CHTC FONG'S INTERNATIONAL COMPANY LIMITED
中國恒天立信國際有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 641)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the "Board") of CHTC Fong's International 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 2017 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 2017

	Note	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*2*	**3,403,822**	3,125,687
Cost of sales		**(2,194,128)**	(2,020,979)
Gross profit		**1,209,694**	1,104,708
Interest income		**13,581**	2,206
Other income		**32,632**	19,603
Other gains (losses)		**22,946**	(8,031)
Selling and distribution costs		**(288,152)**	(270,267)
Administrative and other expenses		**(602,631)**	(660,407)
Finance costs	*3*	**(37,274)**	(36,699)
Share of results of an associate		**(4)**	–
Profit before tax		**350,792**	151,113
Income tax expense	*4*	**(67,704)**	(59,824)
Profit for the year		**283,088**	91,289

	Note	**2017** HK$'000	2016 HK$'000
Other comprehensive income (expense), net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**90,446**	(99,283)
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary		**(6,991)**	–
		83,455	(99,283)
Item that will not be reclassified to profit or loss:			
Remeasurement gain (loss) on defined benefit plan		**1,092**	(2,954)
Other comprehensive income (expense) for the year		**84,547**	(102,237)
Total comprehensive income (expense) for the year		**367,635**	(10,948)
Profit for the year attributable to:			
Owners of the Company		**281,263**	91,289
Non-controlling interests		**1,825**	–
		283,088	91,289
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**365,810**	(10,948)
Non-controlling interests		**1,825**	–
		367,635	(10,948)
Earnings per share			
Basic	*5(a)*	**25.56 HK cents**	8.28 HK cents
Diluted	*5(b)*	**25.52 HK cents**	8.28 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**956,735**	660,497
Prepaid lease payments		**226,101**	218,196
Goodwill		**538,050**	533,515
Intangible assets		**261,590**	101,651
Available-for-sale financial assets		**186,332**	174,640
Investment in an associate		**29,718**	–
Deposits for acquisition of property, plant and equipment		**47,484**	5,415
Deposits for acquisition of leasehold land		**7,702**	7,219
Deferred tax assets		**20,482**	10,665
		2,274,194	1,711,798
Current assets			
Inventories		**750,830**	572,992
Trade and other receivables	*7*	**664,125**	442,076
Prepaid lease payments		**5,473**	5,159
Tax recoverable		**3,290**	138
Cash and cash equivalents		**573,198**	790,259
		1,996,916	1,810,624
Current liabilities			
Trade and other payables	*8*	**959,972**	785,507
Warranty provision		**15,963**	16,287
Tax liabilities		**31,758**	25,202
Borrowings		**1,060,887**	1,009,638
		2,068,580	1,836,634
Net current liabilities		**(71,664)**	(26,010)
Total assets less current liabilities		**2,202,530**	1,685,788

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Borrowings		**100,000**	80,000
Deferred revenue		**40,115**	25,757
Deferred tax liabilities		**54,820**	23,701
Other payable	*8*	**356,004**	222,236
		550,939	351,694
Net assets		**1,651,591**	1,334,094
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital		**55,011**	55,145
Share premium and reserves		**1,575,518**	1,278,949
		1,630,529	1,334,094
Non-controlling interests		**21,062**	–
Total equity		**1,651,591**	1,334,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs (2014-2016)	Amendments to HKFRS 12

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective for the year ended 31 December 2017:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Annual Improvements to HKFRSs (2014-2016)	Amendments to HKFRS 1 and HKAS 28[1]

[1] *Effective for annual periods beginning on or after 1 January 2018*

[2] *Effective for annual periods beginning on or after 1 January 2019*

[3] *Effective for annual periods beginning on or after 1 January 2021*

[4] *Effective for annual periods beginning on or after a date to be determined*

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
4. Provision of environmental protection services

