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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 2024**

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 2024 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 2024

		For the six months ended 30 June	
		2024	2023
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
	<i>Note</i>		
Continuing operations			
Revenue	4	905,502	847,985
Cost of sales		(675,950)	(636,771)
Gross profit		229,552	211,214
Interest income		525	611
Other income		17,931	38,114
Other gains	6	2,501	8,205
Selling and distribution costs		(57,635)	(68,230)
Administrative and other expenses		(195,940)	(232,705)
Finance costs	5	(38,106)	(36,124)
Share of results of an associate		3	1,685
Loss before tax	6	(41,169)	(77,230)
Income tax expense	7	(3,877)	(1,995)
Loss for the period from continuing operations		(45,046)	(79,225)

		For the six months ended 30 June	
		2024	2023
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Note			
	Discontinued operation		
	Loss for the period from a discontinued operation	—	(250)
	Loss for the period	(45,046)	(79,475)
	Other comprehensive expense, net of tax		
	<i>Items that may be reclassified subsequently to profit or loss:</i>		
	Exchange difference arising on translation	(5,127)	(19,176)
	Share of translation reserve of an associate	(9)	(1,833)
	Other comprehensive expense for the period	(5,136)	(21,009)
	Total comprehensive expense for the period	(50,182)	(100,484)
	(Loss)/profit for the period attributable to owners of the Company:		
	– from continuing operations	(44,989)	(79,225)
	– from a discontinued operation	—	1,166
		(44,989)	(78,059)
	Loss for the period attributable to non-controlling interests:		
	– from continuing operations	(57)	—
	– from a discontinued operation	—	(1,416)
		(57)	(1,416)
	Total comprehensive (expense) income for the period attributable to:		
	Owners of the Company	(50,125)	(101,035)
	Non-controlling interests	(57)	551
		(50,182)	(100,484)
		HK cents	HK cents
	Loss per share		
	From continuing and discontinued operations		
	Basic and diluted	8 (4.09)	(7.09)
	From continuing operations		
	Basic and diluted	8 (4.09)	(7.20)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

		At 30 June 2024 (unaudited) HK\$'000	At 31 December 2023 (audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		1,330,039	1,367,534
Right-of-use assets		14,039	17,613
Prepaid lease payments		176,340	181,294
Goodwill		464,797	464,797
Intangible assets		92,322	92,459
Financial assets at fair value through other comprehensive income		22,746	22,900
Investment in an associate		27,247	27,428
Deposits for acquisition of property, plant and equipment		16,903	4,247
Other assets		40,486	40,760
Deferred tax assets		11,491	9,796
		<u>2,196,410</u>	<u>2,228,828</u>
Current assets			
Inventories		404,316	414,613
Trade and other receivables	9	332,542	324,651
Tax recoverable		4,589	4,719
Cash and bank balances		262,211	203,602
		<u>1,003,658</u>	<u>947,585</u>
Assets classified as held for sale		<u>272,339</u>	<u>272,608</u>
		<u>1,275,997</u>	<u>1,220,193</u>

		At 30 June 2024 (unaudited) HK\$'000	At 31 December 2023 (audited) HK\$'000
	<i>Note</i>		
Current liabilities			
Trade and other payables	10	807,983	783,191
Contract liabilities		150,312	155,220
Warranty provision		7,908	9,490
Lease liabilities		6,632	6,745
Tax liabilities		6,770	90,794
Bank and other borrowings		1,067,221	1,114,479
		<u>2,046,826</u>	2,159,919
Liabilities classified as held for sale		<u>2,450</u>	2,444
		<u>2,049,276</u>	2,162,363
Net current liabilities		<u>(773,279)</u>	<u>(942,170)</u>
Total assets less current liabilities		<u>1,423,131</u>	1,286,658
Non-current liabilities			
Bank and other borrowings		266,914	74,378
Deferred revenue		50,835	53,365
Deferred tax liabilities		37,030	36,743
Lease liabilities		7,962	11,600
		<u>362,741</u>	176,086
Net assets		<u><u>1,060,390</u></u>	<u><u>1,110,572</u></u>
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	11	55,011	55,011
Share premium and reserves		1,079,037	1,129,162
		<u>1,134,048</u>	1,184,173
Non-controlling interests		<u>(73,658)</u>	<u>(73,601)</u>
Total equity		<u><u>1,060,390</u></u>	<u><u>1,110,572</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.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix D2 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 2023, 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 2024 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The application of the new and amendments to HKFRSs in the current period 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

