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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 2022**

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 2022 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 2022

		For the six months ended 30 June	
		2022	2021
		(unaudited)	(unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Continuing operations			
Revenue	4	1,277,810	1,219,550
Cost of sales		(962,080)	(913,990)
		315,730	305,560
Gross profit			
Interest income		268	778
Other income		14,890	14,477
Other gains	6	29,680	1,531
Selling and distribution costs		(135,645)	(115,489)
Administrative and other expenses		(267,187)	(277,347)
Finance costs	5	(27,161)	(28,233)
Share of results of an associate		(3,433)	(1,203)
		(72,858)	(99,926)
Loss before tax	6		
Income tax expense	7	(2,162)	(11,011)
		(75,020)	(110,937)
Loss for the period from continuing operations			

		For the six months ended 30 June	
		2022	2021
		(unaudited)	(unaudited)
<i>Note</i>		HK\$'000	HK\$'000
Discontinued operation			
	Loss for the period from a discontinued operation	–	(9,975)
	Loss for the period	(75,020)	(120,912)
Other comprehensive income (expense), net of tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
	Exchange difference arising on translation	(80,118)	31,642
	Share of translation reserve of an associate	(1,006)	543
	Other comprehensive income (expense) for the period	(81,124)	32,185
	Total comprehensive expense for the period	(156,144)	(88,727)
Loss for the period attributable to owners of the Company:			
	– from continuing operations	(75,020)	(110,937)
	– from a discontinued operation	–	(3,575)
		(75,020)	(114,512)
Profit (loss) for the period attributable to non-controlling interests:			
	– from continuing operations	32	–
	– from a discontinued operation	–	(6,400)
		32	(6,400)
Total comprehensive expense for the period attributable to:			
	Owners of the Company	(157,570)	(82,327)
	Non-controlling interests	1,426	(6,400)
		(156,144)	(88,727)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
	From continuing and discontinued operations		
	Basic and diluted	8 (6.82)	(10.40)
	From continuing operations		
	Basic and diluted	8 (6.82)	(10.08)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	At 30 June 2022 (unaudited) HK\$'000	At 31 December 2021 (audited) HK\$'000
<i>Note</i>		
Non-current assets		
Property, plant and equipment	1,695,919	1,805,194
Investment properties	142,589	144,000
Right-of-use assets	23,640	28,782
Prepaid lease payments	198,794	209,726
Goodwill	533,515	533,515
Intangible assets	92,618	92,755
Financial assets at fair value through other comprehensive income	109,106	114,087
Investment in an associate	24,059	28,472
Deposits for acquisition of property, plant and equipment	4,121	4,587
Deposits for acquisition of leasehold land	54,716	57,214
Other assets	43,205	45,177
Deferred tax assets	12,440	12,574
	<u>2,934,722</u>	<u>3,076,083</u>
Current assets		
Inventories	603,322	623,680
Trade and other receivables	9 550,397	413,274
Tax recoverable	6,134	6,069
Cash and bank balances	410,921	288,519
	<u>1,570,774</u>	<u>1,331,542</u>
Assets of a disposal group classified as held for sale	84,299	88,155
	<u>1,655,073</u>	<u>1,419,697</u>

		At 30 June 2022 (unaudited) HK\$'000	At 31 December 2021 (audited) HK\$'000
	<i>Note</i>		
Current liabilities			
Trade and other payables	10	1,192,856	960,207
Contract liabilities		301,720	300,795
Warranty provision		10,104	10,586
Lease liabilities		7,648	8,092
Tax liabilities		123,851	126,993
Bank and other borrowings		<u>1,144,355</u>	<u>1,099,158</u>
		2,780,534	2,505,831
Liabilities of a disposal group classified as held for sale		<u>35,020</u>	<u>36,944</u>
		<u>2,815,554</u>	<u>2,542,775</u>
Net current liabilities		<u>(1,160,481)</u>	<u>(1,123,078)</u>
Total assets less current liabilities		<u>1,774,241</u>	<u>1,953,005</u>
Non-current liabilities			
Deferred revenue		64,424	69,261
Deferred tax liabilities		33,697	35,682
Lease liabilities		<u>17,293</u>	<u>22,089</u>
		<u>115,414</u>	<u>127,032</u>
Net assets		<u><u>1,658,827</u></u>	<u><u>1,825,973</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>1,635,456</u>	<u>1,804,028</u>
		1,690,467	1,859,039
Non-controlling interests		<u>(31,640)</u>	<u>(33,066)</u>
Total equity		<u><u>1,658,827</u></u>	<u><u>1,825,973</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 is 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

