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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The Board of Directors (the "**Board**") of CHTC Fong's International Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2022 together with the comparative figures for last year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Continuing operations			
Revenue	2	**2,488,688**	2,672,467
Cost of sales		**(1,845,243)**	(2,032,632)
Gross profit		**643,445**	639,835
Interest income		**1,256**	1,443
Other income		**43,879**	35,482
Other gains		**18,159**	397,401
Selling and distribution costs		**(248,478)**	(249,321)
Administrative and other expenses		**(545,820)**	(588,222)
Finance costs	3	**(63,051)**	(62,343)
Share of results of an associate		**(7,756)**	(2,261)
(Loss) profit before tax		**(158,366)**	172,014
Income tax expense	4	**(8,542)**	(94,216)
(Loss) profit for the year from continuing operations		**(166,908)**	77,798
Discontinued operation			
Loss for the year from a discontinued operation	5	**(80,823)**	(6,760)
(Loss) profit for the year		**(247,731)**	71,038

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Other comprehensive (expense) income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(124,629)**	52,873
Share of translation reserve of an associate		**(2,133)**	1,113
		(126,762)	53,986
Items that will not be reclassified to profit or loss:			
Remeasurement gain on defined benefit plan		**3,328**	1,411
Fair value loss on financial assets at fair value through other comprehensive income		**(58,754)**	(48,637)
		(55,426)	(47,226)
Other comprehensive (expense) income for the year		**(182,188)**	6,760
Total comprehensive (expense) income for the year		**(429,919)**	77,798
(Loss) profit for the year attributable to owners of the Company			
– from continuing operations		**(166,103)**	77,541
– from a discontinued operation	5	**(38,518)**	(536)
		(204,621)	77,005
(Loss) profit for the year attributable to non-controlling interests			
– from continuing operations		**(805)**	257
– from a discontinued operation	5	**(42,305)**	(6,224)
		(43,110)	(5,967)

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(388,519)**	84,638
Non-controlling interests		**(41,400)**	(6,840)
		(429,919)	77,798
(Loss) earnings per share			
From continuing and discontinued operations			
Basic	6(a)	**(18.60) HK cents**	7.00 HK cents
Diluted	6(a)	**(18.60) HK cents**	7.00 HK cents
From continuing operations			
Basic	6(b)	**(15.10) HK cents**	7.05 HK cents
Diluted	6(b)	**(15.10) HK cents**	7.05 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	**2022** **HK$'000**	2021 *HK$'000*
Non-current assets			
Property, plant and equipment		**1,573,170**	1,805,194
Investment properties		**138,355**	144,000
Right-of-use assets		**19,927**	28,782
Prepaid lease payments		**188,539**	209,726
Goodwill		**533,515**	533,515
Intangible assets		**92,481**	92,755
Financial assets at fair value through other comprehensive income		**45,660**	114,087
Investment in an associate		**18,583**	28,472
Deposits for acquisition of property, plant and equipment		**2,898**	4,587
Deposits for acquisition of leasehold land		**52,364**	57,214
Other assets	8	**41,347**	45,177
Deferred tax assets		**10,896**	12,574
		2,717,735	3,076,083
Current assets			
Inventories		**497,228**	623,680
Trade and other receivables	9	**346,842**	413,274
Tax recoverable		**1,123**	6,069
Cash and bank balances		**401,334**	288,519
		1,246,527	1,331,542
Assets of a disposal group classified as held for sale	5	**136**	88,155
		1,246,663	1,419,697
Current liabilities			
Trade and other payables	10	**911,820**	960,207
Contract liabilities		**199,030**	300,795
Warranty provision		**8,576**	10,586
Lease liabilities		**7,831**	8,092
Tax liabilities		**113,469**	126,993
Bank and other borrowings		**1,198,428**	1,099,158
		2,439,154	2,505,831
Liabilities of a disposal group classified as held for sale	5	**35,760**	36,944
		2,474,914	2,542,775