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 2024 (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	704,066	174,115	27,321	905,502
Inter-segment sales	1,772	7,543	32,679	41,994
Segment revenue	<u>705,838</u>	<u>181,658</u>	<u>60,000</u>	947,496
Elimination				<u>(41,994)</u>
Group revenue				<u>905,502</u>
Results				
Segment (loss) profit	<u>(10,350)</u>	<u>3,905</u>	<u>2,854</u>	(3,591)
Interest income				525
Finance costs				(38,106)
Share of results of an associate				<u>3</u>
Loss before tax from continuing operations				<u>(41,169)</u>

For the six months ended 30 June 2023 (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	616,441	199,480	32,064	847,985
Inter-segment sales	<u>2,431</u>	<u>7,539</u>	<u>51,502</u>	<u>61,472</u>
Segment revenue	<u><u>618,872</u></u>	<u><u>207,019</u></u>	<u><u>83,566</u></u>	909,457
Elimination				<u>(61,472)</u>
Group revenue				<u><u>847,985</u></u>
Results				
Segment (loss) profit	<u><u>(55,152)</u></u>	<u><u>8,226</u></u>	<u><u>3,524</u></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><u>(77,230)</u></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, Mainland China 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	
	2024	2023
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Mainland China	388,922	367,350
Hong Kong	24,857	24,179
Asia Pacific (other than Mainland China and Hong Kong)	214,469	177,708
Europe	187,537	203,567
North and South America	77,777	68,065
Others	11,940	7,116
	905,502	847,985

5. FINANCE COSTS

	For the six months ended 30 June	
	2024	2023
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Interest on borrowings	35,875	32,397
Interest on lease liabilities	226	225
Bank charges	2,005	3,502
	38,106	36,124

6. LOSS BEFORE TAX

	For the six months ended 30 June	
	2024 (unaudited) HK\$'000	2023 (unaudited) HK\$'000
Continuing operations		
Loss before tax has been arrived at after (crediting) charging:		
Other gains:		
Gain on disposal of property, plant and equipment	(970)	(1,414)
Foreign exchange gain, net	(1,531)	(6,791)
Total other gains	(2,501)	(8,205)
Depreciation and amortisation:		
Amortisation of intangible assets	137	137
Depreciation		
– owned assets	37,005	52,001
– right-of-use assets	5,591	11,332
Total depreciation and amortisation	42,733	63,470

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2024 (unaudited) HK\$'000	2023 (unaudited) HK\$'000
Continuing operations		
Hong Kong Profits Tax:		
Current period	435	1,926
PRC Corporate Income Tax:		
Current period	4,033	347
Under-provision in prior years	4	1
Other jurisdictions		
Current period	17	216
Under-provision in prior years	873	–
Deferred tax	5,362 (1,485)	2,490 (495)
	3,877	1,995

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	
	2024	2023
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	(44,989)	(78,059)
	'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 2024 and 2023 are 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	
	2024	2023
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(44,989)	(78,059)
Less: Profit for the period from a discontinued operation attributable to owners of the Company	–	1,166
Loss for the period from continuing operations attributable to owners of the Company for the purpose of basic loss per share	(44,989)	(79,225)

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	
	2024	2023
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period from a discontinued operation attributable to owners of the Company	<u>–</u>	<u>1,166</u>

