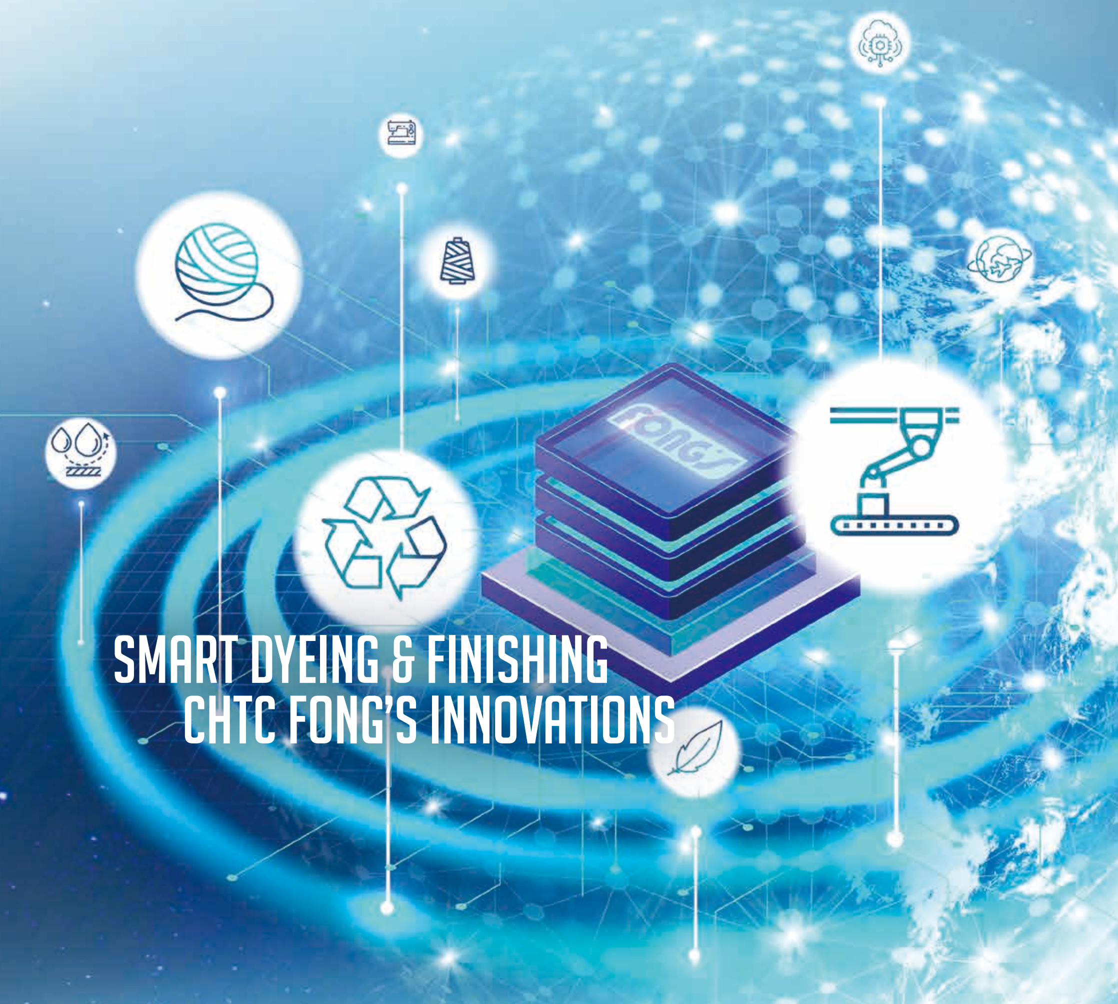
CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limted liability)

(Stock Code: 641)



INTERIM REPORT 2020

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CORPORATE INFORMATION

CHAIRMAN EMERITUS

Mr. Fong Sou Lam

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Maoxin *(Chairman)*
Mr. Guan Youping *(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. Guan Youping
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. Guan Youping
Mr. Ying Wei
Dr. Yuen Ming Fai

NOMINATION COMMITTEE

Mr. Ye Maoxin *(Committee Chairman)*
Mr. Guan Youping
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
CTBC Bank Co., Ltd.
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL BANKERS IN THE PEOPLE'S REPUBLIC OF CHINA