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Net current liabilities		**(1,228,251)**	(1,123,078)
Total assets less current liabilities		**1,489,484**	1,953,005
Non-current liabilities			
Deferred revenue		**58,950**	69,261
Deferred tax liabilities		**32,243**	35,682
Lease liabilities		**13,239**	22,089
		104,432	127,032
Net assets		**1,385,052**	1,825,973
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital		**55,011**	55,011
Share premium and reserves		**1,404,507**	1,804,028
		1,459,518	1,859,039
Non-controlling interests		**(74,466)**	(33,066)
Total equity		**1,385,052**	1,825,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 INITIAL APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND AMENDMENTS TO HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

In the current year, the Group has applied the "*Amendments to References to the Conceptual Framework in HKFRS Standards*" and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceed before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HFKRSs 2018–2020 Cycle

The application of the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and on the disclosures set out in these consolidated financial statements.

The following HKFRSs in issue at 31 December 2022 have not been applied in the preparation of the Group's consolidated financial statements for the year ended since they were not yet effective for the annual period beginning on 1 January 2022:

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2024.
3 Effective for annual periods beginning on or after a date to be determined.

The Group is in the process of making an assessment of what the impact of these new and amendments to HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

2 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The Group is 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 has been regarded as a discontinued operation as from the year ended 31 December 2020.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2022	2021
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Continuing operations		
Sales of dyeing and finishing machines	**1,840,604**	2,163,588
Sales of stainless steel casting products	**532,555**	345,421
Sales of stainless steel supplies	**115,529**	163,458
	2,488,688	2,672,467

Disaggregation of revenue from contracts with customers from continuing operations by the timing of revenue recognition and by geographical markets is disclosed in Notes 2(b)(i) and 2(b)(ii) respectively.

(b) Segment reporting

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

An operating segment regarding provision of environmental protection services was discontinued during the year ended 31 December 2020. The segment information reported does not include any amounts for the discontinued operation, which are described in more details in Note 5.

(i) ***Segment revenues and results from continuing operations***

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

For the year ended 31 December 2022

	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				
Point in time	**1,840,604**	**532,555**	**115,529**	**2,488,688**
External sales	**1,840,604**	**532,555**	**115,529**	**2,488,688**
Inter-segment sales	**976**	**16,481**	**94,374**	**111,831**
Segment revenue	**1,841,580**	**549,036**	**209,903**	**2,600,519**
Elimination				**(111,831)**
Group revenue				**2,488,688**
Segment (loss) profit	**(121,454)**	**28,098**	**4,541**	**(88,815)**
Interest income				**1,256**
Finance costs				**(63,051)**
Share of results of an associate				**(7,756)**
Loss before tax from continuing operations				**(158,366)**

For the year ended 31 December 2021

	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				
Point in time	2,163,588	345,421	163,458	2,672,467
External sales	2,163,588	345,421	163,458	2,672,467
Inter-segment sales	83	21,985	131,301	153,369
Segment revenue	2,163,671	367,406	294,759	2,825,836
Elimination				(153,369)
Group revenue				2,672,467
Segment profit	221,289	8,170	5,716	235,175
Interest income				1,443
Finance costs				(62,343)
Share of results of an associate				(2,261)
Profit before tax from continuing operations				172,014

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.

(ii) Geographical information

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

Information about the Group's revenue from external customers from continuing operations is presented based on location of customers and information about its non- current assets is presented based on the geographical location of the assets, they are detailed below:

	Revenue from external customers		**Non-current assets**	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**785,122**	1,313,308	**2,176,490**	2,424,826
Hong Kong	**57,705**	87,227	**294,254**	310,077
Asia Pacific (other than the PRC and Hong Kong)	**767,796**	621,076	**19**	192
Europe	**533,193**	428,078	**168,441**	164,771
North and South America	**303,327**	202,258	**3,392**	21,084
Others	**41,545**	20,520	**–**	–
	2,488,688	2,672,467	**2,642,596**	2,920,950

Non-current assets excluded investment in an associate, deferred tax assets, financial assets at fair value through other comprehensive income and those relating to a discontinued operation. The Directors considered that the cost to develop the revenue by individual countries for "Asia Pacific", "Europe", "North and South America" and "Others" are excessive and revenue included in these areas attributed to each individual country is not material.

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2022 and 2021.

