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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 2019

The board of directors (the “**Board**”) of CHTC Fong’s International Company Limited (the “**Company**”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
	Note		
Revenue	4	1,288,790	1,764,112
Cost of sales		(908,052)	(1,196,035)
Gross profit		380,738	568,077
Interest income		3,078	6,122
Other income		11,012	12,959
Other losses	6	(3,696)	(6,592)
Selling and distribution costs		(105,880)	(150,866)
Administrative and other expenses		(315,903)	(299,886)
Finance costs	5	(24,911)	(17,805)
Share of results of an associate		(255)	92
(Loss) profit before tax	6	(55,817)	112,101
Income tax expense	7	(22,413)	(27,788)
(Loss) profit for the period		(78,230)	84,313

		For the six months ended 30 June	
		2019	2018
		(unaudited)	(unaudited)
Note		HK\$'000	HK\$'000
Other comprehensive income (expense), net of tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
	Exchange difference arising on translation	2,795	14,586
	Share of changes in translation reserve of an associate	(271)	296
		<u>2,524</u>	<u>14,882</u>
	Other comprehensive income for the period		
		<u>2,524</u>	<u>14,882</u>
	Total comprehensive (expense) income for the period	<u>(75,706)</u>	<u>99,195</u>
(Loss) profit for the period attributable to:			
	Owners of the Company	(75,746)	88,606
	Non-controlling interests	(2,484)	(4,293)
		<u>(78,230)</u>	<u>84,313</u>
Total comprehensive (expense) income for the period attributable to:			
	Owners of the Company	(73,222)	103,326
	Non-controlling interests	(2,484)	(4,131)
		<u>(75,706)</u>	<u>99,195</u>
		HK cents	HK cents
(Loss) earnings per share			
	Basic and diluted	<u>(6.88)</u>	<u>8.05</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

		At 30 June 2019 (unaudited) HK\$'000	At 31 December 2018 (audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		1,584,364	1,478,057
Right-of-use assets		12,912	–
Prepaid lease payments		256,062	212,557
Goodwill		533,515	533,515
Intangible assets		240,300	244,004
Financial assets at fair value through other comprehensive income		158,153	158,264
Investment in an associate		28,179	28,450
Deposits for acquisition of property, plant and equipment		170,954	103,833
Deposits for acquisition of leasehold land		7,388	7,394
Deferred tax assets		27,892	28,101
		<u>3,019,719</u>	<u>2,794,175</u>
Current assets			
Inventories		933,876	764,423
Trade and other receivables	9	556,169	617,469
Prepaid lease payments		6,217	5,273
Tax recoverable		14,149	10,184
Cash and cash equivalents		394,963	586,799
		<u>1,905,374</u>	<u>1,984,148</u>

		At 30 June 2019 (unaudited) HK\$'000	At 31 December 2018 (audited) HK\$'000
	Note		
Current liabilities			
Trade and other payables	10	599,585	621,086
Contract liabilities		250,400	180,152
Warranty provision		15,448	16,191
Tax liabilities		14,229	19,930
Lease liabilities		5,412	–
Bank borrowings		2,086,816	1,894,522
		<u>2,971,890</u>	<u>2,731,881</u>
Net current liabilities		<u>(1,066,516)</u>	<u>(747,733)</u>
Total assets less current liabilities		<u>1,953,203</u>	<u>2,046,442</u>
Non-current liabilities			
Deferred revenue		81,249	82,007
Deferred tax liabilities		56,976	59,097
Lease liabilities		7,590	–
Other payable		341,511	341,751
		<u>487,326</u>	<u>482,855</u>
Net assets		<u><u>1,465,877</u></u>	<u><u>1,563,587</u></u>
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	11	55,011	55,011
Share premium and reserves		1,408,680	1,503,906
		<u>1,463,691</u>	<u>1,558,917</u>
Non-controlling interests		<u>2,186</u>	<u>4,670</u>
Total equity		<u><u>1,465,877</u></u>	<u><u>1,563,587</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 2019 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

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

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

In the current interim period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2019. The impact of the adoption of the new and revised HKFRSs are disclosed in Note 3 below.

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

The effect of the adoption of these new and revised HKFRSs in the current period has had no material impact on the Group’s financial performance and position of the current and prior periods except for the adoption of HKFRS 16 “Leases”.