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

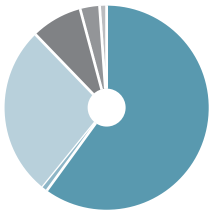
FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

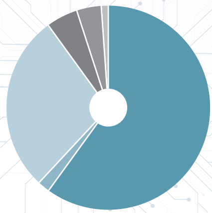
By geographical region

INTERIM 2020



The PRC	475	(60%)
Hong Kong	11	(1%)
Asia Pacific	211	(27%)
Europe	60	(8%)
North and South America	21	(3%)
Others	12	(1%)
Total:	**790**	**(100%)**

INTERIM 2019

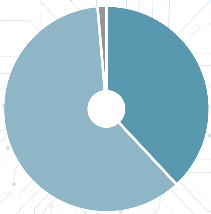


The PRC	556	(60%)
Hong Kong	23	(2%)
Asia Pacific	258	(28%)
Europe	43	(5%)
North and South America	34	(4%)
Others	9	(1%)
Total:	**923**	**(100%)**

Trading of Stainless Steel Supplies

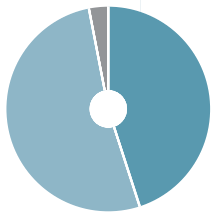
By geographical region

INTERIM 2020



The PRC	31	(39%)
Hong Kong	49	(60%)
Asia Pacific	1	(1%)
Total:	**81**	**(100%)**

INTERIM 2019



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

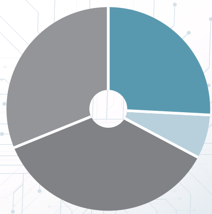
Manufacture and Sale of Stainless Steel Casting Products

By geographical region

INTERIM 2020

The PRC	35	(20%)
Hong Kong	4	(2%)
Asia Pacific	8	(5%)
Europe	75	(43%)
North and South America	52	(30%)
Total:	**174**	**(100%)**

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%)**

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 2020 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 2020

	Note	For the six months ended 30 June **2020 (unaudited) HK$'000**	 2019 (unaudited) HK$'000
Revenue	4	**1,045,431**	1,288,790
Cost of sales		**(755,619)**	(908,052)
Gross profit		**289,812**	380,738
Interest income		**570**	3,078
Other income		**11,309**	11,012
Other gains (losses)	6	**39,846**	(3,696)
Selling and distribution costs		**(81,115)**	(105,880)
Administrative and other expenses		**(285,586)**	(315,903)
Finance costs	5	**(27,422)**	(24,911)
Share of results of an associate		**(253)**	(255)
Loss before tax	6	**(52,839)**	(55,817)
Income tax expense	7	**(11,909)**	(22,413)
Loss for the period		**(64,748)**	(78,230)
Other comprehensive (expense) income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(29,123)**	2,795
Share of translation reserve of an associate		**(489)**	(271)
Other comprehensive (expense) income for the period		**(29,612)**	2,524
Total comprehensive expense for the period		**(94,360)**	(75,706)
Loss for the period attributable to:			
Owners of the Company		**(63,330)**	(75,746)
Non-controlling interests		**(1,418)**	(2,484)
		(64,748)	(78,230)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(92,942)**	(73,222)
Non-controlling interests		**(1,418)**	(2,484)
		(94,360)	(75,706)
		HK cents	HK cents
Loss per share			
Basic and diluted	8	**(5.76)**	(6.88)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Note	At 30 June 2020 (unaudited) HK$'000	At 31 December 2019 (audited) HK$'000
Non-current assets			
Property, plant and equipment	10	**1,749,670**	1,720,671
Right-of-use assets		**39,149**	45,408
Prepaid lease payments		**202,490**	208,342
Goodwill		**533,515**	533,515
Intangible assets		**216,347**	219,871
Financial assets at fair value through other comprehensive income		**167,710**	170,707
Investment in an associate		**26,985**	27,726
Deposits for acquisition of property, plant and equipment		**65,921**	49,080
Deposits for acquisition of leasehold land		**51,302**	53,589
Deferred tax assets		**38,956**	39,779
		3,092,045	3,068,688
Current assets			
Inventories		**678,445**	765,848
Trade and other receivables	11	**455,868**	500,223
Tax recoverable		**6,509**	15,445
Cash and bank balances		**310,658**	331,820
		1,451,480	1,613,336
Current liabilities			
Bank overdraft, unsecured		**–**	3,592
Trade and other payables	12	**645,115**	641,807
Contract liabilities		**199,470**	181,395
Warranty provision		**13,354**	16,358
Lease liabilities		**12,296**	12,130
Tax liabilities		**5,989**	17,233
Bank borrowings	13	**1,895,416**	1,919,858
		2,771,640	2,792,373
Net current liabilities		**(1,320,160)**	(1,179,037)
Total assets less current liabilities		**1,771,885**	1,889,651

