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CHEN HSONG HOLDINGS LIMITED

震雄集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00057)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

FINANCIAL HIGHLIGHTS			
	For the six months ended 30 September		
	2018 (Unaudited)	2017 (Unaudited)	Change
RESULTS HIGHLIGHTS (HK\$'000)			
Revenue	888,280	870,492	2%
Profit before tax	31,785	83,764	-62%
Profit attributable to equity holders of the Company	20,051	65,962	-70%
Total assets	3,331,706	3,522,143	-5%
Shareholders' equity	2,642,275	2,709,068	-2%
Issued share capital	63,053	63,053	0%
Net current assets	1,560,535	1,594,634	-2%
PER SHARE DATA			
Basic earnings per share (HK cents)	3.1	10.5	-70%
Cash dividends per share (HK cents)	3.0	3.0	0%
Net assets per share (HK dollars)	4.2	4.3	-2%
KEY FINANCIAL RATIOS			
Return on average shareholders' equity (%)	0.7	2.5	-72%
Return on average total assets (%)	0.6	1.9	-68%

INTERIM RESULTS

The board of directors (the "Board") of Chen Hsong Holdings Limited (the "Company") announces that the unaudited consolidated profit attributable to equity holders of the Company for the six months ended 30 September 2018 amounted to HK\$20,051,000, as compared with the profit attributable to equity holders of HK\$65,962,000 for the corresponding period of last year. Basic earnings per share for the six months ended 30 September 2018 was HK3.1 cents, as compared with the basic earnings per share of HK10.5 cents for the corresponding period of last year. These unaudited interim results have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2018

		Six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	2	888,280	870,492
Cost of sales		(685,689)	(637,608)
Gross profit		202,591	232,884
Other income and gains, net		28,198	28,155
Selling and distribution expenses		(97,935)	(93,873)
Administrative expenses		(65,329)	(61,333)
Other operating expenses, net		(36,056)	(23,270)
Finance costs		(693)	(456)
Share of profits less losses of associates		1,009	1,657
PROFIT BEFORE TAX	3	31,785	83,764
Income tax expense	4	(12,319)	(17,725)
PROFIT FOR THE PERIOD		19,466	66,039
ATTRIBUTABLE TO:			
Equity holders of the Company		20,051	65,962
Non-controlling interests		(585)	77
		19,466	66,039
EARNINGS PER SHARE			
ATTRIBUTABLE TO EQUITY HOLDERS			
OF THE COMPANY	6		
Basic (HK cents)		3.1	10.5
Diluted (HK cents)		3.1	10.5

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	19,466	66,039
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
<i>Other comprehensive income/(expenses)</i>		
<i>to be reclassified to the income statement</i>		
<i>in subsequent periods:</i>		
Exchange differences:		
Exchange differences on translation of		
foreign operations	(212,032)	89,987
Share of other comprehensive income/(expenses)		
of associates	(3,273)	1,336
Net other comprehensive income/(expenses)		
to be reclassified to the income statement		
in subsequent periods	(215,305)	91,323
<i>Other comprehensive income/(expenses) not</i>		
<i>to be reclassified to the income statement</i>		
<i>in subsequent periods:</i>		
Actuarial gains/(losses) on defined benefit obligations	100	(933)
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
FOR THE PERIOD, NET OF TAX	(215,205)	90,390
TOTAL COMPREHENSIVE INCOME/(EXPENSES)		
FOR THE PERIOD	(195,739)	156,429
ATTRIBUTABLE TO:		
Equity holders of the Company	(194,025)	155,716
Non-controlling interests	(1,714)	713
	(195,739)	156,429