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	
	2024	2023
	(unaudited)	(unaudited)
Earnings per share		
– Basic	N/A	0.11 HK cents
– Diluted	<u>N/A</u>	<u>0.11 HK cents</u>

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2024 (unaudited) HK\$'000	At 31 December 2023 (audited) HK\$'000
Trade receivables	184,619	234,029
Less: Loss allowance	<u>(1,925)</u>	<u>(2,199)</u>
	182,694	231,830
Bills receivable	<u>80,467</u>	<u>34,488</u>
	263,161	266,318
Prepayments and other receivables	<u>69,381</u>	<u>58,333</u>
Total trade and other receivables	<u>332,542</u>	<u>324,651</u>

The Group allows an average credit period of 60 days (2023: 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 2024 (unaudited) HK\$'000	At 31 December 2023 (audited) HK\$'000
0–60 days	149,840	188,581
61–90 days	5,770	8,749
Over 90 days	27,084	34,500
	<u>182,694</u>	<u>231,830</u>

10. TRADE AND OTHER PAYABLES

	At 30 June 2024 (unaudited) HK\$'000	At 31 December 2023 (audited) HK\$'000
Trade payables	200,687	171,918
Bills payables	79,139	74,784
	<u>279,826</u>	<u>246,702</u>
Interest payable	33,069	30,176
Amount due to intermediate holding company (<i>Note i</i>)	43,904	44,162
Loan from immediate holding company (<i>Note ii</i>)	135,000	135,000
Payroll payables	76,178	75,647
Payables for property, plant and equipment	4,874	7,354
Payables for raw materials with unreceived invoices	72,459	57,187
VAT and other payables	41,935	44,345
Accrued commission and other operation expenses	35,620	26,760
Others	85,118	115,858
	<u>807,983</u>	<u>783,191</u>

Notes:

- (i) The amount due was unsecured, interest-free and repayable on demand.
- (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 2024 (unaudited) HK\$'000	At 31 December 2023 (audited) HK\$'000
0–90 days	183,520	134,380
91–120 days	8,053	11,816
Over 120 days	9,114	25,722
	<u>200,687</u>	<u>171,918</u>

The average credit period on purchase of goods is 90 days (2023: 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 2024 (unaudited)		At 31 December 2023 (audited)	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares	<u>2,000,000,000</u>	<u>100,000</u>	<u>2,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1 January 2023,				
31 December 2023 and				
30 June 2024	<u>1,100,216,570</u>	<u>55,011</u>	<u>1,100,216,570</u>	<u>55,011</u>

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2024 (for the six months ended 30 June 2023: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Stepping into 2024, the global economy has gradually stabilised and showed signs of improvement, but the recovery is not as strong as expected. At the same time, inflation has remained at a high level, with soaring raw material prices leading to higher operating costs, and competition has become increasingly fierce due to weak market conditions. In the face of such challenges, the Group has been operating in an uncertain environment but at the same time it has been maintaining its profitability in spite of the adversity, and proactively reducing costs and enhancing efficiency so as to safeguard the stable cash flow of the Group and the sustainable development of each business segment.

For the six months ended 30 June 2024 (the “**Period**”), the Group recorded a consolidated revenue of approximately HK\$906,000,000, representing an increase of 7% as compared to approximately HK\$848,000,000 in the corresponding period last year, among which dyeing and finishing machines accounted for 78%, stainless steel castings accounted for 19%, and stainless steel accounted for the remaining 3%. The loss attributable to owners of the Company for the Period was approximately HK\$45,000,000 (for six months ended 30 June 2023: loss of approximately HK\$78,000,000). Both basic and diluted loss per share were 4.09 HK cents as compared to loss per share of 7.09 HK cents for the corresponding period last year.

Manufacture and sale of dyeing and finishing machines

During the Period, the global market economy environment remained challenging and uncertain. Although the overall economy has gradually stabilised and shown signs of improvement, the rebound was relatively weak. Moreover, the soaring raw material prices, coupled with the tight labour market and the impact of high interest rates, have led to an increase in operating costs. As a result, customers have taken a cautious approach to investing in new dyeing and finishing machinery production equipment and still hold a wait-and-see attitude towards expansion projects, dampening their demand for new production equipment.