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 2017

	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$'000*	Provision of environmental protection services *HK$'000*	Total *HK$'000*
REVENUE					
External sales	**2,669,616**	**305,023**	**425,737**	**3,446**	**3,403,822**
Inter-segment sales	**145**	**228,785**	**35,541**	**–**	**264,471**
Segment revenue	**2,669,761**	**533,808**	**461,278**	**3,446**	**3,668,293**
Elimination					**(264,471)**
Group revenue					**3,403,822**
Segment profit	**299,678**	**13,731**	**56,457**	**4,623**	**374,489**
Interest income					**13,581**
Finance costs					**(37,274)**
Share of results of an associate					**(4)**
Profit before tax					**350,792**

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	Provision of environmental protection services	Total
	HK$'000	*HK$'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

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	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**1,420,080**	1,162,061	**1,855,852**	1,346,909
Hong Kong	**301,812**	347,705	**6,414**	7,859
Asia Pacific (other than the PRC and Hong Kong)	**921,184**	926,459	**96**	117
Europe	**437,694**	384,108	**175,300**	171,604
North and South America	**210,160**	201,840	**–**	4
Others	**112,892**	103,514	**–**	–
	3,403,822	3,125,687	**2,037,662**	1,526,493

Non-current assets excluded investment in an associate, 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 2017 and 2016.

3 FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on borrowings	**34,724**	31,759
Less: Interest capitalised	**(5,589)**	(5,905)
	29,135	25,854
Bank charges	**8,139**	10,845
	37,274	36,699

Finance costs on funds borrowed generally are capitalised at a rate ranging from 2.25% to 4.25% (2016: 2.78% to 4.25%) per annum.

4 INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**9,865**	9,837
(Over) under-provision in prior years	**(270)**	23
PRC Corporate Income Tax:		
Current year	**49,104**	36,848
Over-provision in prior years	**(5,825)**	(113)
Overseas income tax:		
Current year	**1,180**	2,128
Under-provision in prior years	**1,036**	2,630
	55,090	51,353
Deferred tax:		
Current year	**12,614**	8,471
	67,704	59,824

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% 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%.

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:

	2017	2016
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**281,263**	91,289
	'000	*'000*
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**1,102,892**	1,102,892
Effect of repurchase of shares	**(2,293)**	–
Weighted average number of ordinary shares at 31 December	**1,100,599**	1,102,892

(b) Diluted earnings per share

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

	2017	2016
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of diluted earnings per share	**281,263**	91,289
	'000	*'000*
Weighted average number of ordinary shares in issue for the purpose of calculation of basic earnings per share	**1,100,599**	1,102,892
Effect of diluted potential ordinary shares as a result of the share options granted (*Note*)	**1,716**	–
Weighted average number of ordinary shares in issue for the purpose of calculation of diluted earnings per share	**1,102,315**	1,102,892

Note:

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 year ended 31 December 2016. The computation of diluted earnings per share for the year ended 31 December 2016 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

	2017	2016
	HK$'000	*HK$'000*
Proposed final dividend:		
8 HK cents (2016: 3.5 HK cents) per share	**88,017**	38,508
Interim dividend:		
3 HK cents (2016: Nil) per share	**33,006**	–
	121,023	38,508

The final dividend in respect of the year ended 31 December 2017 of 8 HK cents (2016: 3.5 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.

The interim dividend in respect of the year ended 31 December 2017 of 3 HK cents (2016: Nil) per share has been paid during the year.

7 TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**359,744**	264,487
Less: Allowance for doubtful debts	**(8,719)**	(8,708)
	351,025	255,779
Bills receivable	**144,991**	83,086
	496,016	338,865
Other receivables	**168,109**	103,211
Total trade and other receivables	**664,125**	442,076

The Group allows an average credit period of 60 days (2016: 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:

	2017	2016
	HK$'000	*HK$'000*
0 – 60 days	**275,731**	199,516
61 – 90 days	**51,720**	40,711
Over 90 days	**23,574**	15,552
	351,025	255,779

8 TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**255,915**	142,057
Receipts in advance	**279,034**	234,171
Amount due to ultimate holding company *(Note i)*	**4,518**	2,451
Other payables and accrued charges	**776,509**	629,064
	1,315,976	1,007,743
Amount due after one year included under non-current liabilities *(Note ii)*	**(356,004)**	(222,236)
	959,972	785,507

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 (the "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 and 29 September 2017, FNES received the second and third installment payments of RMB100 million each respectively.

