CHTC FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

INTERIM REPORT
2017

CONTENTS

CORPORATE INFORMATION

CHAIRMAN EMERITUS
Mr. Fong Sou Lam

BOARD OF DIRECTORS
Executive Directors
Mr. Ye Maoxin *(Chairman)*
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Du Qianyi *(Chief Financial Officer)*

Non-executive Director
Mr. Fong Kwok Leung, Kevin

Independent Non-executive Directors
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin

COMPANY SECRETARY
Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES
Mr. Ji Xin
Mr. Lee Che Keung

AUDIT COMMITTEE
Mr. Ying Wei *(Committee Chairman)*
Dr. Yuen Ming Fai
Mr. Li Jianxin

REMUNERATION COMMITTEE
Mr. Li Jianxin *(Committee Chairman)*
Mr. Ye Maoxin
Mr. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai

NOMINATION COMMITTEE
Mr. Ye Maoxin *(Committee Chairman)*
Mr. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin

LEGAL ADVISER
Reed Smith Richards Butler

AUDITOR
Baker Tilly Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Dah Sing Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited
CTBC Bank Co., Limited

PRINCIPAL BANKERS IN THE PEOPLE'S REPUBLIC OF CHINA
Bank of China Limited
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited

BERMUDA PRINCIPAL REGISTRAR AND TRANSFER OFFICE
MUFG Fund Services (Bermuda) Limited
The Belvedere Building,
69 Pitts Bay Road,
Pembroke HM08, Bermuda

HONG KONG BRANCH REGISTRAR 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

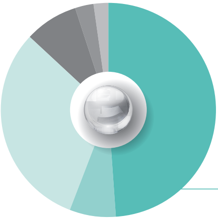
FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

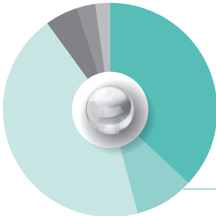
By geographical region

INTERIM 2017



The PRC	568	(49%)
Hong Kong	81	(7%)
Asia Pacific	366	(31%)
Europe	92	(8%)
North and South America	35	(3%)
Others	22	(2%)
Total:	**1,164**	**(100%)**

INTERIM 2016

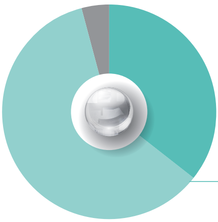


The PRC	373	(37%)
Hong Kong	97	(9%)
Asia Pacific	443	(44%)
Europe	51	(5%)
North and South America	30	(3%)
Others	18	(2%)
Total:	**1,012**	**(100%)**

Trading of Stainless Steel Supplies

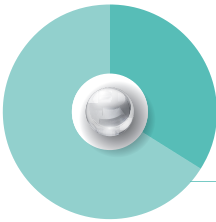
By geographical region

INTERIM 2017



The PRC	56	(36%)
Hong Kong	94	(61%)
Asia Pacific	4	(3%)
Total:	**154**	**(100%)**

INTERIM 2016

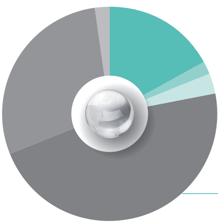


The PRC	50	(34%)
Hong Kong	98	(66%)
Asia Pacific	0	(0%)
Total:	**148**	**(100%)**

Manufacture and Sale of Stainless Steel Casting Products

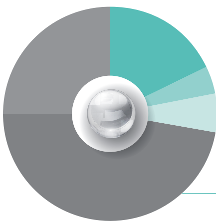
By geographical region

INTERIM 2017



The PRC	34	(17%)
Hong Kong	5	(2%)
Asia Pacific	6	(3%)
Europe	95	(47%)
North and South America	58	(29%)
Others	4	(2%)
Total:	**202**	**(100%)**

INTERIM 2016



The PRC	37	(18%)
Hong Kong	9	(4%)
Asia Pacific	12	(6%)
Europe	97	(47%)
North and South America	52	(25%)
Others	0	(0%)
Total:	**207**	**(100%)**

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 2017 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 2017

	Note	**For the six months ended 30 June 2017 (unaudited) HK$'000**	For the six months ended 30 June 2016 (unaudited) HK$'000
Revenue	4	**1,520,350**	1,367,565
Cost of sales		**(977,082)**	(903,584)
Gross profit		**543,268**	463,981
Interest income		**6,069**	984
Other income		**8,675**	7,725
Other gains	6	**4,484**	1,596
Selling and distribution costs		**(123,363)**	(115,788)
Administrative and other expenses		**(291,755)**	(288,971)
Finance costs	5	**(16,545)**	(18,726)
Profit before tax	6	**130,833**	50,801
Income tax expense	7	**(31,665)**	(20,209)
Profit for the period		**99,168**	30,592
Other comprehensive income (expense), net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**26,679**	(23,447)
Other comprehensive income (expense) for the period		**26,679**	(23,447)
Total comprehensive income for the period		**125,847**	7,145
Profit for the period attributable to owners of the Company		**99,168**	30,592
Total comprehensive income for the period attributable to owners of the Company		**125,487**	7,145
		HK cents	HK cents
Earnings per share			
Basic and diluted	8	**9.01**	2.77

