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CHTC FONG'S INTERNATIONAL COMPANY LIMITED

中國恒天立信國際有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the “Board”) of CHTC Fong’s International Company Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(unaudited)	(unaudited)
	Note	HK\$'000	HK\$'000
Revenue	4	1,764,112	1,520,350
Cost of sales		(1,196,035)	(977,082)
Gross profit		568,077	543,268
Interest income		6,122	6,069
Other income		12,959	8,675
Other (losses) gains	6	(6,592)	4,484
Selling and distribution costs		(150,866)	(123,363)
Administrative and other expenses		(299,886)	(291,755)
Finance costs	5	(17,805)	(16,545)
Share of results of an associate		92	—
Profit before tax	6	112,101	130,833
Income tax expense	7	(27,788)	(31,665)
Profit for the period		84,313	99,168

		For the six months ended 30 June	
		2018	2017
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Note			
Other comprehensive income, net of tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
	Exchange difference arising on translation	14,586	26,679
	Share of changes in translation reserve of an associate	296	—
		<u>14,882</u>	<u>26,679</u>
	Other comprehensive income for the period		
		<u>14,882</u>	<u>26,679</u>
	Total comprehensive income for the period	<u>99,195</u>	<u>125,847</u>
Profit (loss) for the period attributable to:			
	Owners of the Company	88,606	99,168
	Non-controlling interests	(4,293)	—
		<u>84,313</u>	<u>99,168</u>
Total comprehensive income (expense) for the period attributable to:			
	Owners of the Company	103,326	125,847
	Non-controlling interests	(4,131)	—
		<u>99,195</u>	<u>125,847</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
	Basic and diluted	8	
		<u>8.05</u>	<u>9.01</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		1,078,201	956,735
Prepaid lease payments		225,426	226,101
Goodwill		538,050	538,050
Intangible assets		258,135	261,590
Available-for-sale financial assets		–	186,332
Financial assets at fair value through other comprehensive income		180,943	–
Investment in an associate		30,106	29,718
Deposits for acquisition of property, plant and equipment		56,760	47,484
Deposits for acquisition of leasehold land		7,779	7,702
Deposits for acquisition of a subsidiary	9	32,447	–
Deferred tax assets		20,594	20,482
		<u>2,428,441</u>	<u>2,274,194</u>
Current assets			
Inventories		864,755	750,830
Trade and other receivables	10	754,625	664,125
Prepaid lease payments		5,523	5,473
Tax recoverable		3,063	3,290
Cash and cash equivalents		596,721	573,198
		<u>2,224,687</u>	<u>1,996,916</u>

		At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
	Note		
Current liabilities			
Trade and other payables	11	894,445	959,972
Warranty provision		14,909	15,963
Tax liabilities		27,034	31,758
Borrowings		<u>1,472,941</u>	<u>1,060,887</u>
		<u>2,409,329</u>	<u>2,068,580</u>
Net current liabilities		<u>(184,642)</u>	<u>(71,664)</u>
Total assets less current liabilities		<u>2,243,799</u>	<u>2,202,530</u>
Non-current liabilities			
Borrowings		100,000	100,000
Deferred revenue		69,417	40,115
Deferred tax liabilities		59,299	54,820
Other payable		<u>359,568</u>	<u>356,004</u>
		<u>588,284</u>	<u>550,939</u>
Net assets		<u><u>1,655,515</u></u>	<u><u>1,651,591</u></u>
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	12	55,011	55,011
Share premium and reserves		<u>1,583,573</u>	<u>1,575,518</u>
		<u>1,638,584</u>	<u>1,630,529</u>
Non-controlling interests		<u>16,931</u>	<u>21,062</u>
Total equity		<u><u>1,655,515</u></u>	<u><u>1,651,591</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

The Directors of the Company (the “Directors”) consider that the Company’s parent company is China Hi-Tech Holding Company Limited, a company incorporated in Hong Kong, and its ultimate holding company is China Hi-Tech Group Corporation (中國恒天集團有限公司) (“CHTC”), a company established in the People’s Republic of China (the “PRC”). CHTC is a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Commission of the State Council of the PRC (“SASAC”).

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

Therefore, upon completion of the Proposed Reorganisation, CHTC will be directly owned by SINOMACH and the Company will become a listed subsidiary of SINOMACH. It remains unchanged that CHTC is an intermediate controlling shareholder of the Company and SASAC is the ultimate controlling shareholder of the Company. It was noted that the Proposed Reorganisation has been approved by the Ministry of Commerce, the registration procedure of the equity transfer is currently in progress. The Company will closely monitor the development of the Proposed Reorganisation and make further disclosure in due course.

