CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limted liability)

(Stock Code: 641)

Interim Report 2018

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
PKF Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG
Hang Seng Bank Limited
Chong Hing Bank Limited
Bank of China (Hong Kong) Limited
Standard Chartered 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
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REGISTERED OFFICE
Canon's Court, 22 Victoria Street,
Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
8th Floor,
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WEBSITE ADDRESS
http://www.fongs.com

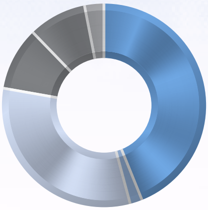
FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

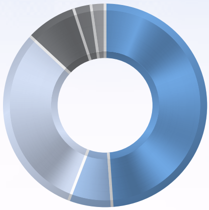
By geographical region

INTERIM 2018



The PRC	606 (44%)
Hong Kong	33 (2%)
Asia Pacific	434 (32%)
Europe	142 (10%)
North and South America	116 (9%)
Others	48 (3%)
Total:	**1,379 (100%)**

INTERIM 2017

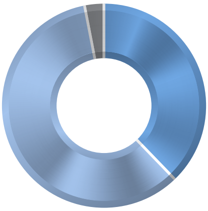


The PRC	568 (49%)
Hong Kong	81 (7%)
Asia Pacific	366 (31%)
Europe	92 (8%)
North and South America	35 (3%)
Others	22 (2%)
Total:	**1,164 (100%)**

Trading of Stainless Steel Supplies

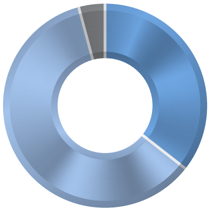
By geographical region

INTERIM 2018



The PRC	53 (38%)
Hong Kong	82 (59%)
Asia Pacific	4 (3%)
Total:	**139 (100%)**

INTERIM 2017



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

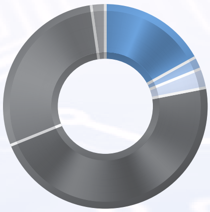
Manufacture and Sale of Stainless Steel Casting Products

By geographical region

INTERIM 2018

The PRC	45 (19%)
Hong Kong	5 (2%)
Asia Pacific	11 (5%)
Europe	105 (44%)
North and South America	73 (30%)
Others	0 (0%)
Total:	**239 (100%)**

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%)**

The board of directors (the "Board") of CHTC Fong's International 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 2018 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 2018

	Note	For the six months ended 30 June **2018 (unaudited) HK$'000**	 2017 (unaudited) HK$'000
Revenue	4	**1,764,112**	1,520,350
Cost of sales		**(1,196,035)**	(977,082)
Gross profit		**568,077**	543,268
Interest income		**6,122**	6,069
Other income		**12,959**	8,675
Other (losses) gains	6	**(6,592)**	4,484
Selling and distribution costs		**(150,866)**	(123,363)
Administrative and other expenses		**(299,886)**	(291,755)
Finance costs	5	**(17,805)**	(16,545)
Share of results of an associate		**92**	–
Profit before tax	6	**112,101**	130,833
Income tax expense	7	**(27,788)**	(31,665)
Profit for the period		**84,313**	99,168
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**14,586**	26,679
Share of changes in translation reserve of an associate		**296**	–
Other comprehensive income for the period		**14,882**	26,679
Total comprehensive income for the period		**99,195**	125,847
Profit (loss) for the period attributable to:			
Owners of the Company		**88,606**	99,168
Non-controlling interests		**(4,293)**	–
		84,313	99,168
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**103,326**	125,847
Non-controlling interests		**(4,131)**	–
		99,195	125,847
		HK cents	HK cents
Earnings per share			
Basic and diluted	8	**8.05**	9.01

