



CHTC FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)



Interim Report 2014



CONTENTS

	<i>Pages</i>
Corporate Information	2
Financial Highlights	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	4-5
Condensed Consolidated Statement of Financial Position	6-7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Statement of Cash Flows	9
Notes to the Condensed Consolidated Financial Statements	10-23
Management Discussion and Analysis	24-29
Other Information	30-32

CORPORATE INFORMATION

CHAIRMAN EMERITUS

Mr. Fong Sou Lam

BOARD OF DIRECTORS

Mr. Shi Tinghong (*Chairman*)

Mr. Ye Maoxin* (*Vice-chairman*)

Mr. Ji Xin (*Chief Executive Officer*)

Mr. Wan Wai Yung

Mr. Fong Kwok Leung, Kevin

Mr. Zhou Yucheng**

Mr. Ying Wei**

Dr. Yuen Ming Fai**

Mr. Li Jianxin**

* Non-executive Director

** Independent Non-executive Director

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Shi Tinghong

Mr. Lee Che Keung

AUDIT COMMITTEE

Mr. Ying Wei (*Committee Chairman*)

Mr. Zhou Yucheng

Dr. Yuen Ming Fai

Mr. Li Jianxin

REMUNERATION COMMITTEE

Mr. Zhou Yucheng (*Committee Chairman*)

Mr. Shi Tinghong

Mr. Ji Xin

Mr. Ying Wei

Dr. Yuen Ming Fai

Mr. Li Jianxin

NOMINATION COMMITTEE

Mr. Shi Tinghong (*Committee Chairman*)

Mr. Ji Xin

Mr. Zhou Yucheng

Mr. Ying Wei

Dr. Yuen Ming Fai

Mr. Li Jianxin

SOLICITORS

Reed Smith Richards Butler

Gallant Y. T. Ho & Co.

AUDITOR

Baker Tilly Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG

Hang Seng Bank Limited

China Construction Bank (Asia) Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

DBS Bank (Hong Kong) Limited

CTBC Bank, Co., Limited

The Hongkong and Shanghai Banking

Corporation Limited

Bank of China (Hong Kong) Limited

PRINCIPAL BANKERS IN THE PRC

Bank of China Limited

Bank of Communications Co., Ltd.

Agricultural Bank of China Limited

Industrial and Commercial Bank of China Limited

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited

The Belvedere Building,

69 Pitts Bay Road,

Permbroke HM08, Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited

Level 22, Hopewell Centre,

183 Queen's Road East, Hong Kong

Tel : (852) 2980 1333

Fax: (852) 2810 8185

REGISTERED OFFICE

Canon's Court, 22 Victoria Street,

Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor,

22-28 Cheung Tat Road,

Tsing Yi, Hong Kong

Tel : (852) 2497 3300

Fax: (852) 2432 2552

WEBSITE ADDRESS

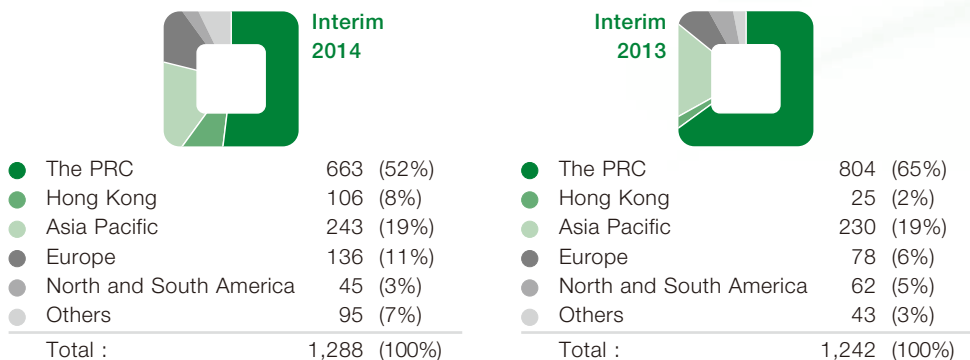
<http://www.fongs.com>

FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK\$ MILLION)

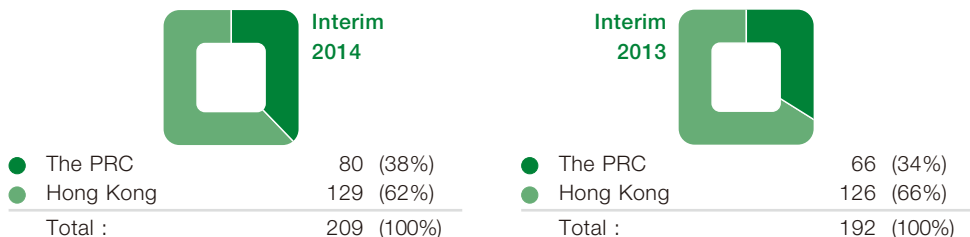
Manufacture and Sale of Dyeing and Finishing Machines