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2020

	Note	**At 30 June 2020 (unaudited) HK$'000**	At 31 December 2019 (audited) HK$'000
Non-current liabilities			
Deferred revenue		**82,301**	78,839
Deferred tax liabilities		**90,852**	89,541
Lease liabilities		**27,696**	33,871
		200,849	202,251
Net assets		**1,571,036**	1,687,400
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	14	**55,011**	55,011
Share premium and reserves		**1,522,743**	1,637,689
		1,577,754	1,692,700
Non-controlling interests		**(6,718)**	(5,300)
Total equity		**1,571,036**	1,687,400

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2020	55,011	152,122	2,504	(5,057)	(46,225)	1,508,763	25,582	1,692,700	(5,300)	1,687,400
Loss for the period	–	–	–	–	–	(63,330)	–	(63,330)	(1,418)	(64,748)
Other comprehensive expense for the period, net of tax	–	–	–	–	(29,612)	–	–	(29,612)	–	(29,612)
Total comprehensive expense for the period	–	–	–	–	(29,612)	(63,330)	–	(92,942)	(1,418)	(94,360)
Final dividend for 2019 paid	–	–	–	–	–	(22,004)	–	(22,004)	–	(22,004)
At 30 June 2020	55,011	152,122	2,504	(5,057)	(75,837)	1,423,429	25,582	1,577,754	(6,718)	1,571,036
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash generated from (used in) operating activities	**77,733**	(138,343)
Net cash used in investing activities	**(217)**	(193,881)
Net cash (used in) generated from financing activities	**(91,874)**	136,955
Net decrease in cash and cash equivalents	**(14,358)**	(195,269)
Cash and cash equivalents at beginning of the period	**328,228**	586,799
Effect of foreign exchange rate changes	**(3,212)**	3,433
Cash and cash equivalents at end of the period	**310,658**	394,963

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 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2020. HKFRSs comprise HKFRS, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new 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.

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 2020 (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	789,983	81,476	173,972	–	1,045,431
Inter-segment sales	121	22,611	3,647	–	26,379
Segment revenue	790,104	104,087	177,619	–	1,071,810
Elimination					(26,379)
Group revenue					1,045,431
Results					
Segment (loss) profit	(36,524)	(5,322)	17,581	(1,469)	(25,734)
Interest income					570
Finance costs					(27,422)
Share of results of an associate					(253)
Loss before tax					(52,839)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

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)

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	
	2020 (unaudited) HK$'000	2019 (unaudited) HK$'000
The PRC	**541,718**	**672,731**
Hong Kong	**64,077**	**82,301**
Asia Pacific (other than the PRC and Hong Kong)	**219,233**	**279,376**
Europe	**134,974**	**132,581**
North and South America	**72,888**	**112,112**
Others	**12,541**	**9,689**
	1,045,431	**1,288,790**

5. FINANCE COSTS

	For the six months ended 30 June	
	2020 (unaudited) HK$'000	2019 (unaudited) HK$'000
Interest on borrowings	**38,354**	33,335
Less: Interest capitalised	**(13,864)**	(11,860)
	24,490	21,475
Interest on lease liabilities	**664**	203
Bank charges	**2,268**	3,233
	27,422	24,911

6. LOSS BEFORE TAX

	For the six months ended 30 June	
	2020 (unaudited) HK$'000	2019 (unaudited) HK$'000
Loss before tax has been arrived at after charging:		
Other (gains)/losses:		
Loss on disposal of property, plant and equipment	**978**	190
Foreign exchange loss, net	**7,613**	3,506
Compensation in excess of costs incurred related to urban renewal project	**(48,437)**	–
Total other (gains)/losses	**(39,846)**	3,696
Depreciation and amortisation:		
Amortisation of intangible assets	**1,334**	3,570
Depreciation		
– owned assets	**28,224**	24,034
– right-of-use assets	**14,377**	11,116
Total depreciation and amortisation	**43,935**	38,720