3 FINANCE COSTS

	2022	2021
	HK$'000	*HK$'000*
Continuing operations		
Interest on borrowings	**52,476**	49,385
Interest on lease liabilities	**604**	927
Bank charges	**9,971**	12,031
	63,051	62,343
Discontinued operations		
Interest on borrowings	**2,583**	–
	65,634	62,343

4 INCOME TAX EXPENSE

	2022	2021
	HK$'000	*HK$'000*
Continuing operations		
Hong Kong Profits Tax:		
Current year	**4,462**	3,720
Over-provision in prior years	**(144)**	(612)
PRC Corporate Income Tax:		
Current year	**2,967**	131,834
Under (over)-provision in prior years	**7**	(35)
Overseas income tax:		
Current year	**517**	503
Under (over)-provision in prior years	**3,434**	(916)
	11,243	134,494
Deferred tax:		
Current year	**(2,701)**	(40,278)
	8,542	94,216

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC Corporate Income Tax is charged at the statutory tax rate of 25% of the assessable income as determined in accordance with the relevant PRC tax rules and regulations, except that certain subsidiaries are subject to a preferential tax rate of 15%.

Taxation arising in other jurisdictions is calculated at rates prevailing in the respective jurisdictions.

5 DISCONTINUED OPERATION AND A DISPOSAL GROUP HELD FOR SALE

Taian CSCE Environmental Engineering Technology Co., Ltd. ("**Taian CSCE**"), a subsidiary of the Group, has the operation rights to construct and operate animal carcass processing facilities for a period of 30 years whereas Taian China Science Environmental Engineering Co., Ltd. ("**Taian CSEE**"), a subsidiary of the Group, has the concession rights to operate kitchen wastes recycling treatment plant under service concession arrangements for a period of 30 years.

Having considered the adverse impact of the provision of environmental protection services on the Group's overall financial performance and other factors, the Directors determined to terminate this business during the year ended 31 December 2020 and thus the operation of the provision of environmental protection services had been discontinued.

During the year ended 31 December 2020, Taian CSCE entered into an escrow operation agreement with Taisheng Environmental Services (Shandong) Co., Ltd. ("**Taisheng**"), an independent third party. According to the agreement, Taisheng has taken over the operation of the animal carcass processing facilities until the disposal of Taian CSCE. Before the disposal, the Group has no rights to the return on such operation which will be entitled to Taisheng pursuant to the agreement. Besides, the kitchen wastes recycling treatment plant has also been taken over by the Environmental Health Management Office of Taian City.

Given the above circumstances, the Group has lost control over the operations of the animal carcass processing facilities and the kitchen wastes recycling treatment plant and the Directors have determined to exclude the financial position, results and cash flows of Taian CSCE and Taian CSEE (collectively the "**Deconsolidated Subsidiaries**") from the Group's consolidated financial statements as at and for the year ended 31 December 2020.

During the year ended 31 December 2021, the Group has completed the disposal of the equity interests of Taian CSCE, Taian CSEE and certain subsidiaries within the disposal group at a total consideration of approximately RMB23,298,000 resulting in a loss of approximately HK$6,403,000.

The results from the discontinued operation of the provision of environmental protection services for the years ended 31 December 2022 and 2021, which have been included in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2022 and 2021, are as follows:

	2022	2021
	HK$'000	*HK$'000*
Revenue	**–**	–
Interest income	**–**	5,529
Other income	**631**	–
Administrative and other expenses	**(607)**	(4,882)
Loss on disposal of disposal group	**–**	(6,403)
Loss allowance on trade and other receivables	**(78,264)**	(1,004)
Finance costs	**(2,583)**	–
Loss before tax	**(80,823)**	(6,760)
Income tax	**–**	–
Loss for the year from a discontinued operation	**(80,823)**	(6,760)
Loss for the year from a discontinued operation attributable to:		
Owners of the Company	**(38,518)**	(536)
Non-controlling interests	**(42,305)**	(6,224)
	(80,823)	(6,760)

Loss for the year from the discontinued operation of the provision of environmental protection services has been arrived at after charging:

	2022	2021
	HK$'000	*HK$'000*
Loss allowance on trade and other receivables	**78,264**	1,004
Loss on disposal of disposal group	**–**	6,403

