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CHTC FONG'S INDUSTRIES COMPANY LIMITED
恒天立信工業有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The Board of Directors (the "Board") of CHTC Fong's Industries Company Limited (the "Company" or "CHTC Fong's") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 together with the comparative figures for last year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	**2014** *HK$'000*	2013 *HK$'000*
Revenue	*2*	**3,415,269**	3,757,496
Cost of sales		**(2,311,036)**	(2,631,194)
Gross profit		**1,104,233**	1,126,302
Interest income		**2,265**	3,669
Other income		**24,553**	23,438
Other losses		**(4,583)**	(26,480)
Selling and distribution costs		**(292,927)**	(304,008)
General and administrative expenses		**(535,940)**	(538,020)
Other expenses		**(91,949)**	(100,411)
Finance costs	*3*	**(51,961)**	(61,767)
Share of results of an associate		**(2,416)**	17
Profit before tax		**151,275**	122,740
Income tax expense	*4*	**(33,753)**	(42,385)
Profit for the year		**117,522**	80,355

	Note	2014 HK$'000	2013 HK$'000
Other comprehensive (expense) income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(32,638)**	27,117
Share of changes in translation reserve of an associate		**(946)**	932
Reclassification adjustment of translation reserve upon deregistration of subsidiaries		**–**	10,069
Gain on cash flow hedge		**–**	944
		(33,584)	39,062
Item that will not be reclassified to profit or loss:			
Remeasurement loss on defined benefit plan		**(2,408)**	–
		(2,408)	–
Other comprehensive (expense) income for the year		**(35,992)**	39,062
Total comprehensive income for the year		**81,530**	119,417
Profit (loss) for the year attributable to:			
Owners of the Company		**117,901**	80,365
Non-controlling interests		**(379)**	(10)
		117,522	80,355
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**81,919**	119,427
Non-controlling interests		**(389)**	(10)
		81,530	119,417
Earnings per share			
Basic and diluted	5	**21.38 HK cents**	14.57 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	**2014**	2013
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**564,553**	630,701
Prepaid lease payments		**252,292**	263,955
Goodwill		**533,515**	533,515
Intangible assets		**96,531**	98,972
Interest in an associate		**–**	38,113
Deposits for acquisition of property, plant and equipment		**1,499**	4,351
Deposits for acquisition of leasehold land		**8,047**	8,258
Deferred tax assets		**16,468**	20,251
		1,472,905	1,598,116
Current assets			
Inventories		**772,741**	786,294
Trade and other receivables	*7*	**540,888**	533,695
Prepaid lease payments		**5,696**	5,832
Tax recoverable		**927**	2,656
Cash and cash equivalents		**495,565**	469,670
		1,815,817	1,798,147
Asset classified as held for sale		**34,751**	–
		1,850,568	1,798,147
Current liabilities			
Trade and other payables	*8*	**699,710**	893,548
Warranty provision		**17,560**	26,090
Tax liabilities		**28,311**	37,319
Borrowings		**1,139,408**	1,040,189
		1,884,989	1,997,146
Net current liabilities		**(34,421)**	(198,999)
Total assets less current liabilities		**1,438,484**	1,399,117

	Note	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Borrowings		**–**	134,741
Deferred revenue		**5,077**	–
Deferred tax liabilities		**18,785**	16,893
Other payable	*8*	**124,210**	–
		148,072	151,634
		1,290,412	1,247,483
Capital and reserves			
Equity attributable to owners of the Company			
Share capital		**55,145**	55,145
Share premium and reserves		**1,234,931**	1,191,613
		1,290,076	1,246,758
Non-controlling interests		**336**	725
Total equity		**1,290,412**	1,247,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs and a new Interpretation that are issued by Hong Kong Institute of Certified Public Accountants.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Interpretation 21	Levies

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 Fair Value Measurement.

The application of these amendments is not expected to have a material impact on the financial position or performance of the Group.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

[2] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

[3] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

[4] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

[5] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

The Group is in the process of making an assessment of what the impact of these amendments and new standards would be in the period of initial application, but not yet in a position to state whether these amendments and new standards would have a significant impact on the Group's results of operations and financial position.

