# INTERIM REPORT 2019

SMART DYEING & FINISHING
CHTC FONG'S INNOVATIONS

FONG'S®

## CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limted liability)

(Stock Code: 641)

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# 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)*
Mr. Wu Xudong

### 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
Chong Hing Bank Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Fubon Bank (Hong Kong) Limited
Dah Sing Bank, Limited
Standard Chartered Bank (Hong Kong) Limited
CTBC Bank Co., Ltd.
The Hongkong and Shanghai Banking Corporation 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
4th Floor, North Cedar House,
41 Cedar Avenue, Hamilton HM 12, Bermuda

## HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE
Tricor Secretaries Limited
Level 54, Hopewell Centre,
183 Queen's Road East, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

## REGISTERED OFFICE
5th Floor, Victoria Place, 31 Victoria Street,
Hamilton HM 10, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Level 13, Tower 2, Kowloon Commerce Centre,
51 Kwai Cheong Road, Kwai Chung,
Hong Kong
Tel: (852) 2497 3300
Fax: (852) 2432 2552

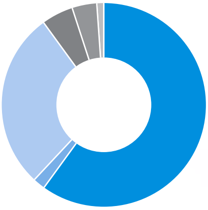
## WEBSITE ADDRESS
http://www.fongs.com

# FINANCIAL HIGHLIGHTS

## REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

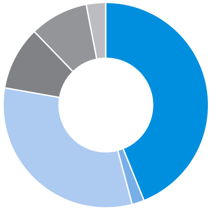
### Manufacture and Sale of Dyeing and Finishing Machines
By geographical region

**INTERIM 2019**



| | | |
|---|---|---|
| The PRC | 556 | (60%) |
| Hong Kong | 23 | (2%) |
| Asia Pacific | 258 | (28%) |
| Europe | 43 | (5%) |
| North and South America | 34 | (4%) |
| Others | 9 | (1%) |
| **Total:** | **923** | **(100%)** |

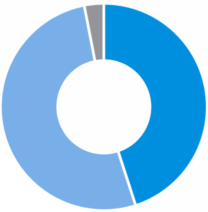
**INTERIM 2018**



| | | |
|---|---|---|
| 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%)** |

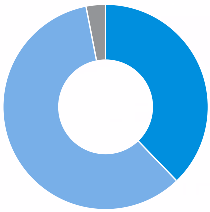
### Trading of Stainless Steel Supplies
By geographical region

**INTERIM 2019**



| | | |
|---|---|---|
| The PRC | 51 | (45%) |
| Hong Kong | 59 | (52%) |
| Asia Pacific | 3 | (3%) |
| **Total:** | **113** | **(100%)** |

**INTERIM 2018**



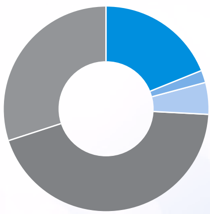
| | | |
|---|---|---|
| The PRC | 53 | (38%) |
| Hong Kong | 82 | (59%) |
| Asia Pacific | 4 | (3%) |
| **Total:** | **139** | **(100%)** |

### Manufacture and Sale of Stainless Steel Casting Products
By geographical region

**INTERIM 2019**

| | | |
|---|---|---|
| The PRC | 66 | (26%) |
| Hong Kong | 0 | (0%) |
| Asia Pacific | 18 | (7%) |
| Europe | 90 | (36%) |
| North and South America | 79 | (31%) |
| **Total:** | **253** | **(100%)** |

