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 2021

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 2021 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 2021

		For the six months ended 30 June	
		2021	2020
		(unaudited)	(unaudited)
	Note	***HK$'000***	*HK$'000*
			(Re-presented)
Continuing operations			
Revenue	*4*	**1,219,550**	1,045,431
Cost of sales		**(913,990)**	(755,619)
Gross profit		**305,560**	289,812
Interest income		**778**	570
Other income		**14,477**	11,300
Other gains	*6*	**1,531**	39,846
Selling and distribution costs		**(115,489)**	(81,115)
Administrative and other expenses		**(277,347)**	(284,108)
Finance costs	*5*	**(28,233)**	(27,422)
Share of results of an associate		**(1,203)**	(253)
Loss before tax	*6*	**(99,926)**	(51,370)
Income tax expense	*7*	**(11,011)**	(11,909)
Loss for the period from continuing operations		**(110,937)**	(63,279)

	Note	For the six months ended 30 June **2021** **(unaudited)** ***HK$'000***	2020 (unaudited) *HK$'000* (Re-presented)
Discontinued operation			
Loss for the period from a discontinued operation		**(9,975)**	(1,469)
Loss for the period		**(120,912)**	(64,748)
Other comprehensive income (expense), net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**31,642**	(29,123)
Share of translation reserve of an associate		**543**	(489)
Other comprehensive income (expense) for the period		**32,185**	(29,612)
Total comprehensive expense for the period		**(88,727)**	(94,360)
Loss for the period attributable to owners of the Company:			
– from continuing operations		**(110,937)**	(63,166)
– from a discontinued operation		**(3,575)**	(164)
		(114,512)	(63,330)
Loss for the period attributable to non-controlling interest:			
– from continuing operations		**–**	(113)
– from a discontinued operation		**(6,400)**	(1,305)
		(6,400)	(1,418)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(82,327)**	(92,942)
Non-controlling interests		**(6,400)**	(1,418)
		(88,727)	(94,360)
		HK cents	*HK cents*
Loss per share			
From continuing and discontinued operations Basic and diluted	*8*	**(10.40)**	(5.76)
From continuing operations Basic and diluted	*8*	**(10.08)**	(5.74)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Note	At 30 June 2021 (unaudited) *HK$'000*	At 31 December 2020 (audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**1,922,242**	1,828,893
Right-of-use assets		**33,489**	40,561
Prepaid lease payments		**215,467**	215,192
Goodwill		**533,515**	533,515
Intangible assets		**92,891**	93,028
Financial assets at fair value through other comprehensive income		**160,503**	158,082
Investment in an associate		**28,959**	29,620
Deposits for acquisition of property, plant and equipment		**96,069**	80,462
Deposits for acquisition of leasehold land		**56,433**	55,582
Deferred tax assets		**42,239**	41,272
		3,181,807	3,076,207
Current assets			
Inventories		**667,406**	606,555
Trade and other receivables	*9*	**585,945**	455,818
Tax recoverable		**4,350**	4,767
Cash and bank balances		**279,112**	342,177
		1,536,813	1,409,317
Assets of a disposal group classified as held for sale		**87,614**	120,164
		1,624,427	1,529,481

	Note	At 30 June 2021 (unaudited) *HK$'000*	At 31 December 2020 (audited) *HK$'000*
Current liabilities			
Trade and other payables	*10*	**950,094**	639,675
Contract liabilities		**373,448**	234,851
Warranty provision		**14,336**	14,732
Lease liabilities		**9,167**	12,192
Tax liabilities		**13,458**	10,602
Bank and other borrowings		**1,547,224**	1,705,140
		2,907,727	2,617,192
Liabilities of a disposal group classified as held for sale		**37,196**	36,635
		2,944,923	2,653,827
Net current liabilities		**(1,320,496)**	(1,124,346)
Total assets less current liabilities		**1,861,311**	1,951,861
Non-current liabilities			
Deferred revenue		**71,114**	70,389
Deferred tax liabilities		**104,462**	103,309
Lease liabilities		**26,287**	29,988
		201,863	203,686
Net assets		**1,659,448**	1,748,175
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	*11*	**55,011**	55,011
Share premium and reserves		**1,637,063**	1,719,390
		1,692,074	1,774,401
Non-controlling interests		**(32,626)**	(26,226)
Total equity		**1,659,448**	1,748,175