During the Period, this business segment recorded a revenue of approximately HK\$704,000,000, accounting for 78% of the Group’s revenue and representing an increase of 14% from approximately HK\$616,000,000 in the corresponding period last year. In particular, combined sales from the Hong Kong and Mainland China markets bounced back slightly by 5% from approximately HK\$312,000,000 in the corresponding period last year to approximately HK\$327,000,000; while sales from overseas markets were approximately HK\$377,000,000, representing an increase of 24% from approximately HK\$304,000,000 in the corresponding period last year. An operating loss of approximately HK\$10,000,000 was recorded for the Period as compared to an operating loss of approximately HK\$55,000,000 for the corresponding period last year. With the stringent cost-cutting and efficiency-enhancing measures, the operating performance for the Period has improved as compared to that for the corresponding period last year.

Under the environment of fierce competition in the dyeing and finishing machinery industry, the sales of the Group's dyeing and finishing machinery business still recovered slightly during the Period. Affected by the geopolitical tensions, some export orders and related investments in different industries, including textiles and garments, were withdrawn from the Chinese market. Overall, the ongoing slump in China's industrial market has stifled demand for products, while the phenomenon of "overcapacity" will continue to put pressure on prices and investment sentiment. In the face of intensifying competition in the dyeing and finishing machinery industry, many market players were competing for new machinery orders with low prices and fast delivery, and the Group's sales in dyeing and finishing machines in the PRC market have declined compared with that before the pandemic. In terms of the overseas market, notwithstanding the global demand was affected by multiple adverse factors such as the slowdown in world economic growth, the high US interest rates and energy costs and foreign exchange fluctuations, the Group's overseas sales still improved and achieved a rebound momentum from the bottom, which was sufficient to hedge against the impact of weak demand in the Chinese market during the Period, leading to the Group's sales of dyeing and finishing machines in the first half of this year still rebounded from the same period last year.

In response to the current challenging operating environment, the management has implemented a series of control measures on operating cost and capital expenditure with a resolute and head-on attitude to deal with the uncertain environment. The Group will give priority to prudently monitoring its financial position through implementing proper inventory control, stringent management of trade receivables, and more reasonable disposal of assets in order to maintain sufficient cash flow. On the market side, we have strengthened our marketing efforts through focusing on key projects, increasing added value in products, comprehensive improvement in distribution channels in various countries, accelerating development of new customers, and implementing strategic expansion in emerging markets. Internally, we have formulated plan for production capacity according to actual demand, refined and strengthened supply chain management capabilities, reduced various expenses, reinforced the manufacturing processes, optimised process structures and improved production bottlenecks to respond more quickly to market changes. Notwithstanding the fact that the Group has already moderately reduced its workforce, the layoffs 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 in complementing our existing labour force, so that we can have better control of our fixed labour costs and have the flexibility to meet urgent orders. Through optimisation of labour force and taking advantage of subcontracting, the Group can effectively satisfy the needs of its customers while maintaining cost control.

As a leading dyeing and finishing equipment manufacturer in the world, the Group has always been focusing on the research and development of dyeing and finishing machinery and will continue to increase its investment in technological research with a view to providing customers with more cost-effective products. The Group firmly believes that only by continuously innovating and addressing customers' pain points in actual use, providing them

with practical benefits and enhancing their return on assets, can desire of customers to upgrade their equipment be stimulated. We will promote standardised production of components while meeting customers' individual needs. At the same time, we will speed up the construction of group management team to meet and adapt to the current needs of reform and development. The Group will continue to be efficiency-driven, placing greater emphasis on intelligent manufacturing processes, improving production capacity, and conducting transformation in its digital factories.