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020 (unaudited) HK$'000	2019 (unaudited) HK$'000
Hong Kong Profits Tax:		
Current period	**4,817**	6,029
Over-provision in prior years	**(82)**	–
PRC Corporate Income Tax:		
Current period	**4,915**	16,059
Under-provision in prior years	**136**	1,467
Overseas income tax:		
Current period	**160**	155
Under-provision in prior years	**57**	22
	10,003	23,732
Deferred tax	**1,906**	(1,319)
Income tax expense	**11,909**	22,413

8. LOSS PER SHARE

(a) Basic loss per share:

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

	For the six months ended 30 June	
	2020 (unaudited) HK$'000	2019 (unaudited) HK$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(63,330)**	(75,746)
	'000	'000
Number of ordinary shares for the purpose of basic loss per share	**1,100,217**	1,100,217

(b) Diluted loss per share:

No adjustment has been made to the basic loss per share for the six months ended 30 June 2020 and 2019 in respect of dilution as the Group had no dilutive potential ordinary shares in issue during the six months ended 30 June 2020 and 2019.

9. DIVIDENDS

(a) Dividends recognised as distribution during the period:

	For the six months ended 30 June	
	2020 (unaudited) HK$'000	2019 (unaudited) HK$'000
2019 final dividend paid: 2 HK cents (2018: 2 HK cents) per share	**22,004**	22,004

(b) The Board has resolved not to declare any interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, total cost of additions to property, plant and equipment of the Group was approximately HK$86,113,000 (2019: HK$141,537,000).

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 (unaudited) HK$'000	At 31 December 2019 (audited) HK$'000
Trade receivables	**299,766**	323,532
Less: Loss allowance	**(4,157)**	(5,322)
	295,609	318,210
Bills receivable	**26,404**	49,879
	322,013	368,089
Other receivables and prepayments	**133,855**	132,134
Total trade and other receivables	**455,868**	500,223

The Group allows an average credit period of 60 days (2019: 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 2020 (unaudited) HK$'000	At 31 December 2019 (audited) HK$'000
0-60 days	**233,267**	251,243
61-90 days	**29,898**	14,364
Over 90 days	**32,444**	52,603
	295,609	318,210

12. TRADE AND OTHER PAYABLES

	At 30 June 2020 (unaudited) HK$'000	At 31 December 2019 (audited) HK$'000
Trade payables	**135,783**	143,532
Amount due to ultimate holding company *(Note i)*	**5,045**	5,135
Loan from immediate holding company *(Note ii)*	**65,000**	65,000
Loan from a fellow subsidiary *(Note ii)*	**70,000**	70,000
Other payables and accrued charges	**369,287**	358,140
	645,115	641,807

Notes:

(i) The amount due is unsecured, interest-free and repayable on demand.

(ii) The loans are unsecured, interest bearing at a fixed rate of 4.3% per annum and repayable within one year.

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 2020 (unaudited) HK$'000	At 31 December 2019 (audited) HK$'000
0-90 days	**103,392**	111,576
91-120 days	**69**	484
Over 120 days	**32,322**	31,472
	135,783	143,532

The average credit period on purchase of goods is 90 days (2019: 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 2020 (unaudited) HK$'000	At 31 December 2019 (audited) HK$'000
Unsecured bank borrowings comprise the following:		
Bank loans	**1,812,668**	1,864,577
Trust receipts loans	**70,721**	46,492
Discounted bills with recourse	**12,027**	8,789
	1,895,416	1,919,858
Carrying amounts repayable*:		
Within one year	**70,721**	98,813
	70,721	98,813
Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**1,076,266**	1,049,188
More than one year, but not exceeding two years	**215,000**	353,857
More than two years, but not exceeding five years	**533,429**	418,000
	1,824,695	1,821,045
	1,895,416	1,919,858
Less: Amounts due within one year shown under current liabilities	**(1,895,416)**	(1,919,858)
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 2020 (unaudited)		At 31 December 2019 (audited)	
	Number of shares	HK$'000	Number of shares	HK$'000
Authorised:				
Ordinary shares	**2,000,000,000**	**100,000**	2,000,000,000	100,000
Issued and fully paid:				
At 1 January 2019, 31 December 2019 and 30 June 2020	**1,100,216,570**	**55,011**	1,100,216,570	55,011