**INTERIM 2018**



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

The board of directors (the "**Board**") of CHTC Fong's International Company Limited (the "**Company**") announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2019 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 2019*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2019 (unaudited) HK$'000** | 2018 (unaudited) HK$'000 |
| Revenue | 4 | **1,288,790** | 1,764,112 |
| Cost of sales | | **(908,052)** | (1,196,035) |
| **Gross profit** | | **380,738** | 568,077 |
| Interest income | | **3,078** | 6,122 |
| Other income | | **11,012** | 12,959 |
| Other losses | 6 | **(3,696)** | (6,592) |
| Selling and distribution costs | | **(105,880)** | (150,866) |
| Administrative and other expenses | | **(315,903)** | (299,886) |
| Finance costs | 5 | **(24,911)** | (17,805) |
| Share of results of an associate | | **(255)** | 92 |
| **(Loss) profit before tax** | 6 | **(55,817)** | 112,101 |
| Income tax expense | 7 | **(22,413)** | (27,788) |
| **(Loss) profit for the period** | | **(78,230)** | 84,313 |
| **Other comprehensive income (expense), net of tax** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange difference arising on translation | | **2,795** | 14,586 |
| Share of changes in translation reserve of an associate | | **(271)** | 296 |
| Other comprehensive income for the period | | **2,524** | 14,882 |
| **Total comprehensive (expense) income for the period** | | **(75,706)** | 99,195 |
| **(Loss) profit for the period attributable to:** | | | |
| Owners of the Company | | **(75,746)** | 88,606 |
| Non-controlling interests | | **(2,484)** | (4,293) |
| | | **(78,230)** | 84,313 |
| **Total comprehensive (expense) income for the period attributable to:** | | | |
| Owners of the Company | | **(73,222)** | 103,326 |
| Non-controlling interests | | **(2,484)** | (4,131) |
| | | **(75,706)** | 99,195 |
| | | **HK cents** | HK cents |
| **(Loss) earnings per share** | | | |
| Basic and diluted | 8 | **(6.88)** | 8.05 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2019*

| | Note | At 30 June 2019 (unaudited) HK$'000 | At 31 December 2018 (audited) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **1,584,364** | 1,478,057 |
| Right-of-use assets | | **12,912** | – |
| Prepaid lease payments | 10 | **256,062** | 212,557 |
| Goodwill | | **533,515** | 533,515 |
| Intangible assets | | **240,300** | 244,004 |
| Financial assets at fair value through other comprehensive income | | **158,153** | 158,264 |
| Investment in an associate | | **28,179** | 28,450 |
| Deposits for acquisition of property, plant and equipment | | **170,954** | 103,833 |
| Deposits for acquisition of leasehold land | | **7,388** | 7,394 |
| Deferred tax assets | | **27,892** | 28,101 |
| | | **3,019,719** | 2,794,175 |
| **Current assets** | | | |
| Inventories | | **933,876** | 764,423 |
| Trade and other receivables | 11 | **556,169** | 617,469 |
| Prepaid lease payments | 10 | **6,217** | 5,273 |
| Tax recoverable | | **14,149** | 10,184 |
| Cash and cash equivalents | | **394,963** | 586,799 |
| | | **1,905,374** | 1,984,148 |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **599,585** | 621,086 |
| Contract liabilities | | **250,400** | 180,152 |
| Warranty provision | | **15,448** | 16,191 |
| Tax liabilities | | **14,229** | 19,930 |
| Lease liabilities | | **5,412** | – |
| Bank borrowings | 13 | **2,086,816** | 1,894,522 |
| | | **2,971,890** | 2,731,881 |
| **Net current liabilities** | | **(1,066,516)** | (747,733) |
| **Total assets less current liabilities** | | **1,953,203** | 2,046,442 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*At 30 June 2019*

| | *Note* | At 30 June 2019 (unaudited) HK$'000 | At 31 December 2018 (audited) HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred revenue | | **81,249** | 82,007 |
| Deferred tax liabilities | | **56,976** | 59,097 |
| Lease liabilities | | **7,590** | – |
| Other payable | | **341,511** | 341,751 |
| | | **487,326** | 482,855 |
| **Net assets** | | **1,465,877** | 1,563,587 |
| **Capital and reserves** | | | |
| **Total equity attributable to owners of the Company** | | | |
| Share capital | 14 | **55,011** | 55,011 |
| Share premium and reserves | | **1,408,680** | 1,503,906 |
| | | **1,463,691** | 1,558,917 |
| **Non-controlling interests** | | **2,186** | 4,670 |
| **Total equity** | | **1,465,877** | 1,563,587 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2019*

| | 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 (non-recycling) 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 2019** | **55,011** | **152,122** | **–** | **2,504** | **(20,967)** | **(19,629)** | **1,364,294** | **25,582** | **–** | **1,558,917** | **4,670** | **1,563,587** |
| Loss for the period | **–** | **–** | **–** | **–** | **–** | **–** | **(75,746)** | **–** | **–** | **(75,746)** | **(2,484)** | **(78,230)** |
| Other comprehensive income for the period, net of tax | **–** | **–** | **–** | **–** | **–** | **2,524** | **–** | **–** | **–** | **2,524** | **–** | **2,524** |
| Total comprehensive income (expense) for the period | **–** | **–** | **–** | **–** | **–** | **2,524** | **(75,746)** | **–** | **–** | **(73,222)** | **(2,484)** | **(75,706)** |
| Final dividend for 2018 paid | **–** | **–** | **–** | **–** | **–** | **–** | **(22,004)** | **–** | **–** | **(22,004)** | **–** | **(22,004)** |
| **At 30 June 2019** | **55,011** | **152,122** | **–** | **2,504** | **(20,967)** | **(17,105)** | **1,266,544** | **25,582** | **–** | **1,463,691** | **2,186** | **1,465,877** |
| 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 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 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2019*