The net cash flows incurred by the discontinued operation of the provision of environmental protection services for the years ended 31 December 2022 and 2021 are as follows:

	2022	2021
	HK$'000	*HK$'000*
Net cash used in operating activities	**(2)**	(2)
Net cash used in investing activities	**–**	–
Net cash from financing activities	**–**	–

During the year ended 31 December 2020, the Directors decided to discontinue the operation of the provision of environmental protection services and initiate a program to dispose the segment. The major class of assets and liabilities of the disposal group classified as held for sale as at 31 December 2022 and 2021 are as follows:

	2022	2021
	HK$'000	*HK$'000*
Assets of a disposal group classified as held for sale		
Property, plant and equipment	**6**	20
Trade and other receivables	**110**	88,113
Cash and bank balances	**20**	22
Total assets of a disposal group classified as held for sale	**136**	88,155
Liabilities of a disposal group classified as held for sale		
Other payables	**(35,760)**	(36,944)
Total liabilities of a disposal group classified as held for sale	**(35,760)**	(36,944)

At 31 December 2022, the translation reserve of the Group includes a cumulative exchange gain recognised in other comprehensive income of approximately HK$5,769,000 (2021: HK$4,060,000) relating to the disposal group classified as held for sale.

6 (LOSS) EARNINGS PER SHARE

(a) From continuing and discontinued operations

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

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit for the year attributable to owners of the Company for the purpose of calculation of basic (loss) earnings per share	**(204,621)**	77,005
	'000	*'000*
Number of ordinary shares for the purpose of basic (loss) earnings per share	**1,100,217**	1,100,217

Diluted (loss) earnings per share for the years ended 31 December 2022 and 2021 are same as the basic (loss) earnings per share as the Group has no potential ordinary shares in issue during the years.

(b) From continuing operations

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

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit for the year attributable to owners of the Company	**(204,621)**	77,005
Less: Loss for the year from a discontinued operation attributable to owners of the Company	**(38,518)**	(536)
(Loss) profit for the year from continuing operations attributable to owners of the Company for the purpose of calculation of basic (loss) earnings per share	**(166,103)**	77,541

The denominators used are the same as those detailed in Note 6(a) above for both basic and diluted (loss) earnings 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:

	2022	2021
	HK$'000	*HK$'000*
Loss for the year from a discontinued operation attributable to owners of the Company	**(38,518)**	(536)

The denominators used are the same as those detailed in Note 6(a) above for both basic and diluted loss per share.

	2022	2021
Loss per share		
– Basic	**(3.50) HK cents**	(0.05) HK cent
– Diluted	**(3.50) HK cents**	(0.05) HK cent

7 DIVIDENDS

	2022	2021
	HK$'000	*HK$'000*
Proposed final dividend:		
Nil HK cent (2021: 1 HK cent) per share	**–**	11,002
	–	11,002

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2022. As no interim dividend was paid during the year, there will be no dividend distribution for the whole year of 2022.

8 OTHER ASSETS

On 28 March 2014, Fong's National Engineering (Shenzhen) Company, Limited (立信染整機械(深圳)有限公司) ("**FNES**"), an indirect wholly-owned subsidiary of the Company, entered into a Co-operation Agreement (the "**Agreement**") with a third party (the "**Project Company**"), for the redevelopment of FNES's existing land (the "**Land**") in Shenzhen by way of urban renewal (the "**Urban Renewal Project**").

Pursuant to the Agreement, the parties have designated the Project Company as the sole principal of the Urban Renewal Project with the sole right to redevelop and reconstruct the Land based on the terms of the Agreement. The Project Company is responsible for obtaining approvals from the PRC government for the redevelopment and reconstruction works contemplated under the Urban Renewal Project, including the demolition of the existing properties, the design, construction, completion and operation of the proposed facilities to be constructed on the redeveloped Land, and paying all costs in connection therewith (including reconstruction expenses, renovation expenses and land premium). FNES is responsible for the provision of the Land.

As part of the Agreement, FNES will receive (through resettlement and demolition compensation) (i) RMB1 billion in cash; and (ii) substitution of part of the existing properties on the Land (with a gross floor area of approximately 29,391 m^2) with facilities to be constructed on the redeveloped Land with a total gross floor area of approximately 30,000 m^2 (and, in addition, at least 100 car-parks).