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

		30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		625,499	703,147
Investment properties		292,055	320,736
Prepaid land lease payments		34,523	37,330
Goodwill		94,923	94,923
Investments in associates		30,363	32,627
Deferred tax assets		34,782	38,170
Deposits for purchases of items of property, plant and equipment		7,312	7,846
Trade receivables	7	18,601	22,588
Finance lease receivables	8	5,726	2,591
Pledged bank deposits		806	1,242
Total non-current assets		1,144,590	1,261,200
CURRENT ASSETS			
Inventories		686,492	802,495
Trade and bills receivables	7	851,483	844,181
Deposits, prepayments and other receivables		67,613	96,862
Finance lease receivables	8	34,138	33,643
Pledged bank deposits		32,518	45,755
Cash and bank balances		514,872	611,564
Total current assets		2,187,116	2,434,500
CURRENT LIABILITIES			
Trade and bills payables	9	331,882	475,857
Other payables and accruals		186,100	224,331
Interest-bearing bank borrowings		73,219	24,770
Tax payable		35,380	34,000
Total current liabilities		626,581	758,958
NET CURRENT ASSETS		1,560,535	1,675,542
TOTAL ASSETS LESS CURRENT LIABILITIES		2,705,125	2,936,742
NON-CURRENT LIABILITIES			
Other payables and accruals		1,841	2,258
Defined benefit obligations		10,645	12,251
Deferred tax liabilities		36,925	39,253
Total non-current liabilities		49,411	53,762
NET ASSETS		2,655,714	2,882,980
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		63,053	63,053
Reserves		2,579,222	2,804,774
		2,642,275	2,867,827
Non-controlling interests		13,439	15,153
TOTAL EQUITY		2,655,714	2,882,980

NOTES:**1. ACCOUNTING POLICIES**

The unaudited condensed interim financial statements of the Company and its subsidiaries (the “Group”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and basis of preparation adopted in the preparation of these condensed interim financial statements are consistent with those set out in the Group’s audited financial statements for the year ended 31 March 2018, except that the Group has adopted, for the first time for the current period’s condensed interim financial statements, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as the “New HKFRSs”) issued by the HKICPA that are effective for the accounting period commencing on 1 April 2018:

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

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*. The nature and effect of these changes are disclosed below.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of HKFRS 9 does not have a significant impact on the classification and measurement of the Group’s financial assets. The impacts arising from the adoption of HKFRS 9 relate to the impairment requirements are summarized as follows:

1. ACCOUNTING POLICIES (continued)

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group has applied the simplified approach and recorded lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and bills receivables. Furthermore, the Group has applied the general approach and recorded twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The adoption of the standard has had no significant financial impact on these condensed interim financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. The effect of adopting HKFRS 15 is as follows:

(a) Sales with financing components

Generally, the Group's trading terms with its customers are either cash on delivery, bank bills or on credit. For contracts with certain customers, the Group allows the customers to settle the trade receivables by installments with credit periods of 12 months to 24 months in general ("Installment Contracts"). Those trade receivables are interest-bearing. The Group recognizes the entire contract amount as revenue when significant risks and rewards associated with the plastic injection moulding machines and related products are transferred to customers, generally upon delivery of the goods. Upon the adoption of HKFRS 15, the Group has to determine whether there is a significant financing component in contracts with customers. For Installment Contracts, the Group concluded that they contain a financing component because of the length of time between when the customers pay for the goods and when the Group transfers goods to the customers, as well as the prevailing interest rates in the market. The transaction price for those contracts is determined by discounting the amount of promised consideration using the appropriate discount rate. The adoption of HKFRS 15 has had no significant impact on the financial performance of the Group.

1. ACCOUNTING POLICIES *(continued)*

(b) Presentation and disclosure

The application of HKFRS 15 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed interim financial statements.

The adoption of all the other New HKFRSs has had no significant financial effect on these condensed interim financial statements and there have been no significant changes to the accounting policies applied in these condensed interim financial statements.

The HKICPA has also issued a number of new and revised HKFRSs which are not yet effective for the current reporting period. The Group has not early adopted those new and revised HKFRSs in these condensed interim financial statements. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, but is not yet in a position to state whether these new and revised HKFRSs would have significant impact on the Group's financial performance and financial position.

2. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue represents the net invoiced value of goods sold during the period, after allowances for returns and trade discounts, excluding intra-group transactions.

The Group is principally involved in the manufacture and sale of plastic injection moulding machines and related products. For management purposes, the Group is organized into business units based on the geographical location of customers and has three reportable operating segments as follows:

- (i) Mainland China and Hong Kong;
- (ii) Taiwan; and
- (iii) Other overseas countries.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, unallocated income and gains, finance costs, share of profits less losses of associates, and corporate and unallocated expenses are excluded from such measurement.

