yip Kwok Kwan and Wong Chu Leung. 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, 2014 and has discussed auditing, internal control, and financial reporting matters including the review of accounting practices and principles adopted by the Group.

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 period ended 30th June, 2014, 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 executive 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.

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, 2014.

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, 2014 will be dispatched to the Company's shareholders in September 2014 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 Kwok
Chairman

Hong Kong, 27th August, 2014

As at the date of this announcement, the executive directors of the Company are Messrs Hui Sum Kwok, 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, Yip Kwok Kwan and Wong Chu Leung.