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Note	**At 30 June 2017 (unaudited) HK$'000**	At 31 December 2016 (audited) HK$'000
Non-current assets			
Property, plant and equipment	10	**749,266**	660,497
Prepaid lease payments		**219,649**	218,196
Goodwill		**533,515**	533,515
Intangible assets	10	**100,877**	101,651
Available-for-sale financial assets		**178,166**	174,640
Deposits for acquisition of property, plant and equipment		**19,861**	5,415
Deposits for acquisition of leasehold land		**7,364**	7,219
Deferred tax assets		**10,605**	10,665
		1,819,303	1,711,798
Current assets			
Inventories		**754,711**	572,992
Trade and other receivables	11	**557,307**	442,076
Prepaid lease payments		**5,254**	5,159
Tax recoverable		**2,320**	138
Cash and cash equivalents		**676,213**	790,259
		1,995,805	1,810,624
Current liabilities			
Trade and other payables	12	**860,441**	785,507
Warranty provision		**13,450**	16,287
Tax liabilities		**33,051**	25,202
Borrowings	13	**1,082,446**	1,009,638
		1,989,388	1,836,634
Net current assets (liabilities)		**6,417**	(26,010)
Total assets less current liabilities		**1,825,720**	1,685,788

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2017

	Note	At 30 June 2017 (unaudited) HK$'000	At 31 December 2016 (audited) HK$'000
Non-current liabilities			
Borrowings	13	**125,000**	80,000
Deferred revenue		**28,563**	25,757
Deferred tax liabilities		**26,456**	23,701
Other payable		**226,723**	222,236
		406,742	351,694
Net assets		**1,418,978**	1,334,094
Capital and reserves			
Share capital	14	**55,011**	55,145
Share premium and reserves		**1,363,967**	1,278,949
Total equity		**1,418,978**	1,334,094

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 (unaudited)

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2017	**55,145**	**157,261**	**(581)**	**2,370**	**(32,183)**	**1,117,298**	**25,582**	**9,202**	**1,334,094**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**99,168**	**–**	**–**	**99,168**
Other comprehensive income for the period, net of tax	**–**	**–**	**–**	**–**	**26,679**	**–**	**–**	**–**	**26,679**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**26,679**	**99,168**	**–**	**–**	**125,847**
Repurchase of shares	**(134)**	**(5,139)**	**–**	**134**	**–**	**(134)**	**–**	**–**	**(5,273)**
Effects of share options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,818**	**2,818**
Final dividend for 2016 paid	**–**	**–**	**–**	**–**	**–**	**(38,508)**	**–**	**–**	**(38,508)**
At 30 June 2017	**55,011**	**152,122**	**(581)**	**2,504**	**(5,504)**	**1,177,824**	**25,582**	**12,020**	**1,418,978**
At 1 January 2016	55,145	157,261	(581)	2,370	67,100	1,062,050	25,582	3,503	1,372,430
Profit for the period	–	–	–	–	–	30,592	–	–	30,592
Other comprehensive expense for the period, net of tax	–	–	–	–	(23,447)	–	–	–	(23,447)
Total comprehensive (expense) income for the period	–	–	–	–	(23,447)	30,592	–	–	7,145
Effects of share options	–	–	–	–	–	–	–	2,834	2,834
Final dividend for 2015 paid	–	–	–	–	–	(33,087)	–	–	(33,087)
At 30 June 2016	55,145	157,261	(581)	2,370	43,653	1,059,555	25,582	6,337	1,349,322

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash generated from operating activities	**21,846**	317,906
Net cash used in investing activities	**(196,856)**	(66,655)
Net cash generated from (used in) financing activities	**55,852**	(50,087)
Net (decrease) increase in cash and cash equivalents	**(119,158)**	201,164
Cash and cash equivalents at beginning of the period	**790,259**	443,115
Effect of foreign exchange rate changes	**5,112**	(18,832)
Cash and cash equivalents at end of the period	**676,213**	625,447

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").

The Directors of the Company (the "Directors") consider that 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）("CHTC"), 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 ("SASAC").

As disclosed in the announcement of the Company dated 3 July 2017, on 29 June 2017, it came to the attention of the Board that on 24 June 2017, SASAC granted the approval of the proposed reorganisation (the "Proposed Reorganisation") in relation to the transfer of the entire equity interest of CHTC from SASAC to China National Machinery Industry Corporation（中國機械工業集團有限公司）("SINOMACH"), a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by SASAC.

Upon completion of the Proposed Reorganisation, CHTC will be directly owned by SINOMACH and the Company will therefore become a listed subsidiary of SINOMACH. It remains unchanged that CHTC is an intermediate controlling shareholder of the Company and SASAC is the ultimate controlling shareholder of the Company.