By geographical region



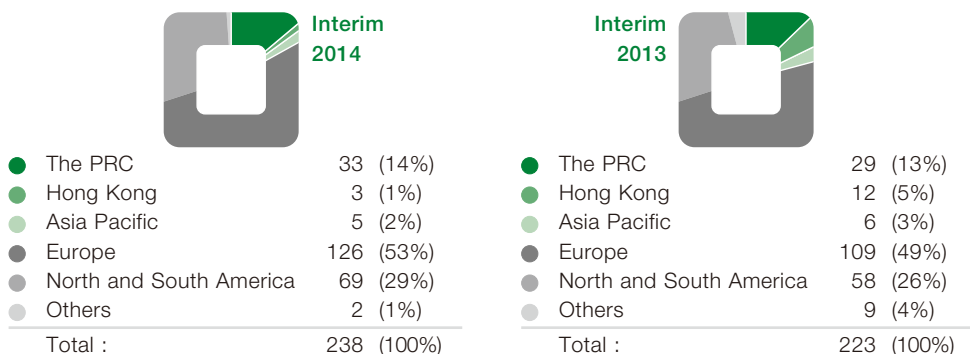
Trading of Stainless Steel Supplies

By geographical region



Manufacture and Sale of Stainless Steel Casting Products

By geographical region



The board of directors (the “Board”) of CHTC Fong’s Industries Company Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2014 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Revenue	4	1,735,688	1,657,544
Cost of sales		(1,182,144)	(1,173,443)
Gross profit		553,544	484,101
Interest income		683	1,517
Other income		8,167	11,043
Other gains and losses	6	(1,043)	301
Selling and distribution costs		(145,991)	(123,304)
General and administrative expenses		(250,125)	(242,590)
Other expenses		(58,535)	(60,279)
Finance costs	5	(26,805)	(28,776)
Share of results of an associate		(3,681)	(2,864)
Profit before tax	6	76,214	39,149
Income tax expense	7	(25,815)	(12,186)
Profit for the period		50,399	26,963
Other comprehensive (expense) income, net of nil tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation		(38,472)	20,746
Gain on cash flow hedge		-	784
Other comprehensive (expense) income for the period		(38,472)	21,530
Total comprehensive income for the period		11,927	48,493

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2014

		For the six months ended 30 June	
		2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
	Notes		
Profit (loss) for the period attributable to:			
Owners of the Company		50,408	26,963
Non-controlling interest		(9)	–
		50,399	26,963
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		11,949	48,493
Non-controlling interest		(22)	–
		11,927	48,493
		HK cents	HK cents
Earnings per share			
Basic	8	9.14	4.89

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

		At 30 June 2014	At 31 December 2013
	<i>Notes</i>	(unaudited) HK\$'000	(audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	595,390	630,701
Prepaid lease payments	10	254,818	263,955
Goodwill		533,515	533,515
Intangible assets		97,149	98,972
Interest in an associate		34,386	38,113
Deposits for acquisition of property, plant and equipment		865	4,351
Deposits for acquisition of leasehold land		8,039	8,258
Deferred tax assets		17,765	20,251
		1,541,927	1,598,116
Current assets			
Inventories		863,042	786,294
Trade and other receivables	11	535,657	533,695
Prepaid lease payments	10	5,691	5,832
Tax recoverable		1,789	2,656
Cash and cash equivalents		402,407	469,670
		1,808,586	1,798,147
Current liabilities			
Trade and other payables	12	728,207	893,548
Warranty provision		28,826	26,090
Tax liabilities		35,578	37,319
Borrowings	13	1,170,516	1,040,189
		1,963,127	1,997,146
Net current liabilities		(154,541)	(198,999)
Total assets less current liabilities		1,387,386	1,399,117

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2014

		At 30 June 2014	At 31 December 2013
	<i>Notes</i>	(unaudited) HK\$'000	(audited) HK\$'000
Non-current liabilities			
Deferred tax liabilities		19,274	16,893
Borrowings	13	130,760	134,741
		150,034	151,634
		1,237,352	1,247,483
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	14	55,145	55,145
Share premium and reserves		1,181,504	1,191,613
		1,236,649	1,246,758
Non-controlling interest		703	725
Total equity		1,237,352	1,247,483

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 (unaudited)