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 National Machinery Industry Corporation (中國機械工業集團有限公司) ("**SINOMACH**"), a company established in the People's Republic of China (the "**PRC**"). SINOMACH 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.

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, manufacture and sale of stainless steel casting products and trading of stainless steel supplies. The Group's provision of environmental protection services was regarded as a discontinued operation.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements 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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2021. HKFRSs comprise HKFRS, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

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

4. REVENUE AND SEGMENT INFORMATION

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

1. Manufacture and sale of dyeing and finishing machines

2. Manufacture and sale of stainless steel casting products

3. Trading of stainless steel supplies

The segment regarding provision of environmental protection services was discontinued in 2020. The segment information reported does not include any amounts for the discontinued operation.

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 2021 (unaudited)

	Manufacture and sale of dyeing and finishing machines	Manufacture and sale of stainless steel casting products	Trading of stainless steel supplies	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	**1,008,476**	**135,922**	**75,152**	**1,219,550**
Inter-segment sales	**–**	**10,803**	**71,508**	**82,311**
Segment revenue	**1,008,476**	**146,725**	**146,660**	**1,301,861**
Elimination				**(82,311)**
Group revenue				**1,219,550**
Results				
Segment (loss) profit	**(66,606)**	**(7,118)**	**2,456**	**(71,268)**
Interest income				**778**
Finance costs				**(28,233)**
Share of results of an associate				**(1,203)**
Loss before tax from continuing operations				**(99,926)**

For the six months ended 30 June 2020 (unaudited) (Re-presented)

	Manufacture and sale of dyeing and finishing machines	Manufacture and sale of stainless steel casting products	Trading of stainless steel supplies	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	789,983	173,972	81,476	1,045,431
Inter-segment sales	121	3,647	22,611	26,379
Segment revenue	790,104	177,619	104,087	1,071,810
Elimination				(26,379)
Group revenue				1,045,431
Results				
Segment (loss) profit	(36,524)	17,581	(5,322)	(24,265)
Interest income				570
Finance costs				(27,422)
Share of results of an associate				(253)
Loss before tax from continuing operations				(51,370)

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	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
The PRC	**575,607**	541,718
Hong Kong	**42,809**	64,077
Asia Pacific (other than the PRC and Hong Kong)	**352,275**	219,233
Europe	**160,892**	134,974
North and South America	**63,644**	72,888
Others	**24,323**	12,541
	1,219,550	1,045,431

5. FINANCE COSTS

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Continuing operations		
Interest on borrowings	**24,191**	38,354
Less: Interest capitalised	**–**	(13,864)
	24,191	24,490
Interest on lease liabilities	**327**	664
Bank charges	**3,715**	2,268
	28,233	27,422

6. LOSS BEFORE TAX

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Continuing operations		
Loss before tax has been arrived at after (crediting) charging:		
Other (gains)/losses:		
(Gain)/Loss on disposal of property, plant and equipment	**(5,228)**	978
Foreign exchange loss, net	**3,697**	7,613
Compensation in excess of costs incurred related to urban renewal project	**–**	(48,437)
Total other (gains)/losses	**(1,531)**	(39,846)
Depreciation and amortisation:		
Amortisation of intangible assets	**137**	1,334
Depreciation		
– owned assets	**47,143**	28,224
– right-of-use assets	**14,734**	14,377
Total depreciation and amortisation	**62,014**	43,935