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 2017 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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

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 2017. HKFRSs comprise HKFRS, 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. Specifically, the Group's reportable segments under HKFRS 8 are aggregation of operating segments based on types of goods delivered or services 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 2017 (unaudited)

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
Revenue				
External sales	1,164,323	153,894	202,133	1,520,350
Inter-segment sales	97	100,713	18,011	118,821
Segment revenue	1,164,420	254,607	220,144	1,639,171
Elimination				(118,821)
Group revenue				1,520,350
Results				
Segment profit	115,116	6,881	19,312	141,309
Interest income				6,069
Finance costs				(16,545)
Profit before tax				130,833

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

For the six months ended 30 June 2016 (unaudited)

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
Revenue				
External sales	1,012,268	148,166	207,131	1,367,565
Inter-segment sales	1,204	56,050	12,842	70,096
Segment revenue	1,013,472	204,216	219,973	1,437,661
Elimination				(70,096)
Group revenue				1,367,565
Results				
Segment profit	49,759	923	17,861	68,543
Interest income				984
Finance costs				(18,726)
Profit before tax				50,801

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 and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	HK$'000
The PRC	**658,669**	460,185
Hong Kong	**179,382**	204,440
Asia Pacific (other than the PRC and Hong Kong)	**375,174**	454,616
Europe	**186,846**	147,536
North and South America	**93,233**	81,947
Others	**27,046**	18,841
	1,520,350	1,367,565

5. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Interest on borrowings	**17,550**	15,574
Less: Interest capitalised	**(4,507)**	(2,329)
	13,043	13,245
Bank charges	**3,502**	5,481
	16,545	18,726

6. PROFIT BEFORE TAX

	For the six months ended 30 June 2017 (unaudited) HK$'000	2016 (unaudited) HK$'000
Profit before tax has been arrived at after (crediting) charging:		
Other gains:		
(Gain) loss on disposal of property, plant and equipment	**(325)**	27
Foreign exchange gain, net	**(4,159)**	(1,623)
Total other gains	**(4,484)**	(1,596)
Depreciation and amortisation:		
Amortisation of intangible assets	**1,266**	1,254
Amortisation of prepaid lease payments	**2,577**	2,703
Depreciation of property, plant and equipment	**29,195**	35,291
Total depreciation and amortisation	**33,038**	39,248

7. INCOME TAX EXPENSE

	For the six months ended 30 June 2017 (unaudited) HK$'000	2016 (unaudited) HK$'000
Hong Kong Profits Tax:		
Current period	**6,770**	3,642
Under-provision in prior years	**1**	–
PRC Corporate Income Tax:		
Current period	**25,449**	11,022
Over-provision in prior years	**(5,769)**	(150)
Overseas income tax:		
Current period	**170**	654
(Over) under-provision in prior years	**(138)**	2,316
	26,483	17,484
Deferred tax	**5,182**	2,725
Income tax expense	**31,665**	20,209

8. EARNINGS PER SHARE

(a) Basic earnings per share:

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

	For the six months ended 30 June	
	2017 (unaudited) HK$'000	2016 (unaudited) HK$'000
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**99,168**	30,592
	'000	'000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**1,102,892**	1,102,892
Effect of repurchase of shares	**(1,904)**	–
Weighted average number of ordinary shares at 30 June	**1,100,988**	1,102,892

(b) Diluted earnings per share:

No adjustment has been made to the basic earnings per share as the outstanding share options had anti-dilutive effect on the basic earnings per share for the six months ended 30 June 2017 and 2016.

9. DIVIDENDS

(a) Dividends recognised as distribution during the period:

	For the six months ended 30 June	
	2017 **(unaudited)** **HK$'000**	2016 (unaudited) HK$'000
2016 final dividend paid: 3.5 HK cents (2015: 3 HK cents) per share	**38,508**	33,087

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

	For the six months ended 30 June	
	2017 **(unaudited)** **HK$'000**	2016 (unaudited) HK$'000
Interim dividend declared: 3 HK cents (2016: Nil) per share	**33,006**	–

The interim dividend mentioned above was not recognised as a liability in the condensed consolidated statement of financial position as it was declared after the date of the Interim Report.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the six months ended 30 June 2017, total cost of additions to property, plant and equipment and intangible assets of the Group were approximately HK$105,744,000 (2016: HK$59,567,000) and HK$Nil (2016: HK$8,645,000) respectively.

11. TRADE AND OTHER RECEIVABLES

	Note	**At 30 June 2017 (unaudited) HK$'000**	At 31 December 2016 (audited) HK$'000
Trade receivables		**262,575**	264,487
Less: Allowance for doubtful debts		**(9,480)**	(8,708)
		253,095	255,779
Bills receivables		**68,025**	83,086
		321,120	338,865
Entrusted loan to a related party	(i)	**90,944**	–
Other receivables		**145,243**	103,211
Total trade and other receivables		**557,307**	442,076

The Group allows an average credit period of 60 days (2016: 60 days) to its trade customers.