Details of the co-operation on the Urban Renewal Project have been disclosed in the Company's circular dated 25 April 2014.

The Agreement has become effective upon the fulfilment of certain conditions precedent, including the approval of the Agreement by the shareholders at the special general meeting of the Company held on 15 May 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council on 23 December 2014 respectively.

The Group received the final instalment payment in 2021 and the aggregate sum of RMB1 billion has been received by 2021. The relocation was completed in 2021. Apart from the RMB1 billion cash consideration, the Group should also receive properties with a total gross floor area of approximately 30,000 m^2 and at least 100 car-parks in exchange of the properties given up by the Group. Since the Group is unable to measure reliably the fair value of either the properties to be received or the properties given up, the properties to be received is measured at the carrying amount of the properties given up and recognised as other assets of approximately HK$41,347,000 at 31 December 2022 (2021: approximately HK$45,177,000).

9 TRADE AND OTHER RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade receivables	**242,545**	216,199
Less: Loss allowance	**(3,594)**	(3,883)
	238,951	212,316
Bills receivable	**31,057**	53,095
	270,008	265,411
Prepayments and other receivables	**76,834**	147,863
Total trade and other receivables	**346,842**	413,274

The Group allows an average credit period of 60 days (2021: 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:

	2022	2021
	HK$'000	*HK$'000*
0–60 days	**181,573**	158,553
61–90 days	**14,817**	19,429
Over 90 days	**42,561**	34,334
	238,951	212,316

10 TRADE AND OTHER PAYABLES

	2022	2021
	HK$'000	*HK$'000*
Trade payables	**232,455**	312,758
Bills payables	**52,163**	59,932
	284,618	372,690
Employee compensation arising as a result of the Urban Renewal Project	**19,689**	47,164
Interest payable	**22,014**	7,852
Loan from intermediate holding company *(Note i)*	**111,940**	–
Loan from immediate holding company *(Note ii)*	**135,000**	–
Payroll payables	**99,607**	115,374
Payables for property, plant and equipment	**29,794**	104,679
Payables for raw materials with unreceived invoices	**54,150**	136,713
VAT and other tax payables	**11,581**	20,947
Others	**143,427**	154,788
	911,820	960,207

Notes:

(i) The loan was unsecured, interest bearing at a fixed rate of 5.22% per annum and repayable within one year.

(ii) The loan was 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:

	2022	2021
	HK$'000	*HK$'000*
0–90 days	**195,330**	217,512
91–120 days	**11,105**	10,481
Over 120 days	**26,020**	84,765
	232,455	312,758

The average credit period on purchase of goods is 90 days (2021: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2022. As no interim dividend was paid during the year, there will be no dividend distribution for the whole year of 2022.

CHAIRMAN'S STATEMENT

For the year ended 31 December 2022 (the "**Year**"), the Group's consolidated revenue from continuing operations amounted to approximately HK$2,489,000,000 (2021: HK$2,672,000,000), representing a decrease of 7% as compared to last year. Loss attributable to owners of the Company for the Year amounted to approximately HK$205,000,000 (2021: attributable profit of approximately HK$77,000,000), suffering a turnaround from profit to loss. In this regard, the Company has issued a profit warning to the shareholders and potential investors on 15 March 2023 in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. As stated in the relevant announcement, the significant deterioration in the Group's results was mainly attributable to (i) the decline in revenue of 15% in the dyeing and finishing machine segment due to the continuous negative impact of the novel coronavirus pandemic on the overall economic environment; (ii) the impairment loss of approximately HK$78,000,000 in respect of certain long outstanding trade and other receivables from the discontinued operation in the Year; and (iii) the net profit for last year comprised a gain of approximately HK$401,000,000 million resulting from the final installment payment of RMB400,000,000 received in respect of the urban renewal project. Excluding the factors as mentioned above, the Group's operating results remained fairly stable when compared with last year and showed substantial improvements as well.

