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CHTC FONG'S INTERNATIONAL COMPANY LIMITED

中國恒天立信國際有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

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 2023 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 2023

		For the six months ended 30 June	
		2023	2022
		(unaudited)	(unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Continuing operations			
Revenue	4	847,985	1,277,810
Cost of sales		(636,771)	(962,080)
		<hr/>	<hr/>
Gross profit		211,214	315,730
Interest income		611	268
Other income		38,114	14,890
Other gains	6	8,205	29,680
Selling and distribution costs		(68,230)	(135,645)
Administrative and other expenses		(232,705)	(267,187)
Finance costs	5	(36,124)	(27,161)
Share of results of an associate		1,685	(3,433)
		<hr/>	<hr/>
Loss before tax	6	(77,230)	(72,858)
Income tax expense	7	(1,995)	(2,162)
		<hr/>	<hr/>
Loss for the period from continuing operations		(79,225)	(75,020)
		<hr/>	<hr/>

		For the six months ended 30 June	
		2023	2022
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Note			
	Discontinued operation		
	Loss for the period from a discontinued operation	<u>(250)</u>	<u>–</u>
	Loss for the period	<u>(79,475)</u>	<u>(75,020)</u>
	Other comprehensive expense, net of tax		
	<i>Items that may be reclassified subsequently to profit or loss:</i>		
	Exchange difference arising on translation	<u>(19,176)</u>	<u>(80,118)</u>
	Share of translation reserve of an associate	<u>(1,833)</u>	<u>(1,006)</u>
	Other comprehensive expense for the period	<u>(21,009)</u>	<u>(81,124)</u>
	Total comprehensive expense for the period	<u>(100,484)</u>	<u>(156,144)</u>
	(Loss)/profit for the period attributable to owners of the Company:		
	– from continuing operations	<u>(79,225)</u>	<u>(75,052)</u>
	– from a discontinued operation	<u>1,166</u>	<u>–</u>
		<u>(78,059)</u>	<u>(75,052)</u>
	(Loss)/profit for the period attributable to non-controlling interests:		
	– from continuing operations	<u>–</u>	<u>32</u>
	– from a discontinued operation	<u>(1,416)</u>	<u>–</u>
		<u>(1,416)</u>	<u>32</u>
	Total comprehensive (expense) income for the period attributable to:		
	Owners of the Company	<u>(101,035)</u>	<u>(157,570)</u>
	Non-controlling interests	<u>551</u>	<u>1,426</u>
		<u>(100,484)</u>	<u>(156,144)</u>
		<i>HK cents</i>	<i>HK cents</i>
	Loss per share		
	From continuing and discontinued operations		
	Basic and diluted	<u>8 (7.09)</u>	<u>(6.82)</u>
	From continuing operations		
	Basic and diluted	<u>8 (7.20)</u>	<u>(6.82)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

	<i>Note</i>	At 30 June 2023 (unaudited) <i>HK\$'000</i>	At 31 December 2022 (audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		1,494,967	1,573,170
Investment properties		135,533	138,355
Right-of-use assets		16,474	19,927
Prepaid lease payments		181,632	188,539
Goodwill		533,515	533,515
Intangible assets		92,345	92,481
Financial assets at fair value through other comprehensive income		44,457	45,660
Investment in an associate		19,766	18,583
Deposits for acquisition of property, plant and equipment		1,294	2,898
Deposits for acquisition of leasehold land		–	52,364
Other assets		40,257	41,347
Deferred tax assets		10,954	10,896
		2,571,194	2,717,735
Current assets			
Inventories		497,992	497,228
Trade and other receivables	9	329,567	346,842
Tax recoverable		543	1,123
Cash and bank balances		238,960	401,334
		1,067,062	1,246,527
Assets of a disposal group classified as held for sale		82	136
		1,067,144	1,246,663

		At 30 June 2023 (unaudited) HK\$'000	At 31 December 2022 (audited) HK\$'000
	<i>Note</i>		
Current liabilities			
Trade and other payables	10	663,148	911,820
Contract liabilities		185,787	199,030
Warranty provision		7,837	8,576
Lease liabilities		6,571	7,831
Tax liabilities		110,285	113,469
Bank and other borrowings		<u>1,247,296</u>	<u>1,198,428</u>
		2,220,924	2,439,154
Liabilities of a disposal group classified as held for sale		<u>34,822</u>	<u>35,760</u>
		<u>2,255,746</u>	<u>2,474,914</u>
Net current liabilities		<u>(1,188,602)</u>	<u>(1,228,251)</u>
Total assets less current liabilities		<u>1,382,592</u>	<u>1,489,484</u>
Non-current liabilities			
Deferred revenue		55,045	58,950
Deferred tax liabilities		31,992	32,243
Lease liabilities		<u>10,987</u>	<u>13,239</u>
		<u>98,024</u>	<u>104,432</u>
Net assets		<u><u>1,284,568</u></u>	<u><u>1,385,052</u></u>
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	11	55,011	55,011
Share premium and reserves		<u>1,303,472</u>	<u>1,404,507</u>
		1,358,483	1,459,518
Non-controlling interests		<u>(73,915)</u>	<u>(74,466)</u>
Total equity		<u><u>1,284,568</u></u>	<u><u>1,385,052</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