There are no significant sales between the reportable operating segments.

2. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*

Disaggregation of revenue from contracts with customers by geographical location of customers, as well as revenue and results information for the Group's operating segments for the periods ended 30 September 2018 and 2017 is as follows:

	Segment revenue from external customers		Segment results	
	Six months ended		Six months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China and Hong Kong	585,322	601,754	27,235	80,669
Taiwan	72,094	72,999	4,418	2,592
Other overseas countries	230,864	195,739	10,481	10,287
	<u>888,280</u>	<u>870,492</u>	<u>42,134</u>	<u>93,548</u>

Reconciliation of results of operating segments to profit before tax is as follows:

Operating segment results	42,134	93,548
Unallocated income and gains	5,171	5,723
Corporate and unallocated expenses	(15,836)	(16,708)
Finance costs	(693)	(456)
Share of profits less losses of associates	1,009	1,657
Profit before tax	<u>31,785</u>	<u>83,764</u>

3. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
Cost of inventories sold	685,689	637,608
Depreciation	30,322	25,107
Amortization of prepaid land lease payments	687	676
Loss/(gain) on disposal of items of property, plant and equipment	(483)	123
Write-off of items of property, plant and equipment	659	869
Impairment/(write-back of impairment) of trade and bills receivables, net	(5,662)	2,175
Write-back of provision for inventories, net	(1,532)	(9,352)
Impairment of other receivables, net	-	555
Foreign exchange differences, net	16,923	(3,831)
Interest income	(4,185)	(4,261)
Finance lease interest income	(986)	(1,462)

4. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong or has available tax losses brought forward from prior years to offset the assessable profits generated during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
Current:		
Charge for the period		
Hong Kong	-	-
Elsewhere	10,776	11,917
Underprovision in prior periods	282	67
Deferred	1,261	5,741
Tax charge for the period	12,319	17,725

5. DIVIDENDS

	Six months ended 30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends paid during the period:		
Final in respect of the financial year ended 31 March 2018		
- HK\$0.05 (2017: HK\$0.026) per ordinary share	31,527	16,394
Special final in respect of the financial year ended 31 March 2018		
- HK\$Nil (2017: HK\$0.032 per ordinary share)	-	20,177
	<u>31,527</u>	<u>36,571</u>

The Board has declared the payment of an interim dividend of HK\$0.03 (2017: HK\$0.03) per ordinary share for the six months ended 30 September 2018 totalling HK\$18,916,000 (2017: HK\$18,916,000). These condensed interim financial statements do not reflect the interim dividend payable.

6. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the period of HK\$20,051,000 (2017: HK\$65,962,000) and on the weighted average number of ordinary shares of 630,531,600 (2017: 630,531,600) in issue during the period.

No adjustment has been made to the basic earnings per share presented for the periods ended 30 September 2018 and 2017 as the Group had no potentially dilutive ordinary shares in issue during these periods.

7. TRADE AND BILLS RECEIVABLES

		30 September 2018	31 March 2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		673,339	682,881
Impairment		(76,370)	(87,801)
Trade receivables, net	(a)	596,969	595,080
Bills receivable	(b)	273,115	271,689
Total trade and bills receivables		870,084	866,769
Portion classified as non-current portion		(18,601)	(22,588)
Current portion		851,483	844,181

Trading terms with customers are either cash on delivery, bank bills or on credit. The Group grants credit to customers based on their respective business strength and creditability, with credit periods of 30 days to 180 days in general. The Group adopts strict control policies over credit terms and receivables that serve to minimize credit risk.

In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Except for the trade receivables of HK\$83,606,000 as at 30 September 2018 (31 March 2018: HK\$85,815,000) which are interest-bearing at an average interest rate of 6.1% (31 March 2018: 6.1%) per annum and with credit periods of 12 months to 24 months in general, the remaining trade and bills receivables are non-interest-bearing.