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Note	At 30 June 2018 (unaudited) HK$'000	At 31 December 2017 (audited) HK$'000
Non-current assets			
Property, plant and equipment	10	**1,078,201**	956,735
Prepaid lease payments		**225,426**	226,101
Goodwill		**538,050**	538,050
Intangible assets		**258,135**	261,590
Available-for-sale financial assets		**–**	186,332
Financial assets at fair value through other comprehensive income		**180,943**	–
Investment in an associate		**30,106**	29,718
Deposits for acquisition of property, plant and equipment		**56,760**	47,484
Deposits for acquisition of leasehold land		**7,779**	7,702
Deposits for acquisition of a subsidiary	11	**32,447**	–
Deferred tax assets		**20,594**	20,482
		2,428,441	2,274,194
Current assets			
Inventories		**864,755**	750,830
Trade and other receivables	12	**754,625**	664,125
Prepaid lease payments		**5,523**	5,473
Tax recoverable		**3,063**	3,290
Cash and cash equivalents		**596,721**	573,198
		2,224,687	1,996,916
Current liabilities			
Trade and other payables	13	**894,445**	959,972
Warranty provision		**14,909**	15,963
Tax liabilities		**27,034**	31,758
Borrowings	14	**1,472,941**	1,060,887
		2,409,329	2,068,580
Net current liabilities		**(184,642)**	(71,664)
Total assets less current liabilities		**2,243,799**	2,202,530

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018

	Note	**At 30 June 2018 (unaudited) HK$'000**	At 31 December 2017 (audited) HK$'000
Non-current liabilities			
Borrowings	14	**100,000**	100,000
Deferred revenue		**69,417**	40,115
Deferred tax liabilities		**59,299**	54,820
Other payable		**359,568**	356,004
		588,284	550,939
Net assets		**1,655,515**	1,651,591
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	15	**55,011**	55,011
Share premium and reserves		**1,583,573**	1,575,518
		1,638,584	1,630,529
Non-controlling interests		**16,931**	21,062
Total equity		**1,655,515**	1,651,591

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Fair Value reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	55,011	152,122	(581)	2,504	-	51,272	1,328,005	25,582	16,614	1,630,529	21,062	1,651,591
Impact on initial application of HKFRS 9	–	–	–	–	(7,254)	–	-	–	–	(7,254)	–	(7,254)
Adjusted balances at 1 January 2018	55,011	152,122	(581)	2,504	(7,254)	51,272	1,328,005	25,582	16,614	1,623,275	21,062	1,644,337
Profit (loss) for the period	–	–	–	–	–	-	88,606	–	–	88,606	(4,293)	84,313
Other comprehensive income for the period, net of tax	–	–	–	–	–	14,720	–	–	–	14,720	162	14,882
Total comprehensive income (expense) for the period	–	–	–	–	–	14,720	88,606	–	–	103,326	(4,131)	99,195
Release of capital reserve upon deregistration of a subsidiary	–	–	581	–	–	(9)	(572)	–	-	-	–	-
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	16,614	–	(16,614)	-	–	-
Final dividend for 2017 paid	–	–	–	–	–	–	(88,017)	–	–	(88,017)	–	(88,017)
At 30 June 2018	55,011	152,122	-	2,504	(7,254)	65,983	1,344,636	25,582	-	1,638,584	16,931	1,655,515
At 1 January 2017	55,145	157,261	(581)	2,370	-	(32,183)	1,117,298	25,582	9,202	1,334,094	-	1,334,094
Profit for the period	–	–	–	–	–	-	99,168	–	–	99,168	-	99,168
Other comprehensive income for the period, net of tax	–	–	–	–	–	26,679	–	–	–	26,679	-	26,679
Total comprehensive income for the period	–	–	–	–	–	26,679	99,168	–	–	125,847	-	125,847
Repurchase of shares	(134)	(5,139)	-	134	–	-	-(134)	–	-	(5,273)	–	(5,273)
Effects of share options	–	–	–	–	–	–	-	–	2,818	2,818	–	2,818
Final dividend for 2016 paid	–	–	–	–	–	–	(38,508)	–	–	(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	-	1,418,978