The Directors of the Company (the “**Directors**”) consider that the Company’s parent company is China Hi-Tech Holding Company Limited, a company incorporated in Hong Kong and its ultimate holding company is China National Machinery Industry Corporation (中國機械工業集團有限公司), a state-owned enterprise established in the People’s Republic of China (the “**PRC**”) 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 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 17	Insurance Contracts and the related amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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 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.

Segment revenues and results from continuing operations

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

For the six months ended 30 June 2023 (unaudited)

	Manufacture and sale of dyeing and finishing machines HK\$’000	Manufacture and sale of stainless steel casting products HK\$’000	Trading of stainless steel supplies HK\$’000	Total HK\$’000
Revenue				
External sales	616,441	199,480	32,064	847,985
Inter-segment sales	2,431	7,539	51,502	61,472
Segment revenue	<u>618,872</u>	<u>207,019</u>	<u>83,566</u>	909,457
Elimination				<u>(61,472)</u>
Group revenue				<u>847,985</u>
Results				
Segment (loss) profit	<u>(55,152)</u>	<u>8,226</u>	<u>3,524</u>	(43,402)
Interest income				611
Finance costs				(36,124)
Share of results of an associate				<u>1,685</u>
Loss before tax from continuing operations				<u>(77,230)</u>

For the six months ended 30 June 2022 (unaudited)

	Manufacture and sale of dyeing and finishing machines <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	907,324	293,859	76,627	1,277,810
Inter-segment sales	–	7,842	67,578	75,420
Segment revenue	<u>907,324</u>	<u>301,701</u>	<u>144,205</u>	1,353,230
Elimination				<u>(75,420)</u>
Group revenue				<u>1,277,810</u>
Results				
Segment (loss) profit	<u>(57,317)</u>	<u>14,435</u>	<u>350</u>	(42,532)
Interest income				268
Finance costs				(27,161)
Share of results of an associate				<u>(3,433)</u>
Loss before tax from continuing operations				<u>(72,858)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the results of each segment excluding interest income, finance costs and share of results of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at terms agreed between relevant parties.

Geographical information

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

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

	For the six months ended 30 June	
	2023	2022
	(unaudited) HK\$'000	(unaudited) HK\$'000
The PRC	367,350	421,403
Hong Kong	24,179	31,013
Asia Pacific (other than the PRC and Hong Kong)	177,708	352,928
Europe	203,567	269,463
North and South America	68,065	180,589
Others	7,116	22,414
	<u>847,985</u>	<u>1,277,810</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2023	2022
	(unaudited) HK\$'000	(unaudited) HK\$'000
Continuing operations		
Interest on borrowings	32,397	21,142
Interest on lease liabilities	225	342
Bank charges	3,502	5,677
	<u>36,124</u>	<u>27,161</u>

6. LOSS BEFORE TAX

	For the six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Loss before tax has been arrived at after (crediting) charging:		
Other gains:		
Gain on disposal of property, plant and equipment	(1,414)	(145)
Foreign exchange gain, net	(6,791)	(29,535)
	<u>(8,205)</u>	<u>(29,680)</u>
Total other gains	<u>(8,205)</u>	<u>(29,680)</u>
Depreciation and amortisation:		
Amortisation of intangible assets	137	137
Depreciation		
– owned assets	52,001	62,294
– right-of-use assets	11,332	12,289
	<u>63,470</u>	<u>74,720</u>
Total depreciation and amortisation	<u>63,470</u>	<u>74,720</u>

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Hong Kong Profits Tax:		
Current period	1,926	2,071
PRC Corporate Income Tax:		
Current period	347	1,810
Under (over)-provision in prior years	1	(1,020)
Overseas income tax:		
Current period	216	1,356
Under-provision in prior years	–	2
	<u>2,490</u>	<u>4,219</u>
Deferred tax	(495)	(2,057)
	<u>1,995</u>	<u>2,162</u>
Income tax expense	<u>1,995</u>	<u>2,162</u>

