**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 2018

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 2018 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 2018*

| | *Note* | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|---|
| Revenue | *2* | **3,472,497** | 3,403,822 |
| Cost of sales | | **(2,369,420)** | (2,194,128) |
| Gross profit | | **1,103,077** | 1,209,694 |
| Interest income | | **9,577** | 13,581 |
| Other income | | **26,060** | 32,632 |
| Other (losses) gains | | **(11,837)** | 22,946 |
| Selling and distribution costs | | **(299,628)** | (288,152) |
| Administrative and other expenses | | **(611,593)** | (602,631) |
| Finance costs | *3* | **(42,401)** | (37,274) |
| Share of results of an associate | | **(72)** | (4) |
| Impairment loss on goodwill | | **(4,535)** | – |
| Impairment loss on intangible assets | | **(14,837)** | – |
| Profit before tax | | **153,811** | 350,792 |
| Income tax expense | *4* | **(29,189)** | (67,704) |
| Profit for the year | | **124,622** | 283,088 |

| | Note | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Other comprehensive (expense) income, net of tax** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange difference arising on translation | | **(68,776)** | 90,446 |
| Exchange difference reclassified to profit or loss upon deregistration of a subsidiary | | **(920)** | (6,991) |
| Share of translation reserve of an associate | | **(1,196)** | – |
| | | **(70,892)** | 83,455 |
| *Items that will not be reclassified to profit or loss:* | | | |
| Remeasurement gain on defined benefit plan | | **253** | 1,092 |
| Fair value loss on financial assets at fair value through other comprehensive income | | **(13,713)** | – |
| | | **(13,460)** | 1,092 |
| Other comprehensive (expense) income for the year | | **(84,352)** | 84,547 |
| Total comprehensive income for the year | | **40,270** | 367,635 |
| **Profit (loss) for the year attributable to:** | | | |
| Owners of the Company | | **141,017** | 281,263 |
| Non-controlling interests | | **(16,395)** | 1,825 |
| | | **124,622** | 283,088 |
| **Total comprehensive income (expense) for the year attributable to:** | | | |
| Owners of the Company | | **56,665** | 365,810 |
| Non-controlling interests | | **(16,395)** | 1,825 |
| | | **40,270** | 367,635 |
| **Earnings per share** | | | |
| Basic | *5(a)* | **12.82 HK cents** | 25.56 HK cents |
| Diluted | *5(b)* | **12.82 HK cents** | 25.52 HK cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2018*

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,478,057** | 956,735 |
| Prepaid lease payments | | **212,557** | 226,101 |
| Goodwill | | **533,515** | 538,050 |
| Intangible assets | | **244,004** | 261,590 |
| Financial assets at fair value through other comprehensive income | | **158,264** | – |
| Available-for-sale financial assets | | **–** | 186,332 |
| Investment in an associate | | **28,450** | 29,718 |
| Deposits for acquisition of property, plant and equipment | | **103,833** | 47,484 |
| Deposits for acquisition of leasehold land | | **7,394** | 7,702 |
| Deferred tax assets | | **28,101** | 20,482 |
| | | **2,794,175** | 2,274,194 |
| **Current assets** | | | |
| Inventories | | **764,423** | 750,830 |
| Trade and other receivables | *7* | **617,469** | 664,125 |
| Prepaid lease payments | | **5,273** | 5,473 |
| Tax recoverable | | **10,184** | 3,290 |
| Cash and cash equivalents | | **586,799** | 573,198 |
| | | **1,984,148** | 1,996,916 |
| **Current liabilities** | | | |
| Trade and other payables | *8* | **621,086** | 959,972 |
| Contract liabilities | | **180,152** | – |
| Warranty provision | | **16,191** | 15,963 |
| Tax liabilities | | **19,930** | 31,758 |
| Bank borrowings | | **1,894,522** | 1,060,887 |
| | | **2,731,881** | 2,068,580 |
| **Net current liabilities** | | **(747,733)** | (71,664) |
| **Total assets less current liabilities** | | **2,046,442** | 2,202,530 |

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank borrowings | | **–** | 100,000 |
| Deferred revenue | | **82,007** | 40,115 |
| Deferred tax liabilities | | **59,097** | 54,820 |
| Other payable | *8* | **341,751** | 356,004 |
| | | **482,855** | 550,939 |
| **Net assets** | | **1,563,587** | 1,651,591 |
| **Capital and reserves** | | | |
| **Total equity attributable to owners of the Company** | | | |
| Share capital | | **55,011** | 55,011 |
| Share premium and reserves | | **1,503,906** | 1,575,518 |
| | | **1,558,917** | 1,630,529 |
| **Non-controlling interests** | | **4,670** | 21,062 |
| **Total equity** | | **1,563,587** | 1,651,591 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKAS 40 | Transfers of Investment Property |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKFRS 1 and HKAS 28 |

The Group had to change its accounting policies following the adoption of HKFRS 9 and HKFRS 15. The other amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The following HKFRSs in issue at 31 December 2018 have not been applied in the preparation of the Group's consolidated financial statements for the year ended since they were not yet effective for the annual period beginning on 1 January 2018:

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[2] |
| HKAS 19 | "Employee Benefits" on Plan Amendment, Curtailment or Settlement[1] |
| HK(IFRIC)-Int 23 | Uncertainty Over Income Tax Treatments[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvement to HKFRSs 2015-2017 Cycle[1] |

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

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

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

## 2 REVENUE AND SEGMENT INFORMATION

### (a) Revenue

The Group are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and provision of environmental protection services.