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (unaudited) HK$'000	2017 (unaudited) HK$'000
Net cash (used in) generated from operating activities	**(60,695)**	21,846
Net cash used in investing activities	**(219,532)**	(196,856)
Net cash generated from financing activities	**304,262**	55,852
Net increase (decrease) in cash and cash equivalents	**24,035**	(119,158)
Cash and cash equivalents at beginning of the period	**573,198**	790,259
Effect of foreign exchange rate changes	**(512)**	5,112
Cash and cash equivalents at end of the period	**596,721**	676,213

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"). CHTC is a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Commission 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.

Therefore, upon completion of the Proposed Reorganisation, CHTC will be directly owned by SINOMACH and the Company will 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. It was noted that the Proposed Reorganisation has been approved by the Ministry of Commerce, the registration procedure of the equity transfer is currently in progress. The Company will closely monitor the development of the Proposed Reorganisation and make further disclosure in due course.

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, manufacture and sale of stainless steel casting products and provision of environmental protection services.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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 unaudited consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The condensed consolidated interim financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2017, except for the adoption of the new and revised HKFRSs as disclosed in Note 3.

In the current interim 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 2018. The impact of the adoption of the new and revised HKFRSs are disclosed in Note 3.

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

3. CHANGES IN ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Annual Improvements to HKFRSs (2014-2016)	Amendments to HKFRS 1 and HKAS 28

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The effect of the adoption of these new and revised HKFRSs in the current period has had no material impact on the Group's financial performance and position of the current and prior periods except for the adoption of HKFRS 9 "Financial Instruments".

Under the transition method chosen, the Group recognised cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information was not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9.

	At 31 December 2017 HK$'000	HKFRS 9 HK$'000	At 1 January 2018 HK$'000
Available-for-sale financial assets	186,332	(186,322)	–
Financial assets at fair value through other comprehensive income	–	179,068	179,068
Total non-current assets	**2,274,194**	**(7,254)**	**2,266,940**
Share premium and reserves	1,575,518	(7,254)	1,568,264
Total equity	**1,651,591**	**(7,254)**	**1,644,337**

Available-for-sale financial assets were stated at cost less impairment in prior years and the carrying amounts were HK$186,332,000 as at 31 December 2017. The available-for-sale financial assets under HKAS 39 have been reclassified as financial assets at fair value through other comprehensive income under HKFRS 9 and have been re-measured and stated at fair value amounting to HK$179,068,000 as at 1 January 2018. The decrease in fair value on re-measurement of financial assets at fair value through other comprehensive income amounted to HK$7,254,000 which was debited to fair value reserve of the Group on 1 January 2018.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(a) **Classification of financial assets and financial liabilities**

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Non-equity financial assets held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial asset is calculated using the effective interest method;

- FVOCI-recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVPL, if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

Investment in equity securities are classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 9 "Financial Instruments" (Continued)

(a) Classification of financial assets and financial liabilities (Continued)

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVPL that is attributable to changes of that financial liabilities' credit risk to be recognized in other comprehensive income (non-recycling).

(b) Impairment

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the"expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial assets, the ELC is based on the 12-month ECLs. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

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. Provision of environmental protection services

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 2018 (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$'000	Provision of environmental protection services HK$'000	Total HK$'000
Revenue					
External sales	1,378,800	139,357	239,164	6,791	1,764,112
Inter-segment sales	318	118,211	16,812	–	135,341
Segment revenue	1,379,118	257,568	255,976	6,791	1,899,453
Elimination					(135,341)
Group revenue					1,764,112
Results					
Segment profit (loss)	94,527	9,514	28,581	(8,930)	123,692
Interest income					6,122
Finance costs					(17,805)
Share of results of an associate					92
Profit before tax					112,101

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

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$'000	Provision of environmental protection services HK$'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

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.

