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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)

## **CONTINUING CONNECTED TRANSACTION LICENCES AND COOPERATION AGREEMENT**

On 12 May 2017, Monforts Fong's, an indirect wholly-owned subsidiary of the Company, entered into the Licences and Cooperation Agreement with AUTEFA whereby AUTEFA has agreed to grant Monforts Fong's an exclusive and non-transferable licence to use and exploit the Technologies for the manufacture of the Product and also the right to sell the Product to customers outside the non-woven market worldwide. As part and parcel of the grant of the licence to use the Technologies, AUTEFA has agreed to grant Monforts Fong's a non-exclusive right of use of the trademark **STRAHM** in connection with the marketing and sale of the Product.

Being an indirect non-wholly owned subsidiary of the Parent Company, AUTEFA is a connected person of the Company. Accordingly, the transaction contemplated under the Licences and Cooperation Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

It is anticipated that the annual engineering fee payable by the Group to AUTEFA would not exceed 5% of the applicable percentage ratios or HK\$10 million basing on (i) the forecast sales revenue; (ii) the production capacity of Monforts Fong's; and (iii) the expected market demand during the terms of the Licences and Cooperation Agreement. Accordingly, the continuing connected transaction contemplated under the Licences and Cooperation Agreement is subject to the reporting, announcement and annual review requirements and is exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

## **LICENCES AND COOPERATION AGREEMENT**

On 12 May 2017, Monforts Fong's, an indirect wholly-owned subsidiary of the Company, entered into the Licences and Cooperation Agreement with AUTEFA. The principal terms of the Licences and Cooperation Agreement are summarised below.

### **Date of the Licences and Cooperation Agreement**

12 May 2017

### **Parties**

- (1) AUTEFA as licensor and technology provider, a connected person of the Company as further explained below; and
- (2) Monforts Fong's as licensee, an indirect wholly-owned subsidiary of the Company

### **Subject matters**

Under the Licences and Cooperation Agreement:

- (1) AUTEFA has agreed to grant Monforts Fong's an exclusive and non-transferable licence to use and exploit the Technologies for the manufacture of the Product at the production plant of Monforts Fong's in the PRC and also the right to sell the Product to customers outside the non-woven market worldwide. AUTEFA is reserved with the right to use the Technologies for the manufacture and distribution of machinery for non-woven products and sell it worldwide.
- (2) For the purpose of enabling Monforts Fong's to pilot and master the Technologies in the manufacture of the Product, AUTEFA is to provide Monforts Fong's with:
  - (i) technical training in Switzerland on, among other matters, the preliminary manufacturing transition and transfer of the skill for the implementation of the Technologies and the trial run of a sample Product for a maximum period of four weeks;

- (ii) on-site technical service through qualified engineers and specialists on, among other matters, the application of the Technologies; formulation of pilot tests; inspection, installation and commissioning of the first set of the Product manufactured in the PRC and fine tuning of any of these aspects for a period of one week; and
  - (iii) free modification and/or improvement of the Technologies if the Technologies are not applicable to Monforts Fong's actual production conditions and do not comply with the technical specifications and requirements agreed by the parties. Any future modification and improvement requested by Monforts Fong's, after the confirmation of acceptance of the Technologies, shall be subject to the payment of a development engineering fee on the basis of hourly rates set forth in the schedule of the Licences and Cooperation Agreement.
- (3) As part and parcel of the grant of the licence to use the Technologies, AUTEFA has agreed to grant Monforts Fong's a non-exclusive right of use of the trademark **STRAHM** in connection with the marketing and sale of the Product.