2 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 or services delivered or provided, as follows:

1. Manufacture and sale of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

Segment revenues and results

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

For the year ended 31 December 2014

	Manufacture and sale of dyeing and finishing machines *HK$'000*	Trading of stainless steel supplies *HK$'000*	Manufacture and sale of stainless steel casting products *HK$'000*	Total *HK$'000*
REVENUE				
External sales	**2,514,611**	**430,370**	**470,288**	**3,415,269**
Inter-segment sales	**16,544**	**282,297**	**34,790**	**333,631**
Segment revenue	**2,531,155**	**712,667**	**505,078**	**3,748,900**
Elimination				**(333,631)**
Group revenue				**3,415,269**
Segment profit	**136,647**	**21,909**	**44,831**	**203,387**
Interest income				**2,265**
Finance costs				**(51,961)**
Share of results of an associate				**(2,416)**
Profit before tax				**151,275**

For the year ended 31 December 2013

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	2,840,422	407,920	509,154	3,757,496
Inter-segment sales	15,769	338,829	45,372	399,970
Segment revenue	2,856,191	746,749	554,526	4,157,466
Elimination				(399,970)
Group revenue				3,757,496
Segment profit	135,324	1,837	43,660	180,821
Interest income				3,669
Finance costs				(61,767)
Share of results of an associate				17
Profit before tax				122,740

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 People's Republic of China (the "PRC") and Germany.

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

	Revenue from external customers		Non-current assets	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**1,402,742**	1,823,498	**1,278,241**	1,392,950
Hong Kong	**388,815**	441,386	**12,849**	14,771
Asia Pacific (other than the PRC and Hong Kong)	**700,997**	600,389	**91**	89
Europe	**568,411**	462,234	**165,242**	170,017
North and South America	**270,963**	280,700	**14**	38
Others	**83,341**	149,289	**–**	–
	3,415,269	3,757,496	**1,456,437**	1,577,865

Non-current assets excluded deferred tax assets. The management considered that the cost to develop the revenue by individual countries for "Asia Pacific", "Europe", "North and South America" and "Others" are excessive and revenue included in these areas attributed to each individual country is not material.

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2014 and 2013.

3 FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years	**38,908**	46,156
Bank charges	**13,053**	15,611
	51,961	61,767

4 INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**8,608**	14,467
Under (over) provision in prior years	**48**	(363)
PRC Corporate Income Tax:		
Current year	**18,535**	20,597
Underprovision in prior years	**1,109**	234
Overseas income tax:		
Current year	**2,847**	3,895
Overprovision in prior years	**(3,494)**	(35)
	27,653	38,795
Deferred tax:		
Current year	**6,100**	3,590
	33,753	42,385

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

PRC Corporate Income Tax is charged at the statutory tax rate of 25% (2013: 25%) of the assessable income as determined in accordance with the relevant PRC tax rules and regulations, except that a subsidiary is subject to a preferential tax rate of 15% in 2014.

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

5 EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2014	2013
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**117,901**	80,365
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at 31 December 2014 and 2013 and during the years ended 31 December 2014 and 2013.

6 DIVIDENDS

	2014	2013
	HK$'000	*HK$'000*
Interim dividend paid:		
3 HK cents (2013: 2 HK cents) per share	**16,543**	11,029
Proposed final dividend:		
5 HK cents (2013: 4 HK cents) per share	**27,572**	22,058
	44,115	33,087

An interim dividend of 3 HK cents per share (2013: 2 HK cents), amounting to approximately HK$16,543,000 (2013: HK$11,029,000), was declared on 15 August 2014 and paid on 23 October 2014.

The final dividend in respect of the year ended 31 December 2014 of 5 HK cents (2013: 4 HK cents) per share has been proposed by the Directors and is subject to the approval at the forthcoming annual general meeting of the Company.

7 TRADE AND OTHER RECEIVABLES

	2014 *HK$'000*	2013 *HK$'000*
Trade receivables	**303,886**	326,546
Less: Allowance for doubtful debts	**(7,423)**	(5,242)
	296,463	321,304
Bills receivables	**150,789**	88,526
	447,252	409,830
Other receivables	**93,636**	123,865
Total trade and other receivables	**540,888**	533,695

The Group allows an average credit period of 60 days (2013: 60 days) to its trade customers.