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Continuing operations		
Hong Kong Profits Tax:		
Current period	**1,309**	4,817
Over-provision in prior years	**–**	(82)
PRC Corporate Income Tax:		
Current period	**13,266**	4,915
Under-provision in prior years	**–**	136
Overseas income tax:		
Current period	**201**	160
Under-provision in prior years	**–**	57
	14,776	10,003
Deferred tax	**(3,765)**	1,906
Income tax expense	**11,011**	11,909

8. LOSS PER SHARE

(a) From continuing and discontinued operations

The calculation of the basic earnings per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(114,512)**	(63,330)
	'000	*'000*
Number of ordinary shares for the purpose of basic loss per share	**1,100,217**	1,100,217

Diluted loss per share for the periods ended 30 June 2021 and 2020 is same as the basic loss per share as the Group has no potential ordinary shares in issue during both periods.

(b) From continuing operations

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

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss for the period attributable to owners of the Company	**(114,512)**	(63,330)
Less: Loss for the period from a discontinued operation attributable to owners of the Company	**(3,575)**	(164)
Loss for the period from continuing operations attributable to owners of the Company for the purpose of basic loss per share	**(110,937)**	(63,166)

The denominators used are the same as those detailed in Note 8(a) above for both basic and diluted loss per share.

(c) From a discontinued operation

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

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss for the period from a discontinued operation attributable to owners of the Company	**(3,575)**	(164)

The denominators used are the same as those detailed in Note 8(a) above for both basic and diluted loss per share.

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss per share		
– Basic	**(0.32) HK cents**	(0.02) HK cents
– Diluted	**(0.32) HK cents**	(0.02) HK cents

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2021 (unaudited) *HK$'000*	At 31 December 2020 (audited) *HK$'000*
Trade receivables	**239,146**	231,721
Less: Loss allowance	**(1,780)**	(2,858)
	237,366	228,863
Bills receivable	**96,065**	43,219
	333,431	272,082
Other receivables	**79,281**	116,703
Prepayments	**173,233**	67,033
Total trade and other receivables	**585,945**	455,818

The Group allows an average credit period of 60 days (2020: 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 2021 (unaudited) *HK$'000*	At 31 December 2020 (audited) *HK$'000*
0-60 days	**171,899**	143,041
61-90 days	**4,988**	15,536
Over 90 days	**60,479**	70,286
	237,366	228,863

10. TRADE AND OTHER PAYABLES

	At 30 June 2021 (unaudited) *HK$'000*	At 31 December 2020 (audited) *HK$'000*
Trade payables	**231,079**	152,437
Bills payables	**301**	43
Amount due to ultimate holding company *(Note i)*	**5,466**	5,466
Loan from immediate holding company *(Note ii)*	**135,000**	–
Other payables and accrued charges	**578,248**	481,729
	950,094	639,675

Notes:

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

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

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

	At 30 June 2021 (unaudited) *HK$'000*	At 31 December 2020 (audited) *HK$'000*
0-90 days	**207,467**	132,498
91-120 days	**11,323**	–
Over 120 days	**12,289**	19,939
	231,079	152,437

The average credit period on purchase of goods is 90 days (2020: 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 2021 (unaudited)		At 31 December 2020 (audited)	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Authorised:				
Ordinary shares	**2,000,000,000**	**100,000**	2,000,000,000	100,000
Issued and fully paid:				
At 1 January 2020, 31 December 2020 and 30 June 2021	**1,100,216,570**	**55,011**	1,100,216,570	55,011

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

As mentioned in the Annual Report 2020 of the Company, the Group has classified the non-core business of provision of environmental protection services as a discontinued operation in 2020. During the period under review, the Group continued to engage in its three core businesses, i.e. manufacture and sale of dyeing and finishing machines, manufacture and sale of stainless steel casting products, and trading of stainless steel supplies.