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Net cash used in operating activities | **(138,343)** | (60,695) |
| Net cash used in investing activities | **(193,881)** | (219,532) |
| Net cash generated from financing activities | **136,955** | 304,262 |
| Net (decrease) increase in cash and cash equivalents | **(195,269)** | 24,035 |
| Cash and cash equivalents at beginning of the period | **586,799** | 573,198 |
| Effect of foreign exchange rate changes | **3,433** | (512) |
| Cash and cash equivalents at end of the period | **394,963** | 596,721 |

# 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 2019 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 condensed 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised HKFRSs as disclosed in Note 3 below.

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 2019. The impact of the adoption of the new and revised HKFRSs are disclosed in Note 3 below.

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 revised HKFRSs issued by the HKICPA.

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

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 16 "Leases".

## 3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (a) Adjustments recognised on the adoption of HKFRS 16

The Group has adopted the HKFRS 16 from 1 January 2019 and has not restated comparative amounts for the year prior to the first adoption (as permitted under the specific transitional provisions of the new standard), with the cumulative effect of initial adoption recognised as an adjustment to the retained earnings of the opening balance sheet on 1 January 2019.

On the adoption of HKFRS 16, the Group recognises right-of-use assets and lease liabilities for almost all leases in the balance sheet, records depreciation and amortisation and finance cost accordingly. The Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as of 1 January 2019. The lessee's incremental borrowing rates applied to the lease liabilities were 3.76% to 4.47% per annum. Right-of-use assets are measured on transition as if the new rules have had always been applied.

As a result of adoption of HKFRS 16, as at 1 January 2019, the Group recognised right-of-use assets of HK$15,679,000 and lease liabilities of HK$15,679,000.

### (b) The Group's leasing activities and how these are accounted for

*As lessee:*

The Group leases land and buildings and others. Rental contracts are generally made for periods of 2 to 4 years. Lease terms are negotiated on an individual/group basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group, unless the underlying asset is of low value or they are short-term leases. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

## 3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) The Group's leasing activities and how these are accounted for (Continued)

*As lessee:* (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture and equipment.

In addition, upon the adoption of HKFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities.

*As lessor:*

The Group continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently which is same as HKAS 17.

## 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 2019 (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 | 922,843 | 112,546 | 253,371 | 30 | 1,288,790 |
| Inter-segment sales | 191 | 86,782 | 10,731 | – | 97,704 |
| Segment revenue | 923,034 | 199,328 | 264,102 | 30 | 1,386,494 |
| Elimination | | | | | (97,704) |
| Group revenue | | | | | 1,288,790 |
| **Results** | | | | | |
| Segment (loss) profit | (70,922) | 4,640 | 37,470 | (4,917) | (33,729) |
| Interest income | | | | | 3,078 |
| Finance costs | | | | | (24,911) |
| Share of results of an associate | | | | | (255) |
| Loss before tax | | | | | (55,817) |

## 4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### *Segment revenues and results* (Continued)

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 |

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 | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| The PRC | **672,731** | **710,749** |
| Hong Kong | **82,301** | **119,778** |
| Asia Pacific (other than the PRC and Hong Kong) | **279,376** | **448,440** |
| Europe | **132,581** | **246,726** |
| North and South America | **112,112** | **189,728** |
| Others | **9,689** | **48,691** |
| | **1,288,790** | **1,764,112** |

## 5. FINANCE COSTS

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on borrowings | **33,538** | 19,782 |
| Less: Interest capitalised | **(11,860)** | (6,483) |
| | **21,678** | 13,299 |
| Bank charges | **3,233** | 4,506 |
| | **24,911** | 17,805 |