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	
	2018 (unaudited) HK$'000	2017 (unaudited) HK$'000
The PRC	**710,749**	**658,669**
Hong Kong	**119,778**	**179,382**
Asia Pacific (other than the PRC and Hong Kong)	**448,440**	**375,174**
Europe	**246,726**	**186,846**
North and South America	**189,728**	**93,233**
Others	**48,691**	**27,046**
	1,764,112	**1,520,350**

5. FINANCE COSTS

	For the six months ended 30 June	
	2018 (unaudited) HK$'000	2017 (unaudited) HK$'000
Interest on borrowings	**19,782**	17,550
Less: Interest capitalised	**(6,483)**	(4,507)
	13,299	13,043
Bank charges	**4,506**	3,502
	17,805	16,545

6. PROFIT BEFORE TAX

	For the six months ended 30 June 2018 (unaudited) HK$'000	2017 (unaudited) HK$'000
Profit before tax has been arrived at after charging (crediting):		
Other losses (gains):		
Loss (gain) on disposal of property, plant and equipment	**3**	(325)
Foreign exchange loss (gain)	**6,589**	(4,159)
Total other losses (gains)	**6,592**	(4,484)
Depreciation and amortisation:		
Amortisation of intangible assets	**3,934**	1,266
Amortisation of prepaid lease payments	**2,787**	2,577
Depreciation of property, plant and equipment	**25,804**	29,195
Total depreciation and amortisation	**32,525**	33,038

7. INCOME TAX EXPENSE

	For the six months ended 30 June 2018 (unaudited) HK$'000	2017 (unaudited) HK$'000
Hong Kong Profits Tax:		
Current period	**5,306**	6,770
Under-provision in prior years	**–**	1
PRC Corporate Income Tax:		
Current period	**19,975**	25,449
Over-provision in prior years	**(2,832)**	(5,769)
Overseas income tax:		
Current period	**186**	170
Under (over)-provision in prior years	**1,626**	(138)
	24,261	26,483
Deferred tax	**3,527**	5,182
Income tax expense	**27,788**	31,665

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	
	2018 **(unaudited)** **HK$'000**	2017 (unaudited) HK$'000
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**88,606**	99,168
	'000	'000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**1,100,217**	1,102,892
Effect of repurchase of shares	**–**	(1,904)
Weighted average number of ordinary shares at 30 June	**1,100,217**	1,100,988

(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 2018 and 2017.

9. DIVIDENDS

(a) Dividends recognised as distribution during the period:

	For the six months ended 30 June	
	2018 **(unaudited)** **HK$'000**	2017 (unaudited) HK$'000
2017 final dividend paid: 8 HK cents (2016: 3.5 HK cents) per share	**88,017**	38,508

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

	For the six months ended 30 June	
	2018 **(unaudited)** **HK$'000**	2017 (unaudited) HK$'000
Interim dividend declared: 3 HK cents (2017: 3 HK cents) per share	**33,006**	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

During the six months ended 30 June 2018, total cost of additions to property, plant and equipment of the Group was approximately 137,698,000 (2017: HK$105,744,000).

11. DEPOSITS FOR ACQUISITION OF A SUBSIDIARY

On 12 April 2018, Fong's Manufacturers Company Limited ("Purchaser"), a wholly-owned subsidiary of the Company, entered into a preliminary sale and purchase agreement ("Preliminary Agreement") with Joyful Lake Limited ("Vendor"), an independent third party for the acquisition of the entire issued share capital of PT Harvest Holdings Limited ("Target Company").

The Target Company is a private company incorporated in Hong Kong and is principally holding the properties, being the whole floor of 13/F (comprising office units Nos. 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13, 15, 16, 17 and 18) of Tower 2 (for commercial usage with a gross floor area of approximately 24,959 square feet) and eight car parks Nos. P81, P82, P83, P84, P85, P86, P87 and P88 on Level 6 of Kowloon Commerce Centre（九龍貿易中心）, No. 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong ("Properties").