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

	At 30 June 2017 (unaudited) HK$'000	At 31 December 2016 (audited) HK$'000
0-60 days	**197,326**	199,516
61-90 days	**38,136**	40,711
Over 90 days	**17,633**	15,552
	253,095	255,779

Note:

(i) On 23 January 2017, Fong's National Engineering (Shenzhen) Company, Limited（立信染整機械（深圳）有限公司）("FNES"), an indirect wholly-owned subsidiary of the Company, entered into an entrusted loan agreement with a lending bank and Hengtian Real Estate Company Limited（恒天地產有限公司）("Hengtian Real Estate"), a related party of the Company's parent company. According to the agreement, the bank agreed to provide a loan of RMB80,000,000 (equivalent to approximately HK$90,944,000) to Hengtian Real Estate on behalf of FNES. The interest rate of the loan is 11% per annum and the accrued interest shall be payable on a quarterly basis and on 21 March, 21 June, 21 September and 29 December respectively during the term. The loan is guaranteed by two subsidiary companies of Hengtian Real Estate. Hengtian Real Estate shall repay the loan in one lump sum on 29 December 2017.

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 2017 (unaudited) HK$'000	At 31 December 2016 (audited) HK$'000
0-90 days	**136,987**	110,406
91-120 days	**17,899**	24,621
Over 120 days	**11,575**	7,030
	166,461	142,057

The average credit period on purchase of goods is 90 days (2016: 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 2017 (unaudited) HK$'000	At 31 December 2016 (audited) HK$'000
Unsecured bank borrowings comprise the following:		
Bank loans	**1,083,504**	1,027,266
Trust receipts loans	**120,690**	62,233
Discounted bills with recourse	**3,252**	139
	1,207,446	1,089,638
Carrying amounts repayable*:		
Within one year	**173,942**	112,371
More than one year, but not exceeding two years	**25,000**	50,000
More than two years, but not exceeding five years	**100,000**	30,000
	298,942	192,371
Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**534,161**	587,590
More than one year, but not exceeding two years	**165,403**	112,803
More than two years, but not exceeding five years	**208,940**	196,874
	908,504	897,267
	1,207,446	1,089,638
Less: Amounts due within one year shown under current liabilities	**(1,082,446)**	(1,009,638)
Amounts shown under non-current liabilities	**125,000**	80,000

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

14. SHARE CAPITAL

	Note	At 30 June 2017 (unaudited) Number of shares	HK$'000	At 31 December 2016 (audited) Number of shares	HK$'000
Authorised:					
Ordinary shares		**2,000,000,000**	**100,000**	2,000,000,000	100,000
Issued and fully paid:					
At 1 January		**1,102,892,570**	**55,145**	1,102,892,570	55,145
Repurchase and cancellation of shares	(i)	**(2,676,000)**	**(134)**	–	–
At 30 June/ 31 December		**1,100,216,570**	**55,011**	1,102,892,570	55,145

Note:

(i) During the six months ended 30 June 2017, pursuant to the general mandate given to the Directors, the Company repurchased 2,676,000 shares at prices ranging from HK$1.88 to HK$1.99 through the Stock Exchange at a total consideration of approximately HK$5,273,000.The repurchased shares were cancelled on 15 March 2017. This cancellation resulted in the decrease in issued share capital of approximately HK$134,000 and share premium of approximately HK$5,139,000.

15. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") at the annual general meeting of the Company held on 21 May 2015 for the purpose of providing incentive to Participants (as defined in the Scheme) to contribute to the Group and enabling the Group to recruit and retain high-calibre employees and attracting human resources that are valuable to the Group.

The Scheme shall be valid and effective for a period of ten years commencing on the adoption date after which period no further share options shall be offered or granted but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted or exercised prior thereto. The principal terms of the Scheme were disclosed in the circular of the Company dated 21 April 2015.

15. SHARE OPTION SCHEME (CONTINUED)

A summary of the movements of the share options granted under the Scheme during the six months ended 30 June 2017 were as follows:

	Number of share options							
	As at 1 January 2017	Granted	Exercised	As at 30 June 2017	% of issued share capital	Date of grant	Exercise price *HK$*	*Note*
Grantee (Note i):								
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	27,500,000	2.50	22 April 2015	1.95	(ii)
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	27,500,000	2.50	22 April 2015	2.50	(ii)
Total	55,000,000	–	–	55,000,000	5.00			

Notes:

(i) The Grantee is a consultant of the Company providing advice on the Group's strategic planning, business expansion and development, and investor relation management. In consideration of motivating the Grantee in its performance of services, the Company granted the share options to the Grantee pursuant to a conditional agreement dated 22 April 2015 (as amended by a supplemental agreement dated 30 April 2015) entered into between the Grantee and the Company, which were approved, ratified and confirmed by the shareholders at the special general meeting of the Company held on 21 May 2015.

(ii) The share options are exercisable from 22 April 2015 to 21 April 2018. Vesting of the share options is conditional upon the Grantee assisting the Company to achieve certain performance targets, which were disclosed in the circular of the Company dated 5 May 2015.

