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 2016

The Board of Directors (the "Board") of CHTC Fong's Industries Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 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 2016

	Note	**2016** *HK$'000*	2015 *HK$'000*
Revenue	*2*	**3,125,687**	3,223,012
Cost of sales		**(2,020,979)**	(2,218,161)
Gross profit		**1,104,708**	1,004,851
Interest income		**2,206**	2,807
Other income		**19,603**	24,917
Other (losses) gains		**(8,031)**	667
Gain on disposal of an associate		**–**	153,813
Selling and distribution costs		**(270,267)**	(278,540)
Administrative and other expenses		**(660,407)**	(654,930)
Finance costs	*3*	**(36,699)**	(42,251)
Profit before tax		**151,113**	211,334
Income tax expense	*4*	**(59,824)**	(45,488)
Profit for the year		**91,289**	165,846

	Note	2016 HK$'000	2015 HK$'000
Other comprehensive (expense) income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(99,283)**	(51,588)
Reclassification adjustment of translation reserve upon disposal of an associate		**–**	(8,182)
		(99,283)	(59,770)
Item that will not be reclassified to profit or loss:			
Remeasurement (loss) gain on defined benefit plan		**(2,954)**	746
Other comprehensive expense for the year		**(102,237)**	(59,024)
Total comprehensive (expense) income for the year		**(10,948)**	106,822
Profit (loss) for the year attributable to:			
Owners of the Company		**91,289**	166,029
Non-controlling interests		**–**	(183)
		91,289	165,846
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(10,948)**	107,004
Non-controlling interests		**–**	(182)
		(10,948)	106,822
Earnings per share			
Basic and diluted	*5*	**8.28 HK cents**	15.05 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016	2015
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**660,497**	532,587
Prepaid lease payments		**218,196**	237,971
Goodwill		**533,515**	533,515
Intangible assets		**101,651**	95,778
Available-for-sale financial assets		**174,640**	187,210
Deposits for acquisition of property, plant and equipment		**5,415**	791
Deposits for acquisition of leasehold land		**7,219**	7,738
Deferred tax assets		**10,665**	15,222
		1,711,798	1,610,812
Current assets			
Inventories		**572,992**	648,523
Trade and other receivables	*7*	**442,076**	528,935
Prepaid lease payments		**5,159**	5,496
Tax recoverable		**138**	1,998
Cash and cash equivalents		**790,259**	443,115
		1,810,624	1,628,067
Current liabilities			
Trade and other payables	*8*	**785,507**	590,564
Warranty provision		**16,287**	16,099
Tax liabilities		**25,202**	22,548
Borrowings		**1,009,638**	992,813
		1,836,634	1,622,024
Net current (liabilities) assets		**(26,010)**	6,043
Total assets less current liabilities		**1,685,788**	1,616,855

	Note	**2016**	2015
		HK$'000	*HK$'000*
Non-current liabilities			
Borrowings		**80,000**	100,000
Deferred revenue		**25,757**	5,281
Deferred tax liabilities		**23,701**	20,363
Other payable	*8*	**222,236**	118,781
		351,694	244,425
Net assets		**1,334,094**	1,372,430
Capital and reserves			
Share capital		**55,145**	55,145
Share premium and reserves		**1,278,949**	1,317,285
Total equity		**1,334,094**	1,372,430

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 relevant to the Group that are issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

The adoption of these amendments has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKAS 7	Disclosure Initiative[3]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, 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 a date to be determined.

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 consolidated financial statements.

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 delivered or services 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 2016

	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	**2,431,684**	**290,443**	**403,560**	**3,125,687**
Inter-segment sales	**1,893**	**153,817**	**29,903**	**185,613**
Segment revenue	**2,433,577**	**444,260**	**433,463**	**3,311,300**
Elimination				**(185,613)**
Group revenue				**3,125,687**
Segment profit	**149,151**	**6,536**	**29,919**	**185,606**
Interest income				**2,206**
Finance costs				**(36,699)**
Profit before tax				**151,113**

For the year ended 31 December 2015

	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	2,325,965	376,520	520,527	3,223,012
Inter-segment sales	5,768	173,608	22,927	202,303
Segment revenue	2,331,733	550,128	543,454	3,425,315
Elimination				(202,303)
Group revenue				3,223,012
Segment profit	47,107	2,580	47,278	96,965
Interest income				2,807
Finance costs				(42,251)
Gain on disposal of an associate				153,813
Profit before tax				211,334