To cope with the future expansion and development of the Group's businesses, it is intended that the Properties will be used as the Group's head office premises and principal place of business in Hong Kong. In view of the development of Hong Kong property market, the Board considers that the acquisition will enable the Group to save future rental expenses, broaden the fixed asset base of the Group and provide capital appreciation potential to the Group.

Further details of the Preliminary Agreement were disclosed in the Company's announcement dated 12 April 2018. The formal sale and purchase agreement was entered into between the Vendor and the Purchaser on 28 June 2018.

During the six months ended 30 June 2018, the Group has paid to the Vendor's solicitors as stakeholder deposits in the aggregate amount of approximately HK$32,447,000, which shall not be released to the Vendor until completion of the acquisition.

12. TRADE AND OTHER RECEIVABLES

	Note	At 30 June 2018 (unaudited) HK$'000	At 31 December 2017 (audited) HK$'000
Trade receivables		**329,311**	359,744
Less: Allowance for doubtful debts		**(7,426)**	(8,719)
		321,885	351,025
Bills receivables		**125,816**	144,991
		447,701	496,016
Entrusted loan to a related party	*(i)*	**84,056**	–
Other receivables		**222,868**	168,109
Total trade and other receivables		**754,625**	664,125

The Group allows an average credit period of 60 days (2017: 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 2018 (unaudited) HK$'000	At 31 December 2017 (audited) HK$'000
0-60 days	**243,317**	275,731
61-90 days	**20,807**	51,720
Over 90 days	**57,761**	23,574
	321,885	351,025

Note:

(i) On 3 January 2018, 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"), which is owned as to 13.26% by the Group and as to 42.74% by CHTC. According to the agreement, the bank agreed to provide a loan of RMB70,000,000 (equivalent to approximately HK$84,056,000) 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 31 March, 30 June, 30 September and 3 November 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 3 November 2018.

13. 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 2018 (unaudited) HK$'000	At 31 December 2017 (audited) HK$'000
0-90 days	**219,130**	213,368
91-120 days	**4,851**	15,617
Over 120 days	**42,549**	26,930
	266,530	255,915

The average credit period on purchase of goods is 90 days (2017: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

14. BORROWINGS

	At 30 June 2018 (unaudited) HK$'000	At 31 December 2017 (audited) HK$'000
Unsecured bank borrowings comprise the following:		
Bank loans	**1,469,160**	1,085,676
Trust receipts loans	**96,135**	75,211
Discounted bills with recourse	**7,646**	–
	1,572,941	1,160,887
Carrying amounts repayable*:		
Within one year	**128,781**	125,211
More than one year, but not exceeding two years	**100,000**	30,000
More than two years, but not exceeding five years	**–**	70,000
	228,781	225,211
Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**617,155**	373,330
More than one year, but not exceeding two years	**393,694**	379,703
More than two years, but not exceeding five years	**333,311**	182,643
	1,344,160	935,676
	1,572,941	1,160,887
Less: Amounts due within one year shown under current liabilities	**(1,472,941)**	(1,060,887)
Amounts shown under non-current liabilities	**100,000**	100,000

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

15. SHARE CAPITAL

	Note	At 30 June 2018 (unaudited) Number of shares	HK$'000	At 31 December 2017 (audited) Number of shares	HK$'000
Authorised:					
Ordinary shares		**2,000,000,000**	**100,000**	2,000,000,000	100,000
Issued and fully paid:					
At 1 January		**1,100,216,570**	**55,011**	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**	1,100,216,570	55,011

Note:

(i) During the year ended 31 December 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.

16. 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.