8. LOSS PER SHARE

(a) From continuing and discontinued operations

The calculation of the basic loss 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	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	<u>(78,059)</u>	<u>(75,052)</u>
	'000	'000
Number of ordinary shares for the purpose of basic loss per share	<u>1,100,217</u>	<u>1,100,217</u>

Diluted loss per share for the periods ended 30 June 2023 and 2022 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	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(78,059)	(75,052)
Less: Profit for the period from a discontinued operation attributable to owners of the Company	<u>1,166</u>	<u>–</u>
Loss for the period from continuing operations attributable to owners of the Company for the purpose of basic loss per share	<u>(79,225)</u>	<u>(75,052)</u>

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 earnings 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	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period from a discontinued operation attributable to owners of the Company	1,166	–
	For the six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
Earnings per share		
– Basic	0.11 HK cents	Nil HK cents
– Diluted	0.11 HK cents	Nil HK cents

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

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2023 (unaudited) HK\$'000	At 31 December 2022 (audited) HK\$'000
Trade receivables	227,953	242,545
Less: Loss allowance	(3,615)	(3,594)
	224,338	238,951
Bills receivable	13,047	31,057
	237,385	270,008
Prepayments and other receivables	92,182	76,834
Total trade and other receivables	329,567	346,842

The Group allows an average credit period of 60 days (2022: 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 2023 (unaudited) HK\$'000	At 31 December 2022 (audited) HK\$'000
0–60 days	178,443	181,573
61–90 days	13,483	14,817
Over 90 days	32,412	42,561
	<u>224,338</u>	<u>238,951</u>

10. TRADE AND OTHER PAYABLES

	At 30 June 2023 (unaudited) HK\$'000	At 31 December 2022 (audited) HK\$'000
Trade payables	175,345	232,455
Bills payables	52,544	52,163
	<u>227,889</u>	<u>284,618</u>
Employee compensation arising as a result of the Urban Renewal Project	6,503	19,689
Interest payable	22,536	22,014
Loan from intermediate holding company (<i>Note i</i>)	–	111,940
Loan from immediate holding company (<i>Note ii</i>)	135,000	135,000
Payroll payables	64,469	99,607
Payables for property, plant and equipment	22,629	29,794
Payables for raw materials with unreceived invoices	48,201	54,150
VAT and other payables	24,693	11,581
Others	111,228	143,427
	<u>663,148</u>	<u>911,820</u>

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:

	At 30 June 2023 (unaudited) HK\$'000	At 31 December 2022 (audited) HK\$'000
0–90 days	151,999	195,330
91–120 days	7,285	11,105
Over 120 days	16,061	26,020
	175,345	232,455

The average credit period on purchase of goods is 90 days (2022: 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 2023 (unaudited)		At 31 December 2022 (audited)	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares	2,000,000,000	100,000	2,000,000,000	100,000
Issued and fully paid:				
At 1 January 2022, 31 December 2022 and 30 June 2023	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 2023 (for the six months ended 30 June 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The global economy gradually stabilised and showed signs of improvement in the first half of 2023, but recovery was not as strong as expected. At the same time, inflation remained high and operating costs increased as raw material prices surged. Competition has become increasingly fierce due to weak market sentiment. For the six months ended 30 June 2023 (the “**Period**”), the performance of the Group was inevitably affected under such circumstances.

During the Period, the Group recorded consolidated revenue of approximately HK\$848,000,000, representing a decrease of 34% as compared to approximately HK\$1,278,000,000 in the corresponding period last year. Loss attributable to owners of the Company was approximately HK\$78,000,000 (2022: loss of approximately HK\$75,000,000). Basic and diluted loss per share both amounted to 7.09 HK cents (2022: loss of 6.82 HK cents per share).

Manufacture and sale of dyeing and finishing machines

During the Period, the global economy was still full of challenges and uncertainties. Despite a gradually stabilising general economy that showed signs of improvement, the magnitude of the rebound was relatively weak. Moreover, soaring raw material prices, a tight labour market and impact from interest rate hikes had led to higher operating costs. As a result, customers have taken a cautious approach to investing in new dyeing and finishing machinery production equipment and expansion projects, leading to slow recovery in the demand for new production equipment.