***Disaggregation of revenue***

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Sales of dyeing and finishing machines | **2,695,020** | 2,669,616 |
| Sales of stainless steel supplies | **262,273** | 305,023 |
| Sales of stainless steel casting products | **494,393** | 425,737 |
| Provision of environmental protection services | **20,811** | 3,446 |
| | **3,472,497** | 3,403,822 |

*Note:*

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

**(b) Segment reporting**

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

***(i) 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 2018**

| | 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 | | | | | |
| Point in time | 2,695,020 | 262,273 | 494,393 | – | 3,451,686 |
| Over time | – | – | – | 20,811 | 20,811 |
| External sales | 2,695,020 | 262,273 | 494,393 | 20,811 | 3,472,497 |
| Inter-segment sales | 701 | 260,200 | 30,075 | – | 290,976 |
| Segment revenue | 2,695,721 | 522,473 | 524,468 | 20,811 | 3,763,473 |
| Elimination | | | | | (290,976) |
| Group revenue | | | | | 3,472,497 |
| Segment profit (loss) | 121,363 | 17,972 | 80,678 | (33,306) | 186,707 |
| Interest income | | | | | 9,577 |
| Finance costs | | | | | (42,401) |
| Share of results of an associate | | | | | (72) |
| Profit before tax | | | | | 153,811 |

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 |

*Note:*

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

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.

*(ii)* ***Geographical information***

The Group's operations are located mainly in Hong Kong, the People's Republic of China ("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** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The PRC | **1,354,621** | 1,420,080 | **2,076,875** | 1,855,852 |
| Hong Kong | **261,911** | 301,812 | **327,155** | 6,414 |
| Asia Pacific (other than the PRC and Hong Kong) | **970,080** | 921,184 | **78** | 96 |
| Europe | **506,195** | 437,694 | **173,052** | 175,300 |
| North and South America | **327,091** | 210,160 | **2,200** | – |
| Others | **52,599** | 112,892 | **–** | – |
| | **3,472,497** | 3,403,822 | **2,579,360** | 2,037,662 |

Non-current assets excluded investment in an associate, deferred tax assets and financial assets at fair value through other comprehensive income ("FVOCI") (2017: 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 2018 and 2017.

## 3 FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on borrowings | **54,400** | 34,724 |
| Less: Interest capitalised | **(20,293)** | (5,589) |
| | **34,107** | 29,135 |
| Bank charges | **8,294** | 8,139 |
| | **42,401** | 37,274 |

Finance costs on funds borrowed generally are capitalised at a rate ranging from 2.25% to 3.91% (2017: 2.25% to 4.25%) per annum.

## 4 INCOME TAX EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong Profits Tax: | | |
| Current year | **11,018** | 9,865 |
| Over-provision in prior years | **(91)** | (270) |
| PRC Corporate Income tax: | | |
| Current year | **22,964** | 49,104 |
| Over-provision in prior years | **(2,969)** | (5,825) |
| Overseas income tax: | | |
| Current year | **3,243** | 1,180 |
| (Over) under-provision in prior years | **(1,522)** | 1,036 |
| | **32,643** | 55,090 |
| Deferred tax: | | |
| Current year | **(3,454)** | 12,614 |
| | **29,189** | 67,704 |

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:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year attributable to owners of the Company for the purpose of calculation of basic earnings per share | **141,017** | 281,263 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares: | | |
| Issued ordinary shares at 1 January | **1,100,217** | 1,102,892 |
| Effect of repurchase of shares | **–** | (2,293) |
| Weighted average number of ordinary shares at 31 December | **1,100,217** | 1,100,599 |

**(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:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year attributable to owners of the Company for the purpose of calculation of diluted earnings per share | **141,017** | 281,263 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares in issue for the purpose of calculation of basic earnings per share | **1,100,217** | 1,100,599 |
| 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 | **1,100,217** | 1,102,315 |

*Note:*

No adjustment has been made to the basic earnings per share for the year ended 31 December 2018 in respect of dilution as the Company has no potential dilutive ordinary shares in issue during the year ended 31 December 2018.

## 6 DIVIDENDS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Proposed final dividend: 2 HK cents (2017: 8 HK cents) per share | **22,004** | 88,017 |
| Interim dividend: 3 HK cents (2017: 3 HK cents) per share | **33,006** | 33,006 |
| | **55,010** | 121,023 |

The final dividend in respect of the year ended 31 December 2018 of 2 HK cents (2017: 8 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 2018 of 3 HK cents (2017: 3 HK cents) per share has been paid during the year.