16. SHARE OPTION SCHEME (CONTINUED)

A summary of the movements of the share options granted under the Scheme during the six months ended 30 June 2018 were as follows:

	Number of share options							
	As at 1 January 2018	Granted	Exercised	Lapsed	As at 30 June 2018	Date of grant	Exercise price *HK$*	*Note*
Grantee (Note i):								
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	(27,500,000)	–	22 April 2015	1.95	(ii)
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	(27,500,000)	–	22 April 2015	2.50	(ii)
Total	55,000,000	–	–	(55,000,000)	–			

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 were exercisable during the period 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.

16. 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 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$Nil (2017: approximately HK$2,818,000) of share option expense has been recognised in profit or loss for the six months ended 30 June 2018 and the corresponding amount of which has been credited to share option reserve.

17. CAPITAL COMMITMENTS

	Note	**At 30 June 2018 (unaudited) HK$'000**	At 31 December 2017 (audited) HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of:			
Property, plant and equipment		**75,048**	54,549
Leasehold land		**114,357**	113,223
Subsidiary	(i)	**292,019**	–
		481,424	167,772

Note:

(i) The deposits of HK$32,447,000 paid had been included in the condensed consolidated statement of financial position as deposits for acquisition of a subsidiary. Please refer to Note 11 for details.

18. RELATED PARTY DISCLOSURES

Apart from details of the entrusted loan to a related party disclosed in Note 12, the Group has entered into the following transactions with related parties during the period:

	For the six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Related party in which a close member of a Director of the Company has control		
Rental paid	**6,060**	6,060
Related party in which a Director of the Company has significant influence		
Purchase of materials	**10,495**	7,790
Sales of goods	**1,296**	–
Fellow subsidiaries		
Interest income received	**4,186**	3,872
Purchase of materials	**15**	31
Sales of goods	**1,608**	18,522
Ultimate holding company		
Other income received	**235**	79
Compensation of key management personnel		
The remuneration of Directors and other members of key management during the period was as follows:		
Short-term benefits	**19,765**	19,809
Post-employment benefits	**602**	583
	20,367	20,392

19. EVENT AFTER THE END OF THE REPORTING PERIOD

On 23 August 2018, the Group completed the acquisition of the entire issued share capital of PT Harvest Holdings Limited at a consideration of approximately HK$325,293,000. Please refer to Note 11 for details.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 3 HK cents per share for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 3 HK cents) to shareholders whose names appear on the register of members of the Company on Wednesday, 19 September 2018. The interim dividend will be paid on or about Friday, 28 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 September 2018 to Wednesday, 19 September 2018, 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, 14 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business performance

For the six months ended 30 June 2018, the Group recorded consolidated revenue of approximately HK$1,764,000,000, representing an increase of 16% as compared to approximately HK$1,520,000,000 in the corresponding period of last year. Profit for the period was approximately HK$84,000,000, representing a decrease of 15% from approximately HK$99,000,000 in the corresponding period of last year. Basic earnings per share for the period under review were 8.05 HK cents as compared to 9.01 HK cents for the corresponding period of last year.

Manufacture and sale of dyeing and finishing machines

In terms of the dyeing and finishing machines segment, the year 2018 is full of challenge for the Group. During the period, the prices of stainless steel as the major raw material and the wages, selling expenses and finance costs all increased. However, the Group insisted on flexible pricing to maintain our market share, without entirely passing on such additional costs to our customers. With more than 50 years of continuous innovation in dyeing and finishing equipment, the Group has the advantages of providing customers with a one-stop service solution of diversified and high-quality dyeing and finishing equipment, despite the difficult operating environment. 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 still recorded an increase. For the six months ended 30 June 2018, this business segment recorded revenue of approximately HK$1,379,000,000, accounting for 78% of the Group's revenue and representing an increase of 18% from approximately HK$1,164,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$639,000,000, representing a slight decrease of 2% from approximately HK$650,000,000 in the corresponding period of last year; while sales from overseas markets were approximately HK$740,000,000, representing an increase of 44% from approximately HK$514,000,000 in the corresponding period of last year. Operating profit for the period was approximately HK$95,000,000, representing a decrease of 17% from approximately HK$115,000,000 in the corresponding period of last year.