- (a) The ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 September 2018	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	258,907	258,879
91 to 180 days	127,492	118,578
181 to 365 days	147,430	155,670
Over 1 year	63,140	61,953
	596,969	595,080

7. TRADE AND BILLS RECEIVABLES *(continued)*

- (a) The ageing analysis of the trade receivables that are not considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

	30 September	31 March
	2018	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current (neither past due nor impaired)	380,959	353,660
Less than 90 days past due	101,107	123,292
91 to 180 days past due	43,575	50,078
Over 180 days past due	68,171	64,360
	<u>593,812</u>	<u>591,390</u>

- (b) The maturity dates of the bills receivable as at the end of the reporting period are analyzed as follows:

	30 September	31 March
	2018	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	131,141	121,423
91 to 180 days	94,964	106,575
181 to 365 days	47,010	43,691
	<u>273,115</u>	<u>271,689</u>

8. FINANCE LEASE RECEIVABLES

The Group leases certain of its injection moulding machines to its customers. These leases are classified as finance leases and have remaining lease terms ranging from 1 month to 2 years (31 March 2018: 1 month to 2 years). The customers shall purchase the leased injection moulding machines at the end of lease terms of the finance leases.

	30 September 2018 HK\$'000	31 March 2018 HK\$'000
Finance lease receivables	41,427	37,951
Impairment	(1,563)	(1,717)
Finance lease receivables, net	39,864	36,234
Portion classified as non-current portion	(5,726)	(2,591)
Current portion	34,138	33,643

As at 30 September 2018, the total future minimum lease receivables under finance leases and their present values were as follows:

	Minimum lease receivables		Present value of minimum lease receivables	
	30 September 2018 HK\$'000	31 March 2018 HK\$'000	30 September 2018 HK\$'000	31 March 2018 HK\$'000
Accounts receivable:				
Within one year	35,441	34,571	34,138	33,643
In the second year	5,943	2,639	5,726	2,591
Total minimum finance lease receivables	41,384	37,210	39,864	36,234
Unearned finance income	(1,520)	(976)		
Total net finance lease receivables	39,864	36,234		
Portion classified as current assets	(34,138)	(33,643)		
Non-current portion	5,726	2,591		

No contingent income was recognized during the period ended 30 September 2018 (2017: Nil).

8. FINANCE LEASE RECEIVABLES *(continued)*

The ageing analysis of the finance lease receivables that are not considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

	30 September 2018 <i>HK\$'000</i>	31 March 2018 <i>HK\$'000</i>
Current (neither past due nor impaired)	23,552	21,708
Less than 90 days past due	4,802	4,825
91 to 180 days past due	1,414	2,242
Over 180 days past due	9,568	6,804
	<u>39,336</u>	<u>35,579</u>

9. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 September 2018 <i>HK\$'000</i>	31 March 2018 <i>HK\$'000</i>
Within 90 days	207,360	326,244
91 to 180 days	63,630	65,552
181 to 365 days	46,112	67,759
Over 1 year	14,780	16,302
	<u>331,882</u>	<u>475,857</u>

The trade and bills payables are non-interest-bearing and are normally settled on terms of 3 to 6 months (31 March 2018: 3 to 6 months). Included in the trade and bills payables are trade payables of HK\$7,773,000 (31 March 2018: HK\$12,282,000) due to associates which are repayable within 30 days.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK3.0 cents (2017: HK3.0 cents) per ordinary share for the six months ended 30 September 2018 to shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 18 December 2018. The interim dividend will be paid on or about Friday, 11 January 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 17 December 2018 to Tuesday, 18 December 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Tengis 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 December 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE

For the six months ended 30 September 2018, the Group registered total turnover growth of 2% to HK\$888 million (2017: HK\$870 million). Profit attributable to equity holders was HK\$20.1 million (2017: HK\$66.0 million), while basic earnings per share was HK3.1 cents (2017: HK10.5 cents). Profit attributable to equity holders would have been HK\$37.0 million (2017: HK\$62.1 million) had the impacts of exchange differences were being excluded. The Board has resolved to declare an interim dividend of HK3.0 cents (2017: HK3.0 cents), which is the same as the previous period.

The Group has outlined its concerns in the Management's Discussion & Analysis of the 2018 Annual Report, especially with the USA trade policies and its vacillating trade disputes with China. Sino-American trade disputes did not ease off during the first half of this financial year, instead has become even more fierce. In July of this year the USA Government officially raised the trade dispute into a "trade war" through imposing an import tariffs against imported goods from China. As this trade war circulated the global markets, many countries (especially developing countries) were caught in the storm and impacted to various degrees, leading to problems such as economic recessions, large currency devaluations and political instabilities.