The Directors considered the installments received 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:

	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**213,368**	110,406
91 – 120 days	**15,617**	24,621
Over 120 days	**26,930**	7,030
	255,915	142,057

The average credit period on purchase of goods is 90 days (2016: 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 8 HK cents per share, totalling approximately HK$88,017,000 in respect of the year to shareholders whose names appear on the register of members of the Company on 8 June 2018. The proposed final dividend for the year ended 31 December 2017 was approved at the Company's board meeting held on 23 March 2018. Details of the dividends for the year ended 31 December 2017 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 Friday, 25 May 2018 ("2018 AGM"), the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, 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 2018 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, 18 May 2018.

Subject to the approval of the proposed final dividend at the 2018 AGM, the register of members of the Company will be closed from Monday, 4 June 2018 to Friday, 8 June 2018, 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, 1 June 2018. Dividend warrants will be despatched on Friday, 22 June 2018.

CHAIRMAN'S STATEMENT

For the year ended 31 December 2017, the Group recorded consolidated revenue of approximately HK$3,404,000,000 (2016: HK$3,126,000,000), representing an increase of 9% over last year. Profit attributable to owners of the Company was approximately HK$281,000,000 (2016: HK$91,000,000), representing an increase of 209% over last year. Basic earnings per share for the year was 25.56 HK cents as compared to 8.28 HK cents for last year. The Board recommended the payment of a final dividend of 8 HK cents per share for the year ended 31 December 2017.

During the year, all business segments of the Group achieved steady growth in terms of turnover, profit and sales volume of products. The manufacture of dyeing and finishing machines business remains the core business of the Group, accounting for 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 13% and 9% of the Group's consolidated revenue for the year respectively. During the year, the Chinese economy has continued to maintain its rising trend at a stable pace, and major economies around the world showed broad-based improvements, especially accelerating recovery in some developing countries. All these positive trends helped propel the Group's performance to achieve its expected growth target. Meanwhile, 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 enhance its overall profitability.

The implementation of the "One Belt One Road" initiative lays out the future direction for China's economic development and will have significant positive impact on the steady growth of both Eurasia and China. Furthermore with the "Made in China 2025" initiative launched by the Central Government, the manufacturing industry will be actuated 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.

The Group will adhere to its strategy of achieving growth while maintaining stability. Meanwhile, continued efforts will be made on strengthening our core businesses, streamlining our 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. In order to grow its business portfolio, the Group acquired 51% of equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") during the year. CSCE is a private company established in the PRC and principally engages in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling and innocuous treatment, municipal solid waste incineration power generation, municipal sewage sludge treatment and high concentration organic wastewater treatment projects, etc.). This acquisition is an unrivalled opportunity for the Group to expand its business scope by participating in the fast growing environmental waste treatment industry in China. The acquisition would bring income to the Group to further enhance the Group's overall profitability and yield prosperous returns to our shareholders.

As stated in the announcement of the Company dated 7 February 2018, the name of the Company has been changed from "CHTC Fong's Industries Company Limited 恒天立信工業有限公司" to "CHTC Fong's International Company Limited 中國恒天立信國際有限公司" with effect from 29 December 2017. The new company name better reflects the Group's business strategy to become an international corporation.

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. It was noted that the Proposed Reorganisation has been approved by SASAC and the registration procedure of the equity transfer is currently in progress. The Company will closely monitor the development of the Proposed Reorganisation and make further disclosure in due course. CHTC is currently holding approximately 55.94% of the issued capital of the Company through its wholly-owned subsidiaries.

On behalf of the Board, I would like to express my appreciation to all our shareholders, customers, suppliers, banks and business partners for their continued support and confidence in the Group. I would also like to thank our management team and staff for their efforts and significant contributions in the past year and in the years to come.