	Attributable to owners of the Company									
	Share capital	Share premium	Capital		Retained profits	Contributed surplus	Hedging reserve	Subtotal	Non-controlling interest	Total
			redemption reserve	Translation reserve						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	55,145	157,261	2,370	160,445	845,955	25,582	-	1,246,758	725	1,247,483
Profit (loss) for the period	-	-	-	-	50,408	-	-	50,408	(9)	50,399
Other comprehensive expense for the period, net of tax	-	-	-	(38,459)	-	-	-	(38,459)	(13)	(38,472)
Total comprehensive (expense) income for the period	-	-	-	(38,459)	50,408	-	-	11,949	(22)	11,927
Final dividend for 2013 paid	-	-	-	-	(22,058)	-	-	(22,058)	-	(22,058)
At 30 June 2014	55,145	157,261	2,370	121,986	874,305	25,582	-	1,236,649	703	1,237,352
At 1 January 2013	55,145	157,261	2,370	122,327	776,619	25,582	(944)	1,138,360	-	1,138,360
Profit for the period	-	-	-	-	26,963	-	-	26,963	-	26,963
Other comprehensive income for the period, net of tax	-	-	-	20,746	-	-	784	21,530	-	21,530
Total comprehensive income for the period	-	-	-	20,746	26,963	-	784	48,493	-	48,493
At 30 June 2013	55,145	157,261	2,370	143,073	803,582	25,582	(160)	1,186,853	-	1,186,853

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014	2013
	(unaudited) HK\$'000	(unaudited) HK\$'000
Net cash (used in) generated from operating activities	(116,443)	262,375
Net cash used in investing activities	(20,574)	(175,473)
Net cash generated from (used in) financing activities	85,613	(35,698)
Net (decrease) increase in cash and cash equivalents	(51,404)	51,204
Cash and cash equivalents at beginning of the period	469,670	412,870
Effect of foreign exchange rate changes	(15,859)	10,736
Cash and cash equivalents at end of the period, represented by bank balances and cash	402,407	474,810

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Pursuant to the special resolution passed at the special general meeting held on 6 December 2013 and the approval by the Registrar of Companies in Bermuda on 6 January 2014, the name of the Company was changed from “Fong’s Industries Company Limited (立信工業有限公司)” to “CHTC Fong’s Industries Company Limited (恒天立信工業有限公司)” with effect from 10 December 2013.

The Company’s parent company is China Hi-Tech Holding Company Limited, a company incorporated in Hong Kong and its ultimate holding company is China Hi-Tech Group Corporation (中國恒天集團有限公司), a company established in the People’s Republic of China (the “PRC”). China Hi-Tech Group Corporation (中國恒天集團有限公司) is a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Committee of the State Council of the PRC. The address of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” in this Interim Report.

The condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2014 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 “Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values.

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2014. HKFRSs comprise HKFRS and 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 years.

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

4. REVENUE AND SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the performance of each group company. The CODM reviews operating results and financial information on a group company by company basis. Each company is identified as an operating segment in accordance with HKFRS 8. When the group company is operating in similar business model with similar target group of customers, the Group's operating segments are aggregated.

Specifically, the Group's reportable segments under HKFRS 8 are aggregation of operating segments based on types of goods or services delivered or provided, as follows:

1. Manufacture and sale of dyeing and finishing machines
2. Trading of stainless steel supplies
3. Manufacture and sale of stainless steel casting products

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the six months ended 30 June 2014 (unaudited)

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
External sales	1,287,996	209,205	238,487	1,735,688
Inter-segment sales	11,345	161,080	17,114	189,539
Segment revenue	1,299,341	370,285	255,601	1,925,227
Elimination				(189,539)
Group revenue				1,735,688
Results				
Segment profit	71,834	11,943	22,240	106,017
Interest income				683
Finance costs				(26,805)
Share of results of an associate				(3,681)
Profit before tax				76,214

Inter-segment sales are charged at terms agreed between relevant parties.

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the six months ended 30 June 2013 (unaudited)

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
External sales	1,241,901	192,458	223,185	1,657,544
Inter-segment sales	5,735	155,733	23,809	185,277
Segment revenue	1,247,636	348,191	246,994	1,842,821
Elimination				(185,277)
Group revenue				1,657,544
Results				
Segment profit	45,566	3,036	20,670	69,272
Interest income				1,517
Finance costs				(28,776)
Share of results of an associate				(2,864)
Profit before tax				39,149

Inter-segment sales are charged at terms agreed between relevant parties.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the results of each segment excluding interest income, finance costs and share of results of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located mainly in Hong Kong, the PRC and Germany.