15. SHARE OPTION SCHEME (CONTINUED)

The fair values of the shares options granted were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	Options with exercise price of HK$1.95	Options with exercise price of HK$2.50
Fair value at measurement date	HK$0.685	HK$0.520
Share price	HK$2.175	HK$2.175
Expected tenor	3 years	3 years
Expected vesting probability	50%	50%
Expected volatility	47.20%	47.20%
Expected dividend yield	1.97%	1.97%
Risk-free interest rate	0.95%	0.95%

The expected tenor used in the model has been adjusted, based on the management's best estimate. The expected volatility was determined by using the historical volatility of the Company's share prices over the previous years. The expected dividend yield was based on historical dividends. Risk-free interest rate was based on the yield of Hong Kong Exchange Fund Note. Changes in the variables and assumptions may result in changes in the fair values of the share options.

In total, approximately HK$2,818,000 (2016: approximately HK$2,834,000) of share option expense has been recognised in profit and loss for the six months ended 30 June 2017 and the corresponding amount of which has been credited to share option reserve.

16. CAPITAL COMMITMENTS

	At 30 June 2017 (unaudited) HK$'000	At 31 December 2016 (audited) HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**28,190**	19,534
Leasehold land	**108,262**	106,119
	136,452	125,653

17. RELATED PARTY DISCLOSURES

Apart from details of the entrusted loan to a related party disclosed in Note 11, the Group has entered into the following transactions with related parties during the period:

	For the six months ended 30 June	
	2017 (unaudited) HK$'000	2016 (unaudited) HK$'000
Related party in which a close member of a Director of the Company has control		
Rental paid	**6,060**	5,609
Related party in which a Director of the Company has significant influence		
Purchase of materials	**7,790**	–
Fellow subsidiaries		
Commission paid	**–**	79
Interest income received	**3,872**	–
Purchase of materials	**31**	–
Sales of goods	**18,522**	–
Ultimate holding company		
Other income received	**79**	228
Compensation of key management personnel		
The remuneration of Directors and other members of key management during the period was as follows:		
Short-term benefits	**19,809**	23,405
Post-employment benefits	**583**	723
	20,392	24,128

18. DISCLOSURES PURSUANT TO RULE 13.18 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 2017 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 8 July 2015 and 16 November 2015, the Group accepted the renewal of banking facilities to the extent of approximately HK$367 million offered by a bank. The renewed banking facilities include a 3-year term loan of US$30 million and other trade finance facilities. The term 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 of the Group. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）, the controlling shareholder of the Company currently holding approximately 55.94% interest of the Company, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

(ii) On 28 October 2015, the Group accepted the renewal of banking facilities to the extent of approximately HK$317 million offered by a bank. The renewed banking facilities include a term fixed loan of the outstanding principal amount of approximately HK$142 million and other trade finance facilities. The term 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 of the Group. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

18. DISCLOSURES PURSUANT TO RULE 13.18 OF THE LISTING RULES (CONTINUED)

(iii) On 13 September 2016, certain indirect wholly-owned subsidiaries of the Company accepted the renewal of banking facilities to the extent of approximately HK$451 million offered by a bank. The renewed banking facilities include, among others, an outstanding 3-year term loan of HK$100 million (the "First Term Loan") and a new 3-year term loan in an aggregate principal amount of HK$250 million in two tranches of HK$150 million and HK$100 million respectively (the "Second Term Loan"). The banking facilities will be used for financing the general corporate funding requirements of the Group (including refinancing the existing loans and financing the construction of the buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premise of the Group. The First Term Loan of HK$100 million has been drawn down in October 2015 and shall be repaid by four semi-annually Instalments commencing 18 months after the date of first drawdown. The Second Term Loan of HK$250 million shall be repayable in full by seven quarterly instalments commencing 18 months after the date of first drawdown of each tranche. The terms and conditions of the banking 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 banking facilities.

(iv) On 31 March 2016, certain wholly-owned subsidiaries of the Company (as borrowers) accepted the banking facilities offered by a bank (as lender) as stipulated in the two facility letters dated 20 November 2015 and 18 February 2016 (the "1st Facility Letter" and "2nd Facility Letter" respectively and collectively the "Facility Letters").

The 1st Facility Letter is for trade finance facilities up to an aggregate amount of HK$60 million being available to two wholly-owned subsidiaries of the Company namely Fong's National Engineering Company, Limited and Fong's Steels Supplies Company Limited. The 2nd Facility Letter is for a three-year term loan facility of a principal amount of HK$100 million (the "Term Loan") being available to Tycon Alloy Industries Holding Limited, a wholly-owned subsidiary of the Company. The Term Loan will be utilised for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises of the Group. Pursuant to the terms and conditions of the Facility Letters, it will be an event of default if China Hi-Tech Group Corporation (中國恒天集團有限公司) ceases to maintain an aggregate beneficial ownership (directly or indirectly) of not less than 51% in the issued share capital of the Company throughout the life of the Facility Letters.