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 gain on disposal 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	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**1,162,061**	1,232,590	**1,346,909**	1,236,712
Hong Kong	**347,705**	359,244	**7,859**	10,400
Asia Pacific (other than the PRC and Hong Kong)	**926,459**	782,074	**117**	134
Europe	**384,108**	446,749	**171,604**	161,124
North and South America	**201,840**	291,222	**4**	10
Others	**103,514**	111,133	**–**	–
	3,125,687	3,223,012	**1,526,493**	1,408,380

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

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2016 and 2015.

3 FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on borrowings	**31,759**	35,491
Less: Interest capitalised	**(5,905)**	(3,047)
	25,854	32,444
Bank charges	**10,845**	9,807
	36,699	42,251

Finance costs on funds borrowed generally are capitalised at a rate ranging from 2.78% to 4.25% (2015: 4.25%) per annum.

4 INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**9,837**	6,332
Under (over)–provision in prior years	**23**	(3,668)
PRC Corporate Income Tax:		
Current year	**36,848**	36,565
(Over) under–provision in prior years	**(113)**	743
Overseas income tax:		
Current year	**2,128**	3,471
Under–provision in prior years	**2,630**	51
	51,353	43,494
Deferred tax:		
Current year	**8,471**	1,994
	59,824	45,488

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% (2015: 25%) of the assessable income as determined in accordance with the relevant PRC tax rules and regulations, except that certain subsidiaries are subject to a preferential tax rate of 15% (2015: 15%).

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

5 EARNINGS PER SHARE

(a) Basic earnings per share:

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

	2016	2015
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**91,289**	166,029
	'000	*'000*
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**1,102,892**	551,446
Effect of share subdivision on 22 May 2015	**–**	551,446
Weighted average number of ordinary shares at 31 December	**1,102,892**	1,102,892

(b) Diluted earnings per share:

No adjustment has been made to the basic earnings per share as the outstanding share options had anti-dilutive effect on the basic earnings per share for the years ended 31 December 2016 and 2015. The computation of diluted earnings per share for the years ended 31 December 2016 and 2015 does not assume the exercise of the Company's outstanding share options as the exercise prices were higher than the average market price of the Company's ordinary shares and also the performance conditions for the exercise of the share options were not met.

6 DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Proposed final dividend:		
3.5 HK cents (2015: 3 HK cents) per share with a par value of HK$0.05 each	**38,508**	33,087

The final dividend in respect of the year ended 31 December 2016 of 3.5 HK cents (2015: 3 HK cents) per share with a par value of HK$0.05 each 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

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**264,487**	347,964
Less: Allowance for doubtful debts	**(8,708)**	(8,665)
	255,779	339,299
Bills receivable	**83,086**	105,906
	338,865	445,205
Other receivables	**103,211**	83,730
Total trade and other receivables	**442,076**	528,935

The Group allows an average credit period of 60 days (2015: 60 days) to its trade customers.

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

	2016	2015
	HK$'000	*HK$'000*
0 – 60 days	**199,516**	276,483
61 – 90 days	**40,711**	42,814
Over 90 days	**15,552**	20,002
	255,779	339,299

8 TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**142,057**	122,378
Receipts in advance	**234,171**	125,195
Amount due to ultimate holding company *(Note i)*	**2,451**	–
Other payables and accrued charges	**629,064**	461,772
	1,007,743	709,345
Amount due after one year included under non-current liabilities *(Note ii)*	**(222,236)**	(118,781)
	785,507	590,564

Notes:

(i) The amount due is unsecured, interest-free and repayable on demand.

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

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

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

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

On 22 December 2014, FNES received the first installment payment of RMB100 million.

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

As advised by the Project Company, due to the delay in obtaining the approval of the Agreement by SASAC and various recent measures implemented by the PRC government in administering the urban renewal projects in Shenzhen, it would take much longer than expected to obtain approvals of the Urban Renewal Project proposal by the relevant governmental authorities in Shenzhen.

In view of the above, the Project Company had requested FNES to amend the terms of the Agreement regarding the deferral of the second and third installment payments of the cash compensation from on or before 31 December 2015 to on or before 30 September 2016.