## 6. (LOSS) PROFIT BEFORE TAX

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| (Loss) profit before tax has been arrived at after charging: | | |
| Other losses: | | |
| Loss on disposal of property, plant and equipment | **190** | 3 |
| Foreign exchange loss, net | **3,506** | 6,589 |
| Total other losses | **3,696** | 6,592 |
| Depreciation and amortisation: | | |
| Amortisation of intangible assets | **3,570** | 3,934 |
| Amortisation of prepaid lease payments | **2,802** | 2,787 |
| Depreciation of property, plant and equipment | **29,678** | 25,804 |
| Total depreciation and amortisation | **36,050** | 32,525 |

## 7. INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Hong Kong Profits Tax: | | |
| Current period | **6,029** | 5,306 |
| PRC Corporate Income Tax: | | |
| Current period | **16,059** | 19,975 |
| Under (over)-provision in prior years | **1,467** | (2,832) |
| Overseas income tax: | | |
| Current period | **155** | 186 |
| Under-provision in prior years | **22** | 1,626 |
| | **23,732** | 24,261 |
| Deferred tax | **(1,319)** | 3,527 |
| Income tax expense | **22,413** | 27,788 |

## 8. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share:

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** **(unaudited)** **HK$'000** | 2018 (unaudited) HK$'000 |
| (Loss) profit for the period attributable to owners of the Company for the purpose of basic (loss) earnings per share | **(75,746)** | 88,606 |
| | **'000** | '000 |
| Number of ordinary shares for the purpose of basic (loss) earnings per share | **1,100,217** | 1,100,217 |

(b) Diluted (loss) earnings per share:

No adjustment has been made to the basic loss per share for the six months ended 30 June 2019 in respect of dilution as the Group had no potential ordinary shares in issue during the six months ended 30 June 2019.

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.

## 9. DIVIDENDS

(a) Dividends recognised as distribution during the period:

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** **(unaudited)** **HK$'000** | 2018 (unaudited) HK$'000 |
| 2018 final dividend paid: 2 HK cents (2017: 8 HK cents) per share | **22,004** | 88,017 |

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** **(unaudited)** **HK$'000** | 2018 (unaudited) HK$'000 |
| Interim dividend declared: Nil (2018: 3 HK cents per share) | **–** | 33,006 |

The Board has resolved not to pay any interim dividend for the six months ended 30 June 2019 (2018: 3 HK cents per share).

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

During the six months ended 30 June 2019, total cost of additions to property, plant and equipment and prepaid lease payments of the Group were approximately HK$141,537,000 (2018: HK$137,698,000) and HK$48,455,000 (2018: Nil) respectively.

## 11. TRADE AND OTHER RECEIVABLES

| | At 30 June 2019 (unaudited) HK$'000 | At 31 December 2018 (audited) HK$'000 |
|---|---|---|
| Trade receivables | **313,781** | 317,260 |
| Less: Loss allowance | **(4,213)** | (4,307) |
| | **309,568** | 312,953 |
| Bills receivable | **53,878** | 79,895 |
| | **363,446** | 392,848 |
| Other receivables and prepayments | **192,723** | 224,621 |
| Total trade and other receivables | **556,169** | 617,469 |

The Group allows an average credit period of 60 days (2018: 60 days) to its trade customers.

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

| | At 30 June 2019 (unaudited) HK$'000 | At 31 December 2018 (audited) HK$'000 |
|---|---|---|
| 0-60 days | **260,535** | 292,705 |
| 61-90 days | **7,048** | 2,912 |
| Over 90 days | **41,985** | 17,336 |
| | **309,568** | 312,953 |

## 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 2019 (unaudited) HK$'000 | At 31 December 2018 (audited) HK$'000 |
|---|---|---|
| 0-90 days | **187,911** | 196,174 |
| 91-120 days | **4,103** | 2,275 |
| Over 120 days | **28,571** | 32,323 |
| | **220,585** | 230,772 |

The average credit period on purchase of goods is 90 days (2018: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

## 13. BANK BORROWINGS

| | At 30 June 2019 (unaudited) HK$'000 | At 31 December 2018 (audited) HK$'000 |
|---|---|---|
| Unsecured bank borrowings comprise the following: | | |
| Bank loans | **2,010,803** | 1,827,346 |
| Trust receipts loans | **76,013** | 67,176 |
| | **2,086,816** | 1,894,522 |
| Carrying amounts repayable*: | | |
| Within one year | **176,013** | 167,176 |
| | **176,013** | 167,176 |
| Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*: | | |
| Within one year | **1,006,046** | 959,418 |
| More than one year, but not exceeding two years | **430,057** | 381,571 |
| More than two years, but not exceeding five years | **474,700** | 386,357 |
| | **1,910,803** | 1,727,346 |
| | **2,086,816** | 1,894,522 |
| Less: Amounts due within one year shown under current liabilities | **(2,086,816)** | (1,894,522) |
| Amounts shown under non-current liabilities | **–** | – |