The following is an ageing analysis of trade receivables net of allowance for doubtful debts and bills receivables presented based on the invoice date at the end of the reporting period:

	2014 *HK$'000*	2013 *HK$'000*
0 – 60 days	**356,910**	284,170
61 – 90 days	**71,007**	96,065
Over 90 days	**19,335**	29,595
	447,252	409,830

8 TRADE AND OTHER PAYABLES

	2014 *HK$'000*	2013 *HK$'000*
Trade payables	**130,367**	165,365
Receipts in advance	**217,166**	346,117
Other payables and accrued charges	**476,387**	382,066
	823,920	893,548
Amount due after one year included under non-current liabilities *(Note i)*	**(124,210)**	–
	699,710	893,548

Note:

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

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

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

The Agreement shall become effective upon the fulfilment of certain conditions precedent, including the approval of the Agreement by the shareholders at the special general meeting of the Company and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC ("SASAC"). The Agreement had been approved by the shareholders at the special general meeting of the Company held on 15 May 2014 and by SASAC on 23 December 2014.

Upon the effective of the Agreement, FNES has received the first instalment money of RMB100,000,000 during the year, the management of the Group considered it will only be realised more than one year with the completion of the Urban Renewal Project, and therefore classified it as non-current liabilities at the end of the reporting period.

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

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

	2014	2013
	HK$'000	*HK$'000*
0 – 90 days	**101,602**	131,438
91 – 120 days	**16,859**	20,213
Over 120 days	**11,906**	13,714
	130,367	165,365

The average credit period on purchase of goods is 90 days (2013: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

DIVIDEND

The Board has recommended the payment of a final dividend of 5 HK cents per share for the year ended 31 December 2014 (2013: 4 HK cents per share) subject to the approval by the shareholders at the forthcoming annual general meeting of the Company. Together with an interim dividend of 3 HK cents per share (2013: 2 HK cents per share) already paid, total dividend for the year will amount to 8 HK cents per share (2013: 6 HK cents per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 18 May 2015 to Thursday, 21 May 2015, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Thursday, 21 May 2015 ("2015 AGM"), all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 15 May 2015.

Subject to the approval of the proposed final dividend at the 2015 AGM, the register of members of the Company will be closed from Monday, 1 June 2015 to Wednesday, 3 June 2015, both days inclusive, for the purpose of determining the entitlements of the shareholders to the proposed final dividend. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrars, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 29 May 2015. Dividend warrants will be despatched on Friday, 19 June 2015.

CHAIRMAN'S STATEMENT

In 2014, the Group recorded a revenue of approximately HK$3,415,000,000, representing a decrease of 9% as compared with the same period in the previous year. This was primarily attributable to fewer orders placed by customers of the Group's dyeing and finishing machine business due to the slowing Chinese economy and global economic uncertainties. In response to the complex and ever-changing domestic and overseas market situations, the Group has promptly adjusted its operating strategies and carefully organised its production and operation, and adopted measures to intensify the cost control, which led to profit growth across all business segments. For the year ended 31 December 2014, the Group generated profit attributable to shareholders of approximately HK$118,000,000, with the earnings per share amounting to 21.38 HK cents, up by 47% as compared with the same period of last year. Overall, the Group has sustained stable operating results and solid financial performance. These achievements were a result of the Group's persistence in adhering to its development strategies, its ability to accurately evaluate market trends and conditions, its responsiveness in capturing every opportunity and its perseverance in carrying out the "integrity-based, technology-driven and customer-oriented" business philosophy. The hard-working, pioneering and innovative spirits of the management team and all staff have no doubt contributed towards our achievements, which allowed the Group to prevail over adverse conditions. In addition, the Group has also further streamlined its internal management system and optimised its asset structure during the year, laying a solid foundation for the sustainable development of the Group. On behalf of the Board, I would like to express my sincere thanks to the entire workforce for their unremitting efforts.