During the Period, this business segment recorded revenue of approximately HK\$616,000,000, accounting for 72% of the Group’s revenue and representing a decrease of 32% from approximately HK\$907,000,000 in the corresponding period last year. In particular, combined sales from the Hong Kong and Mainland China markets were approximately HK\$312,000,000, representing a decrease of 6% from approximately HK\$333,000,000 in the corresponding period last year; while sales from overseas markets were approximately HK\$304,000,000, representing a decrease of 47% from approximately HK\$574,000,000 in the corresponding period last year. An operating loss of approximately HK\$55,000,000 was recorded for the Period, compared to an operating loss of approximately HK\$57,000,000 for the corresponding period last year. With stringent measures to reduce expenses and enhance efficiency in place, the operating performance for the Period has improved as compared to that for the corresponding period last year.

Cost control remains a major issue for manufacturers. The Group will continue to adopt stringent measures and implement cost control initiatives throughout the entire operating structure, these are not restricted to production operations, but also applicable to sales, administration and other functions and departments. Notwithstanding the fact that the Group has already reduced its workforce, the lay-offs mainly involved non-production staff, and resources have been invested in further training of skilled workers, which has realised cost savings as well as improvement in output quality. Moreover, the Group will consider to increase the proportion of subcontracting to replenish our existing labour force, so that we can control our fixed labour costs and have the flexibility to meet urgent orders. Through the optimisation of labour force and the utilisation of subcontracting, the Group can effectively satisfy the needs of its customers while maintaining cost control.

As a leading manufacturer of dyeing and finishing machines, we regard product development and innovation as the top priority in our operations. The Group will continue to carry out thorough and in-depth reform of its manufacturing process, with an aim to further enhance efficiency, further improve and perfect production, and enhance the overall performance and output quality of production. These efforts have begun to bear fruit during the Period. In response to changes in the market environment and keen customer demand, the Group launched SOFTWIN, a new model of its flagship fabric dyeing machines, which won unanimous praise in the market. By upholding its operation philosophy of “Integrity-based, Technology-focused and Customer-oriented”, the Group will devote more resources into research and development of new products and unveil more high quality and market-oriented products to satisfy the needs of different customers.

The Group’s management team works tirelessly and proactively to formulate contingency plans for short-term market fluctuations. The team has also implemented long-term capacity upgrading and expansion plans, while constantly improving efficiency and adhering to quality to build a solid, core competency that enables the Group to maintain its leading position. We believe that with the presence of a robust manufacturing platform, the Group will be able to achieve sustainable growth in the long run and continue to create values for our customers and shareholders.

Manufacture and sale of stainless steel casting products

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

For the six months ended 30 June 2023, this business segment recorded revenue of approximately HK\$200,000,000, accounting for 24% of the Group’s revenue and representing a decrease of 32% as compared to approximately HK\$294,000,000 for the corresponding period last year. Due to the decrease in sales, the operating profit for the Period amounted to approximately HK\$8,000,000, while an operating profit of approximately HK\$14,000,000 was recorded for the corresponding period last year.

Casting orders fell from its peak during the Period, mainly attributable to a substantial increase in customer inventory amid the pandemic. Given the uncertain economic environment, customers have adopted a cautious ordering strategy and tend to reduce inventory level, especially when the shipping logistic services and the production material supply chains have gradually restored, resulting in a slowdown in the order volume.

The management team has been working hard over the last few years to broaden customer base and explore potential collaboration opportunities, and laid down a solid foundation for the future, long-term development of this business by focusing on the development of unique and high-end casting products. Given the uncertainties surrounding the prevailing macroeconomic environment, we will adopt a prudent approach in capacity expansion planning, and continue to upgrade facilities and replace old machines, with the aim of supporting the development of a casting product mix that delivers higher output value. At the same time, automation has been duly enhanced to improve overall efficiency.

Trading of stainless steel supplies

At the beginning of the Period, most countries have already lifted various anti-pandemic control measures and returned to normal. However, market conditions are still awaiting improvement as the anticipated strong economic rebound has yet to materialise. Owing to the unstable external environment, customers have become more cautious in their purchases, thus slowing down the pace of sales.

For the six months ended 30 June 2023, this business segment, which accounted for a small percentage of the Group's sales, recorded a revenue of approximately HK\$32,000,000, accounting for approximately 4% of the Group's revenue and representing a decrease of 58% as compared to approximately HK\$77,000,000 in the corresponding period last year. Operating profit for the Period amounted to approximately HK\$3,500,000, while the operating profit for the corresponding period last year was approximately HK\$350,000. The increase in profit was mainly attributable to the effective post-pandemic management of the Group during the Period, which continued to optimise organisation structure and strengthened efforts in implementing cost reduction and efficiency enhancement, enabling the gross profit margin to rebound to its previous normal level.

For the trading of stainless steel supplies, the Group has established strong relationship with some global, leading steel manufacturing companies since the commencement of the business in 1988. As such, the Group 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. During the Period, the intergroup sales of this business segment was approximately HK\$52,000,000.