On 2 April 2015, it was conditionally agreed in writing ("Supplemental Agreement") to defer the second and third installment payments subject to the approval of the shareholders of the Company. The Supplemental Agreement was approved by the shareholders at the annual general meeting of the Company held on 21 May 2015.

Details on the variation of the terms of the Urban Renewal Project were disclosed in the Company's circular dated 21 April 2015.

In 2016, the Project Company had requested FNES to agree to a further deferral of the third installment payment of the cash compensation on or before 30 September 2017.

On 13 April 2016, it was conditionally agreed in writing ("Second Supplemental Agreement") to defer the third installment payment subject to the approval of the shareholders of the Company. The Second Supplemental Agreement was approved by the shareholders at the special general meeting of the Company held on 25 May 2016.

Details on the further variation of the terms of the Urban Renewal Project were disclosed in the Company's circular dated 6 May 2016.

On 30 September 2016, FNES received the second installment of RMB100 million.

The Directors considered the first and second installments 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.

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

	2016	2015
	HK$'000	*HK$'000*
0 – 90 days	**110,406**	94,181
91 – 120 days	**24,621**	17,588
Over 120 days	**7,030**	10,609
	142,057	122,378

The average credit period on purchase of goods is 90 days (2015: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of 3.5 HK cents per share with a par value of HK$0.05 each, totalling approximately HK$38,508,000 in respect of the year to shareholders whose names appear on the register of members on 8 June 2017. The proposed final dividend for the year ended 31 December 2016 was approved at the Company's board meeting held on 27 March 2017. Details of the dividends for the year ended 31 December 2016 are set forth in Note 6 hereof.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Thursday, 25 May 2017 ("2017 AGM"), the register of members of the Company will be closed from Monday, 22 May 2017 to Thursday, 25 May 2017, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the 2017 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 May 2017.

Subject to the approval of the proposed final dividend at the 2017 AGM, the register of members of the Company will be closed from Monday, 5 June 2017 to Thursday, 8 June 2017, 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 Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 2 June 2017. Dividend warrants will be despatched on Friday, 23 June 2017.

CHAIRMAN'S STATEMENT

On behalf of the Board of CHTC Fong's Industries Company Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2016 (the "Year").

During the Year, the Group recorded consolidated revenue of approximately HK$3,126,000,000, representing a decrease of 3% as compared to approximately HK$3,223,000,000 in the corresponding period of last year. During the Year, profit attributable to owners of the Company was approximately HK$91,000,000 as compared to profit of approximately HK$166,000,000 (including the one-off investment gain of approximately HK$154,000,000 arising from disposal of the Group's entire 30% equity interest in Foshan East Asia Co., Ltd.（佛山東亞股份有限公司）) for last year. Basic earnings per share for the Year were 8.28 HK cents as compared to 15.05 HK cents for the last year. The Board recommended the payment of a final dividend of 3.5 HK cents per share for the year ended 31 December 2016.

Manufacture of dyeing and finishing machines business remains the core business of the Group, accounting for approximately 78% of the Group's consolidated revenue for the Year, while the manufacture of stainless steel casting products and trading of stainless steel supplies businesses accounted for approximately 13% and 9% of the Group's consolidated revenue for the Year respectively. During the Year, the global economy remained subdued and the market was exceptionally complicated and uncertain. Amid such backdrop, the manufacture of stainless steel casting products and trading of stainless steel supplies businesses recorded a decline in orders. However, through strategic adjustments and business enhancement with a two-pronged approach for broadening income sources and reducing costs, the manufacture of dyeing and finishing machines business managed growth in sales, which enhanced overall operational effectiveness and rendered an obvious improvement in operating profit. The Group will continue to proactively adjust its operating strategies and employ stringent controls over costs and cash flows, so as to reinforce its leading position in the market and achieve income and revenue growth.

In order to cater to the future development of the textile industry, the demand on automated production and the new trend of smart factory, the Group will continue to invest resources in enhancing the efficiency, as well as the functions of environmental protection, energy saving and automation of its dyeing and finishing machines so as to deliver premium products and create value for customers.

Looking into the upcoming year, the global economy remains uncertain and challenging. The Group is going through difficult times, but we have never failed to see the opportunities. The Group believes that China's 13th Five-Year Plan, "One Belt and One Road" initiative, "Made in China 2025" program and the recent launch of "Environment Protection and Energy Saving" requirement will push the manufacturing industry to upgrade and transform, which is likely to give rise to more investment and upgrading projects in both domestic and overseas markets, driving up the demand for our dyeing and finishing machines.