(a) Adjustments recognised on the adoption of HKFRS 16

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

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

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

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

As lessee:

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

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

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

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

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

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

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

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

As lessor:

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

4. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenues and results

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

For the six months ended 30 June 2019 (unaudited)

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

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>1,379,118</u>	<u>257,568</u>	<u>255,976</u>	<u>6,791</u>	1,899,453
Elimination					<u>(135,341)</u>
Group revenue					<u>1,764,112</u>
Results					
Segment profit (loss)	<u>94,527</u>	<u>9,514</u>	<u>28,581</u>	<u>(8,930)</u>	123,692
Interest income					6,122
Finance costs					(17,805)
Share of results of an associate					<u>92</u>
Profit before tax					<u>112,101</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	
	2019	2018
	(unaudited) <i>HK\$'000</i>	(unaudited) <i>HK\$'000</i>
The PRC	709,635	710,749
Hong Kong	45,397	119,778
Asia Pacific (other than the PRC and Hong Kong)	279,376	448,440
Europe	132,581	246,726
North and South America	112,112	189,728
Others	9,689	48,691
	<u>1,288,790</u>	<u>1,764,112</u>

5. FINANCE COSTS

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

6. (LOSS) PROFIT BEFORE TAX

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

7. INCOME TAX EXPENSE

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

8. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share:

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

	For the six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
(Loss) profit for the period attributable to owners of the Company for the purpose of basic (loss) earnings per share	<u><u>(75,706)</u></u>	<u><u>88,606</u></u>
	'000	'000
Number of ordinary shares for the purpose of basic (loss) earnings per share	<u><u>1,100,217</u></u>	<u><u>1,100,217</u></u>

(b) Diluted (loss) earnings per share:

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

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

10. TRADE AND OTHER PAYABLES

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

	At 30 June 2019 (unaudited) HK\$'000	At 31 December 2018 (audited) HK\$'000
0-90 days	187,911	196,174
91-120 days	4,103	2,275
Over 120 days	28,571	32,323
	<u>220,585</u>	<u>230,772</u>

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

11. SHARE CAPITAL

	At 30 June 2019 (unaudited) <i>Number of shares</i> <i>HK\$'000</i>	At 31 December 2018 (audited) <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 2018, 31 December 2018 and 30 June 2019	<u>1,100,216,570</u> <u>55,011</u>	<u>1,100,216,570</u> <u>55,011</u>

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business performance

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

Manufacture and sale of dyeing and finishing machines

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

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

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

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

Trading of stainless steel supplies

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

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

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

Looking into the second half of 2019, the price of stainless steel is expected to remain stable with slight fluctuations. The construction industry in Hong Kong is booming as more major infrastructure projects have commenced, which, coupled with the accelerated pace of urbanisation and infrastructure construction in the PRC, will provide opportunities for trading of stainless steel. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The Group will closely monitor and response to market changes to maintain steady growth in this business segment.

Manufacture and sale of stainless steel casting products

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

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

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

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

Environmental protection services

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

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

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

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

Prospects

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

Human resources

As at 30 June 2019, the Group had a total of approximately 4,480 employees (31 December 2018: approximately 4,570 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In the first half of 2019, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK\$362,000,000 (In the first half of 2018: approximately HK\$377,000,000), accounting for 28% (In the first half of 2018: 21%) of its revenue. The Group will continue to monitor the market situation and consolidate its human resource and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

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

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

Liquidity and capital sources

Given continuously increasing cost pressure, the Group has strictly implemented prudent cost and cash flow management. During the period, the Group met its funding requirements for its ordinary and normal course of business with cash flow generated from operating activities and existing banking facilities.

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

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

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

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the six months ended 30 June 2019.

CORPORATE GOVERNANCE

During the six months ended 30 June 2019, the Company has complied with all of the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules, save and except for the derivations from the code provision A.6.7.

Under the code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Ying Wei and Dr. Yuen Ming Fai (both being Independent Non-executive Director) were unable to attend the annual general meeting of the Company held on 28 May 2019 as they had other business engagements.

AUDIT COMMITTEE

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

The Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have been reviewed by the Audit Committee, which is of the opinion that such statements complied with the applicable accounting standards, Listing Rules and legal requirements, and that adequate disclosures have been made.

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 2019 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, 29 August 2019

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