On 28 March 2014, Fong's National Engineering (Shenzhen) Company, Limited ("FNES"), a wholly-owned subsidiary of the Company, entered into a conditional co-operation agreement (the "Co-operation Agreement") with an independent third party in respect of the redevelopment of FNES's existing land (the "Land") in Buji, Shenzhen by way of urban renewal. Details of the Co-operation Agreement were disclosed in the Company's announcement dated 1 April 2014 and the Company's circular dated 25 April 2014. Pursuant to the Co-operation Agreement, FNES will receive, through resettlement and demolition compensation, RMB1 billion in cash by five installments; and the facilities to be constructed on the redeveloped Land with a gross floor area of approximately 30,000 m^2 (and, in addition, at least 100 car-parks), which are expected to be used as the Group's sales office, product design and research and development facilities. The Co-operation Agreement constitutes a very substantial disposal for the Company and has been approved by the shareholders of the Company at the special general meeting held on 15 May 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. FNES also received the first installment of cash compensation amounting to RMB100 million in December 2014 as scheduled. The cash compensation from the urban renewal project will partially fund the Group's plan to relocate all of its manufacturing facilities from Shenzhen to Zhongshan. The urban renewal project signifies the Group's contribution to urban renewal in Shenzhen and is expected to enhance the Group's technical standard, improve its industrial layout and logistics, and further consolidate and increase the competitiveness of the Group. The Co-operation Agreement will facilitate the Group to modernise its Shenzhen operations especially in terms of its product design, sales and research and development through the retention of the new property on the Land upon completion of the urban renewal project.

On 31 August 2014, the Group entered into a conditional agreement with Hengtian Real Estate Company Limited (恒天地產有限公司), a company owned as to 47.35% by China Hi-Tech Group Corporation (中國恒天集團有限公司), the controlling shareholder of the Company, to sell its entire 30% equity holding in Foshan East Asia Co., Ltd. (佛山東亞股份有限公司) ("Foshan East Asia") at a consideration of RMB150 million (the "Disposal"). Details of the Disposal were disclosed in the Company's announcement dated 31 August 2014 and the Company's circular dated 31 October 2014. The Disposal constitutes a discloseable and connected transaction for the Company and has been approved by the independent shareholders of the Company at the special general meeting held on 18 November 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Upon completion of the equity transfer, Foshan East Asia will cease to be an associate of the Company.

The Company believes that good corporate governance is one of the key factors that drives the Company's success and balances the benefits among its shareholders, customers and employees, and will therefore continue to raise and improve its corporate governance standard. In 2014, the Company has actively explored and further enhanced its corporate governance. In accordance with relevant laws and regulations such as the Companies Act, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Bye-laws, the Company has compiled a Manual of Corporate Governance Practices and is in the process of formulating the Rules for the Board of Directors based on the practical situation. These aim to ensure the due performance of all parties, a balance between authorities and duties, orderly operation and better management, as well as ensuring the avoidance of unnecessary operational risks.

Looking into 2015, CHTC Fong's will still be facing precious opportunities as well as huge challenges and difficulties. The Company will put great efforts on the following action items: (1) exploring new income sources and retrenching expenses, further promoting lean production with an aim to maintain sound momentum in production and operation; (2) capitalising on the favourable opportunities brought by industrial transformations required to meet the demand for energy-saving and environmental protection in the textile industry, by continuously enhancing the development of new products, accelerating the research and development of energy-saving and green dyeing and finishing machinery, expanding product lines, building integrated one-stop supply chains of its products and optimising marketing strategies so as to increase its market share; (3) improving its internal control system, closely monitoring risks and optimising corporate structures to improve corporate governance; (4) actively exploring and optimising its remuneration policy and performance-based bonus system to establish a long-term mechanism to stimulate the initiative and creativity of the operation and management team, which will help the Group to retain its core talents under operations and management, improve management efficiency and achieve sustainable and robust growth in the long run; and (5) considering investment and acquisition opportunities in order to optimise its business structure and profit model. The Group believes it will yield a higher return to the shareholders which is benefited from the gradual implementation of its development strategies.