18. DISCLOSURES PURSUANT TO RULE 13.18 OF THE LISTING RULES (CONTINUED)

(v) On 1 June 2017, a wholly-owned subsidiary of the Company (as borrower) accepted the term loan facility of up to HK$100 million offered by a bank. The term loan shall be repaid by seven quarterly instalments commencing 18 months after the date of drawdown. The term 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 of the Group. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

(vi) On 31 July 2017, certain indirect wholly-owned subsidiaries of the Company accepted the revised banking facilities offered by a bank. The revised banking facilities comprise three term loans and other trade related facilities up to an aggregate maximum amount of approximately HK$525 million. The terms and conditions of the banking facilities include, Inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

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 2017 and as at the date of this Interim Report.

19. EVENT AFTER THE END OF THE REPORTING PERIOD

On 24 July 2017, the Group entered into an equity transfer agreement with an independent third party for the acquisition of 41% of equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") at a consideration of RMB16,605,000. CSCE is a private company established in the PRC and principally engages in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling and innocuous treatment, municipal solid waste incineration power generation, municipal sewage sludge treatment and high concentration organic wastewater treatment projects, etc.).

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 3 HK cents per share for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil) to shareholders whose names appear on the register of members of the Company on Wednesday, 20 September 2017. The interim dividend will be paid on or about Thursday, 28 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 18 September 2017 to Wednesday, 20 September 2017, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, 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, 15 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business performance

For the six months ended 30 June 2017 (the "Period under Review"), the Group recorded consolidated revenue of approximately HK$1,520,000,000, representing an increase of 11% as compared to approximately HK$1,368,000,000 in the corresponding period of last year. Profit attributable to owners of the Company was increased significantly to approximately HK$99,000,000 from approximately HK$31,000,000 in the corresponding period of last year. Basic earnings per share for the Period under Review were 9.01 HK cents as compared to 2.77 HK cents for the corresponding period of last year.

Manufacture and sale of dyeing and finishing machines

Though operating environment for the dyeing and finishing machine segment was still challenging, thanks to the concerted efforts of the Group's operating team to strengthen marketing efforts and improve the quality and competitiveness of our products, the sales of dyeing and finishing machines for the Period under Review were recorded an increase. For the six months ended 30 June 2017, this business segment recorded revenue of approximately HK$1,164,000,000, accounting for 77% of the Group's revenue and representing an increase of 15% from approximately HK$1,012,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$650,000,000, representing an increase of 38% from approximately HK$470,000,000 in the corresponding period of last year; while sales from overseas markets were approximately HK$514,000,000, representing a decrease of 5% from approximately HK$542,000,000 in the corresponding period of last year. Operating profit was significantly increased to approximately HK$115,000,000 from approximately HK$50,000,000 in the corresponding period of last year.

For the Period under Review, this business segment recorded an increase in terms of revenue, gross profit margin and operating profit. The main reasons for the significant results improvement include the proactive promotion of innovative products by the Group in the past, while the product optimisation and quality upgrading work started to achieve results and advantages, which increased the market competitiveness and revenue. In addition, the Group has continuously improved the production process in recent years, and endeavored to optimise raw material purchase. With the relative stability of the prices of stainless steel as the major raw material, the gross profit margin has improved.

In order to cater for the future development of the textile industry, the demand on automated production and the new trend of smart factory, the Group will continue to invest resources in enhancing the efficiency, as well as the functions of environmental protection, energy saving and automation of its dyeing and finishing machines so as to deliver premium products and provide innovative products and solutions of energy conservation and environment protection to customers.

Manufacture and sale of dyeing and finishing machines (Continued)

Construction of Phase II of the new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province has progressed well and is scheduled to be completed in 2017. Upon full operation of the new plant, the Group's production capacity is expected to increase significantly. The new Zhongshan plant will be keen on improving energy conservation and production efficiency. The new plant will apply more automated processes in its production process design, targeting at reducing manpower requirement and labour costs.

Looking forward, Chinese government has proactively launched various reforming and innovative initiatives in recent years to promote "Environment Protection and Energy Saving" as well as to encourage technological innovation and facilitate upgrading and transformation in traditional industries. At the meantime, policies including "One Belt and One Road" and "Made in China 2025" were implemented to drive economic growth. Those policies will have a positive effect on economic growth in the long run, and also provide new opportunities for the Group's medium to long-term development. The Board believes that the Group has laid a solid foundation for its mission to "become a world-class manufacturer of dyeing and finishing machinery". By excelling ourselves and striving to continuously broaden product offerings for our customers, we will use our best endeavor to increase our market share and make the Group bigger and stronger. In addition, the Group will continue to pursue its strategy of making advancement in stable operation and actively explore and identify investment opportunities with synergistic effects so as to lay a solid foundation for the Group in achieving long-term and healthy development.