### **Consideration and payment terms**

- (1) In consideration of the provision of engineering services by AUTEFA, including but not limited to the granting of licenses and the provision of preliminary manufacturing transition, technical support and training, Monforts Fong's shall pay to AUTEFA the following engineering fees:
- (i) A one-off initial engineering fee in the sum of Euro 150,000 (approximately HK\$1,268,000), of which:
    - (a) Euro 75,000 (equivalent to 50% of the initial engineering fee) had been paid upon signing of the Licences and Cooperation Agreement;

- (b) Euro 45,000 (equivalent to 30% of the initial engineering fee) will be payable before the handover of all the documentation in relation to the Technologies and the commencement of the trial manufacturing of the first set of the Product under the guidance of AUTEFA; and
  - (c) Euro 30,000 (equivalent to 20% of the initial engineering fee) will be payable within 30 days after (i) the acceptance by the customer in respect of the first Product sold by Monforts Fong's or its Affiliate; or (ii) 18 months from the date of signing of the Licences and Cooperation Agreement, whichever is earlier (the "**Starting Date**").
- (ii) A project engineering fee equivalent to 3% of the ex-works sales price of the Product sold by Monforts Fong's or its Affiliates with a minimum annual amount of Euro 50,000 during the period of eight years commencing from the Starting Date. Thereafter, Monforts Fong's shall be entitled to use the Technologies for the production of the Product without any further payment of the project engineering fee to AUTEFA.

The rate of project engineering fee will be increased from 3% to 3.5% if it is proved that AUTEFA's other technology namely "ENREC technology" can be applied to the stenter of Monforts Fong's enabling the stenter to have a minimum of 10% energy saving in commercial operations.

The project engineering fee shall be charged on a monthly basis after the conclusion of a sales contract of the Product and receipt of payment in full from the relevant customer by Monforts Fong's and payable within 15 days from the end of each calendar month.

- (iii) A development engineering fee to be charged on a time-cost basis and at the hourly rates set forth in the schedule of the Licences and Cooperation Agreement if AUTEFA is requested to perform any future modification and improvement to the Technologies by Monforts Fong's.

- (2) Monforts Fong's is allowed to use the trademark **STRAHM** in connection with the marketing and sale of the Product free of charge for a period of eight years. Thereafter, if Monforts Fong's continues the usage of the trademark **STRAHM** in the Product, Monforts Fong's will be required to pay AUTEFA a royalty fee calculated at 1% of the ex-works sales price of the Product sold by Monforts Fong's or its Affiliates. The royalty fee shall be charged on a monthly basis after the conclusion of a sales contract of the Product and receipt of payment in full from the relevant customer by Monforts Fong's and payable within 15 days from the end of each calendar month. The payment of such royalty fee will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules and when required, the Company will comply with the relevant requirements under the Listing Rules in relation to such transaction when its obligation to pay such royalty fee arises.

### **Indemnification**

AUTEFA warrants that it or its Affiliate(s) is the owner or licensee of the Technologies and the trademark **STRAHM** and has undertaken that none of the trademark **STRAHM** and the Technologies applied and used in the Product infringes or has infringed the intellectual property rights of any other third parties.

AUTEFA has agreed to indemnify Monforts Fong's for any claims and liabilities arising from any infringement of any third party intellectual property rights resulting from the usage of the Technologies and the trademark **STRAHM** by Monforts Fong's or its Affiliates due to the fault of AUTEFA up to a maximum amount of Euro 50,000 (approximately HK\$423,000).

Monforts Fong's has agreed to indemnify AUTEFA for any claims and liabilities arising from any defect in or failure of any Product manufactured by Monforts Fong's resulting from defaulted workmanship up to a maximum amount of Euro 50,000 (approximately HK\$423,000).