The Group's revenue from external customers by location of customers is detailed below:

	For the six months ended 30 June	
	2014	2013
	(unaudited) HK\$'000	(unaudited) HK\$'000
The PRC	775,615	898,580
Hong Kong	238,422	164,362
Asia Pacific (other than the PRC and Hong Kong)	247,805	235,512
Europe	262,226	187,047
North and South America	113,732	119,948
Others	97,888	52,095
	1,735,688	1,657,544

5. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	(unaudited) HK\$'000	(unaudited) HK\$'000
Interest on borrowings wholly repayable within five years	18,944	21,267
Bank charges	7,861	7,509
	26,805	28,776

6. PROFIT BEFORE TAX

	For the six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Other gains and losses:		
Gain on disposal of property, plant and equipment	(613)	(15)
Net foreign exchange loss (gain)	1,656	(286)
Total other gains and losses	1,043	(301)
Depreciation and amortisation:		
Amortisation of intangible assets	1,823	1,823
Amortisation of prepaid lease payments	2,731	2,667
Depreciation of property, plant and equipment	46,901	45,982
Total depreciation and amortisation	51,455	50,472

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Hong Kong Profits Tax:		
Current period	4,140	9,326
PRC Corporate Income Tax:		
Current period	16,060	3,239
Underprovision in prior years	694	233
Overseas income tax:		
Current period	54	204
Deferred tax	20,948	13,002
	4,867	(816)
Income tax expense	25,815	12,186

8. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	50,408	26,963
Number of ordinary shares for the purpose of basic earnings per share	551,446	551,446

The Group has no outstanding potential ordinary shares as at 30 June 2014 and 2013 and during the six-month period ended 30 June 2014 and 2013.

9. DIVIDENDS

(a) Dividends recognised as distribution during the period:

	For the six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
2013 final dividend paid – 4 HK cents per share	22,058	–

(b) Dividends declared after end of the reporting period:

	For the six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Interim dividend declared – 3 HK cents per share (2013: 2 HK cents per share)	16,543	11,029

The above interim dividend was declared after the interim report date and therefore had not been included as a liability in the condensed consolidated statement of financial position.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the six months ended 30 June 2014, total cost of additions to property, plant and equipment and prepaid lease payments of the Group were approximately HK\$26,019,000 (2013: HK\$99,597,000) and HK\$Nil (2013: HK\$121,615,000) respectively.

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2014	At 31 December 2013
	(unaudited) HK\$'000	(audited) HK\$'000
Trade receivables	305,747	326,546
Less: Allowance for doubtful debts	(7,527)	(5,242)
	298,220	321,304
Bills receivables	109,140	88,526
	407,360	409,830
Other receivables	128,297	123,865
Total trade and other receivables	535,657	533,695

The Group allows an average credit period of 60 days (2013: 60 days) to its trade customers.

The following is an ageing analysis of trade receivables net of allowance for doubtful debts and bills receivables presented based on the invoice date at the end of the reporting period:

	At 30 June 2014	At 31 December 2013
	(unaudited) HK\$'000	(audited) HK\$'000
0-60 days	333,140	284,170
61-90 days	56,934	96,065
Over 90 days	17,286	29,595
	407,360	409,830

12. TRADE AND OTHER PAYABLES

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

	At 30 June 2014	At 31 December 2013
	(unaudited) HK\$'000	(audited) HK\$'000
0-90 days	97,978	131,438
91-120 days	13,927	20,213
Over 120 days	10,223	13,714
	122,128	165,365

The average credit period on purchase of goods is 90 days (2013: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

13. BORROWINGS

	At 30 June 2014	At 31 December 2013
	(unaudited) HK\$'000	(audited) HK\$'000
Unsecured bank borrowings comprise the following:		
Bank borrowings	888,347	868,065
Trust receipts loans	215,498	140,451
Discounted bills with recourse	32,674	1,700
	1,136,519	1,010,216
Other borrowings	164,757	164,714
	1,301,276	1,174,930
Carrying amount repayable*:		
Within one year	291,586	185,790
More than one year, but not exceeding two years	130,760	39,217
More than two years, but not exceeding five years	–	95,524
	422,346	320,531
Carrying amount of bank borrowings containing a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	479,060	456,059
More than one year, but not exceeding two years	399,870	98,340
More than two years, but not exceeding five years	–	300,000
	878,930	854,399
	1,301,276	1,174,930
Less: Amounts due within one year shown under current liabilities	(1,170,516)	(1,040,189)
Amounts shown under non-current liabilities	130,760	134,741

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

14. SHARE CAPITAL

	At 30 June 2014	At 31 December 2013
	(unaudited) HK\$'000	(audited) HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013 and 30 June 2014: 551,446,285 ordinary shares of HK\$0.10 each	55,145	55,145

15. CAPITAL COMMITMENTS

	At 30 June 2014	At 31 December 2013
	(unaudited) HK\$'000	(audited) HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	38,235	47,906
Leasehold land	118,185	121,395
	156,420	169,301

16. RELATED PARTY DISCLOSURES

The Group has entered into the following transactions with related parties during the period:

	For the six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Related parties in which a Director of the Company has control		
Other expenses paid	–	14
Related parties in which a close member of a Director of the Company has control		
Management fee received	3	36
Rental paid	5,797	4,440
Fellow subsidiaries		
Purchase of materials	62	159
Ultimate holding company		
Interest expenses paid	422	1,208
Compensation of key management personnel		
The remuneration of Directors and other members of key management during the period was as follows:		
Short-term benefits	25,392	27,168
Post-employment benefits	730	816
	26,122	27,984

17. CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Board reported below details of loan facilities which exist at any time during the six months ended 30 June 2014 and up to the date of this Interim Report and include conditions relating to specific performance of the controlling shareholder of the Company.