The Group's management team has been working tirelessly and proactively to formulate contingency plans to cope with short-term market fluctuations. It has also implemented long-term capacity upgrading and expansion plans, while constantly improving efficiency and adhering to quality to build up a solid core competitiveness that should enable the Group to maintain its leading position. We are confident that with the presence of a strong manufacturing platform, the Group will be able to achieve sustainable growth in long run and continue to create values for its customers and shareholders.

Manufacture and sale of stainless steel casting products

The main products of this business segment are high-quality castings and machined parts made of stainless steel, dual-phase steel and nickel-based alloys, which are being widely used in industrial equipment for valves, pumps, chemical, oil, natural gas and food industries. The main customers are from Europe, the United States and Japan.

For the six months ended 30 June 2024, this business segment recorded a revenue of approximately HK\$174,000,000, accounting for 19% of the Group's revenue and representing a decrease of 13% as compared to approximately HK\$200,000,000 for the corresponding period last year. Due to the decrease in sales, the operating profit for the Period amounted to approximately HK\$4,000,000, while an operating profit of approximately HK\$8,000,000 was recorded for the corresponding period last year.

During the Period, the number of casting orders took a dip from its peak, which was mainly attributable to significant increase in the inventory of customers during the epidemic period, which is now in the destocking stage. Meanwhile, given the uncertain economic environment, customers tend to maintain a cautious approach in placing orders, resulting in a decline in the order volume.

Over the past few years, the management team has been working hard to broaden customer base and explore potential collaboration opportunities, and has laid down a solid foundation for long-term development of this business segment in the future by focusing on the development of unique and high-end casting products, which are expected to be the growth engine of the segment. Given the uncertainties surrounding the prevailing macroeconomic environment, we will continue to upgrade and transform our production facilities, moderately increase automation, optimise the production processes to partially hedge the soaring energy and labour costs, thereby enhancing capacity and operational efficiency to support the development of a casting product mix that delivers higher output value.

The Group remains optimistic about this business segment and the Board believes that the market demand for quality stainless steel castings will continue to grow in the medium to long term, the operating revenue of this business segment will maintain a moderate growth, bring sustained profit contribution to the Group.

Trading of stainless steel supplies

For the six months ended 30 June 2024, this business segment recorded a revenue of approximately HK\$27,000,000, representing a decrease of 16% from approximately HK\$32,000,000 for the same period last year. This business segment contributed only a small portion of the Group's sales, accounting for only 3% of the Group's revenue. Operating profit for the Period amounted to approximately HK\$2,800,000, while the operating profit for the corresponding period last year was approximately HK\$3,500,000. During the Period, the Group continued to optimise its organisation structure through effective management measures and strengthened efforts in implementing cost reduction and efficiency enhancement, enabling the gross profit margin to return to its previous normal level.

The Group has been engaged in the trading of stainless steel supplies since 1988 and has established a strong relationship with some of the world's leading steel mills. As such, the Group is able to provide reliable quality and diversified stainless steel supplies to end-customers, as well as procure stainless steel raw materials for the Group's dyeing and finishing machines business and effectively control procurement costs. During the Period, the intra-group sales of this business segment was approximately HK\$33,000,000 (2023: HK\$52,000,000).

Looking ahead to the second half of 2024, the stainless steel prices are expected to remain at current level with slight fluctuations. The Group will continue to adopt a prudent approach in running this business. It will take appropriate measures based on market analysis and judgment to control market risks, adjust selling prices and inventory level in a timely and appropriate manner, in order to improve the inventory turnover ratio while minimising risk on price fluctuations. At the same time, the Group will strengthen the credit management of sales and trade receivables to reduce the risk of bad debts and improve its cash flow position.

With the commencement of a number of large-scale infrastructure projects, Hong Kong has entered a boom period for the construction industry, which will bring opportunities to the stainless steel trading business. 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 the business segment.