15. CAPITAL COMMITMENTS

	At 30 June 2020 (unaudited) HK$'000	At 31 December 2019 (audited) HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**35,464**	28,859
Leasehold land	**104,443**	106,310
	139,907	135,169

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	
	2020 (unaudited) HK$'000	2019 (unaudited) HK$'000
Related party in which a close member of a Director of the Company has control		
Rental paid	**–**	4,839
Related party in which a Director of the Company has significant influence		
Purchase of materials	**9,704**	9,472
Sales of goods	**829**	883
Fellow subsidiaries		
Expenses paid	**62**	57
Interest income received	**–**	1,876
Interest expense paid	**1,413**	–
Purchase of materials	**200**	3
Sales of goods	**3,041**	–
Immediate holding company		
Other income received	**1**	–
Interest expense paid	**1,522**	–
Associate		
Sales of goods	**3,257**	–
Compensation of key management personnel		
The remuneration of Directors and other members of key management during the period was as follows:		
Short-term benefits	**16,730**	18,648
Post-employment benefits	**579**	597
	17,309	19,245

MANAGEMENT DISCUSSION AND ANALYSIS

Business performance

Since the beginning of 2020, the global outbreak of the COVID-19 pandemic has had a significant impact on the global economy. Many countries and regions have adopted stringent measures to prevent the further spread of the epidemic, including suspension of work, suspension of business, travel and transportation restrictions, etc., which have not been fully resumed so far. Therefore, under such unfavorable operating environment, customer demand for products has decreased, and many confirmed orders and deliveries have delayed, which have resulted in a significant decline in the revenue of all business segments of the Group. For the six months ended 30 June 2020, the Group recorded consolidated revenue of approximately HK$1,045,000,000, representing a decrease of 19% as compared to approximately HK$1,289,000,000 in the corresponding period of last year. Loss attributable to owners of the Company was approximately HK$63,000,000 as compared to loss attributable to owners of the Company of approximately HK$76,000,000 in the corresponding period of last year. Basic loss per share for the period was 5.76 HK cents as compared to basic loss per share of 6.88 HK cents for the corresponding period of last year.

Manufacture and sale of dyeing and finishing machines

Under the impact of many unfavorable factors such as Sino-US trade friction and the COVID-19 pandemic, the global economy is facing severe challenges, and customers generally still have a wait-and-see attitude towards investing in new equipment. As the epidemic continues to spread, many countries around the world have adopted emergency public health measures and various epidemic prevention actions, including industrial and commercial suspensions, restrictions over inbound and outbound travelling, and compulsory quarantine measures. Factors such as logistics, material supplies and price fluctuations have caused severe impacts on the supply chain, the relocation of personnel and equipment cannot be carried out normally, and the progress of new projects has been delayed, resulting in a decline in demand in respect of the Group's dyeing and finishing machines business or delays in delivery. As a result, the production, sales and financial performance of this business segment were affected, and both its revenue and gross profit decreased.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Manufacture and sale of dyeing and finishing machines (Continued)

For the six months ended 30 June 2020, this business segment recorded revenue of approximately HK$790,000,000, accounting for 75% of the Group's revenue and representing a decrease of 14% from approximately HK$923,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$486,000,000, representing a decrease of 16% from approximately HK$579,000,000 in the corresponding period of last year; while sales from overseas markets were approximately HK$304,000,000, representing a decrease of 12% from approximately HK$344,000,000 in the corresponding period of last year. Despite the above situation, the operating loss for the period was approximately HK$37,000,000, while the operating loss in the corresponding period of last year was approximately HK$71,000,000. The decrease in the operating loss was primarily attributable to the recognition of income before tax of approximately HK$48,000,000 in the period in respect of portions of the payment received from the urban renewal project of the land in Shenzhen (in the form of resettlement and demolition compensation) totalling approximately RMB50,000,000 (equivalent to approximately HK$54,000,000), net of related costs of approximately HK$6,000,000, as the Group has started to relocate part of its production facilities from Shenzhen to Zhongshan in stages since 2019.