Since the beginning of 2023, the average price of stainless steels has dropped by approximately 15% from its peak. Looking forward to the second half of 2023, the price of stainless steels is expected to remain at current level with slight fluctuation. 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 accelerated urbanisation and infrastructure construction in the PRC, will provide opportunities for trading of stainless steel supplies. The Group therefore remains optimistic about 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 operation 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, since 2020, the Group has classified the provision of the non-core business of the environmental protection services as a discontinued operation.

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

Prospects

In the foreseeable future, the Group envisages that its business will continue to be affected by global uncertainties.

The business condition for the rest of the year is expected to remain challenging. Overseas markets are expected to slow down as a result of the negative market outlook amid high inflation. However, demand from the emerging markets that the Group is focusing on, namely Mainland China and Southeast Asia, is still enormous. Considering the challenges ahead, the Group will closely monitor the market trend and provide products that cater to our customers and the markets.

The Group will continue to adopt a prudent approach in strictly controlling operating costs and striving to enhance operational efficiency. The Group will also continue to focus on developing its core businesses, improve product design and strengthen development capabilities, with a view to maximising long-term return for the shareholders of the Company.

The Group is well-positioned with the presence of its strong management team, facilities and technologies. Under the stewardship of the new senior management, we are confident in overcoming future challenges and emerging as an even stronger business that will achieve our business vision of maximising returns for our shareholders year after year.

This year marks the 60th anniversary of the Group's founding. In this regard, the Group will launch a series of marketing events and customer engagement programmes to reward customers for their support over the years.

Human resources

As at 30 June 2023, the Group had a total of approximately 2,400 employees (31 December 2022: approximately 2,800 employees) across Mainland China, Hong Kong, Germany, Switzerland, Austria, India and the United States. In the first half of 2023, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefit schemes) amounted to approximately HK\$282,000,000 (First half of 2022: approximately HK\$371,000,000), accounting for 33% (First half of 2022: 29%) 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 offering competitive remuneration is essential to recruit and retain talents, incentivising them to dedicate to work and commit to establishing a world-class enterprise that provides customers with high-quality products and services, thereby helping customers to thrive and share their achievements with the Group. 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 regularly reviewed by the Remuneration Committee. Discretionary bonus and share options may be awarded to eligible employees who contributed to the success of the Group. The Group also provides employees with other benefits including annual leave, medical insurance, education subsidies and contributions to retirement benefit schemes or Mandatory Provident Fund Schemes. The Group recognises the importance of having high calibre employees. Therefore, the Group will continue to offer appropriate training programmes for employees across all levels and positions on an ongoing basis, in order to improve staff's ability to better cope with the Group's future development. Our highly capable management team is committed to navigating us through the unprecedented challenges. With team leadership and crisis management in place, the Group has successfully steered through the tough business environment over the last few years.

Liquidity and capital sources

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

During the six months ended 30 June 2023, the Group's net cash outflow used in operating activities was approximately HK\$110,000,000. As at 30 June 2023, the Group's inventory level was approximately HK\$498,000,000 as compared to approximately HK\$497,000,000 at 31 December 2022.

As at 30 June 2023, bank and other borrowings of the Group amounted to approximately HK\$1,247,000,000. The bank and other borrowings were sourced from Mainland China and Hong Kong, with 51% denominated in Renminbi, 48% in Hong Kong dollars and 1% in United States dollars. The Group's bank and other borrowings are predominantly subject to floating and fixed interest rates.

As at 30 June 2023, the Group's bank balances and cash amounted to approximately HK\$239,000,000, of which 48% was denominated in Renminbi, 35% in Euros, 9% in United States dollars, 5% in Hong Kong dollars and the remaining 3% in other currencies.

As at 30 June 2023, the Group's gearing ratio, defined as net bank and other borrowings (other than payables in ordinary course of business) over total equity, increased to 78% (31 December 2022: 58%), and its current ratio was 0.47 (31 December 2022: 0.50). The Group will continue to consider different financing methods to improve its existing financial position and to reduce the leverage level of the Group.

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 arises.

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 2023.

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 2023.

CORPORATE GOVERNANCE

During the six months ended 30 June 2023, 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. Tong Wing Chi (committee chairman), Dr. Jiang Gaoming and Mr. Li Jianxin.

The Company’s unaudited condensed consolidated financial statements for the six months ended 30 June 2023 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 2023 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
Guan Youping
Chairman

Hong Kong, 30 August 2023

As at the date of this announcement, the Company's Executive Directors are Mr. Guan Youping (Chairman) and Mr. Chen Peng (General Manager); 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.