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

## 14. SHARE CAPITAL

| | At 30 June 2019 (unaudited) Number of shares | HK$'000 | At 31 December 2018 (audited) Number of shares | HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares | **2,000,000,000** | **100,000** | 2,000,000,000 | 100,000 |
| Issued and fully paid: | | | | |
| At 1 January 2018, 31 December 2018 and 30 June 2019 | **1,100,216,570** | **55,011** | 1,100,216,570 | 55,011 |

## 15. CAPITAL COMMITMENTS

| | At 30 June 2019 (unaudited) HK$'000 | At 31 December 2018 (audited) HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of: | | |
| Property, plant and equipment | **63,906** | 111,868 |
| Leasehold land | **108,614** | 108,690 |
| | **172,520** | 220,558 |

## 16. RELATED PARTY DISCLOSURES

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2019 (unaudited) HK$'000** | 2018 (unaudited) HK$'000 |
| **Related party in which a close member of a Director of the Company has control** | | |
| Rental paid | **4,839** | 6,060 |
| **Related party in which a Director of the Company has significant influence** | | |
| Purchase of materials | **9,472** | 10,495 |
| Sales of goods | **883** | 1,296 |
| **Fellow subsidiaries** | | |
| Commission paid | **57** | – |
| Interest income received | **1,876** | 4,186 |
| Purchase of materials | **3** | 15 |
| Sales of goods | **–** | 1,608 |
| **Ultimate holding company** | | |
| Other income received | **–** | 235 |
| **Compensation of key management personnel** | | |
| The remuneration of Directors and other members of key management during the period was as follows: | | |
| Short-term benefits | **18,648** | 19,765 |
| Post-employment benefits | **597** | 602 |
| | **19,245** | 20,367 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business performance

For the six months ended 30 June 2019, the Group recorded consolidated revenue of approximately HK$1,289,000,000, representing a decrease of 27% as compared to approximately HK$1,764,000,000 in the corresponding period of last year. Loss attributable to owners of the Company was approximately HK$76,000,000 as compared to a profit attributable to owners of the Company of approximately HK$89,000,000 in the corresponding period of last year. Basic loss per share for the period were 6.88 HK cents as compared to basic earnings per share of 8.05 HK cents for the corresponding period of last year.

## Manufacture and sale of dyeing and finishing machines

The dyeing and finishing machine manufacturing industry is facing fierce competition. In addition, the brunt of the Sino-US trade war is now being felt globally, the global economic environment is becoming more uncertain with signs of economic slowdown in many different parts of the world. The customers' investment sentiment in production equipment has turned negative, which posed challenges to the operation of the Group's dyeing and finishing machines segment.

For the six months ended 30 June 2019, this business segment recorded revenue of approximately HK$923,000,000, accounting for 72% of the Group's revenue and representing a decrease of 33% from approximately HK$1,379,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$579,000,000, representing a decrease of 9% from approximately HK$639,000,000 in the corresponding period of last year; while sales from overseas markets were approximately HK$344,000,000, representing a decrease of 54% from approximately HK$740,000,000 in the corresponding period of last year. Due to the decrease in the sales volume and the increases in prices of stainless steel as the major raw materials, labour costs and selling expenses, operating loss for the period was approximately HK$71,000,000, as compared to the operating profit of approximately HK$95,000,000 in the corresponding period of last year.

## Manufacture and sale of dyeing and finishing machines (Continued)

As stated in the announcement of the Company dated 8 July 2019, a staff assembling event occurred on 4 June 2019 in one of the dyeing and finishing machine production plants of the Group located at Longgang District, Shenzhen City with a few number of staff had not turned up for work, which caused impact on the production to a rather limited degree. As the accumulated finished goods failed to meet the shipment before the end of June, resulting in a decline in sales for the month, and the operating results in the first half of the year were also affected. After mutual understanding and negotiation between the Group and the staff, the staff assembling event was successfully resolved on 3 July and the plant has also resumed to normal production since then. On the other hand, 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, which is expected to be completed by the end of 2019. Upon full operation of the Zhongshan new plant, the Group's production capacity is expected to increase significantly. The new plant will be keen on improving energy conservation and consumption reduction, as well as applying more automated processes in its production process to shorten production cycle and reduce manpower and management costs, and thus improving the Group's operation efficiency.