Finally, on behalf of the Board, I would like to express my gratitude to our business partners, customers, suppliers and bankers for their continuing trust and support. In 2015, the Board, the management team and all the staff will strive forward with concerted efforts to capture various opportunities, tackle difficulties and challenges, act in unity and be endeavoured to achieve more splendid results in all business segments in order to reward our shareholders, employees, customers and the society with the long-term and sustainable growth of CHTC Fong's.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

Last year, most developed economies stabilised and recovered gradually. However, there was a slowdown in emerging economies including China, the overall business environment did not see much improvement. The overall operating environment for the manufacturing industry in China remained challenging. Fortunately, in the face of the complex and uncertain market environment, the staff of the Group remained optimistic, kept improving and showed great responsibility in their own duties, which helped the Group to maintain relatively stable performance across all business segments with a profit growth.

For the year ended 31 December 2014, the Group recorded revenue of approximately HK$3,415,000,000, representing a decrease of 9% as compared to approximately HK$3,757,000,000 in the previous year. However, profit increased by 47% from approximately HK$80,000,000 last year to approximately HK$118,000,000. The earnings per share for the year was 21.38 HK cents (2013: 14.57 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

The year 2014 was still another challenging year for the equipment manufacturing sector. From a macroeconomic point of view, economic recovery in the United States and European countries remained slow and unstable, which has continued to impact the Chinese export trade in the textile and apparels sector. Additionally, as enterprises in mainland China have continued to suffer from financing difficulties and high lending rates, investment confidence levels as well as expansion progress of some enterprises were inevitably impacted, resulting in reduced purchasing of industrial manufacturing equipment, including dyeing and finishing machines. As regards the overseas markets, emerging countries such as India, Brazil and Indonesia have continued to experience financial turmoil, currency devaluation and sluggish economies, which adversely affected the appetite of manufacturers based in these countries when purchasing equipment.

Together with the combined effort of its operating team, the Group achieved steady growth in its dyeing and finishing machine business, as it adopted aggressive market development strategies and leveraged on customers' need for upgraded and more environmentally friendly and energy-saving equipment. For the year ended 31 December 2014, this segment recorded revenue of approximately HK$2,515,000,000, accounting for 74% of the Group's revenue and representing a decrease of 11% from approximately HK$2,840,000,000 in the previous year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,290,000,000 representing a decrease of 27% from HK$1,762,000,000 recorded last year; however, sales from overseas markets were approximately HK$1,225,000,000, up by 14% from HK$1,078,000,000 in the previous year. Despite a decrease in revenue, the segment reported a slight growth with a small increase in operating profit from approximately HK$135,000,000 in the previous year to approximately HK$137,000,000. The increase was mainly due to continuous improvement in manufacturing processes and effective cost control, which contributed to a higher gross profit margin. The Group expects the segment's gross profit margin to remain stable, as the prices of major raw materials for stainless steel are expected to hold steady.

Nevertheless, the Group will continue to fine tune its manufacturing process to improve operational efficiencies and strictly control each business expense to ensure healthy operations across trade receivables, inventories, cash flow and foreign exchange risk. The Group will also allocate more resources to product R&D, technology and design as well as marketing, with the aim to improve the quality of our products and technical service. In terms of marketing, the Group will target a few potential emerging markets including countries such as India, Bangladesh, Indonesia, Vietnam, Turkey and Brazil, and will strive to boost sales in these markets in accordance with existing strategies. Currently, the Group is focused on harnessing the synergies and cost efficiencies, that have risen from the acquisition of the German Monforts Group at the end of 2012, in order to expand penetration along the textile industry chain and provide the market with more advanced dyeing and finishing equipment, thereby further enhancing the overall competitiveness of the Group.

It has been the Group's persistent business direction to maintain long-term sustainable development. Hence, facing the various market and operational challenges, the Group has continued to focus on the proactive investment in research and development of technology and technical processes in regards to dyeing and finishing machinery, optimising existing product designs and enhancing the quality and reliability of its products in order to maintain its competitiveness. As a result of its advanced technologies in terms of efficiency, energy saving and reduced emissions, the Group's patented SYN-8 airflow high temperature dyeing machine was awarded the "Machinery and Machine Tools Design Award" in the 2013 Hong Kong Awards for Industries and "First Prize in Science and Technology of Textile Vision 2014" by the China National Textile and Apparel Council, which demonstrated the leading position of the Group in the dyeing and finishing machine industry in China. In addition, Fong's National

Engineering (Shenzhen) Company, Limited, a wholly-owned subsidiary of the Company, was recognised as a High-Tech Enterprise in 2014 for a term of three years. In accordance with the Corporate Income Tax Law of the People's Republic of China and national tax regulations applicable to High-Tech Enterprises, it shall be entitled to a preferential tax policy and subject to a reduced Corporate Income Tax rate of 15% during the period from 2014 to 2016, which further demonstrated our scientific research capabilities in the dyeing and finishing machine industry.