MANAGEMENT DISCUSSION AND ANALYSIS

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

Riding on the recovering global economy in 2017, coupled with the concerted efforts of the Group's operating team to strengthen the marketing forces and improve the performance price ratio of our products, the dyeing and finishing machines business achieved satisfactory results with growth in both sales volume and operating profit. For the year ended 31 December 2017, this business segment recorded revenue of approximately HK$2,669,000,000, accounting for 78% of the Group's revenue and representing an increase of 10% from approximately HK$2,432,000,000 of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,343,000,000, representing an increase of 18% from approximately HK$1,136,000,000 of last year; while sales from overseas markets were approximately HK$1,326,000,000, representing an increase of 2% from approximately HK$1,296,000,000 of last year. Operating profit increased by 101% to approximately HK$300,000,000 from approximately HK$149,000,000 of last year.

Such significant improvement in results during the year was primarily due to the proactive launch of innovative products by the Group in the past, while our efforts in product enhancement and quality improvement began to bear fruits and gain ground, resulting in reinforced market competitiveness and increased revenue. In addition, the Group has continuously improved its production processes in recent years, and endeavoured to optimise its raw material purchase, which along with relatively stable prices of stainless steel as the major raw materials, led to higher gross profit margin.

The Group has successfully launched numerous new dyeing and finishing machines in recent years, including DYECOWIN High Temperature Dyeing Machine, JUMBOTEC High Temperature Dyeing Machine, SUPERWIN High Temperature Package Dyeing Machine, SINTENSA CYCLONE TANDEM High Efficiency Washing Compartment, MONTEX 6500 Stenter Frame Range, MONFORTEX 8000 Shrinking Range and TIMATEC coating technology, etc. These new models and technologies, which are more environmentally friendly and energy efficient, helped solidify the Group's market share and have received high recognition from the customers. They also reinforced perception of the Group as a high-quality, leading technology brand and enhanced our customer confidence, thus helped to boost sales. 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 will continue 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 so as to maintain its competitiveness.

In order to cater to the future development of the textile industry, the demand on automated production and the new trend of smart factories, 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 provide innovative products and solutions of energy conservation and environment protection to customers, thus creating more value. In mid-2017, the Group signed a strategic cooperation agreement with Yantai Yelin Textile Printing & Dyeing Co., Ltd. (煙臺業林紡織印染有限責任公司) to form a joint venture company in Yantai. The joint venture company will engage in printing, dyeing and finishing of high-end fabrics by developing the most advanced automatic printing and dyeing production line in the PRC with the new automatic printing and dyeing solution of the Group. The concept of automatic printing and dyeing production line has been listed as one of the typical fields of national intelligent manufacturing enterprises by the Ministry of Industry and Information Technology. The joint venture company will become the first demonstration enterprise, where the Group will be able to showcase its automatic production solution on printing and dyeing to customers.

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; and 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.

Looking forward, Chinese government has proactively launched various reforming and innovative initiatives in recent years to promote requirements on "Environment Protection and Energy Saving" as well as to encourage technological transformation and upgrading in traditional industries. At the meantime, policies including the "One Belt One Road" and "Made in China 2025" initiatives have been implemented to drive economic growth. Those policies will have a positive effect on economic growth in the long run, and also provide new opportunities for 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 continuously broaden product offerings for our customers, we will use our best endeavour to increase our market share and make the Group bigger and stronger. In addition, the Group will continue to pursue its strategy of making advancement in stable operation and actively explore and identify investment opportunities with synergistic effects so as to lay a solid foundation for the Group in achieving long-term and healthy development.

The new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province is expected to start operations in phases. Upon full operation of the new plant, the Group's production capacity is expected to increase significantly. The new 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.

TRADING OF STAINLESS STEEL SUPPLIES

Driven by improved market demand and the inventory level remaining at a historical low, the stainless steel price has begun a steady rise since the beginning of 2017, and the gross profit margin from stainless steel distribution also experienced an increase. For the year ended 31 December 2017, this business segment recorded revenue of approximately HK$305,000,000, accounting for 9% of the Group's revenue, representing an increase of 5% as compared to approximately HK$290,000,000 of last year. Operating profit for the year amounted to approximately HK$14,000,000 as compared to profit of approximately HK$7,000,000 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 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.