The new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province has started to conduct interior decoration and equipment installation by phases. Certain production lines have also been put into production and operation, and are expected to be available for the Group's full-scale production and operation in 2020. Upon full operation of the Zhongshan new plant, the Group's production capacity is expected to increase. 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.

Since the outbreak of the novel coronavirus in early 2020, the management has been following the development of the epidemic and has taken timely actions and measures to protect the employees of the Group from infection. The Group's factories in Shenzhen and Zhongshan have temporarily delayed the Lunar New Year holiday and resumed to work at the end of February and at early March, respectively, and the Group's operations have not been severely disrupted. Although the market is still full of many challenges and uncertainties, the management of the Group will continue forging ahead in face of difficulties. The Group will continue to invest resources in improving quality, accelerating the launch of new products, expanding new markets, strengthening after-sales services, and optimising the cost structure to increase product competitiveness, thereby consolidating its market leadership position in the industry and expanding market share.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trading of stainless steel supplies

Due to the global outbreak of the COVID-19 pandemic and its impact on the macro economy, market sentiment is weak. The implementation of measures to contain the epidemic in various countries has caused serious disruptions in the global raw material supply chain and logistics and transportation services, which have led to a decrease in the Group's sales of stainless steel supplies. For the six months ended 30 June 2020, this business segment recorded revenue of approximately HK$81,000,000, accounting for approximately 8% of the Group's revenue and representing a decrease of 28% as compared to approximately HK$113,000,000 in the corresponding period of last year. Operating loss for the period amounted to approximately HK$5,000,000, while the operating profit for the corresponding period of last year was approximately HK$5,000,000.

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 2020, 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 actively respond to market changes to maintain steady growth in this business segment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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, natural gas and food, with customers principally hailing from Europe, the United States and Japan.

As a result of the COVID-19 pandemic and the global response, including the suspension of commercial activities, customers delayed their purchase orders and deliveries. For the six months ended 30 June 2020, this business segment recorded revenue of approximately HK$174,000,000, accounting for 17% of the Group's revenue and representing a decrease of 31% as compared to approximately HK$253,000,000 for the corresponding period of last year. Operating profit for the period amounted to approximately HK$18,000,000, while the operating profit for the corresponding period of last year was approximately HK$37,000,000.

The management of the Group will maintain contact with existing customers to maintain and strengthen their business relationships. The Group will also implement sales strategies by focusing on high margin products in different businesses and related customer industries. On the other hand, the Group will continue its efforts to streamline manufacturing processes and optimise quality control so as to reduce production waste and enhance overall productivity.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Environmental protection services

This business segment principally engaged in operating kitchen wastes innocuous treatment projects and animal carcasses innocuous treatment projects in Taian City, Shandong Province, the PRC.

Since January 2019, the kitchen wastes treatment plant of Taian China Science Environmental Engineering Co., Ltd.（泰安中科環保工程有限公司）("**CSEE**"), located at the northern foot of Hama Mountain（蛤蟆山）in Taian City, has been taken over by the Environmental Health Management Office of Taian City（泰安市環境衛生管理處）. The animal carcasses innocuous treatment facility of 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**") resumed limited production after technological upgrade in September 2018. Due to the recent outbreak of COVID-19 pandemic, the animal carcasses innocuous treatment facility has been closed after the Lunar New Year holiday. As stated in the Annual Report 2019 of the Company, in early 2020, the Group had a meeting with relevant governmental authorities of Taian City to communicate on matters concerning the concession rights and business rationalisation of Taian CSCE, seeking support from local government so as to resume normal operations of the business. In April 2020, Taian CSCE signed an Entrusted Management Agreement with a third party, wherein the third party is responsible for the entrusted management of the treatment facility, which is currently in operation. For the six months ended 30 June 2020, this business segment did not record any revenue, while its operating loss was approximately HK$1,500,000. 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.

After a comprehensive review, the Group considers that the environmental protection business is not its core business and has been performing poorly since its investment in 2017, so the Group intends to terminate this investment in order to stop further losses and make more efficient use of the Group's funds. The Company will consider disclosing updates on this business segment for any further development as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Prospects

The unprecedented COVID-19 pandemic swept across the world, resulting in an extremely severe business environment. The management of the Group was of the opinion that the threat of recurrent COVID-19 pandemic in short and medium term will continue to cause adverse impact and difficulties on the business operations of the Group in 2020. The possible impact by the pandemic on the orders and sales of the Group remained in high uncertainties, which will inevitably affect the performance of the Group in remainder of 2020. Nevertheless, the management of the Group has chosen to brave the challenges and overcome various difficulties.