As the global community has placed greater importance on environmental protection, many existing and new customers plan to upgrade their prevailing dyeing and finishing machines and to set up additional sewage treatment facilities, in order to improve their product quality and production capacity, as well as to be compliant with the new and more demanding emission standards. This provides a vast number of business opportunities for the Group. "Energy conservation and emissions reduction" is an important policy in China's Twelfth Five-year Plan. In light of the increasing focus on energy conservation, industry upgrading and rising labour costs, the Group believes that market demand for energy-saving and efficient automated machinery and equipment, and the replacement of old equipment, will continue to grow. In view of the above, the Group has already taken the initiative to successfully develop a wastewater reuse system and equipment mainly designed for dyeing factories, through its own R&D team since 2007. Our product "biological no-sludge technology in printing and dyeing wastewater treatment" was listed in the "Catalogue for Energy Saving and Emission Reduction Technologies in Chinese Printing and Dyeing Industry" in 2014. Our wastewater treatment business is now entering the harvest stage. The Group will actively seek projects in this field to become new profit drivers in the near future.

As mentioned in the section "Disposal of Major Assets" below, the construction on Phase II of the Zhongshan plant of the Group has commenced and is expected to be completed by early 2017. Upon completion, the Group's production facilities of its primary business segments will be relocated from Shenzhen to Zhongshan. As a result, the Group's existing production capacity will be greatly strengthened and better cater to its future development needs. The Group's management will also become more centralised, eliminating the duplication of costs through the integration of resources. This will allow the Group to better pursue its goal of providing European technology, domestic production, global distribution and one-stop production solutions to its customers.

The management of the Group believes that the existing challenges faced by the domestic manufacturing industry will be difficult to eliminate or to mitigate in the near future. The Group will adopt a plan to upgrade its enterprise and products in a timely manner as part of its established strategy. The Group will continue to step up its efforts in R&D and employee training, to stay ahead of its competitors in terms of product functions, technology and service. With its one-stop product structure, sustained innovation, strong customer base and a brand image that has been well-established for over 50 years, the Group is confident that it will be able to handle potential challenges in the future. In the meantime, the Group will continue to uphold its "integrity-based, technology-driven and customer-oriented" business philosophy, while being guided by a need to protect the environment and create value for customers, so as to continuously develop high-quality products that meet the market's needs, while providing Chinese and international dyeing enterprises with the most advanced, environmentally-friendly and best value-for-money dyeing and finishing equipment.

STAINLESS STEEL TRADING

The stainless steel market remained flat over recent three years, with a relatively low gross profit margin from stainless steel distribution. Over the years, the Group has been cautious in its stainless steel trading business and has only expanded its sales moderately in order to reduce sales risk from fluctuations in stainless steel prices. For the year ended 31 December 2014, this business segment recorded revenue of approximately HK$430,000,000, accounting for 12% of the Group's revenue, representing a slight increase of 6% compared to the approximately HK$408,000,000 for the previous year. Operating profit for this segment recovered due to the Group's accurate analysis of market trends, appropriate purchase and sales arrangements, as well as strengthened inventory management. Operating profit for this business segment was back to a solid level, increasing significantly from approximately HK$2,000,000 in the previous year to approximately HK$22,000,000.

The Group will continue to adopt a prudent approach in running this business. It will take appropriate actions to mitigate market risks, adjust prices and inventories 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 debt and improve its cash flow.