In the first half of 2021, as global economy got out of the downturn in 2020 but has not yet returned to normal due to the ongoing COVID-19 pandemic and the tight supply of raw materials, the Group recorded a decline in revenue from certain business segments. For the six months ended 30 June 2021, the Group recorded consolidated revenue of approximately HK$1,220,000,000, representing an increase of 17% as compared to approximately HK$1,045,000,000 in the corresponding period of last year. Loss attributable to owners of the Company was approximately HK$115,000,000 (2020: loss of approximately HK$63,000,000). Basic and diluted loss per share was 10.40 HK cents (2020: loss of 5.76 HK cents per share).

Manufacture and sale of dyeing and finishing machines

The ongoing and volatile outbreaks of COVID-19 has had a significant impact on the global economy. Western economies such as the United Kingdom, the United States, Germany and major European countries have continued to impose stringent border controls as a result of the large-scale outbreaks, which in turn brought detrimental economic impacts. Other major developing countries such as India, Brazil, Turkey and Indonesia were also busy in combating the raging pandemic. Fortunately, China's economy has recovered much faster than all other countries with its domestic pandemic stabilised. Our orders from the dyeing and finishing machinery business have picked up to the pre-pandemic level thanks to our management team's efforts. However, due to the ongoing COVID-19 pandemic, plus regulatory measures such as the border controls and transportation restrictions implemented by various countries in the world, shipping capacity was severely impaired and logistics costs were increased, causing significant interruptions to the global supply chain, which in turn led to the tight supply of some raw materials and components as reflected in their surging prices. The raw materials for this business segment are mainly stainless steel, the prices of which have been maintained on the rise since last year and now are fluctuating narrowly at high levels, affecting the costs of our products to a certain extent. Meanwhile, in the face of increasing market competition, the sales prices of certain products of the Company failed to increase in line with the price increases in their raw materials and components, eventually placing great pressure on our profit margin.

For the six months ended 30 June 2021, this business segment recorded revenue of approximately HK$1,008,000,000, accounting for 83% of the Group's revenue and representing an increase of 28% from approximately HK$790,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$518,000,000,000, representing an increase of 7% from approximately HK$486,000,000 in the corresponding period of last year; while sales from overseas markets were approximately HK$490,000,000, representing an increase of 61% from approximately HK$304,000,000 in the corresponding period of last year. Nevertheless, an operating loss of approximately HK$67,000,000 was recorded for the period, compared to an operating loss of approximately HK$37,000,000 for the corresponding period of last year, after taking into account the recognition of income before tax of approximately HK$48,000,000 for the period in respect of portions of the payment received from the urban renewal project of the land in Shenzhen (in the form of resettlement and demolition compensation) totalling RMB50,000,000 (equivalent to approximately HK$54,000,000), net of related costs of approximately HK$6,000,000. Excluding the land premium income under the urban renewal project, the operating condition for the period has improved as compared to the corresponding period of last year.

The Group will continue to make its best efforts in developing new products and exploring new markets to serve the diverse needs of various customers and create more value for them, and cope with challenges by adhering to its operating philosophy of "confidence, synergy, change and accomplishment". The Group will continue to improve product quality and optimise cost structure in order to enhance product competitiveness and further enlarge its market share. The management of the Group strives to overcome difficulties and challenges and to consolidate its connection and business relationships with existing and potential customers, in order to explore new market and maintain the Group's competition advantages. Moreover, with overall increasing costs due to the tight supply of key raw materials and certain components, the Group will centralise material procurement and strengthen its supply chain management capabilities to minimise the impact of price fluctuations in raw materials and components. The management expects that once the pandemic is under control, the present pent-up consumption demand will facilitate a strong economic recovery, bringing the Group an opportunity to grow its business with the support of a rebound in economic growth.

Manufacture and sale of stainless steel casting products

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

Due to the COVID-19 pandemic, various countries in the world have taken strict pandemic prevention measures, including suspension of industrial and commercial operations, border controls as well as logistics and transportation restrictions. Many of our overseas markets have closed their borders, interrupting the normal mobility of personnel and equipment. The progress of negotiation on projects with customers was seriously affected, resulting in customers' delay in purchasing our products or postponement of delivery.