Looking into 2018, the price of stainless steel is expected to remain stable with slight fluctuations. 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.

For the year 2017, this business segment recorded revenue of approximately HK$426,000,000, accounting for 13% of the Group's revenue and representing an increase of 5% as compared to approximately HK$404,000,000 of last year. Operating profit increased to approximately HK$56,000,000 from approximately HK$30,000,000 of last year. This business segment reported satisfactory performance as a whole and the results were in line with the targets.

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.

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

NEW BUSINESS SEGMENT – ENVIRONMENTAL PROTECTION SERVICES

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 operation where we develop, construct and provide wastewater treatment equipment for our customers in dyeing and finishing industry and provide them with relevant technical consultancy services.

Furthermore, in order to broaden its income streams, the Group entered into an equity transfer agreement with an independent third party for the acquisition of 41% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") at a consideration of RMB16,605,000 in August 2017. Subsequently in October 2017, the Group acquired additional 10% equity interest in CSCE at a consideration of RMB4,050,000. Both acquisitions were completed on 27 October 2017, whereby CSCE became a 51% non-wholly owned subsidiary of the Group. CSCE is a private company established in the PRC and principally engages in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling and innocuous treatment, municipal solid waste incineration power generation, municipal sewage sludge treatment and high concentration organic wastewater treatment projects, etc.). With years of experience, CSCE has gained the relevant expertise in environmental protection and has obtained necessary licenses from the PRC authorities to operate the approved projects.

The Board considered that this acquisition was an unrivalled opportunity for the Group to expand its business scope by participating in the fast growing environmental waste treatment operation in China. The acquisition would also bring the Group additional income for further enhancement of the Group's results performance. Moving forward, the Group will continue to explore potential investment opportunities to expand this business.

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. Further details of the co-operation agreement were disclosed in 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, the second installment of cash compensation of RMB100 million in September 2016, and the third installment of cash compensation of RMB100 million in 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). The new Zhongshan plant is expected to start operations in phases. 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 2017, the Group had a total of approximately 4,500 employees (31 December 2016: approximately 4,300 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2017, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits scheme) amounted to approximately HK$745,000,000 (2016: approximately HK$729,000,000), accounting for 22% (2016: 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 2017, the Group's net cash inflow from operating activities was approximately HK$54,000,000. As at 31 December 2017, the Group's inventory level increased to approximately HK$751,000,000 as compared to approximately HK$573,000,000 as at 31 December 2016.

As at 31 December 2017, bank borrowings of the Group amounted to approximately HK$1,161,000,000. Most of the bank borrowings were sourced from Hong Kong, with 94% denominated in Hong Kong dollars and 6% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2017, the Group's bank balances and cash amounted to approximately HK$573,000,000, of which 62% was denominated in Renminbi, 15% in Hong Kong dollars, 11% in Euros, 10% in United States dollars and the remaining 2% in other currencies.

The Group continued to maintain prudent financial management policies during the year. As at 31 December 2017, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 36% (31 December 2016: 22%) and its current ratio was 0.97 (31 December 2016: 0.99). 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

During the year ended 31 December 2017, the Company purchased certain of its ordinary shares on the Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price by share Highest	Price by share Lowest	Total price paid
		HK$	*HK$*	*HK$*
February 2017	2,676,000	1.99	1.88	5,273,280

The issued share capital of the Company was reduced by the par value thereof. The premium paid on the purchases of the Company's shares of HK$5,139,480 has been charged to the share premium account of the Company. An amount of HK$133,800 equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve. The purchase of the Company's shares was effected by the Directors pursuant to the mandate from shareholders received at the annual general meeting of the Company held on 25 May 2016.

Save as disclosed above, 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 2017.

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 2017, 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 2017.

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 2017. 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 2017 as set out in this announcement have been agreed by the Group's auditor, PKF Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PKF 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 PKF Hong Kong Limited on the preliminary announcement.

ANNUAL REPORT

The Annual Report for the year ended 31 December 2017 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 International Company Limited
Ye Maoxin
Chairman

Hong Kong, 23 March 2018

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.