STAINLESS STEEL CASTING

The products of this business segment are primarily high-quality investment castings and sand castings and machined processing parts made of stainless steel, dualphase steel and nickel-based alloys that are widely used in large industrial facilities, such as valves, pumps, chemical, oil and gas and food processing machines, with customers principally hailing from Europe, the United States and Japan. The stainless steel casting business maintained a steady flow of orders from its major customers thanks to the efforts of the management team, stable supply capacity and good product quality. Meanwhile, the Group continued to optimise cost control, improve workshops and the production processes of certain products, increase automated production equipment, enhance product quality and effectively reduce the scrappage rate of its products. As such, the stainless steel casting business segment recorded improvement in its overall gross profit margin.

For the year ended 31 December 2014, the segment reported stable performance and results in line with targets. This business segment recorded revenue of approximately HK$470,000,000, accounting for 14% of the Group's revenue and representing a decrease of 8% compared to approximately HK$510,000,000 in the previous year. However, the operating profit for this segment increased from approximately HK$44,000,000 in the previous year to approximately HK$45,000,000.

The management of the Group believes that market demand for high-quality stainless steel castings will continue to grow. Given the above measures that the Group is implementing and the anticipated stabilisation of the global economy and market environment, the management is also confident that in the mid to long term, this business segment will retain steady revenue growth and bring satisfactory profit contributions to the Group.

DISPOSAL OF MAJOR ASSETS

On 28 March 2014, Fong's National Engineering (Shenzhen) Company, Limited ("FNES"), the Company's wholly-owned subsidiary, entered into a conditional co-operation agreement (the "Co-operation Agreement") with (among others) an independent third party in respect of the redevelopment of FNES's existing land (the "Land") in Buji, Shenzhen by way of urban renewal. Details of the Co-operation Agreement were disclosed in the Company's announcement dated 1 April 2014 and the Company's circular dated 25 April 2014. Pursuant to the Co-operation Agreement, FNES will receive, through resettlement and demolition compensation, a total of RMB1 billion in cash by five installments; and the facilities to be constructed on the redeveloped Land with a gross floor area of approximately 30,000 m^2 (and, in addition, at least 100 car-parks), which are expected to be used as the Group's sales office, product design and research and development facilities. The Co-operation Agreement constitutes a very substantial disposal for the Company and has been approved by the shareholders of the Company at the special general meeting held on 15 May 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. FNES also received the first installment of cash compensation amounting to RMB100 million in December 2014 as scheduled. The cash compensation from the urban renewal project will partially fund the Group's plan to relocate all of its manufacturing facilities in Shenzhen to Zhongshan (including the construction cost for Phase II of the Zhongshan manufacturing plant). Construction of Phase II of the Zhongshan manufacturing plant is expected to complete by early 2017. The urban renewal project signifies the Group's contribution to urban renewal in Shenzhen and is expected to enhance the manufacturing technology of the Group, improve its industrial layout and logistics and further consolidate and increase the competitiveness of the Group. The Co-operation Agreement will facilitate the Group to modernise its Shenzhen operations especially in terms of its product design, sales and research and development through the retention of the new property on the Land upon completion of the urban renewal project.

On 31 August 2014, the Group entered into a conditional agreement with Hengtian Real Estate Company Limited (恒天地產有限公司), a company owned as to 47.35% by China Hi-Tech Group Corporation (中國恒天集團有限公司), the controlling shareholder of the Company, to sell its entire 30% equity holding in Foshan East Asia Co., Ltd. (佛山東亞股份有限公司) ("Foshan East Asia") at a consideration of RMB150 million (the "Disposal"). Details of the Disposal were disclosed in the Company's announcement dated 31 August 2014 and the Company's circular dated 31 October 2014. The Disposal constitutes a discloseable and connected transaction for the Company and has been approved by the independent shareholders of the Company at the special general meeting held on 18 November 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Upon completion of the equity transfer, Foshan East Asia will cease to be an associate of the Company. During the year and as of the date hereof, the Disposal has not been completed.

Save as disclosed above, the Group did not have other significant investment, acquisition and disposal during the year under review.