For the six months ended 30 June 2021, this business segment recorded revenue of approximately HK$136,000,000, accounting for 11% of the Group's revenue and representing a decrease of 22% as compared to approximately HK$174,000,000 for the corresponding period of last year. Due to the decrease in revenue, operating loss for the period amounted to approximately HK$7,000,000, while the operating profit for the corresponding period of last year was approximately HK$18,000,000.

Earlier this year, leveraging the opportunity to relocate its production facilities from Buji, Shenzhen to Cuiheng New District, Zhongshan, the Group readjusted its production structure and production capacities and simultaneously performed technical upgrade to further enhance its process technology in production and product quality in response to market changes. During the relocation, certain employees including some skilled machining technicians chose to resign from the Group, resulting a loss of core production personnel unplaceable within a short term to the Group. Based on the above, the original production schedule and production capacities of this business segment was affected to some extent and only gradually recovered until the second quarter. It caused the delay in delivery of some orders during the first half of the year, leading to a decrease in production for the period and thereby revenue. Currently, the operating team is communicating with customers in respect of the rescheduling of order priority and delivery timetable in order to facilitate production process and fulfil customer demands.

At present, sales has begun to regain momentum since the latest quarter, and orders on hand of this business remain at relatively healthy status. The management team is in close contact with the existing and potential customers to maintain and strengthen the business relationship. The Group will also increase its efforts to implement its sales strategy, focusing on high profit margin products of different businesses and related customer industries and the introduction of products with high added value to cater for customers' demands. Meanwhile, we will also proactively explore new market to better promote our products to different markets. On the other hand, the Group will continue to strive to streamline the manufacturing process, further improve operational efficiency, optimise quality control and reduce production waste, so as to reduce operating costs and improve overall productivity.

The Group remains optimistic about this business segment. The Board believes that market demand for high-quality stainless steel casting products will continue to grow in the mid to long term. This business segment will resume steady revenue growth and make sustainable contribution to the Group's profit.

Trading of stainless steel supplies

In the first half of 2021, the COVID-19 pandemic was still evolving and affecting the macro economy. The implementation of measures to contain the epidemic in various countries has caused serious disruptions in the global raw material supply chain and logistics and transportation, which have led to a decrease in the Group's sales of stainless steel supplies. However, the price of stainless steel has shown a steady upward trend since 2020, with a corresponding increase in gross profit. For the six months ended 30 June 2021, this business segment recorded revenue of approximately HK$75,000,000, accounting for approximately 6% of the Group's revenue and representing a decrease of 7% as compared to approximately HK$81,000,000 in the corresponding period of last year. Operating profit for the period amounted to approximately HK$2,000,000, while the operating loss for the corresponding period of last year was approximately HK$5,000,000.

In respect of trading of stainless steel supplies, 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 and high-quality 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.

Looking forward to the second half of 2021, the price of stainless steel is expected to remain at relatively high levels with slight fluctuations. At present, orders in hand remain at relatively healthy status. 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 position.

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 supplies. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The management will closely monitor and respond to market changes to maintain steady growth in this business segment.

Environmental protection services (discontinued operation)

As mentioned in our Annual Report 2020, the operations of the kitchen wastes innocuous treatment projects and animal carcasses innocuous treatment projects under this business segment have been taken over by independent third parties who have assumed sole responsibilities for profits and losses. Therefore, in 2020, the Group has classified the provision of the non-core business of the environmental protection services as a discontinued operation and its financial position, results and cash flows are no longer reflected in the Company's consolidated financial statements.