- (i) On 17 March 2012, certain indirect wholly-owned subsidiaries of the Company accepted the renewal of the banking facilities letter offered by a bank in relation to various banking facilities being made available to the Group, such facilities include a new 4-year term fixed loan of US\$40 million. The terms and conditions of the term fixed loan include, inter alia, a condition to the effect that it will be an event of default if China Hi-Tech Group Corporation (中國恒天集團有限公司), a controlling shareholder of the Company, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.
- (ii) On 5 November 2012, Fong's National Engineering Company, Limited (as borrower), an indirect wholly-owned subsidiary of the Company, the Company (as guarantor) and a bank (as lender) entered into a 3-year term loan facility agreement of up to a principal amount of HK\$75 million. The term fixed loan will be used for capital expenditures and general corporate funding requirements of the Group. The terms and conditions of the term fixed loan include, inter alia, a condition that China Hi-Tech Group Corporation (中國恒天集團有限公司) undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.
- (iii) On 19 November 2012, Fong's National Engineering Company, Limited (as borrower) accepted the banking facilities offered by a bank (as lender) in relation to a new 3-year term loan facility of up to a principal amount of HK\$300 million. The term fixed loan is to be repaid by one lump sum on the maturity date. The term fixed loan was utilised by the Group for the acquisition of the Monforts Group (as defined in the Company's announcement dated 8 June 2012) The terms and conditions of the term fixed loan include, inter alia, a condition that China Hi-Tech Group Corporation (中國恒天集團有限公司) shall at all times provide and maintain a standby letter of credit for an amount of HK\$310 million (or its equivalence in Renminbi) in favour of the bank to secure the term fixed loan throughout the life of the term fixed loan. On 21 November 2012, the Company was informed by the bank that the standby letter of credit was issued and received by the bank.

17. CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES (Continued)

- (iv) On 13 November 2013, Fong's National Engineering Company, Limited (as borrower) accepted the banking facilities offered by a bank (as lender) in relation to a new 3-year term loan of a principal amount of US\$30 million. The term fixed loan will be used for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises. The terms and conditions of the term fixed loan include, inter alia, a condition that China Hi-Tech Group Corporation (中國恒天集團有限公司) undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

- (v) On 28 November 2013, Fong's National Engineering Company, Limited (as borrower) accepted the banking facilities offered by a bank (as lender) in relation to a 3-year term loan facility of a principal amount of HK\$150 million. The term fixed loan will be used for construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises. The terms and conditions of the term fixed loan include, inter alia, a condition that China Hi-Tech Group Corporation (中國恒天集團有限公司) undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

- (vi) On 24 February 2014, Fong's Steels Supplies Company Limited (as borrower), an indirect wholly-owned subsidiary of the Company, accepted the new banking facilities offered by a bank (as lender) to the extent of HK\$30 million for general working capital purpose. The terms and conditions of the facilities include, inter alia, a condition that China Hi-Tech Group Corporation (中國恒天集團有限公司) undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

Save as disclosed above, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 30 June 2014 and as at the date of this Interim Report.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to pay an interim dividend of approximately HK\$16.5 million representing 3 HK cents per share for the six months ended 30 June 2014 (2013: 2 HK cents per share) to shareholders of the Company whose names appear on the register of members of the Company on 26 September 2014.

It is expected that dividend warrants will be despatched to shareholders of the Company on 23 October 2014.

The register of members of the Company will be closed from Monday, 22 September 2014 to Friday, 26 September 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all shares transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 September 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the six months ended 30 June 2014 (the "Period"), the European sovereign debt crisis stabilised, the U.S. economy improved slightly and there were signs that major western economies might bottom out, but many structural issues within the global economy still remained unresolved and prospects for economic recovery continued to be uncertain. Coupled with the slowdown in emerging economies, including China, the overall business environment did not see much improvement in the first half of the year. Despite sluggish market conditions, the Group continued to adhere to its established business strategies to overcome challenges. With impressive effort from all operating divisions, the Group recorded growth in both revenue and profit and attained a relatively stable performance in each core business segment.