The retaliating measures imposed by the China Government against tariff barriers have led to a falling trade relationship between the two largest economies in the world not witnessed for decades. The relationship deteriorated further when the USA Government imposed a second round of tariffs in September of this year, with matching retaliations from the China Government. As the U.S. Dollar gained strength during this period, the Renminbi exchange rate dropped rapidly to new lows not seen in recent years, and hovered just above the important psychological support point of RMB 7 to USD 1. Because of the devaluation of the Renminbi and other currencies, the Group was hit with an exchange loss of HK\$16.9 million (2017: exchange gain of HK\$3.8 million) with according impacts on profits.

The strong U.S. Dollar had an even larger impact on developing countries (such as Brazil and Turkey), causing local currency exchange rates to collapse to new lows not seen in years, with some were near to or exceeding 50%, causing difficulties in the economy of these countries. As

the Group transacted in these local currencies, the rapidly-declining exchange rates overwhelmed the Group's ability to rapidly hedge such foreign exchange risks. In addition, in order to protect market share, the Group has not significantly adjusted its local prices, these have affected the average selling price and gross margin of the Group's products in these countries.

Other worries mentioned in the 2018 Annual Report also came into being, including an increasingly unprecedented harsh environmental protection policy adopted by the China Government which continued to cause wide-spread shut-downs and remodeling for many manufacturing enterprises in the country. In addition, the interest rate increases by the Federal Reserve of the USA has caused raising interest rates globally, forcing many weaker economies into recessions which has significantly impacted the Group's businesses in those countries.

Owing to the above reasons, the Group faced an extremely challenging first half of this financial year, especially during the second quarter (July to September of this year) when a number of the Group's customers were affected by challenges coming from internal and external of China. In face of such sudden, and unusually acute, macro market environment, and in order to safe-guard the interests of the shareholders, the Group has, as always, strived to continue to stick to its prudent philosophy of financial management by controlling expenses and seeking revenue growth while maintaining a balance and control of risks in the markets.

MARKET ANALYSIS

Breakdown of turnover, based on the location of customers, for the six months ended 30 September 2018 is as follows:

Customer Location	2018 (HK\$ million)	2017 (HK\$ million)	Change
Mainland China and Hong Kong	585	602	-3%
Taiwan	72	73	-1%
Other overseas countries	231	195	18%
	888	870	2%

As discussed above, the USA officially kicked off a "trade war" with China, with both sides imposing tariffs on each other's imports during July and September of this year. This trade war has an immediate effect of surfacing some of China's hidden economic weaknesses, such as the near-to-crisis municipal debt levels. In response to the challenges brought by the trade barriers, the China Government introduced vigorous measures, such as a strong push to de-leverage, control the size in the debt markets, hammer down the huge "shadow banking" system as well as allowing the Renminbi to devalue by almost 10% within a short period of time.

Under the loom of the trade war, China's PMI dropped to 50.2 in October of this year and hovered just above the 50's dividing line. Other sub-indicators have also declined across the board indicating severe economic pressure, in particular the new export orders indicator has dipped to 46.9, a multi-year low and the fifth consecutive month below 50. Economic weaknesses bled into the currency and stock markets too, with mainline stock indices collapsing during this financial year and the Renminbi/U.S. Dollar exchange rate dropping to a multi-year low. According to government statistics, China's GDP growth for the third quarter of 2018 would be 6.5% – a ten-year low.

To combat the adverse conditions, the China Government adopted swiftly the “Six Stabilizing” strategy which included “stabilizing employment, stabilizing finances, stabilizing overseas trade, stabilizing forex, stabilizing investments and stabilizing expectations”, including the Central Government implemented several supportive measures for small-to-medium enterprises by relaxing credit. However, many of these small-to-medium enterprises continued to experience difficulty in seeking credit. On top of this was the harsh “environmental protection” policy which continued to hammer manufacturing companies for environmental violations, causing some to close and others to bear huge amounts of rectification costs. Consequently, general market sentiments and customer confidence have been hit, with customers of the Group generally adapted a wait-and-see attitude towards capital investments and capacity expansion awaiting for clarification in the market.