In order to cope with the unfavorable business environment brought by the continued pandemic, the Group has adopted initiative measures to strictly control its working capital and conduct cost reduction to retain working capital, including, but not limited to, application for government subsidies and temporary salary reduction of 10% to 20% for senior management. In addition, the Group has also adopted precautionary and control measures, including, but not limited to, implementation of flexible work from home mechanism, procurement of sanitary products for pandemic prevention, promotion of hygiene practices to employees and daily testing in the workplace, so as to mitigate the risks of viral transmission, ensure the normal production and operation and endeavor to facilitate the recovery of business.

By virtue of the unremitting efforts by the team of the Group, the reputation of our brands in the market, the solid customer foundation and the high-quality integrated one-stop services, it is believed that the Group will be able to withstand the difficulties brought by the COVID-19 pandemic, and to expedite its business growth once the market demand begins to recover.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Human resources

As at 30 June 2020, the Group had a total of 4,045 employees (31 December 2019: approximately 4,150 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In the first half of 2020, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$378,000,000 (In the first half of 2019: approximately HK$362,000,000), accounting for 36% (In the first half of 2019: 28%) 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity and capital sources

In view of the various challenges and uncertainties ahead, the Group will impose strict cost control measures and focus on its cash flow management to ensure that it maintains a healthy liquidity position. During the period, the Group meets its funding requirements in its ordinary and usual course of business by cash flows generated from operations and existing banking facilities.

During the six months ended 30 June 2020, the Group's net cash inflow generated from operating activities was approximately HK$77,733,000. As at 30 June 2020, the Group's inventory level decreased to approximately HK$678,000,000 as compared to approximately HK$766,000,000 as at 31 December 2019.

As at 30 June 2020, bank borrowings of the Group amounted to approximately HK$1,895,000,000. Most of the bank borrowings were sourced from Hong Kong, with 88% denominated in Hong Kong dollars, 7% in United States dollars and 5% in Renminbi. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 30 June 2020, the Group's bank balances and cash amounted to approximately HK$311,000,000, of which 58% was denominated in Renminbi, 16% in Hong Kong dollars, 14% in United States dollars, 11% in Euros, and the remaining 1% in other currencies.

The Group has continued to maintain prudent financial management policies during the period. As at 30 June 2020, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 101% (31 December 2019: 94%) and its current ratio was 0.52 (31 December 2019: 0.58).

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 exposure, 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 2020 and up to the date of this Interim Report and include covenants requiring specific performance obligations of the controlling shareholder of the Company.

(i) 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.

(ii) 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. On 24 April 2019, the bank granted to the Group a new revolving short term advance facility of up to HK$80 million for financing the general working capital requirements of the Group and a new 3-year term loan facility of up to HK$70 million which shall be repaid by seven quarterly instalments commencing 18 months after the date of drawdown. The two term loans 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.

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

(iii) 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.

(iv) 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.

(v) 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.

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

(vi) On 10 April 2020, an indirect wholly-owned subsidiary of the Company (as borrower) entered into a maximum line of credit contract (the "**Maximum LOC Contract**") with a licensed bank in the People's Republic of China (the "**Bank**") (as lender) with retrospective effect on 27 March 2020, pursuant to which the Bank has agreed to make available credit facilities to the subsidiary to the extent of RMB140 million (equivalent to approximately HK$153 million) for a term of one year ending 27 March 2021. On 12 May 2020, under the Maximum LOC Contract, the subsidiary entered into an export bill purchase contract (the "**Export Bill Purchase Contract**") with the Bank in respect of financing for export bills purchased. The terms and conditions of the Export Bill Purchase Contract 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）ceased to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life to the Maximum LOC Contract.

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 2020 and as at the date of this Interim Report.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 30 June 2020, 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%
	Beneficial 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 2020.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2020, 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. Guan Youping 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 2020, 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 2020.

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 2020.

CORPORATE GOVERNANCE

During the six months ended 30 June 2020, the Company has complied with all of the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

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

The Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 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. Guan Youping (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, 28 August 2020