## **Termination**

- (1) Either party may, by serving a 12-month notice effective as at the end of any calendar month upon delivery in writing, terminate the Licences and Cooperation Agreement if:
  - (a) there is violation of any provisions of the Licences and Cooperation Agreement by the other party; or
  - (b) the other party becomes bankrupt, insolvent or cannot pay its debts when due.
- (2) The Licences and Cooperation Agreement will be terminated forthwith upon the happening of the following events:
  - (a) Monforts Fong's fails to pay any engineering fee for more than 60 days and remedy the breach within 30 days of receiving written notice requesting remedy of such breach by AUTEFA; or
  - (b) if the annual amount comprising the engineering fees and royalty fee exceeds 5% of the applicable percentage ratios, the Licences and Cooperation Agreement becomes conditional on the independent shareholders' approval at a general meeting of the Company in accordance with Rule 14A.36 of the Listing Rules, but the Licences and Cooperation Agreement and the transaction thereunder is not approved by the independent shareholders at the general meeting of the Company.

## **INFORMATION OF THE PARTIES**

The Company acts as an investment holding company and the Group is principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products. Monforts Fong's is an indirect wholly-owned subsidiary of the Company and principally engaged in the manufacture and trading of textile machinery.

The Parent Company is the controlling shareholder of the Company holding approximately 55.94% of the issued share capital of the Company as at the date of this announcement.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, AUTEFA is a company incorporated in Switzerland and a world renowned manufacturer principally engaged in the design, manufacture and trading of machines for nonwovens manufacturing and equipment for thermobonding, drying, cutting, winding and festooning technology.

AUTEFA is owned as to approximately 95.88% by the Parent Company and an indirect non-wholly owned subsidiary of the Parent Company. Therefore, AUTEFA is an associate of the Parent Company and hence a connected person of the Company under Chapter 14A of the Listing Rules.

## **REASONS FOR ENTERING INTO THE LICENCES AND COOPERATION AGREEMENT**

The Group's business strategy is to explore opportunities to enrich and diversify its product portfolio and leverage on its existing marketing infrastructure to enhance its operational efficiency. The Board believes that there will be a potential synergy effect of the Product with the Group's dyeing and finishing machinery products and the Group's technology level would be further enhanced. In addition, the Technologies will help Monforts Fong's in manufacturing high-end textile drying machines and the ability to sell high-end textile drying machines is a quality business with growing potential, which is beneficial to the business of Monforts Fong's and aligns with the Group's business strategy.

Also, considering the costs and resources required to be devoted in carrying out research and development of the Product if the Group were to develop the technologies, techniques, formulae and know-how from scratch on its own, and given that the Group has the production facilities and marketing infrastructure on hand for manufacturing and selling the Product, the Board believes that the licensing of the Technologies represents a good opportunities for the Group to enrich its product portfolio in a fast pace so that the Group could launch the Product for sale in short term to generate revenue while at the same time it could better concentrate its resources and efforts in production and marketing of products.

The trademark **STRAHM** is a well-known and famous brand in the textile machinery industry. The Group believes that the usage of the trademark **STRAHM**, which has an established goodwill, will promote its sales and enhance its market position in the textile machinery market.

The Directors (including the Independent Non-executive Directors) are of the opinion that the terms of the Licences and Cooperation Agreement are made at arm's length negotiation and represent normal commercial terms which are no less favourable to the Group than terms available to independent third parties and are fair and reasonable, and that the transaction thereunder is entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders of the Company as a whole.

None of the Directors has a material interest in the Licences and Cooperation Agreement. Accordingly, none of them is required to abstain from voting on the relevant board resolutions to approve the Licences and Cooperation Agreement and the annual cap of the transaction contemplated thereunder under the bye-laws of the Company or the Listing Rules.

### **ADVICE FROM INDEPENDENT FINANCIAL ADVISER**

As it is contemplated that the Licences and Cooperation Agreement will continue for more than three years, BOSC International has been appointed as the independent financial adviser to advise the Company on the term of the Licences and Cooperation Agreement.