For the Period, the Group recorded revenue of approximately HK\$1,736 million, a slight increase of 5% from approximately HK\$1,658 million recorded last year. Profit amounted to approximately HK\$50 million, representing a growth of 87% from approximately HK\$27 million recorded in the corresponding period last year. Basic earnings per share was 9.14 HK cents for the Period as compared to 4.89 HK cents for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Dyeing and Finishing Machine Manufacturing

2014 was another challenging year for the equipment manufacturing sector. From the macro-economic point of view, the economic recovery in the US and European countries remained slow and unstable, which spanned to impact the Chinese export trade in the textile and apparel sector. Moreover, enterprises in Mainland China continued to face difficulties in getting credit and lending rates remained high. Many enterprises' plans to purchase manufacturing equipment were curbed.

This business segment contributed revenue of approximately HK\$1,288 million for the Period, a slight increase of 4% from approximately HK\$1,242 million in the corresponding period last year, accounting for 74% of the Group's revenue. Sales to overseas emerging markets recorded a growth, but were partly offset by a decrease in domestic demand for our products. Operating profit generated from the segment increased to approximately HK\$72 million for the Period, from approximately HK\$46 million in the corresponding period last year, representing a growth of 58%. As a result of the increase in revenue, coupled with the improvement in production techniques and processes, and effective cost control, the gross profit margin recorded a growth, and the performance of this business segment improved obviously.

It has been the Group's persistent business direction to maintain long-term sustainable development. Hence, facing the various market and operational challenges, the Group has continued to focus on proactive investment in research and development on technology and technical process in respect of dyeing and finishing machinery, optimising existing product designs and enhancing the quality and reliability of its products in order to maintain its competitiveness. The Group launched its patented SYN-8 airflow high temperature dyeing machines and TEC series high temperature dyeing machines last year. As a result of their advanced technologies in respect of efficiency, energy saving and reduced emissions, these models met the needs of mid to high-end customers in both overseas and domestic markets and secured a group of excellent customers. The functions and overall performance of these machines were highly accredited by many customers, which lead to a steady rise in sales. As such, the Group was provided with a new impetus that drove operating revenue growth despite weak market conditions. In light of the increasing focus on energy conservation, industry upgrading and increasing labour costs, the Group believes that market demand for energy-saving and efficient automated machinery and equipment, and the replacement of old equipment for new, should continue to grow.

The Group will target a few potential emerging markets including countries such as India, Bangladesh, Indonesia, Vietnam, Turkey and Brazil, and will strive to boost sales in these markets in accordance with its existing strategies. The Group will also seek new opportunities and will import new products and new technologies, as well as new customers, via strategic investments and acquisitions. The Group expects to further expand its market share and consolidate its leading position in the industry through organic growth and mergers and acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Dyeing and Finishing Machine Manufacturing (Continued)

As our major production bases are located at Shenzhen and Zhongshan, our challenges are similar to those faced by other manufacturers in Mainland China, such as appreciation of the Renminbi, difficulty of recruiting factory labourers and the continuing increase in production and labour costs. In view of that, the Group will continue to adopt more cost optimisation measures, improve our products' technical process, ensure that the accounts receivables, inventories and cash flow will be managed healthily as well as to strictly control its various operational costs. In addition, the Group will also adjust its product mix and gradually discontinue products with low profit margins with the aim of enhancing its profitability.

As stated in the Company's circular dated 25 April 2014, Fong's National Engineering (Shenzhen) Company, Limited, a wholly-owned subsidiary of the Group, entered into a co-operation agreement with an independent third party on 28 March 2014 to redevelop the Group's existing plot of land located at Buji Town, Shenzhen by the way of the urban renewal project. The Group will, by the way of resettlement and demolition compensation in phase, receive (i) RMB1 billion (equivalent to approximately HK\$1.26 billion) in cash; and (ii) substitute a portion of the existing properties on the land with facilities to be constructed on the redeveloped land with a gross floor area of approximately 30,000 m² and at least 100 car-parking spaces. The transaction contemplated under the co-operation agreement constitutes a substantial disposal of the Group and was approved by the shareholders of the Company at the special general meeting held on 15 May of this year. The co-operation agreement however, will not become effective until approved by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

The Group's operational facilities in Shenzhen were established over 20 years ago. The age of these facilities combined with the lack of space for further expansion has restricted the Group's ability to evolve and adopt modernised manufacturing methods, impeding the Group's ability to improve its efficiency and expand its production facilities. The urban renewal project presents a valuable opportunity for the Group to modernise its Shenzhen operations in terms of sales, product design, and research and development. Meanwhile, the cash compensation to be received through the project will be much higher than the valuation of the Group's existing land and the properties established thereon in Shenzhen, which will therefore provide strong financial support to the Group for relocation of all of its current manufacturing facilities to Zhongshan (including the construction cost for Phase II of the Zhongshan manufacturing plant).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Stainless Steel Trading