In order to cater to the future development of the textile printing and dyeing industry, the demand on automated production and the new trend of smart factories, 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 equipment so as to provide innovative dyeing and finishing equipment and solutions of energy conservation and environment protection to customers, thus creating more value. In the second half of 2019, there are a number of intelligent projects to be delivered to customers, which will have an exemplary effect for the Group's business development. Meanwhile, the Group is currently negotiating with customers for several new intelligent projects. The development of intelligent equipment projects not only will play a positive role in technological improvement, core competitiveness enhancement and results improvement for the Group, but also will have an important pushing role for industrial upgrading and technological progress of dyeing and finishing industry.

## Trading of stainless steel supplies

The breakout of trade war between China and the United States has clouded the global economic environment. The ongoing trade war has also caused negative impact on the stainless steel supplies market, which in turn has led to a decrease in the sales of the Group's stainless steel supplies. For the six months ended 30 June 2019, this business segment recorded revenue of approximately HK$113,000,000, accounting for approximately 8% of the Group's revenue and representing a decrease of 19% as compared to approximately HK$139,000,000 in the corresponding period of last year. During the period, the operating profit amounted to approximately HK$5,000,000, while the operating profit for the corresponding period of last year was approximately HK$10,000,000.

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

The Group will continue to adopt a prudent approach in running this business. It will take appropriate actions to mitigate market risks, adjust selling prices and inventory level appropriately and in a timely manner based on market analysis and its judgment, in order to improve the inventory turnover ratio while minimising the risk on 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 improve its cash flow.

Looking into the second half of 2019, 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 infrastructure construction in the PRC, will provide opportunities for trading of stainless steel. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The Group will closely monitor and response 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 equipment in industries such as valves, pumps, chemical, oil and natural gas and foods, with customers principally hailing from Europe, the United States and Japan.

For the six months ended in 30 June 2019, this business segment recorded revenue of approximately HK$253,000,000, accounting for 20% of the Group's revenue and representing an increase of 6% as compared to approximately HK$239,000,000 for the corresponding period of last year. Operating profit for the period increased to approximately HK$37,000,000 from approximately HK$29,000,000 for the corresponding period of last year. This business segment reported satisfactory performance as a whole and the results were in line with the targets.

The Group will remain committed to promoting its production capacity through refined production procedures and automatic machines as well as strengthen monitoring of its production costs (including labor costs), thus to further improve the gross profit margin. The Group also implements sales strategies by focusing on high margin products in different businesses and related customer industries. On the other hand, The Group has established a marketing center in Atlanta, Georgia, USA, aiming to expand its sales network in the USA for earning more orders, and to lay a solid foundation for its ongoing and healthy development in this business.

The Group believes that market demand for high-quality stainless steel casting products will continue to grow in the mid to long term. It is anticipated that, this business segment will maintain steady revenue growth and make sustainable contribution to the Group's profit.

## Environmental protection services

The Group completed the acquisition of 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("**CSCE**") on 27 October 2017. CSCE and its subsidiaries are principally engaged in kitchen wastes innocuous treatment projects and animal carcasses innocuous treatment projects in the PRC.

## Environmental protection services (Continued)

As stated in the 2018 Annual Report of the Company, Taian China Science Environmental Engineering Co., Ltd.（泰安中科環保工程有限公司）(“**CSEE**”), a wholly-owned subsidiary of CSCE, obtained the concession rights to operate kitchen wastes recycling and innocuous treatment projects for the urban area of Taian City, Shandong Province in June 2013 according to the law, and has established a kitchen wastes treatment plant at the northern foot of Hama Mountain（蛤蟆山）in Taian City. In 2014, CSEE was entrusted by the Environmental Health Management Office of Taian City（泰安市環境衛生管理處）(“**Taian Health Office**”) to operate the sewage treatment plant of a landfill neighbouring its kitchen wastes treatment plant, pursuant to which, CSEE was required to upgrade the plant to improve its sewage treatment capability and provide treatment for the sewage generated from the landfill during its operations of burying ash-slag wastes on a free-of-charge basis for Taian Health Office. However, the domestic waste disposal operations in the ash-slag landfill resulted in a significant change in the leachate and the quantity of sewage from the landfill, which materially affected the biological wastewater treatment system of CSEE. Treatment of such sewage is beyond the scope of work stipulated in the agreement between CSEE and relevant government authority and also exceeds the sewage treatment capabilities of CSEE. As a result, the kitchen wastes treatment plant has been taken over by Taian Health Office since January 2019.