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

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

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

In the current interim period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2018. The impact of the adoption of the new and revised HKFRSs are disclosed in Note 3.

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

4. REVENUE AND SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on the performance of each group company. Specifically, the Group’s reportable segments under HKFRS 8 are aggregation of operating segments based on types of goods delivered or services provided, as follows:

1. Manufacture and sale of dyeing and finishing machines
2. Trading of stainless steel supplies
3. Manufacture and sale of stainless steel casting products
4. Provision of environmental protection services

Segment revenues and results

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

For the six months ended 30 June 2018 (unaudited)

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

For the six months ended 30 June 2017 (unaudited)

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

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.

Geographical information

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

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

	For the six months ended 30 June	
	2018	2017
	(unaudited) HK\$'000	(unaudited) HK\$'000
The PRC	710,749	658,669
Hong Kong	119,778	179,382
Asia Pacific (other than the PRC and Hong Kong)	448,440	375,174
Europe	246,726	186,846
North and South America	189,728	93,233
Others	48,691	27,046
	<u>1,764,112</u>	<u>1,520,350</u>

5. FINANCE COSTS

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

6. PROFIT BEFORE TAX

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

7. INCOME TAX EXPENSE

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

8. EARNINGS PER SHARE

(a) Basic earnings per share:

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

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

(b) Diluted earnings per share:

No adjustment has been made to the basic earnings per share as the outstanding share options had anti-dilutive effect on the basic earnings per share for the six months ended 30 June 2018 and 2017.

9. DEPOSITS FOR ACQUISITION OF A SUBSIDIARY

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

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

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

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

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

10. TRADE AND OTHER RECEIVABLES

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

The Group allows an average credit period of 60 days (2017: 60 days) to its trade customers.

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

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
0-60 days	243,317	275,731
61-90 days	20,807	51,720
Over 90 days	57,761	23,574
	<u>321,885</u>	<u>351,025</u>

Note:

- (i) On 3 January 2018, Fong's National Engineering (Shenzhen) Company, Limited (立信染整機械(深圳)有限公司) ("FNES"), an indirect wholly-owned subsidiary of the Company, entered into an entrusted loan agreement with a lending bank and Hengtian Real Estate Company Limited (恒天地產有限公司) ("Hengtian Real Estate"), which is owned as to 13.26% by the Group and as to 42.74% by CHTC. According to the agreement, the bank agreed to provide a loan of RMB70,000,000 (equivalent to approximately HK\$84,056,000) to Hengtian Real Estate on behalf of FNES. The interest rate of the loan is 11% per annum and the accrued interest shall be payable on a quarterly basis and on 31 March, 30 June, 30 September and 3 November respectively during the term. The loan is guaranteed by two subsidiary companies of Hengtian Real Estate. Hengtian Real Estate shall repay the loan in one lump sum on 3 November 2018.

11. TRADE AND OTHER PAYABLES

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

	At 30 June 2018 (unaudited) HK\$'000	At 31 December 2017 (audited) HK\$'000
0-90 days	219,130	213,368
91-120 days	4,851	15,617
Over 120 days	<u>42,549</u>	<u>26,930</u>
	<u>266,530</u>	<u>255,915</u>

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

12. SHARE CAPITAL

	<i>Note</i>	At 30 June 2018 (unaudited)		At 31 December 2017 (audited)	
		<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:					
Ordinary shares		<u>2,000,000,000</u>	<u>100,000</u>	<u>2,000,000,000</u>	<u>100,000</u>
Issued and fully paid:					
At 1 January		1,100,216,570	55,011	1,102,892,570	55,145
Repurchase and cancellation of shares	(i)	<u>—</u>	<u>—</u>	<u>(2,676,000)</u>	<u>(134)</u>
At 30 June/31 December		<u>1,100,216,570</u>	<u>55,011</u>	<u>1,100,216,570</u>	<u>55,011</u>

Note:

- (i) During the year ended 31 December 2017, pursuant to the general mandate given to the Directors, the Company repurchased 2,676,000 shares at prices ranging from HK\$1.88 to HK\$1.99 through the Stock Exchange at a total consideration of approximately HK\$5,273,000. The repurchased shares were cancelled on 15 March 2017. This cancellation resulted in the decrease in issued share capital of approximately HK\$134,000 and share premium of approximately HK\$5,139,000.