Manufacture and sale of dyeing and finishing machines (Continued)

Looking forward, the Group's operations will continuously be affected by rising raw material prices, currency exchange rate fluctuations and increasing bank borrowing costs. In addition, as it is still difficult for SME customers in the Mainland China to finance for equipment procurement, and trade friction between China and the United States appeared recently, the Group will still face challenging business environment in the second half of 2018. Nevertheless, the Group is cautiously optimistic about its future operating conditions and will remain vigilant against market changes in order to take reaction in a timely manner. The Chinese government is striving to promote reforms and innovations to boost domestic demand. It also facilitates the implementation of "environmental protection and energy saving" requirements to encourage technological transformation and upgrading as well as production expansion by means of equipment upgrading and purchase in traditional industries. Meanwhile, it stimulates economic growth with the "Belt and Road Initiative" and "Made in China 2025" policies, which are positive for the long-term economic development and will in turn provide new opportunities for the medium and long-term development of the Group. To keep up with the latest market trends, the Group will continue to optimise its products based on its professional experience accumulated over the 55 years in the industry, so as to enhance its competitiveness and maintain its leading position in the industry. It will also address the need of environmental protection and energy saving, industrial upgrading and dyehouse automation. As set out in the Annual Report 2017 of the Company, the Group has established a joint venture company in Yantai which is equipped with the most advanced printing and dyeing automation production line nationwide and is engaged in printing, dyeing and after-finishing of high-end fabrics, with an aim to develop an intelligent dyeing demonstration production base. The printing and dyeing automation production line has entered the preparation stage of the establishment and has made progress smoothly. 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 and maximising shareholder values.

The new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province is starting to conduct interior decoration and equipment installation by phases. It is expected that the relocation of production lines to the new Zhongshan plant will be completed in 2019. 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, as well as applying more automated processes in its production process, it is expected that the production cycle will be shortened, the manpower and management cost will be reduced, such that the Group's operation efficiency will be improved.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trading of stainless steel supplies

Owing to the improved market demand, the inventory level of stainless steel at a historical low, the stainless steel price has begun a stable rise since the beginning of 2017, and the gross profit margin from stainless steel distribution also experienced an increase. For the six months ended 30 June 2018, this business segment recorded revenue of approximately HK$139,000,000, accounting for approximately 8% of the Group's revenue and representing a decrease of 9% as compared to approximately HK$154,000,000 in the corresponding period of last year. During the period, the operating profit amounted to approximately HK$10,000,000, while the operating profit for the corresponding period of last year was approximately HK$7,000,000.

As regards the trading of stainless steel supplies, 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 stainless 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.

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 judgments, 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 2018, 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 stainless steel trading business. 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 2018, this business segment recorded revenue of approximately HK$239,000,000, accounting for 14% of the Group's revenue and representing an increase of 18% compared to approximately HK$202,000,000 in the corresponding period of last year. During the period, the operating profit amounted to approximately HK$29,000,000, and the operating profit of the corresponding period of last year was approximately HK$19,000,000. This business segment reported satisfactory performance as a whole and the results were in line with the 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. On the other hand, the Group is now striving to expand its sales network in the United States in order to secure more orders, with a view to laying a solid foundation for sustainable and healthy development of this business segment.

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

Environmental protection services

As stated in the Annual Report 2017 of the Company, the Group completed the acquisition of 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") on 27 October 2017. CSCE 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.) in the PRC. 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.

For the six months ended 30 June 2018, this business segment recorded revenue of approximately HK$7,000,000, while the operating loss amounted to approximately HK$9,000,000 during the period. As the environmental waste treatment projects currently operated by CSCE is still at an initial phase, the Group expects that the related revenue will increase in the future.