Taian CSCE Environmental Engineering Technology Co., Ltd.（泰安中科潔能環境工程技術有限公司）(“**Taian CSCE**”) and Dongping CSCE Environmental Engineering Technology Co., Ltd.（東平中科潔能環境工程技術有限公司）(“**Dongping CSCE**”), being wholly-owned subsidiaries of CSCE, obtained the concession rights to operate animal carcasses innocuous treatment projects in March 2017 and February 2018 respectively. Having obtained the concession rights, Taian CSCE invested and constructed an animal carcasses innocuous treatment facility, but the facilities failed to meet the environmental requirements for its normal operations and had suspended operations since August 2017. Upon its acquisition of CSCE, the Group conducted technical transformation for the facilities of Taian CSCE to improve the production processes and rectify its odor problem. Following inspection by the Taian Daiyue District Government（泰安市岱岳區政府）, Taian CSCE received the approval to restore operations on 27 September 2018 and resumed trial production on 28 September 2018. Due to environmental problem, Dongping CSCE has suspended operations of the animal carcasses innocuous treatment facilities and stopped collection and transportation of animal carcasses. The Group is now actively negotiating with the government in respect of collection and innocuous treatment of animal carcasses, seeking to reach a solution on resumption of operations and realisation of relevant government subsidies so that these companies can continue their performance of concession agreement and normal operations to avoid causing losses to the them.

For the six months ended 30 June 2019, this business segment recorded a decrease of revenue to approximately HK$30,000 from approximately HK$7,000,000 in the corresponding period of last year, while its operating loss decreased to approximately HK$5,000,000 from approximately HK$9,000,000 in the corresponding period of last year. The Board believes that the current operating position of this business segment will not have a material adverse effect on the overall financial position of the Group. The Company will consider disclosing updates on this business segment for any further development as and when appropriate.

## Prospects

It remains tough and challenging in 2019. The Group will respond to severe challenges in a prudent manner with sound financial management and sufficient cash flow reserve. Meanwhile, the Group will gradually divest non-core businesses such as environmental protection services and real estate investment in due course, concentrate resources to further optimise and streamline the corporate structure and comprehensively comb and consolidate its three core businesses. It will also actively develop its core businesses, vigorously expand the market and enhance the profitability of the Company so as to maximise value for the shareholders.

## Human resources

As at 30 June 2019, the Group had a total of approximately 4,480 employees (31 December 2018: approximately 4,570 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In the first half of 2019, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$362,000,000 (In the first half of 2018: approximately HK$377,000,000), accounting for 28% (In the first half of 2018: 21%) of its 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.

During the six months ended 30 June 2019, the Group's net cash outflow used in operating activities was approximately HK$138,000,000. As at 30 June 2019, the Group's inventory level increased to approximately HK$934,000,000 as compared to approximately HK$764,000,000 as at 31 December 2018.

As at 30 June 2019, bank borrowings of the Group amounted to approximately HK$2,087,000,000. Most of the bank borrowings were sourced from Hong Kong, with 96% denominated in Hong Kong dollars and 4% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 30 June 2019, the Group's bank balances and cash amounted to approximately HK$395,000,000, of which 50% was denominated in Renminbi, 21% in United States dollars, 14% in Hong Kong dollars, 12% in Euros, and the remaining 3% in other currencies.

The Group has continued to maintain prudent financial management policies during the period. As at 30 June 2019, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 116% (31 December 2018: 84%) and its current ratio was 0.64 (31 December 2018: 0.73). The change of gearing ratio is mainly due to an increase of the debt scale.

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 2019 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 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), 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 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.

(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 premise 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 2019 and as at the date of this Interim Report.

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 30 June 2019, 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 2019.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2019, 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 2019, 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 2019.

## 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 2019.

## CORPORATE GOVERNANCE

During the six months ended 30 June 2019, 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 and Dr. Yuen Ming Fai (both being Independent Non-executive Director) were unable to attend the annual general meeting of the Company held on 28 May 2019 as they had other business engagements.

## 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 2019 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), Mr. Du Qianyi (Chief Financial Officer) and Mr. Wu Xudong; 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 2019