BOSC International, based on the discussion with the management of the Company, noted that the long duration of the Licences and Cooperation Agreement is commercially essential and beneficial to the business of Monforts Fong's after taking into account (i) a long-term and exclusive contractual relationship with the licensor and technology provider for the Technologies will help Monforts Fong's to secure a smooth operation in manufacturing and selling high-end textile drying machines (including the Product using the Technologies); (ii) the expected capital to be invested by Monforts Fong's for implementing the Technologies for manufacturing the Product; and (iii) the expected timeframe to be required by Monforts Fong's to build up its customer base for the Product.

To assess whether or not it is normal business practice for agreements of the type of the Licences and Cooperation Agreement to be of such duration, BOSC International has identified five comparable transactions (the "**Comparable Transactions**") involving the entering into of technology transfer and licensing arrangements by companies whose shares are listed on the Main Board of the Stock Exchange and noted that the term of the technology transfer and licensing agreements involved in the Comparable Transactions exceeded three years with a range from 10 to 20 years. And thus, BOSC International confirms that it is normal business practice for the Licenses and Cooperation Agreement to be of such long duration which exceeds three years.



## **IMPLICATIONS UNDER THE LISTING RULES**

Being an indirect non-wholly owned subsidiary of the Parent Company, AUTEFA is a connected person of the Company. Accordingly, the transaction contemplated under the Licences and Cooperation Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

It is anticipated that the annual engineering fee payable by the Group to AUTEFA would not exceed 5% of the applicable percentage ratios or HK\$10 million basing on (i) the forecast sales revenue; (ii) the production capacity of Monforts Fong's; and (iii) the expected market demand during the terms of the Licences and Cooperation Agreement. Accordingly, the continuing connected transaction contemplated under the Licences and Cooperation Agreement is subject to the reporting, announcement and annual review requirements and is exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

In the event that if the annual cap is likely to exceed 5% of the applicable percentage ratios during the terms of the Licences and Cooperation Agreement, the Company will ensure compliance in accordance with Rule 14A.36 of the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Affiliate(s)”	any company or entity which, directly or indirectly, controls, is controlled by, or is under common control with, such party or person, where “control” means the direct or indirect possession of the power to direct or cause the direction of the management and policies of an entity, whether by voting rights, contract or otherwise or the direct or indirect beneficial or legal ownership of 50% or more of the voting rights, share capital or equity of an entity
“associate”	has the meaning ascribed to it under the Listing Rules
“AUTEFA”	Autefa Solutions Switzerland AG, a company established under the laws of Switzerland, which is owned as to approximately 95.88% equity interest by the Parent Company and an indirect non-wholly owned subsidiary of the Parent Company
“Board”	the board of Directors
“BOSC International”	BOSC International Company Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, being the independent financial adviser to the Company in relation to the term of the Licences and Cooperation Agreement
“Company”	CHTC Fong’s Industries Company Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board
“connected person”	has the meaning ascribed to it under the Listing Rules

“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Euro”	the lawful currency of the European Community
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Licences and Cooperation Agreement”	the licences and cooperation agreement dated 12 May 2017 entered into between AUTEFA and Monforts Fong’s whereby, inter alia, AUTEFA has agreed to provide necessary technology and know-how in relation to the production of the Products to Monforts Fong’s, details of which are set out in the section headed “LICENCES AND COOPERATION AGREEMENT”
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“Monforts Fong’s”	Monforts Fong’s Textile Machinery Co. Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Parent Company”	China Hi-Tech Group Corporation (中國恒天集團有限公司)
“percent ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China

“Product”	the HiPer Shrink Relaxation Dryer manufactured using the Technologies supplied to Monforts Fong’s by AUTEFA
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Technologies”	Collectively, all the know-how, patents, copyright works, manufacturing techniques and quality standards necessary for the production of the Product
“%”	per cent

In this announcement, unless otherwise specified, Euro has been converted into HK\$ at the exchange rate of Euro 1: HK\$8.45 for illustrative purpose only. Such conversion shall not be construed as representations that amount of Euro was or could have been converted into HK\$ at such rate or any other exchange rates.

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

Hong Kong, 12 May 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.*