In view of the overall challenging environment, the Group will adhere to its strategy of achieving growth while maintaining stability. Meanwhile, more resources will be focused on strengthening our core business, optimising corporate structure, exploring and seeking synergic investment opportunities, with a view to laying a solid foundation for the Group's sound development in the long run.

As disclosed in the announcement of the Company dated 22 December 2016, on 22 December 2016, the Group entered into a strategic cooperative framework agreement with 北京萬侯環境技術開發有限公司 (transliterated as Beijing Wellhead Environmental Technology Development Co., Ltd.) ("Beijing Wellhead") in regards to the cooperation in the development of wastewater treatment business through developing, constructing and supplying wastewater treatment equipment together with related technical consultation services to the Group's customers in the textile dyeing and finishing industry. The Group believes that leveraging on the Group's solid marketing and sales network and Beijing Wellhead's technological strengths in wastewater treatment, the strategic cooperation will achieve win-win development.

As disclosed in the announcement of the Company dated 11 November 2016, on 10 November 2016, China Hi-Tech Group Corporation（中國恒天集團有限公司）("CHTC"), the controlling shareholder of the Company, signed a reorganisation framework agreement with China National Machinery Industry Corporation（中國機械工業集團有限公司）("SINOMACH"), pursuant to which, subject to the approval of the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China ("SASAC") and relevant regulatory authorities, SASAC will transfer its entire equity interest in CHTC to SINOMACH ("Proposed Reorganisation"). Therefore, upon completion of the Proposed Reorganisation, the Company will become a listed subsidiary of SINOMACH while CHTC will remain as an indirect controlling shareholder of the Company and SASAC will remain as the ultimate controlling shareholder of the Company. The Company will closely monitor the development of the Proposed Reorganisation and make further disclosure in due course. Subsequent to the Company repurchased certain of its shares in February 2017, CHTC is currently holding approximately 55.94% of the issued capital of the Company through its wholly-owned subsidiaries.

On behalf of the Board and the management team, I would like to take this opportunity to express my sincere gratitude to our customers, suppliers, bankers, business partners and shareholders for their continuing support and trust over years. I also wish to thank all of my fellow members of the Board and staff for their dedicated service and contributions to the business growth of the Group in the past year.

MANAGEMENT DISCUSSION AND ANALYSIS

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

The year 2016 was still full of challenges for the dyeing and finishing machine segment. As the Chinese economic growth has continued to slow down in recent years, the SMEs still suffered from financing difficulties. In addition, due to the rising operation cost in recent years and the weakening of Renminbi, some customers have become more conservative on investments in manufacturing equipment, resulting in reduced purchasing of dyeing and finishing machines. As to the overseas markets, the weakness of the Euro diminished the price competitiveness of the Group's products manufactured in the PRC when entering into the European market. Customers in emerging markets such as India, Brazil, Indonesia and Vietnam were prudent in investing in manufacturing equipment quoted in US dollars due to the substantial depreciation of currencies. Despite the unfavourable operating environment, our sales of dyeing and finishing machines managed to grow in the Year, thanks to the concerted efforts of the Group's operating team to increase promotions and improve the quality and competitiveness of our products.

For the year ended 31 December 2016, this business segment recorded revenue of approximately HK$2,432,000,000, accounting for 78% of the Group's revenue and representing an increase of 5% from approximately HK$2,326,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,136,000,000, representing a slight increase of 1% from approximately HK$1,126,000,000 recorded in the corresponding period of last year; while sales from overseas markets were approximately HK$1,296,000,000, representing an increase of 8% from approximately HK$1,200,000,000 in the corresponding period of last year. Operating profit increased by 217% to approximately HK$149,000,000 from approximately HK$47,000,000 in the corresponding period of last year.

This business segment witnessed growth in revenue, gross profit margin and profit during the Year. Such significant improvement in results was primarily due to reinforced market competitiveness and rebounded sales as our efforts in product enhancement and quality improvement during the past few years began to bear fruits and gain ground; continuous improvement in the Group's manufacturing process in recent years; the Group's efforts in enhancing raw material procurement and relatively stable prices of stainless steel as the major raw materials, which led to higher gross profit margin. All these proved that the approach for broadening income sources and reducing costs implemented by the management team has produced positive initial results.