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

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2022. HKFRSs comprise HKFRS, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

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

4. REVENUE AND SEGMENT INFORMATION

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

1. Manufacture and sale of dyeing and finishing machines
2. Manufacture and sale of stainless steel casting products
3. Trading of stainless steel supplies

The 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 2022 (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	907,324	293,859	76,627	1,277,810
Inter-segment sales	–	7,842	43,748	51,590
Segment revenue	<u>907,324</u>	<u>301,701</u>	<u>120,375</u>	1,329,400
Elimination				<u>(51,590)</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>

For the six months ended 30 June 2021 (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	1,008,476	135,922	75,152	1,219,550
Inter-segment sales	–	10,803	71,508	82,311
	<u>1,008,476</u>	<u>146,725</u>	<u>146,660</u>	
Segment revenue	<u>1,008,476</u>	<u>146,725</u>	<u>146,660</u>	1,301,861
Elimination				<u>(82,311)</u>
Group revenue				<u>1,219,550</u>
Results				
Segment (loss) profit	<u>(66,606)</u>	<u>(7,118)</u>	<u>2,456</u>	(71,268)
Interest income				778
Finance costs				(28,233)
Share of results of an associate				<u>(1,203)</u>
Loss before tax from continuing operations				<u>(99,926)</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	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
The PRC	421,403	575,607
Hong Kong	31,013	42,809
Asia Pacific (other than the PRC and Hong Kong)	352,928	352,275
Europe	269,463	160,892
North and South America	180,589	63,644
Others	22,414	24,323
	<u>1,277,810</u>	<u>1,219,550</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Continuing operations		
Interest on borrowings	21,142	24,191
Interest on lease liabilities	342	327
Bank charges	5,677	3,715
	<u>27,161</u>	<u>28,233</u>

6. LOSS BEFORE TAX

	For the six months ended 30 June	
	2022	2021
	(unaudited) HK\$'000	(unaudited) HK\$'000
Continuing operations		
Loss before tax has been arrived at after (crediting) charging:		
Other (gains)/losses:		
(Gain) loss on disposal of property, plant and equipment	(145)	(5,228)
Foreign exchange (gain) loss, net	(29,535)	3,697
	<u> </u>	<u> </u>
Total other gains	(29,680)	(1,531)
	<u> </u>	<u> </u>
Depreciation and amortisation:		
Amortisation of intangible assets	137	137
Depreciation		
– owned assets	62,294	47,143
– right-of-use assets	12,289	14,734
	<u> </u>	<u> </u>
Total depreciation and amortisation	74,720	62,014
	<u> </u>	<u> </u>

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2022	2021
	(unaudited) HK\$'000	(unaudited) HK\$'000
Continuing operations		
Hong Kong Profits Tax:		
Current period	2,071	1,309
Macau Profits Tax:		
Current period	1,192	–
PRC Corporate Income Tax:		
Current period	1,810	13,266
Over-provision in prior years	(1,020)	–
Overseas income tax:		
Current period	164	201
Under-provision in prior years	2	–
	<u> </u>	<u> </u>
Deferred tax	4,219	14,776
	<u> </u>	<u> </u>
Income tax expense	(2,057)	(3,765)
	<u> </u>	<u> </u>
	2,162	11,011
	<u> </u>	<u> </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	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	<u>(75,020)</u>	<u>(114,512)</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 2022 and 2021 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	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Loss for the period attributable to owners of the Company	(75,020)	(114,512)
Less: Loss for the period from a discontinued operation attributable to owners of the Company	<u>–</u>	<u>(3,575)</u>
Loss for the period from continuing operations attributable to owners of the Company for the purpose of basic loss per share	<u>(75,020)</u>	<u>(110,937)</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 loss per share from a discontinued operation attributable to owners of the Company is based on the following data:

	For the six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss for the period from a discontinued operation attributable to owners of the Company	–	(3,575)

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	
	2022	2021
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss per share		
– Basic	Nil HK cents	(0.32) HK cents
– Diluted	Nil HK cents	(0.32) HK cents

9. TRADE AND OTHER RECEIVABLES

	At	At
	30 June	31 December
	2022	2021
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Trade receivables	314,741	216,199
<i>Less:</i> Loss allowance	(3,936)	(3,883)
	310,805	212,316
Bills receivable	116,999	53,095
	427,804	265,411
Prepayments and other receivables	122,593	147,863
Total trade and other receivables	550,397	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:

	At 30 June 2022 (unaudited) HK\$'000	At 31 December 2021 (audited) HK\$'000
0–60 days	273,511	158,553
61–90 days	1,960	19,429
Over 90 days	35,334	34,334
	<u>310,805</u>	<u>212,316</u>

10. TRADE AND OTHER PAYABLES

	At 30 June 2022 (unaudited) HK\$'000	At 31 December 2021 (audited) HK\$'000
Trade payables	283,304	312,758
Bills payables	68,753	59,932
Loan from intermediate holding company (<i>Note i</i>)	233,940	–
Loan from immediate holding company (<i>Note ii</i>)	135,000	–
Other payables and accrued charges	471,859	587,517
	<u>1,192,856</u>	<u>960,207</u>

Notes:

- (i) The loan is unsecured, interest bearing at a fixed rate of 5.22% per annum and repayable within one year.
- (ii) The loan is unsecured, interest bearing at a fixed rate of 4.3% per annum and repayable within one year.

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

	At 30 June 2022 (unaudited) HK\$'000	At 31 December 2021 (audited) HK\$'000
0–90 days	217,167	217,512
91–120 days	27,255	10,481
Over 120 days	38,882	84,765
	283,304	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.

11. SHARE CAPITAL

	At 30 June 2022 (unaudited)		At 31 December 2021 (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 2021, 31 December 2021 and 30 June 2022	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 2022 (for the six months ended 30 June 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the first half of 2022, the COVID-19 pandemic has continued to exert a persistent impact on the global economy, together with the high logistics prices, resulting in higher operating costs. Competition has intensified as a result of weak market conditions. The performance of each of the Group's core businesses varied by markets and competitors, thus showing different segment results.

For the six months ended 30 June 2022, the Group recorded consolidated revenue of approximately HK\$1,278,000,000, representing a slight increase of 5% as compared to approximately HK\$1,220,000,000 in the corresponding period of last year. Loss attributable to owners of the Company was approximately HK\$75,000,000 (2021: loss of approximately HK\$115,000,000). Basic and diluted loss per share was 6.82 HK cents (2021: loss of 10.40 HK cents per share).

Manufacture and sale of dyeing and finishing machines

Due to the COVID-19 pandemic, there is still much uncertainty in the global market. Many countries and regions around the world have adopted various anti-pandemic measures, including industrial and commercial suspensions, immigration restrictions and mandatory quarantine, etc. As a result, customers generally remained on the fence about investing in new equipment and delayed the progress of new projects, resulting in lower demand or delayed deliveries for the Group's dyeing and finishing machines business. Nevertheless, our orders from the dyeing and finishing machines business have picked up to the pre-pandemic level thanks to our management team's efforts. The main raw material for this business segment is stainless steel, the prices of which have been maintained on the rise since last year and now are fluctuating at high levels, affecting the costs of our products to a certain extent. Meanwhile, in the face of increasing market competition, the sales prices of our certain products failed to increase in line with the price increases in their raw materials and components, eventually placing great pressure on our profit margin.

For the six months ended 30 June 2022, this business segment recorded revenue of approximately HK\$907,000,000, accounting for 71% of the Group's revenue and representing a decrease of 10% from approximately HK\$1,008,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the Mainland China markets were approximately HK\$333,000,000, representing a decrease of 36% from approximately HK\$518,000,000 in the corresponding period of last year; while sales from overseas markets were approximately HK\$574,000,000, representing an increase of 17% from approximately HK\$490,000,000 in the corresponding period of last year. An operating loss of approximately HK\$57,000,000 was recorded for the period, compared to an operating loss of approximately HK\$67,000,000 for the corresponding period of last year. The operating condition for the period has improved as compared to the corresponding period of last year.

In response to the challenging business environment, our management team has taken a series of operating cost and capital expenditure control measures as well as 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 plan our production capacity to fit actual product demand, fine-tune and reinforce supply chain management capabilities, reduce various fees and expenditures, strengthen manufacturing process, optimise process structure and remove production bottlenecks so that we can respond rapidly 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. It is the Group's firm belief that customers ultimately care only for products that can solve real problems, alleviate real pain points, generate real benefits and bring about real, tangible financial returns.

In addition to meeting the individual needs of our customers, we look to standardise the production of components. At the same time, we should strengthen the 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.