Trading of stainless steel supplies

Affected by the better market demand, the lowest inventory of stainless steel in history, etc., the price of stainless steel began to have a stable rise since the beginning of 2017, and the gross profit margin from stainless steel distribution also experienced a slight increase. For the six months ended 30 June 2017, this business segment recorded revenue of approximately HK$154,000,000, accounting for 10% of the Group's revenue and representing an increase of 4% as compared to approximately HK$148,000,000 in the corresponding period of last year. During the period, the operating profit amounted to approximately HK$7,000,000, while the operating profit for the corresponding period of last year was approximately HK$1,000,000.

The Group has been engaged in trading of stainless steel supplies since 1988 and has established strong relationship with some global leading steel manufacturing companies. As such, it is able to provide a diverse range of reliable and high-quality steel supplies to end-users, while procuring stainless steel raw materials for the Group's dyeing and finishing machine business in a more cost-effective way.

Trading of stainless steel supplies (Continued)

The Group will continue to adopt a prudent approach in running this business. It will take appropriate measures to control market risks, adjust selling prices and the level of inventories properly in a timely manner based on market analysis and its judgement, in order to improve the inventory turnover ratio while minimising the risk of price fluctuations. At the same time, the Group will strengthen the credit management of sales and trade receivables in order to lower the risk of bad debts and enhance its cash flow position.

In the second half of 2017, the price of stainless steel is expected to remain stable with slight fluctuations. The construction industry in Hong Kong is booming as more major infrastructure projects have commenced, which, coupled with the accelerated pace of urbanisation and the infrastructure construction in the PRC, will bring opportunities to the trade of stainless steel. Therefore, the Group remains optimistic about the prospect of the stainless steel trading business. The Group will closely monitor and respond to market changes to maintain steady growth in this business segment.

Manufacture and sale of stainless steel casting products

The products of this business segment 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 industrial facilities in industries such as valves, pumps, chemical, oil, natural gas and foods, with customers principally hailing from Europe, the United States and Japan.

For six months ended 30 June 2017, this business segment recorded revenue of approximately HK$202,000,000, accounting for 13% of the Group's revenue and representing a slight decrease of 2% compared to approximately HK$207,000,000 in the corresponding period of last year. During the Period under Review, the operating profit amounted to approximately HK$19,000,000, and the operating profit of the corresponding period of last year was approximately HK$18,000,000. This business segment reported satisfactory performance as a whole and the results were in line with targets.

The Group will continue to optimise cost control, improve workshops and the production processes of certain products, increase automated production equipment, reduce the scrappage rate of its products and enhance product quality, and develop new customers, with a view to laying a solid foundation for sustainable and healthy development of this business segment in preparation for the coming market rebound.

The Group believes that market demand for high-quality stainless steel castings will continue to grow in the mid to long term. When the overall economic and market environment stabilises, this business segment will maintain steady revenue growth and make sustainable contribution to the Group's profit.

Expansion into new business

As a leading textile machinery manufacturer, the Group not only dedicates to the dyeing and finishing machines sector, but also actively pursues business development along the whole industrial chain, especially in wastewater treatment operation where we develop, construct and provide wastewater treatment equipment for our customers in dyeing and finishing industry and provide them with relevant technical consultancy services.

Furthermore, on 24 July 2017, the Group entered into an equity transfer agreement with an independent third party for the acquisition of 41% of equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") at a consideration of RMB16,605,000. CSCE is a private company established in the PRC and principally engages in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling and innocuous treatment, municipal solid waste incineration power generation, municipal sewage sludge treatment and high concentration organic wastewater treatment projects, etc.). With over twenty years of experience, CSCE has gained the relevant expertise in environmental protection and has obtained necessary licenses from the PRC authorities to operate the approved projects. The Board considered that this acquisition was an unrivalled opportunity for the Group to expand its business scope by participating in the fast growing environmental waste treatment operation in China. The acquisition would also bring the Group additional income for further enhancement of the Group's results performance.

Human resources

As at 30 June 2017, the Group had a total of approximately 4,400 employees (31 December 2016: approximately 4,300 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India as well as Central and South America. In the first half of 2017, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$359,000,000 (In the first half of 2016: approximately HK$342,000,000), accounting for 24% (In the first half of 2016: 25%) of our revenue. The Group will continue to monitor the market situation and consolidate its human resource and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

The Group has always placed great importance on human resources and considers that competitive remuneration is an essential factor that motivates employees at all levels to be dedicated to their work and to provide customers with high-quality products and services. The Group's employees are remunerated according to industry benchmarks, prevailing market conditions, their experiences and performance. The Group's remuneration policies and packages are reviewed by the Remuneration Committee of the Company on a regular basis. Discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance. The Group also provides employees with other benefits including annual leave, medical insurance, education subsidies, and contributions to retirement benefits schemes or Mandatory Provident Fund Scheme.

Human resources (Continued)

The Group recognises the importance of having high caliber employees. Therefore, the Group will continue to offer appropriate training programs to employees at all levels on an ongoing basis so as to improve staff's quality to better cope with the future development of the Group.