The Group managed to register growth in sales against the subdued market environment, for which most credit was due to the new products introduced in recent years, i.e. the **SUPERWIN** High Temperature Package Dyeing Machines and the **DYECOWIN** High Temperature Dyeing Machines. These new models, which are more "environmental and energy efficient", helped solidify the Group's market share and generated widespread positive reviews from customers throughout different market segments. They also reinforced perception of the Group as a high-quality, high-tech brand and enhanced our customer confidence, thus helped to boost sales.

In order to cater to the future development of the textile industry, the demand on automated production and the new trend of smart factory, the Group will continue to invest resources in enhancing the efficiency, as well as the functions of environmental protection, energy saving and automation of its dyeing and finishing machines so as to deliver premium products and create value for customers.

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.

The Group will continue to streamline its organisational structure and business process to improve overall operating performance and productivity; maintain its commitment to employing stringent controls over supply chain costs and quality, while continuing to develop innovative products and improve service quality to create value for its customers; explore new markets and sales channels to expand the Group's customer base and the market share of its products, all in an effort to maintain leading position in the market and pave way for further business development.

As a leading textile machinery manufacturer, the Group not only dedicates to the dyeing and finishing machines sector, but also actively pursues business development along the whole industrial chain, especially in wastewater treatment. In 2007, the Group established its treated wastewater reuse business to develop treated wastewater reuse system and equipment for dyeing factories, which marked an effective move that complements the dyeing and finishing machinery business with energy saving and emission reduction. By doing so, the Group has set a benchmark for the industry by promoting environmental protection awareness among textile companies. As disclosed in the announcement of the Company dated 22 December 2016, on 22 December 2016, the Group entered into a strategic cooperative framework agreement with 北京萬侯環境技術開發有限公司 (transliterated as Beijing Wellhead Environmental Technology Development Co., Ltd.) ("Beijing Wellhead") in regards to the cooperation in the development of wastewater treatment business through developing, constructing and supplying wastewater treatment equipment together with related technical consultation services to the Group's customers in the textile dyeing and finishing industry. The Group believes that leveraging on the Group's solid marketing and sales network and Beijing Wellhead's technological strengths in wastewater treatment, the strategic cooperation will achieve win-win development.

Construction of Phase II of the new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province has progressed well and is scheduled to be completed in 2017. Upon full operation of the new plant, the Group's production capacity is expected to increase significantly. The new Zhongshan plant will be keen on energy conservation, production efficiency and high efficiency in the design of production processes and will apply more automated processes to reduce manpower requirement and labour costs.

At the meantime, Chinese government has launched various initiatives, including "One Belt and One Road" and "Made in China 2025", which would help drive technology transformation of traditional industries and the economic growth in the long run, while providing new opportunities to the Group's medium to long-term development. The Board believes that the Group has laid a solid foundation for its mission to "become a world-class manufacturer of dyeing and finishing machinery". By excelling ourselves and striving to provide more advanced, efficient, energy-saving and high-quality products and integrated solutions for our customers, we will seize various opportunities in a pragmatic manner to make the Group bigger and stronger.

TRADING OF STAINLESS STEEL SUPPLIES

Due to the overstocked inventories in the international markets and the overcapacity in the segment, stainless steel prices have been falling in recent years, which led to a relatively low gross profit margin from stainless steel distribution. Over the recent years, the Group has been cautious in its stainless steel trading business in order to reduce sales risk from fluctuations in stainless steel prices. For the year ended 31 December 2016, this business segment recorded revenue of approximately HK$290,000,000, accounting for 9% of the Group's revenue, representing a decrease of 23% as compared to approximately HK$377,000,000 for the corresponding period of last year. Operating profit for the period amounted to approximately HK$6,500,000 as compared to profit of approximately HK$2,600,000 for the corresponding period of last year.

In respect of trading of stainless steel supplies, the Group has established strong relationship with some global leading steel manufacturing companies since commencing the business in 1988. As such, it is able to provide a diverse range of reliable and high-quality stainless 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.

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.

The construction industry in Hong Kong is booming as more major infrastructure projects have commenced, which, coupled with the accelerated pace of urbanisation and infrastructure construction in the PRC, will provide opportunities for trading of stainless steel. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The Group will closely monitor and response to market changes to maintain steady growth in this business segment.