OUTLOOK

In the first half of 2024, the external economic environment was still full of uncertainties, and the operation of the Group was also facing certain challenges. However, with a cautious and optimistic attitude, the Group, in line with its stipulated business strategies and established sales network, will continue to cultivate the market, promote the overall operation development, and strive to seize the opportunities as soon as the market recovers, achieving a breakthrough in performance.

The Group has a solid core business foundation and is well-positioned with strong management team, production facilities and manufacturing technologies. We are confident in overcoming future challenges, actively expanding our business and consolidating our leading position, while making every endeavour to provide our customers with better quality and diversified products and services so as to bring satisfactory returns to our shareholders.

HUMAN RESOURCES

As at 30 June 2024, the Group had a total of 2,035 employees (31 December 2023: approximately 2,200 employees) in Mainland China, Hong Kong, Germany, Austria, India and the United States. In the first half of 2024, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefit schemes) amounted to approximately HK\$254,000,000 (First half of 2023: approximately HK\$282,000,000), accounting for 28% (First half of 2023: 33%) of its revenue. The Group will continue to monitor the market situation and revamp its manpower and workforce structure in order to achieve a better match of manpower to enhance operational efficiency.

The Group has always placed great importance on enhancing and optimising its human resources and considers that competitive remuneration packages are essential to recruit and retain talents, incentivising them to work hard 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 based on the remuneration benchmarks in the industry and the prevailing market conditions, as well as 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 who have 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 retaining high calibre employees. Therefore, the Group will continue to provide appropriate training programmes to its employees at different levels and positions on an ongoing basis in order to improve staff's quality to better cope with its future development. Our highly capable management team is committed to navigating us through the unprecedented challenges. With the support of the team's leadership and crisis management capabilities, the Group has been able to overcome the difficult business environment over the past few years.

LIQUIDITY AND CAPITAL SOURCES

The Group strictly implemented prudent cost and cash flow management to ensure that the Group can continue to operate as a going concern. During the Period, the Group met its funding requirements in the ordinary and usual course of business with cash flow generated from operating activities, banking facilities and debt financing. The management believes that the Group's current cash and cash equivalents, together with available credit facilities and anticipated cash flow from operations, will be sufficient to meet its current operational requirements.

During the six months ended 30 June 2024, the net cash outflow used in the Group's operating activities was approximately HK\$32,000,000. As at 30 June 2024, the Group's inventory level was approximately HK\$404,000,000 as compared to approximately HK\$415,000,000 as at 31 December 2023.

As at 30 June 2024, the Group had bank and other borrowings of approximately HK\$1,334,000,000. The bank and other borrowings were raised in Mainland China and Hong Kong, of which 59% were denominated in Renminbi and 41% in Hong Kong dollars. The Group's bank and other borrowings mainly bear interests at floating rates and fixed rates.

As at 30 June 2024, the Group's bank balances and cash amounted to approximately HK\$262,000,000, of which 51% was denominated in Renminbi, 22% in Euros, 19% in United States dollars, 6% in Hong Kong dollars and the remaining 2% in other currencies.

The Group continued to pursue prudent financial management policies during the Period. As at 30 June 2024, 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 101% (31 December 2023: 89%) mainly due to increase in the scale of bank borrowings; while its current ratio was 0.62 (31 December 2023: 0.56). The Group will continue to consider different financing methods to improve its existing financial position and reduce the leverage level of the Group.

The Group's sales are mainly denominated in Renminbi, United States dollars or Euros, while purchases are mainly made in Renminbi, United States dollars, Euros or Hong Kong dollars. The Group does not expect to be exposed to significant exchange rate risk in these areas. The Board will continue to monitor the Group's overall exposure to foreign exchange risk 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 2024.

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 C3 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 2024.

CORPORATE GOVERNANCE

During the six months ended 30 June 2024, the Company has complied with all of the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix C1 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 Dr. Chen Ying.

The Company’s unaudited condensed consolidated financial statements for the six months ended 30 June 2024 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 2024 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 2024

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 Dr. Chen Ying.