Liquidity and capital sources

Given continuously increasing cost pressure, the Group has strictly implemented prudent cost and cash flow management. During the period, the Group met its funding requirements for its ordinary and normal course of business with cash flow generated from operating activities and existing banking facilities. The Board believes that the Group is in a healthy financial position and has sufficient resources to meet its working capital requirements.

During the six months ended 30 June 2017, the Group's net cash inflow generated from operating activities was approximately HK$22,000,000. As at 30 June 2017, the Group's inventory level increased to approximately HK$755,000,000 as compared to approximately HK$573,000,000 as at 31 December 2016.

As at 30 June 2017, bank borrowings of the Group amounted to approximately HK$1,207,000,000. Most of the bank borrowings were sourced from Hong Kong, with 81% denominated in Hong Kong dollars and 19% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 30 June 2017, the Group's bank balances and cash amounted to approximately HK$676,000,000, of which 52% was denominated in Renminbi, 21% in Hong Kong dollars, 15% in United States dollars, 11% in Euros and the remaining 1% in other currencies.

The Group has continued to maintain prudent financial management policies during the period. As at 30 June 2017, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 37% (31 December 2016: 22%) and its current ratio was 1.00 (31 December 2016: 0.99). The Board considers these ratios remaining at healthy and appropriate levels.

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

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 30 June 2017, 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$0.05 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Kwok Leung, Kevin	Beneficial owner	3,100,000	0.28%
	Held by spouse	200,000	0.02%
	Beneficiary of a discretionary trust *(Note)*	126,104,220	11.46%
		129,404,220	11.76%

Note: Mr. Fong Kwok Leung, Kevin is a beneficiary of a discretionary trust which owns (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 5,100,000 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 121,004,220 shares as follows:

(i) Bristol Investments Limited – 16,000,000 shares
(ii) Polar Bear Holdings Limited – 78,000,000 shares
(iii) Sheffield Holdings Company Limited – 27,004,220 shares

By virtue of the SFO, Mr. Fong Kwok Leung, Kevin is deemed to be interested in the 126,104,220 shares which the discretionary trust owns.

Save as disclosed above, 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 2017.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2017, 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$0.05 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
China Hi-Tech Group Corporation	Corporate interests *(Note A)*	615,408,140	55.94%
Mr. Fong Sou Lam	Beneficial owner	48,800,000	4.44%
	Held by spouse	10,000,000	0.91%
	Founder of a discretionary trust *(Note B)*	126,104,220	11.46%
		184,904,220	16.81%

Note A: By virtue of the SFO, China Hi-Tech Group Corporation is deemed to be interested in 615,408,140 shares held by its two wholly-owned subsidiaries as follows:

(i) Newish Trading Limited – 257,617,640 shares
(ii) China Hi-Tech Holding Company Limited – 357,790,500 shares

Mr. Ye Maoxin and Mr. Du Qianyi, both being Executive Directors of the Company, are the directors of Newish Trading Limited.

Mr. Ye Maoxin, Mr. Ji Xin and Mr. Du Qianyi, all being Executive Directors of the Company, are the directors of China Hi-Tech Holding Company Limited.

Note B: Mr. Fong Sou Lam is the founder of a discretionary trust which owns (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 5,100,000 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 121,004,220 shares as follows:

(i) Bristol Investments Limited – 16,000,000 shares
(ii) Polar Bear Holdings Limited – 78,000,000 shares
(iii) Sheffield Holdings Company Limited – 27,004,220 shares

By virtue of the SFO, Mr. Fong Sou Lam is deemed to be interested in the 126,104,220 shares which the discretionary trust owns.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO (CONTINUED)

Long position in shares of HK$0.05 each of the Company (Continued)

Save as disclosed above, as at 30 June 2017, 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

During the six months ended 30 June 2017, the Company purchased certain of its ordinary shares on the Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price by share		Total price paid
		Highest	Lowest	
		HK$	HK$	HK$
February 2017	2,676,000	1.99	1.88	5,273,280

The issued share capital of the Company was reduced by the par value thereof. The premium paid on the purchases of the Company's shares of HK$5,139,480 has been charged to the share premium account of the Company. An amount of HK$133,800 equivalent to the par value of the shares cancelled had been transferred from the retained profits of the Company to the capital redemption reserve. The purchase of the Company's shares was effected by the Directors pursuant to the mandate from shareholders received at the annual general meeting of the Company held on 25 May 2016.

Save as disclosed above, 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 2017.

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 2017.

CORPORATE GOVERNANCE

During the six months ended 30 June 2017, 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.

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. The Audit Committee currently comprises three Independent Non-executive Directors of the Company, namely Mr. Ying Wei (committee chairman), Dr. Yuen Ming Fai and Mr. Li Jianxin.

The Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2017 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, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Ji Xin (Chief Executive Officer) and Mr. Du Qianyi (Chief Financial Officer); the Non-executive Director is Mr. Fong Kwok Leung, Kevin; and the Independent Non-executive Directors are Mr. Ying Wei, Dr. Yuen Ming Fai and Mr. Li Jianxin.

On behalf of the Board
Ye Maoxin
Chairman

Hong Kong, 29 August 2017