HUMAN RESOURCES

As at 31 December 2014, the Group had a total of approximately 4,540 employees (31 December 2013: 4,960 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2014, staffing costs, including Directors' emoluments, were approximately HK$411,000,000 (2013: HK$395,000,000), accounting for 12.0% (2013: 10.5%) of the Group's 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 human resources and considers that competitive remuneration is an essential component of the overall factors that motivate employees at all levels of the business 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, as well as prevailing market conditions, their experience and performance. The Group's remuneration policies and packages are reviewed by the Remuneration Committee of the Company on a regular basis. Year-end bonuses may be awarded to employees based on performance evaluation, with an aim to encourage and reward staff for superior performance. The Group also provides eligible employees with other benefits including annual leave, medical insurance, educational sponsorship subsidies, retirement benefits scheme or Mandatory Provident Fund Schemes.

The Group recognises the importance of having high caliber employees. In order to prepare its workforce for the future, the Group will continue to offer training programs at all levels of employment on an ongoing basis. The aim of these programs is to cultivate a dynamic corporate culture and to develop effective communication among staff and customer service skills. Close monitoring of daily operations will also be reinforced to ensure high operational efficiency and good performance from all employees.

LIQUIDITY AND CAPITAL RESOURCES

Given continuously increasing cost pressure, the Group strictly implemented prudent cost and cash flow management. During the year, the Group met ordinary and usual course of business funding requirements through cash flow generated from operations and existing banking facilities. The Board believes that the Group is in a healthy financial position and has sufficient resources to support its operational requirements.

During the year ended 31 December 2014, the Group's net cash inflow generated from operating activities was approximately HK$58,000,000. As at 31 December 2014, the Group's inventory level decreased to approximately HK$773,000,000 as compared to approximately HK$786,000,000 as at 31 December 2013.

As at 31 December 2014, bank borrowings of the Group amounted to approximately HK$1,022,000,000. Most of the bank borrowings were sourced from Hong Kong, with 59% denominated in Hong Kong dollars and 41% denominated in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2014, the Group's bank balances and cash amounted to approximately HK$496,000,000, of which 61% was denominated in Renminbi, 17% in Hong Kong dollars, 11% in United States dollars, 10% in Euros and the remaining 1% in other currencies.

The Group continued to maintain prudent financial management policies during the year, and as such, as at 31 December 2014, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, decreased to 41% (31 December 2013: 43%) and its current ratio was 0.98 (31 December 2013: 0.90). The Board considers these ratios to be at healthy and acceptable levels.

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

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

CORPORATE GOVERNANCE

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that leads to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

Throughout the year ended 31 December 2014, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Listing Rules, except for the deviations from code provision A.6.7 as disclosed below.

Code provision A.6.7 of the CG Code stipulates that Independent Non-executive Directors and other Non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, Mr. Zhou Yucheng (an Independent Non-executive Director) was unable to attend the annual general meeting and special general meeting of the Company held on 15 May 2014 and Mr. Shi Tinghong (Chairman of the Board), Mr. Zhou Yucheng, Mr. Ying Wei and Mr. Li Jianxin (each an Independent Non-executive Director) were unable to attend the special general meeting of the Company held on 18 November 2014 due to their respective unavoidable business engagement.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the year ended 31 December 2014.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees on terms no less exacting than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its subsidiaries. No incident of non-compliance was noted by the Company for the year ended 31 December 2014.

REVIEW OF ACCOUNTS

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Company for the year ended 31 December 2014. The figures contained in the financial information set out on pages 1 to 14 of this announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditor, Baker Tilly Hong Kong Limited, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by Baker Tilly Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Baker Tilly Hong Kong Limited on the preliminary announcement.

ANNUAL REPORT

The Annual Report for the year ended 31 December 2014 will be despatched to shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) as well as the website of the Company (www.fongs.com) in due course.

On behalf of the Board
CHTC Fong's Industries Company Limited
Shi Tinghong
Chairman

Hong Kong, 27 March 2015

As at the date of this announcement, the Chairman and Executive Director is Mr. Shi Tinghong; the Vice-Chairman and Non-executive Director is Mr. Ye Maoxin; the other Executive Directors are Mr. Ji Xin (Chief Executive Officer), Mr. Wan Wai Yung and Mr. Fong Kwok Leung, Kevin; and the Independent Non-executive Directors are Mr. Zhou Yucheng, Mr. Ying Wei, Dr. Yuen Ming Fai and Mr. Li Jianxin.