The price of stainless steel increased significantly in the first half of 2014 after remaining stable for a long time. The price of nickel, a critical component of stainless steel, rose drastically as a result of the Indonesian government's suspension on the export of nickel ore as from January 2014, and hence drove up the price of stainless steel. To mitigate risk and keep it under control, the Group expanded its sales of stainless steel moderately. The stainless steel trading business segment contributed revenue of approximately HK\$209 million during the Period, accounting for 12% of the Group's total revenue, representing an increase of 9% from approximately HK\$192 million during the corresponding period last year. As the increasing price of stainless steel contributed to a rise in sales profit margin, and the Group has strengthened its procurement and inventory management, the operating profit of this business segment for the Period rose to approximately HK\$12 million in contrast to approximately HK\$3 million during the corresponding period last year.

The Group will continue to adopt a prudent approach to running this business. It will take appropriate actions to mitigate market risks, adjust price and inventory appropriately and in a timely manner, based on market analysis and judgment, in order to accelerate the inventory turnover ratio, while minimising the risk on price fluctuations. At the same time, the Group will strengthen the management of sales and accounts receivables in order to lower the risk of bad debt and to improve its cash flow.

As more major infrastructure projects commence, the construction industry in Hong Kong is now in a period of boom. The Group expects market demand for stainless steels to continue growing in the mid to long term and therefore remains optimistic on the prospect of this business segment.

Stainless Steel Casting

The major customers of this business segment are principally from Europe and the US. Products are primarily high-quality castings and machined processing parts made of stainless steel, dual-phase steel and nickel-based alloys that are widely used in large industrial facilities, such as valves, pumps and food processing machines. During the Period, this business segment maintained the good momentum achieved in the second half of last year and recorded improvement in production techniques, which therefore kept the scrappage rate and costs down, allowing the segment's results to meet its target. Revenue was approximately HK\$238 million during the Period, accounting for 14% of the Group's revenue and representing a 7% increase from approximately HK\$223 million recorded in the corresponding period last year. Operating profit for the Period increased to approximately HK\$22 million from approximately HK\$21 million in the corresponding period last year.

The management believes that market demand for high-quality stainless steel castings will continue to grow, and as such remains cautiously optimistic about the revenue and profit growth of this business segment for the second half of this year. The management is also confident that this business segment will maintain steady revenue growth in the mid to long term and contribute decent profit to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Prospects

Despite the lingering uncertainties surrounding the global economy, the Group is cautiously optimistic about its overall performance in the second half of the year. In order to address various potential challenges ahead, the Group will continue to enhance its research and development and innovation, provide excellent value-for-money products, explore more local and overseas markets, and expand market share to build a more consolidated foundation for the Group's future development while bringing more profitable results and return to its shareholders. Besides, the Group has confidence in its future developments as all three of its business segments carry renowned brands and maintain a wide range of customers and competitive advantages that meet those customers' ever changing needs.

Human Resources

To maintain and strengthen its competitiveness in the long run, the Group has continued to implement strict controls on operating expenses and cash flow through reducing headcount and the rationalisation of its production procedures.

As at 30 June 2014, the Group had a total of approximately 4,730 employees (31 December 2013: 4,960 employees) working in the PRC, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, Indonesia, India, Turkey and Central-South America. In the first half of 2014, staff costs, including directors' remuneration, were approximately HK\$190 million (2013: HK\$187 million). The Group will continue to monitor the market situation constantly and adjust the labour force and structure in order to enhance its operational efficiency.

The Group believes the success of its business hinges on employee commitment, and thus strives to provide a harmonious working environment for its employees to encourage their dedication. Employees are remunerated according to benchmarks in the industry as well as prevailing market conditions, their experience and their performance. The Group's remuneration policies and packages are reviewed by the Remuneration Committee of the Company on a regular basis. Bonuses and rewards may also be distributed to employees based on performance evaluation, with an aim of encouraging and rewarding staff for achieving better performance. Other employee benefits available for eligible employees include medical insurance, retirement benefits scheme and mandatory provident fund contribution.

The Group recognises the importance of having high caliber, competent staff. Hence, in order to make the workforces capable of meeting challenges ahead, the Group will continue to offer training programs to staff at different levels and positions on an ongoing basis. The aim of these programs is to cultivate a dynamic corporate culture and to develop effective communication and customer service skills. Moreover, system controls will also be reinforced to ensure high operational efficiency and performance.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity and Capital Resources

In response to the continuous increase in costs, the Group has implemented stringent cost control measures and prudent cash flow management. The Group meets its funding requirements for its ordinary and usual course of business activities with cash flow generated from operations and existing banking facilities during the Period. The Board is of the opinion that the Group is in a healthy financial position and has sufficient resources to support its working capital requirements.