Given the various adverse market conditions, however, the new “Sixth Generation” MK6 product line as well as new “two-platen” large-tonnage plastic injection moulding machines introduced by the Group have continued to meet with good responses from the customers and captured numerous praises in the market. As a result, the Group managed to maintain its result in China with turnover declined slightly by 3% to HK\$585 million in the first half of this financial year (2017: HK\$602 million). Owing to the wait-and-see attitude and fierce competition in the market, the Group has decided to delay its introduction of an upgraded version of the “Sixth Generation” MK6 product line. The delay has led to the inability to adjust as planned the selling prices and costs. Furthermore, raw material prices in China (especially for steel) have risen significantly during the period. The above have contributed to the Group’s lower gross margin in China compared with the same period of last year.

Although the Taiwan customers were benefited from improvements in Europe and USA markets, but were affected by economic weaknesses in other countries. As a result, Taiwan turnover was essentially flat, dropping by 1% to HK\$72 million (2017: HK\$73 million), which is similar to last year.

In the overseas markets, the spiking crude oil prices in the first half of this financial year have led to higher inflation in Europe, USA and other countries. The Federal Reserve of the USA has not slowed its rate-increase cycle even to the trade war. The most direct result was sky-rocking U.S. Dollar exchange rates, and indirectly caused currency crises in many developing countries, severely hampering the Group’s sales in them.

Facing such turbulent market conditions, the Group has nevertheless continued to reap remarkable gains in the overseas markets, especially Europe, the Americas and India markets. The Group registered a significant increase in overseas turnover of 18% to HK\$231 million (2017: HK\$195 million), primarily due to the success of recently-introduced new products line breaking into a number of large multinational conglomerates, and the recognition of the new product lines by the overseas customers.

PRODUCTION CAPACITY AND DEVELOPMENT OF NEW TECHNOLOGIES

The Group’s production capacity is sufficient to cater for any potential market needs in the near future. The Group has continued to lead the industry in the area of technical research and product development.

The new age belongs to the Internet. The China Government has put “Internet+” as one of its core national development strategies. The Group has responded vigorously and implemented an “Internet+” Industrial Intelligence online strategy, and will launch a new One Touch Service (OTS) platform. This intelligent mobile service platform is constructed based on the Group’s after-sale customer service system, and it is one of the first kind in the plastic injection molding machines industry in China. Customers will be able to access high-quality after-sale customer services simply through their smartphones. The intelligent mobile service platform will enhance the production efficiency of the customers.

The Group will also invest into researching Internet of Things (IOT) as well as Artificial Intelligence (AI) connectivity for plastic injection moulding machines using industrial Big Data in order to prepare the Group for the ultimate demands of “Industry 4.0.”

LIQUIDITY AND FINANCIAL CONDITIONS

As at 30 September 2018, the Group had net current assets of HK\$1,561 million (2017: HK\$1,595 million), which represented a 2% decrease over last year. Cash and bank balances (including pledged deposits) amounted to HK\$548 million (2017: HK\$799 million), representing a decrease of HK\$251 million over last year. The bank borrowings were HK\$73 million (2017: HK\$23 million), increased by HK\$50 million, which were short term loans with floating interest rates for general working capital purposes. The Group recorded a net cash position of HK\$475 million (2017: HK\$776 million), representing a decrease of HK\$301 million.

The gearing ratio of the Group is measured as total borrowings net of cash and bank balances divided by total assets. The Group had a net cash position as at 30 September 2018, and as a result, no gearing ratio was presented.

It is the policy of the Group to adopt a consistently prudent financial management strategy, and sufficient liquidity is maintained with appropriate levels of borrowings to meet the funding requirements of the Group’s investments and operations.

CHARGE ON ASSETS

As at 30 September 2018, bank deposits of certain subsidiaries of the Group in the amount of HK\$33 million (2017: HK\$56 million) were pledged, including HK\$18 million (2017: HK\$24 million) for securing bank loans granted by banks in Mainland China to customers to purchase the Group’s products, HK\$15 million (2017: HK\$29 million) for securing the issuance of bank acceptance notes, included in the trade and bills payables, to suppliers.