In April 2021, all the equity interests of three subsidiaries of the Group under its environmental protection services business, being Taian China Science Environmental Engineering Co., Ltd.（泰安中科環保工程有限公司）, Taian CSCE Environmental Engineering Technology Co., Ltd.（泰安中科潔能環境工程技術有限公司）and Dongping CSCE Environmental Engineering Technology Co., Ltd.（東平中科潔能環境工程技術有限公司）were auctioned off by Shenzhen Qianhai Cooperation Zone People's Court（深圳前海合作區人民法院）through JD.com at a total auction price of approximately RMB23,000,000 (equivalent to approximately HK$28,000,000). The Group incurred an investment loss of approximately HK$10,000,000 as a result of the auction of the equity interests in these companies.

With the discontinued operation of the environmental protection services business and the completion of the equity auction, the Group will focus its resources on core businesses, which will help improve the Group's anti-risk capacity and the stability of future business growth.

Prospects

At the end of December 2020, the Group basically completed the relocation of its production facilities from Shenzhen to Zhongshan, and the relocation process went smoothly. The Group is stepping up its internal integration and adjustment of production processes in the new plant, in order to rapidly increase production capacity, achieve business growth when the market recovers, increase production efficiency, and reduce overall production costs.

As the number of people who have been vaccinated against the COVID-19 pandemic continues to rise globally, restrictions are expected to be eased gradually. Various localities have begun to strive for an early economic recovery, and market demand for various products has gradually recovered. The COVID-19 pandemic will undoubtedly bring great impact and challenges to the Group's short-term business, but it will not change the steady and positive development trend of the Group's business in the next few years. In the face of current challenges, the Group will focus more on business stability and take necessary cost control measures. At the same time, it will continue to invest necessary resources in technology research and development. The Group is confident and determined that with the unremitting efforts of the management and the operating team, it will be able to overcome the current challenges and enable the Group's business to return to another growth cycle as soon as possible and to strike for another records-breaking achievement.

Human resources

As at 30 June 2021, the Group had a total of approximately 3,600 employees (31 December 2020: approximately 3,600 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and the United States. In the first half of 2021, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$398,000,000 (in the first half of 2020: approximately HK$378,000,000), accounting for 33% (in the first half of 2020: 36%) 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 enhancing and optimising our 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 and contributions to retirement benefits schemes or Mandatory Provident Fund Schemes. 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 and positions 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 operating difficulties and continuously increasing cost pressure, the Group will continue to strictly implement prudent cost and cash flow management. During the period, the Group met its funding requirements in ordinary and normal course of business with cash flow generated from operations, banking facilities and debt financing. The management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, remain at a healthy level to satisfy the current operational requirements of the Group. The Group will further expand and develop low-cost financing channels and improve its liquidity and cash flow position to withstand a possible deterioration in market conditions.

During the six months ended 30 June 2021, the Group's net cash inflow generated from operating activities was approximately HK$24,580,000. As at 30 June 2021, the Group's inventory level increased to approximately HK$667,000,000 as compared to approximately HK$607,000,000 as at 31 December 2020.

As at 30 June 2021, bank and other borrowings of the Group amounted to approximately HK$1,547,000,000. Most of the bank borrowings were sourced from Hong Kong, with 76% denominated in Hong Kong dollars, 18% in Renminbi and 6% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 30 June 2021, the Group's cash and bank balances amounted to approximately HK$279,000,000, of which 47% was denominated in Hong Kong dollars, 26% in Renminbi, 17% in Euros, 8% in United States dollars and the remaining 2% in other currencies.

The Group has continued to maintain prudent financial management policies during the period. As at 30 June 2021, the Group's gearing ratio, defined as net bank and other borrowings (other than payables in ordinary course of business) over total equity, decreased to 76% (31 December 2020: 78%) and its current ratio was 0.56 (31 December 2020: 0.58).

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

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 2021.

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 2021.

CORPORATE GOVERNANCE

During the six months ended 30 June 2021, the Company has complied with all of the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

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

The Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2021 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 2021 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, 27 August 2021

As at the date of this announcement, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Guan Youping (Chief Executive Officer), Ms. Guo Yunfei (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.