Human resources

As at 30 June 2018, the Group had a total of approximately 4,600 employees (31 December 2017: approximately 4,500 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In the first half of 2018, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$377,000,000 (In the first half of 2017: approximately HK$359,000,000), accounting for 21% (In the first half of 2017: 24%) 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, contributions to retirement benefits schemes or mandatory provident fund scheme.

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 2018, the Group's net cash outflow used in operating activities was approximately HK$61,000,000. As at 30 June 2018, the Group's inventory level increased to approximately HK$865,000,000 as compared to approximately HK$751,000,000 as at 31 December 2017.

As at 30 June 2018, bank borrowings of the Group amounted to approximately HK$1,573,000,000. Most of the bank borrowings were sourced from Hong Kong, with 89% denominated in Hong Kong dollars and 11% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 30 June 2018, the Group's bank balances and cash amounted to approximately HK$597,000,000, of which 48% was denominated in Renminbi, 18% in Hong Kong dollars, 17% in Euros, 16% in United States dollars and the remaining 1% in other currencies.

The Group has continued to maintain prudent financial management policies during the period. As at 30 June 2018, 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 2017: 36%) and its current ratio was 0.92 (31 December 2017: 0.97). 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.

DISCLOSURE PURSUANT TO RULE 13.18 AND 13.21 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 2018 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 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 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), 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 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.

DISCLOSURE PURSUANT TO RULE 13.18 AND 13.21 OF THE LISTING RULES (CONTINUED)

(iii) 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.

(iv) 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.

(v) On 19 September 2017, the Group accepted the renewal of banking facilities to the extent of approximately HK$121.51 million offered by a bank. The renewed banking facilities include an outstanding 3-year term loan of US$10.45 million and other trade finance facilities up to HK$40 million. The term loan is 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.

DISCLOSURE PURSUANT TO RULE 13.18 AND 13.21 OF THE LISTING RULES (CONTINUED)

(vi) On 22 January 2018, 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 comprise an outstanding 3-year term loan of HK$50 million (the principal loan amount was HK$100 million) (the "First Term Loan"), an outstanding 3-year term loan of HK$250 million (the "Second Term Loan") and other trade-related facilities up to HK$151 million. 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 premises 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.

(vii) On 9 August 2018, certain wholly-owned subsidiaries of the Company accepted the revised banking facilities offered by a bank up to an aggregate amount of HK$500 million. The banking facilities comprise an existing 3-year term loan of HK$200 million for financing 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; a new 5-year term loan of HK$170 million for financing the general working capital requirements (including refinancing any existing indebtedness) of the Group; and a new 5-year term loan of HK$130 million for financing the acquisition of the entire issued shares of PT Harvest Holdings Limited holding properties in Kowloon Commerce Centre. 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 2018 and as at the date of this Interim Report.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 30 June 2018, 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 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 the entire share capital of the following companies which in turn beneficially own an aggregate of 126,104,220 shares as follows:

(i) Bristol Investments Limited – 16,000,000 shares
(ii) Polar Bear Holdings Limited – 83,100,000 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 2018.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2018, 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 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) China Hi-Tech Holding Company Limited – 357,790,500 shares
(ii) Newish Trading Limited – 257,617,640 shares

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.

Mr. Ye Maoxin and Mr. Du Qianyi, are the directors of Newish Trading Limited.

Note B: Mr. Fong Sou Lam is the founder of a discretionary trust which owns the entire issued share capital of the following companies which in turn beneficially own an aggregate of 126,104,220 shares as follows:

(i) Bristol Investments Limited – 16,000,000 shares
(ii) Polar Bear Holdings Limited – 83,100,000 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.

Save as disclosed above, as at 30 June 2018, 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 2018.

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 2018.

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, 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 derivations from the code provision A.6.7.

Under the code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Ying Wei (an Independent Non-executive Director) was unable to attend the annual general meeting of the Company held on 25 May 2018 as he had other 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. 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 2018 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, 28 August 2018