CAPITAL COMMITMENTS

As at 30 September 2018, the Group had capital commitments of HK\$4 million (2017: HK\$9 million), mainly in respect of the construction work for industrial buildings and the purchases of production equipment in Mainland China and Hong Kong, which are to be funded by internal resources of the Group.

TREASURY AND FOREIGN EXCHANGE RISK MANAGEMENT

The Group adopts a prudent approach in managing its funding. Funds, which are primarily denominated in Hong Kong Dollar, the Renminbi, the New Taiwanese Dollar, the U.S. Dollar

and the Euro, are generally placed with banks in short or medium term deposits for working capital of the Group.

As at 30 September 2018, the Group had borrowings in Japanese Yen equivalent to HK\$23 million (2017: HK\$23 million) for payments to suppliers in Japanese Yen. The Group, from time to time, assesses the risk exposure on certain volatile foreign currencies and manages it in appropriate manner to minimize the risk.

The Group has substantial investments in Mainland China and is aware that any fluctuation of the Renminbi exchange rate would have an impact on the net profits of the Group. However, since most of the transactions of the Group are conducted in the Renminbi, the direct impact from the exchange losses on the Group's operations and cash flows is slight.

CONTINGENT LIABILITIES

As at 30 September 2018, the Group provided guarantees to banks amounted to HK\$28 million (2017: HK\$37 million) for bank loans granted to customers to purchase the Group's products.

HUMAN RESOURCES

As at 30 September 2018, the Group had approximately 2,300 (2017: 2,400) full-time employees. The Group offers good remuneration and welfare packages to its employees and maintains market-competitive pay levels. Employees are rewarded based on individual performance as well as the results performance of the Group.

The Group conducted regular programmes, including comprehensive educational and professional training, and social counselling activities, to its employees to enhance staff quality, standards of professional knowledge and teamwork spirit.

OUTLOOK FOR THE SECOND HALF

As we enter into the second half of this financial year, the epic struggle of trade between the two largest economies has continued to lead to a freezing cold Sino-American trade relationship. It is difficult to predict the sentiment in the market and the manufacturing industries for the second half of this financial year.

As many manufacturing enterprises are adopting a wait-and-see attitude, and it is possible that raw material prices in China will continue to escalate leading to further squeeze in the Group's gross margin, the Group is currently not optimistic with the second half of this financial year.

CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 September 2018, the Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, except for the following deviations:

Code provision A.4.2 provides that every director should be subject to retirement by rotation at least once every three years. The directors of the Company (except the Chairman of the Company) are subject to retirement by rotation at least once every three years as the Chen Hsong Holdings Limited Company Act, 1991 of Bermuda provides that the chairman and managing director of

the Company are not required to retire by rotation.

Code provision A.2.1 provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Ms. Lai Yuen CHIANG is the Chairman of the Board (with effect from 23 April 2018) and Chief Executive Officer of the Company. Given the skills and experience of Ms. CHIANG and her long term of service with the Group, this structure can be considered appropriate to the Group and can provide the Group with strong and consistent leadership for effective and efficient business planning and decisions, as well as execution of long term business strategies.

COMPLIANCE WITH THE MODEL CODE AND THE CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a Code of Conduct regarding Securities Transactions by the Directors (the “Code of Conduct”) on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules. The Company, after having made specific enquiry of all directors, confirms that all directors have complied with the required standard set out in the Code of Conduct and the Model Code for the six months ended 30 September 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

REVIEW OF ACCOUNTS

The Audit Committee of the Company has reviewed with the Management the unaudited interim results for the six months ended 30 September 2018 and discussed internal controls and financial reporting matters, including the review of accounting principles and practices adopted by the Group.

On behalf of the Board
CHEN HSONG HOLDINGS LIMITED
Lai Yuen CHIANG
Chairman and Chief Executive Officer

Hong Kong, 28 November 2018

As at the date of this announcement, the executive directors of the Company are Ms. Lai Yuen CHIANG, Mr. Chi Kin CHIANG, Mr. Stephen Hau Leung CHUNG and Mr. Sam Hon Wah NG, and the independent non-executive directors of the Company are Mr. Johnson Chin Kwang TAN, Mr. Anish LALVANI, Mr. Bernard Charnwut CHAN and Mr. Michael Tze Hau LEE.