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 and natural gas and foods, with customers principally hailing from Europe, the United States and Japan.

During the Year, the market was exceptionally complicated and uncertain in light of global economic uncertainties brought by a plunge in oil price and the depreciation of Renminbi and Euro. As a result, we have witnessed a slowdown in the rolling out of infrastructure and oil and gas projects, resulting in a decline in sales of this business segment as compared to prior years. For the year 2016, this business segment recorded revenue of approximately HK$404,000,000, accounting for 13% of the Group's revenue and representing a decrease of 22% as compared to approximately HK$521,000,000 in the corresponding period of last year. Operating profit decreased to approximately HK$30,000,000 from approximately HK$47,000,000 in the corresponding period of last year.

The Group will continue to optimise cost control, improve workshops and the production processes of certain products, increase automated production equipment, reduce the scrappage rate of its products and enhance product quality, and develop new customers, with a view to laying a solid foundation for sustainable and healthy development of this business segment in preparation for the coming market rebound.

The Group believes that market demand for high-quality stainless steel casting products will continue to grow in the mid to long term. When the overall economic and market environment stabilises, this business segment will maintain steady revenue growth and make sustainable contribution to the Group's profit.

DISPOSAL OF MAJOR ASSETS

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 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. For details of the co-operation agreement, please refer to the Company's announcement dated 1 April 2014 and the Company's circulars dated 25 April 2014, 21 April 2015 and 6 May 2016. 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 total gross floor area of approximately 30,000㎡ (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 constituted 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 of RMB100 million in December 2014 and the second installment of cash compensation of RMB100 million in September 2016, and the third installment of cash compensation of RMB100 million will be received by the end of September 2017. The cash compensation received from the urban renewal project was partially used to 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 progressed well and is expected to complete by 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, optimise its industrial layout and logistics and increase the automation level of its factories, thus improve its overall cost competitiveness. Meanwhile, 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.

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

HUMAN RESOURCES

As at 31 December 2016, the Group had a total of approximately 4,300 employees (31 December 2015: approximately 4,400 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India and Central and South America. In 2016, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits scheme) amounted to approximately HK$729,000,000 (2015: approximately HK$732,000,000), accounting for 23% (2015: 23%) of our 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 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, retirement benefits scheme 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 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

Given continuously increasing cost pressure, the Group strictly implemented prudent cost and cash flow management. During the year, the Group met its funding requirements for its ordinary and normal course of business with 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 operation.

During the year ended 31 December 2016, the Group's net cash inflow from operating activities was approximately HK$567,000,000. As at 31 December 2016, the Group's inventory level decreased to approximately HK$573,000,000 as compared to approximately HK$649,000,000 as at 31 December 2015.

As at 31 December 2016, bank borrowings of the Group amounted to approximately HK$1,090,000,000. Most of the bank borrowings were sourced from Hong Kong, with 79% denominated in Hong Kong dollars and 21% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2016, the Group's bank balances and cash amounted to approximately HK$790,000,000, of which 50% was denominated in Renminbi, 24% in United States dollars, 19% in Hong Kong dollars, 6% in Euros and the remaining 1% in other currencies.

The Group continued to maintain prudent financial management policies during the year. As at 31 December 2016, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, declined to 22% (31 December 2015: 47%) and its current ratio was 0.99 (31 December 2015: 1.00). The Board considers these ratios to be at healthy and appropriate levels.

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Board of the Company recognises the importance of good corporate governance practices in enhancing the performance of the Company and its subsidiaries and balancing the interests of shareholders, customers and employees. The Board is committed to maintaining and ensuring a high standard of corporate governance practices.

Throughout the year ended 31 December 2016, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 2016.

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 2016. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed by the Group's auditor, Baker Tilly Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. 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 2016 will be despatched to the shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk as well as the website of the Company at www.fongs.com in due course.

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

Hong Kong, 27 March 2017

As at the date of this announcement, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Ji Xin (Chief Executive Officer) and Mr. Du Qianyi (Chief Financial Officer); the Non-executive Director is Mr. Fong Kwok Leung, Kevin; and the Independent Non-executive Directors are Mr. Ying Wei, Dr. Yuen Ming Fai and Mr. Li Jianxin.