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 economic activities have picked up in the UK, the United States and Europe owing to widespread vaccination and the pandemic was gradually under control, the demand for our products has a material growth. For the six months ended 30 June 2022, this business segment recorded revenue of approximately HK\$294,000,000, accounting for 23% of the Group's revenue and representing an increase of 116%, more than doubling as compared to approximately HK\$136,000,000 for the corresponding period of last year. Due to the increase in revenue, the operating profit for the period amounted to approximately HK\$14,000,000, while an operating loss of approximately HK\$7,000,000 was recorded for the corresponding period of last year.

Sales have begun to regain momentum since the latest quarter, and orders on hand of this business remain at relatively healthy status. The management team is in close contact with the existing and potential customers to maintain and strengthen the business relationship. The Group will also increase its efforts to implement its sales strategy, focusing on high profit margin products of different businesses and related industrial customers 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 the first half of 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, logistics and transportation, which have influenced the Group's sales of stainless steel supplies. For the six months ended 30 June 2022, this business segment recorded revenue of approximately HK\$77,000,000, accounting for approximately 6% of the Group's revenue and representing a slight increase of 3% as compared to approximately HK\$75,000,000 in the corresponding period of last year. Operating profit for the period amounted to approximately HK\$350,000, while the operating profit for the corresponding period of last year was approximately HK\$2,500,000.

In respect of 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, it is able to provide a diverse range of reliable and high-quality steel supplies to end- users, while procuring stainless steel raw materials for the Group's dyeing and finishing machines business in a more cost-effective way.

Looking forward to the second half of 2022, the price of stainless steel is expected to remain at relatively high levels with slight fluctuations. 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 Mainland China, will provide opportunities for trading of stainless steel supplies. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The management will closely monitor and respond to market changes to maintain steady growth in this business segment.

Environmental protection services (discontinued operation)

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

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

Prospects

Looking ahead to 2022, the global market still faces many uncertainties under the COVID-19 pandemic, which brings multiple challenges to the Group, as well as market opportunities. The Group will continue to make every effort to develop new products, open up new markets to fulfill customer needs, and adhere to face challenges with the motto of "Confidence, Synergy, Change, Accomplishment". The management team of CHTC Fong's 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. As a corporate with nearly 60 years of glorified history, CHTC Fong's will achieve sustainable development and reach another peak, providing more delicate products for the customers and creating greater value for our shareholders, employees and society.

Human resources

As at 30 June 2022, the Group had a total of approximately 3,200 employees (31 December 2021: approximately 3,400 employees) across Mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, India and the United States. In the first half of 2022, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK\$371,000,000 (in the first half of 2021: approximately HK\$398,000,000), accounting for 29% (in the first half of 2021: 33%) of its revenue. The Group will continue to monitor the market situation and consolidate its human resource and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

The Group has always placed great importance on enhancing and optimising our human resources and considers that competitive remuneration is an essential factor that motivates employees at all levels to be dedicated to their work and to provide customers with high-quality products and services. The Group's employees are remunerated according to industry benchmarks, prevailing market conditions, their experiences and performance. The Group's remuneration policies and packages are reviewed by the Remuneration Committee of the Company on a regular basis. Discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance. The Group also provides employees with other benefits including annual leave, medical insurance, education subsidies and contributions to retirement benefits schemes or Mandatory Provident Fund Schemes. The Group recognises the importance of having high caliber employees. Therefore, the Group will continue to offer appropriate training programs to employees at all levels and positions on an ongoing basis so as to improve staff's quality to better cope with the future development of the Group.

Liquidity and capital sources

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

During the six months ended 30 June 2022, the Group's net cash outflow used in operating activities was approximately HK\$263,000,000. As at 30 June 2022, the Group's inventory level decreased to approximately HK\$603,000,000 as compared to approximately HK\$624,000,000 as at 31 December 2021.

As at 30 June 2022, bank and other borrowings of the Group amounted to approximately HK\$1,144,000,000. Most of the bank and other borrowings were sourced from Hong Kong, with 51% denominated in Hong Kong dollars, 48% in Renminbi and 1% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 30 June 2022, the Group's bank balances and cash amounted to approximately HK\$411,000,000, of which 58% was denominated in Renminbi, 17% in Euros, 13% in United States dollars, 11% in Hong Kong dollars and the remaining 1% in other currencies.

The Group has continued to maintain prudent financial management policies during the period. As at 30 June 2022, 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 44% (31 December 2021: 42%) and its current ratio was 0.59 (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 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 2022.

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 2022.

CORPORATE GOVERNANCE

During the six months ended 30 June 2022, 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 2022 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 2022 will be despatched to shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 26 August 2022

As at the date of this announcement, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Guan Youping (General Manager), Mr. Chen Peng and Ms. Guo Yunfei (Financial Controller); 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.