Looking ahead, although the COVID-19 pandemic has been brought under control, the business environment is full of uncertainty in 2023. The Group will remain prudent and cautious in addressing the challenges posed by the continuing uncertainty of market changes. As increasingly stringent environmental protection requirements drive the demand for new and more energy-efficient dyeing and finishing equipment, the Group will keep pace with market trends to develop products that meet customers' needs and strengthen its competitiveness in the market, thereby consolidating its market leading position and securing stable revenue for the Group. On the other hand, due to the tight supply of raw materials and some components, the overall costs have continued to rise, for which the Group will continue to enhance procurement management to mitigate the impact on production and operation brought by shortages and price fluctuations in the supply of raw materials and components. In addition, the Group is stepping up efforts to further optimise its management model and improve its production process flow to enhance its production efficiency, so as to reduce potential risks and pressures arising from the increase in costs. With the Group's continuous efforts in improving its internal structure and enhancing operational efficiency, the Board believes that the Group's overall profitability will gradually improve.

2023 is a special year, marking the 60th anniversary of the founding of CHTC Fong's and a milestone for us. Over the past 60 years, CHTC Fong's has weathered various economic cycles and challenges and has always adhered to its operation philosophy which is "Integrity-based, Technology-focused and Customer-oriented", committed to R&D and innovation to become a leading global manufacturer of dyeing and finishing machinery, providing one-stop advanced dyeing and finishing equipment to the textile industry. In celebration of the 60th anniversary of the establishment of CHTC Fong's this year, the Group is planning to launch a series of marketing events and customer engagement programs, as well as the next generation of innovative product models, in the belief that if the market rebounds moderately, the Group will be able to take the lead and expand its market share. With decades of experience and technical expertise, a leading market position and a one-stop product portfolio, CHTC Fong's continues to innovate and evolve, with the ultimate goal of providing quality dyeing and finishing equipment to the textile industry. The management team of CHTC Fong's will continue to do its best and proactively thrive for business achievements and expand our ambitious plans.

On behalf of the Board, I would like to take this opportunity to express heartfelt gratitude towards all shareholders, customers, suppliers, business partners and correspondent banks for their strong support all along, as well as all the employees for their endeavor and contribution for the Group's development. In the new year, hopefully we will continue to work together against all the difficulties and challenges, to enhance development for the Group, achieve dreams for the employees and bring returns for the shareholders. I believe that with the unremitting efforts of the Board, management team and all the employees, as a corporate with 60 years of glorified history, CHTC Fong's will overcome one hurdle after another in its sustainable development and reach another peak, providing more delicate products for the customers and creating long-term value for our shareholders, employees and society!

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE

In 2022, the Group's total order intake decreased due to the weak global economy with the ongoing COVID-19 pandemic. In addition, the unstable global supply chain and surging prices of raw materials has led to increase in operating costs, affecting the Group's operating performance. Due to the weak market, competition is becoming fiercer, which makes it difficult to transfer the increase in product costs to customers completely. The Group's various core businesses recorded different business performances for each segment due to different markets and different competitors. For the year ended 31 December 2022 (the "**Year**"), the Group's consolidated revenue from continuing operations decreased by 7% to approximately HK$2,489,000,000 (2021: HK$2,672,000,000) as compared to last year. Loss attributable to owners of the Company was approximately HK$205,000,000, compared to profit of HK$77,000,000 for last year. The basic and diluted loss per share were 18.6 HK cents for the Year, compared to basic and diluted earnings per share of 7 HK cents for last year.

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

It has been more than three years since the outbreak of the COVID-19 pandemic, and the overall economic environment remains difficult and highly uncertain. The Group's major customers have taken a cautious approach to the investment in new dyeing and finishing machines production facilities and most of them are still on the fence about the expansion projects, leading to a decline in the results of the Group's dyeing and finishing machines business. In light of the recurrent outbreak of the COVID-19 pandemic in some regions of China, stringent pandemic prevention and control measures coupled with the unfavourable global economy caused a significant reduction in the Group's total order intake in the PRC market in particular, offsetting some of the growth in overseas markets.

For the Year, this business segment recorded revenue of approximately HK$1,841,000,000, accounting for 74% of the Group's revenue and representing a decrease of 15% from approximately HK$2,164,000,000 for last year. In particular, sales from Hong Kong and the PRC markets were approximately HK$638,000,000, representing a decrease of 46% from approximately HK$1,174,000,000 for last year; and sales from overseas markets were approximately HK$1,203,000,000, representing an increase of 22% from approximately HK$990,000,000 for last year.