For the six months ended 30 June 2014, the Group's net cash outflow used in operating activities was approximately HK\$116 million. As at 30 June 2014, the Group's inventory level increased to approximately HK\$863 million as compared to approximately HK\$786 million as at 31 December 2013.

As at 30 June 2014, the Group's bank borrowings amounted to approximately HK\$1,137 million. Most bank borrowings were sourced from Hong Kong, with 51% denominated in Hong Kong dollars and 49% denominated in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 30 June 2014, the Group's bank balances and cash amounted to approximately HK\$402 million, of which 38% was denominated in Renminbi, 27% in Euros, 25% in United States dollars, 9% in Hong Kong dollars and the remaining 1% in other currencies.

The Group continued to maintain prudent financial management policies during the Period. As at 30 June 2014, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 59% (31 December 2013: 43%) and its current ratio was 0.92 (31 December 2013: 0.90). The Board considers these ratios to be at healthy and acceptable levels.

The Group's sales were principally denominated in Renminbi, United States dollars or Euros, while purchases were denominated in United States dollars, Renminbi, Euros or Hong Kong dollars; as such, the Group does not foresee significant exposure to exchange rate risks in this respect. The Board will continue to monitor the Group's overall exposure to foreign exchange and will consider hedging significant foreign currency risks, should the need arise.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 30 June 2014, the interests of the Directors and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Long position in shares of HK\$0.10 each of the Company

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	100,000	0.02%
		1,650,000	0.30%
Mr. Wan Wai Yung	Beneficial owner	2,018,000	0.36%
	Corporate interest (<i>Note 1</i>)	1,313,500	0.24%
		3,331,500	0.60%

Note 1: Mr. Wan Wai Yung is deemed to be interested in 1,313,500 shares held by Campbell and Company Limited as he wholly owns Campbell and Company Limited.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2014.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2014, the register maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

Long position in shares of HK\$0.10 each of the Company

Name of shareholder	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
China Hi-Tech Group Corporation	Corporate interests (Note A)	307,704,070	55.80%
Mr. Fong Sou Lam	Beneficial owner	29,400,000	5.33%
	Held by spouse	5,000,000	0.91%
	Corporate interests (Note B)	63,052,110	11.43%
		97,452,110	17.67%

Note A: By virtue of the SFO, China Hi-Tech Group Corporation is deemed to be interested in 307,704,070 shares held by its two wholly-owned subsidiaries as follows:

- (i) Newish Trading Limited – 128,808,820 shares
- (ii) China Hi-Tech Holding Company Limited – 178,895,250 shares

Mr. Shi Tinghong, an Executive Director, and Mr. Ye Maoxin, a Non-executive Director, are the directors of both Newish Trading Limited and China Hi-Tech Holding Company Limited.

Note B: Mr. Fong Sou Lam is deemed to be interested in 63,052,110 shares by virtue of him being beneficially interested in (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 2,550,000 shares and (ii) the entire issued share capital of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 60,502,110 shares as follows:

- (i) Bristol Investments Limited – 8,000,000 shares
- (ii) Polar Bear Holdings Limited – 39,000,000 shares
- (iii) Sheffield Holdings Company Limited – 13,502,110 shares

Save as disclosed above, as at 30 June 2014, the Company had not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the six months ended 30 June 2014.

CORPORATE GOVERNANCE

During the six months ended 30 June 2014, the Company has complied with all of the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, save and except for the deviations from the code provision A.6.7.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. However, Mr. Zhou Yucheng (an Independent Non-executive Director), was unable to attend the annual general meeting and special general meeting of the Company held on 15 May 2014 due to his another unavoidable business engagement.

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference based upon the provisions of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting system and internal control procedures of the Group. At present, members of the Audit Committee comprise Mr. Ying Wei (committee chairman), Mr. Zhou Yucheng, Dr. Yuen Ming Fai and Mr. Li Jianxin, being the four Independent Non-executive Directors of the Company.

The Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2014 have been reviewed by the Audit Committee, which is of the opinion that such statements complied with the applicable accounting standards, Listing Rules and legal requirements, and that adequate disclosures have been made.

MEMBERS OF THE BOARD

As at the date of this Interim Report, our Chairman and Executive Director is Mr. Shi Tinghong, our Vice-Chairman and Non-executive Director is Mr. Ye Maoxin, our other Executive Directors are Mr. Ji Xin (Chief Executive Officer), Mr. Wan Wai Yung and Mr. Fong Kwok Leung, Kevin; and our four Independent Non-executive Directors are Mr. Zhou Yucheng, Mr. Ying Wei, Dr. Yuen Ming Fai and Mr. Li Jianxin.

On behalf of the Board
Shi Tinghong
Chairman

Hong Kong, 15 August 2014