13. EVENT AFTER THE END OF THE REPORTING PERIOD

On 23 August 2018, the Group completed the acquisition of the entire issued share capital of PT Harvest Holdings Limited at a consideration of approximately HK\$325,293,000. Please refer to Note 9 for details.

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 September 2018 to Wednesday, 19 September 2018, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business performance

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

Manufacture and sale of dyeing and finishing machines

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

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

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

Trading of stainless steel supplies

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

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

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

In the second half of 2018, the price of stainless steel is expected to remain stable with slight fluctuations. The construction industry in Hong Kong is booming as more major infrastructure projects have commenced, which, coupled with the accelerated pace of urbanisation and the infrastructure construction in the PRC, will bring opportunities to the stainless steel trading business. Therefore, the Group remains optimistic about the prospect of the stainless steel trading business. The Group will closely monitor and respond to market changes to maintain steady growth in this business segment.

Manufacture and sale of stainless steel casting products

The products of this business segment are primarily high-quality castings and machined processing parts made of stainless steel, dual-phase steel and nickel-based alloys that are widely used in industrial facilities in industries such as valves, pumps, chemical, oil, natural gas and foods, with customers principally hailing from Europe, the United States and Japan.

For six months ended 30 June 2018, this business segment recorded revenue of approximately HK\$239,000,000, accounting for 14% of the Group's revenue and representing an increase of 18% compared to approximately HK\$202,000,000 in the corresponding period of last year. During the Period, the operating profit amounted to approximately HK\$29,000,000, and the operating profit of the corresponding period of last year was approximately HK\$19,000,000. This business segment reported satisfactory performance as a whole and the results were in line with the targets.

The Group will continue to optimise cost control, improve workshops and the production processes of certain products, increase automated production equipment, reduce the scrappage rate of its products and enhance product quality, and develop new customers. On the other hand, the Group is now striving to expand its sales network in the United States in order to secure more orders, with a view to laying a solid foundation for sustainable and healthy development of this business segment.

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

New Business Segment – Environmental Protection Services

As stated in the Annual Report 2017 of the Company, the Group completed the acquisition of 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. (“CSCE”) on 27 October 2017. CSCE principally engages in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling and innocuous treatment, municipal solid waste incineration power generation, municipal sewage sludge treatment and high concentration organic wastewater treatment projects, etc.) in the PRC. The Board considered that this acquisition was an unrivalled opportunity for the Group to expand its business scope by participating in the fast growing environmental waste treatment operation in China. The acquisition would also bring the Group additional income for further enhancement of the Group’s results performance.

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

Human resources

As at 30 June 2018, the Group had a total of approximately 4,600 employees (31 December 2017: approximately 4,500 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In the first half of 2018, total staff costs (including Directors’ emoluments, employees’ remuneration and contribution to retirement benefits schemes) amounted to approximately HK\$377,000,000 (In the first half of 2017: approximately HK\$359,000,000), accounting for 21% (In the first half of 2017: 24%) of our revenue. The Group will continue to monitor the market situation and consolidate its human resource and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

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

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

Liquidity and capital sources

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

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

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

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

The Group has continued to maintain prudent financial management policies during the period. As at 30 June 2018, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 59% (31 December 2017: 36%) and its current ratio was 0.92 (31 December 2017: 0.97). The Board considers these ratios remaining at healthy and appropriate levels.

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the six months ended 30 June 2018.

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, the Company has complied with all of the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, save and except for the derivations from the code provision A.6.7.

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

AUDIT COMMITTEE

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

The Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been reviewed by the Audit Committee, which is of the opinion that such statements complied with the applicable accounting standards, Listing Rules and legal requirements, and that adequate disclosures have been made.

DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fongs.com). The Interim Report of the Company for the six months ended 30 June 2018 will be despatched to shareholders of the Company and published on the above websites in due course.

On behalf of the Board
CHTC Fong's International Company Limited
Ye Maoxin
Chairman

Hong Kong, 28 August 2018

As at the date of this announcement, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Ji Xin (Chief Executive Officer) and Mr. Du Qianyi (Chief Financial Officer); the Non-executive Director is Fong Kwok Leung, Kevin; and the Independent Non-executive Directors are Mr. Ying Wei, Dr. Yuen Ming Fai and Mr. Li Jianxin.