This business segment recorded an operating loss of approximately HK$121,000,000 for the Year, compared to an operating profit of approximately HK$221,000,000 recorded in 2021, taking into account the recognition of a pre-tax gain of approximately HK$401,000,000 for the year in respect of the last instalment payment received from the urban renewal project of the land in Shenzhen (in the form of resettlement and demolition compensation) of RMB400,000,000 (equivalent to approximately HK$488,000,000), net of related costs of approximately HK$87,000,000, as the Group relocated its production facilities from Shenzhen to Zhongshan. Excluding the factors as mentioned above, the Group's operating results remained fairly stable when compared with last year and showed substantial improvements as well.

The ongoing COVID-19 pandemic has caused significant interruptions to the global supply chains, which in turn led to the tight supply of some raw materials and components and the increase in logistics costs, thus resulting in surging prices. The raw materials for this business segment are mainly stainless steels, the prices of which are currently maintaining at historic 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.

In response to the current extremely challenging business environment, our management team has taken a series of operating cost and capital expenditure control measures and efforts to promote business recovery, so as to lower the breakeven point of operations. We will prioritise prudent auditing of our financial conditions, and conduct inventory control, control trade receivables strictly, reset assets more reasonably, so as to sustain sufficient cash flow. On the market side, we will strive to strengthen market promotion, focus on key projects, improve the added value of products, comprehensively strengthen our distribution channels in various countries, accelerate the development of potential customers, and realise the strategic expansion of emerging markets. In terms of internal management, we will plan production capacity based on actual needs, refine and strengthen supply chain management capabilities, reduce various fees and expenditure, strengthen manufacturing process, optimise process structure and improve production bottlenecks in order to quickly respond to market changes.

As a leading manufacturer of dyeing and finishing equipment in the world, CHTC Fong's has been focusing on the research and development of dyeing and finishing machinery, and will continue to increase investment in technical research to provide customers with more cost-effective products. The Group firmly believes that only by constantly innovating and addressing the practical pain points of our customers, providing them with substantial benefits and enhancing the returns on their assets, will we be able to motivate them to upgrade their equipment. In addition to meeting the individual needs of our customers, we look to standardise the production of components. At the same time, we should speed up the building of the Group's management team to meet and adapt to the current reform and development needs. The Company will remain efficiency oriented and attach more importance to smart manufacturing process, productivity improvement and transformation of digital plants.

The Group's new production base in Zhongshan, with a factory site of approximately 500,000 m^2. and a current factory area of approximately 85,000 m^2, can pave the way for the Group to carry out technological transformation, improve the manufacturing craftsmanship standard and streamline the production process. The Group is expected to realise incremental business growth, improve production efficiency and reduce overall production cost. The new plant is also in line with the Group's strategic plan for future expansion and development. The production efficiency of such equipment has not reached its best level due to the hindrance posed by the COVID-19 pandemic.

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.

As vaccination rates in the UK, the United States and Europe continued to rise and the pandemic was largely under control, demand for our products has risen significantly with the gradual resumption of economic activities. For the year 2022, this business segment recorded revenue of approximately HK$533,000,000, accounting for 21% of the Group's revenue and representing an increase of 54% as compared to approximately HK$345,000,000 for last year. As a result of the increase in revenue, operating profit increased to approximately HK$28,000,000 from approximately HK$8,000,000 for last year.

At present, sales have begun to regain momentum, and orders on hand of this business was still relatively ample. 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 markets 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 maintain moderate revenue growth and make sustainable contribution to the Group's profit.

TRADING OF STAINLESS STEEL SUPPLIES

In 2022, 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 also affected the Group's sales of stainless steel supplies to a certain degree. For the year ended 31 December 2022, this business segment recorded revenue of approximately HK$115,000,000, accounting for approximately 5% of the Group's revenue and representing a decrease of 29% as compared to approximately HK$163,000,000 in last year. Operating profit for the year amounted to approximately HK$5,000,000 (2021: HK$6,000,000).

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 ahead to 2023, the price of stainless steel supplies is expected to remain at relatively high levels. 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.

DISCONTINUED OPERATION

Discontinued operation refers to the provision of environmental protection services in relation to the kitchen waste innocuous treatment projects and animal carcasses innocuous treatment projects in Mainland China.

As mentioned in our Annual Report 2020 and Annual Report 2021, the operations of the kitchen waste 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.

During the year, the Group have made provision for impairment losses of approximately HK$78,000,000 in respect of certain long outstanding trade and other receivables under the discontinued operation.

With the discontinued operation of the environmental protection services business, the Group will continue to focus on the development of its core business and enhance its production capacity and efficiency, which will help improve the Group's anti-risk capacity and the stability of future business growth, and bring long-term sustainable value to shareholders.

FUTURE DEVELOPMENT

Looking ahead, the Group remains cautious and prudent, while actively addressing the challenges and opportunities ahead, hoping to do better "one step at a time" in a pragmatic manner.

In the current environment, the Group believes that, as always, careful selection of customers, stabilisation of income, cost control and paying attention to cash flows should remain the Group's business strategy for 2023 and 2024. The Group will continue to strengthen its sales and marketing capabilities and explore new markets, and further enhance our product quality and production technology through increased investment in research and development to maintain our current market position and ensure the sustainable and healthy development of the Group's business.

HUMAN RESOURCES

As at 31 December 2022, the Group had a total of approximately 2,800 employees (2021: approximately 3,400 employees) across mainland China, Hong Kong, Germany, Switzerland, Austria, India and the United States. In 2022, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$704,000,000 (2021: HK$783,000,000), accounting for 28% (2021: 29%) of its revenue. The Group will continue to monitor the market situation and consolidate its human resources 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

The Group strictly implemented prudent cost and cash flow management in order to ensure the continuous operation of the Group. During the Year, 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, will be sufficient to satisfy the current operational requirements of the Group.

During the year ended 31 December 2022, the Group's net cash outflow used in operating activities was approximately HK$171,000,000. As at 31 December 2022, the Group's inventory level decreased to approximately HK$497,000,000 as compared to approximately HK$624,000,000 as at 31 December 2021.

As at 31 December 2022, bank and other borrowings of the Group amounted to approximately HK$1,198,000,000. The bank and other borrowings were sourced from Hong Kong and Mainland China, with 48% denominated in Hong Kong dollars and 52% in Renminbi. The Group's bank and other borrowings are predominantly subject to floating interest rates and fixed interest rates.

As at 31 December 2022, the Group's bank balances and cash amounted to approximately HK$401,000,000, of which 38% was denominated in Renminbi, 26% in Hong Kong dollars, 19% in Euros, 16% in United States dollars and the remaining 1% in other currencies.

The Group continued to maintain prudent financial management policies during the Year. As at 31 December 2022, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 58% (31 December 2021: 42%) and its current ratio was 0.50 (31 December 2021: 0.56).

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 year ended 31 December 2022.

CORPORATE GOVERNANCE

The Company wishes to highlight the importance of the Board in ensuring effective leadership and control of the Company, transparency and accountability of all aspects of operations and that its business is conducted in accordance with applicable laws and regulations.

The Company also recognises the importance of good corporate governance to the Group's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Group's needs.

Throughout the year ended 31 December 2022, the Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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 (the "**Model Code**") 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 throughout the year ended 31 December 2022.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees of the Group on terms no less exacting than the required standard set out in the Model Code to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its subsidiaries. No incident of non-compliance was noted by the Company for the year ended 31 December 2022.

REVIEW OF ACCOUNTS

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Company for the year ended 31 December 2022. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Company's auditor, PKF Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by PKF Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PKF Hong Kong Limited on the preliminary announcement.

ANNUAL REPORT

The Annual Report for the year ended 31 December 2022 will be despatched to the shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk as well as the website of the Company at www.fongs.com in due course.

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

Hong Kong, 30 March 2023

As at the date of this announcement, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Guan Youping (General Manager) and Mr. Chen Peng; the Non-executive Director is Mr. Fong Kwok Leung, Kevin; and the Independent Non-executive Directors are Mr. Tong Wing Chi, Dr. Jiang Gaoming and Mr. Li Jianxin.