## 7 TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **317,260** | 359,744 |
| Less: Loss allowance | **(4,307)** | (8,719) |
| | **312,953** | 351,025 |
| Bills receivable | **79,895** | 144,991 |
| | **392,848** | 496,016 |
| Other receivables | **224,621** | 168,109 |
| Total trade and other receivables | **617,469** | 664,125 |

The Group allows an average credit period of 60 days (2017: 60 days) to its trade customers.

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 60 days | **292,705** | 275,731 |
| 61 – 90 days | **2,912** | 51,720 |
| Over 90 days | **17,336** | 23,574 |
| | **312,953** | 351,025 |

## 8 TRADE AND OTHER PAYABLES

| | At **31 December 2018** *HK$'000* | At **1 January 2018** *HK$'000* | At 31 December 2017 *HK$'000* |
|---|---|---|---|
| Trade payables | **230,772** | **255,915** | 255,915 |
| Receipts in advance *(Note ii)* | **–** | **–** | 279,034 |
| Amount due to ultimate holding company *(Note iii)* | **5,250** | **4,518** | 4,518 |
| Other payables and accrued charges | **726,815** | **776,509** | 776,509 |
| | **962,837** | **1,036,942** | 1,315,976 |
| Amount due after one year included under non-current liabilities *(Note iv)* | **(341,751)** | **(356,004)** | (356,004) |
| | **621,086** | **680,938** | 959,972 |

*Notes:*

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, the amount previously included as "Receipts in advance" under "Trade and other payables" was reclassified to "Contract liabilities".

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

(iv) 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:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 90 days | **196,174** | 213,368 |
| 91 – 120 days | **2,275** | 15,617 |
| Over 120 days | **32,323** | 26,930 |
| | **230,772** | 255,915 |

The average credit period on purchase of goods is 90 days (2017: 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 2 HK cents per share, totalling approximately HK$22,004,000 in respect of the year to shareholders whose names appear on the register of members of the Company on 6 June 2019. The proposed final dividend for the year ended 31 December 2018 was approved at the Company's board meeting held on 27 March 2019. Details of the dividends for the year ended 31 December 2018 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 Tuesday, 28 May 2019 ("2019 AGM"), the register of members of the Company will be closed from Monday, 27 May 2019 to Tuesday, 28 May 2019, 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 2019 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, 24 May 2019.

Subject to the approval of the proposed final dividend at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019, 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 Monday, 3 June 2019. Dividend warrants will be despatched on Friday, 21 June 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS PERFORMANCE

For the year ended 31 December 2018 (the "Year"), the Group recorded consolidated revenue of approximately HK$3,472,000,000, representing a slight increase of 2% as compared to approximately HK$3,404,000,000 for last year. Profit attributable to owners of the Company was approximately HK$141,000,000, representing a decrease of 50% as compared to approximately HK$281,000,000 for last year. Basic earnings per share for the Year was 12.82 HK cents as compared to 25.56 HK cents for last year.

## MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

The dyeing and finishing machine manufacturing industry is facing intense competition. Besides, the breakout of trade war between China and the United States has clouded the global economic environment. The ongoing trade war discouraged some customers in the PRC from investing in production equipment, which posed challenges to the dyeing and finishing machine business of the Group. However, the overall sales of dyeing and finishing machines had not been significantly affected thanks to the concerted efforts of the Group's operating team to increase promotions in overseas markets and improve the quality and competitiveness of our products. For the Year, this business segment recorded revenue of approximately HK$2,695,000,000, accounting for 78% of the Group's revenue and representing a slight increase of 1% from approximately HK$2,669,000,000 for last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,228,000,000, representing a decrease of 9% from approximately HK$1,343,000,000 for last year; while sales from overseas markets were approximately HK$1,467,000,000, representing an increase of 11% from approximately HK$1,326,000,000 for last year. Along with the price pressures on orders exerted by the economic uncertainties during the second half of 2018 and the increasing price of stainless steel as the major raw materials, gross profit margin recorded an decrease and operating profit decreased by 60% to approximately HK$121,000,000 from approximately HK$300,000,000 for last year.

The Group has successfully launched numerous new dyeing and finishing machines in recent years, including DYECOWIN High Temperature Dyeing Machine, SUPERWIN High Temperature Package Dyeing Machine, TECWIN High Temperature 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. 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 provide innovative energy-saving and eco-friendly equipment and solutions to customers, thus creating more value. As set out in the 2017 Annual Report, 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 establish a joint venture company, Yantai Yelin Textile Technology Co., Ltd.（煙臺業林紡織科技有限公司）, in Yantai. The joint venture company will engage in printing, dyeing and after-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 solutions 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 solutions on printing and dyeing to customers.

In December 2018, the Group established a wholly-owned subsidiary, Zhejiang CHTC Fong's Intelligent Printing and Dyeing Machinery Co., Ltd.（浙江恒天立信智能印染機械有限公司）, in Binhai Industrial Park, Keqiao Economic and Technological Development Zone, Shaoxing City, Zhejiang Province. Subsequently on 30 January 2019, the Group successfully obtained a parcel of industrial land located at the park by way of open tender auction organised and held by the Shaoxing Keqiao Public Resources Trading Centre（紹興市柯橋區公共資源交易中心）. The land occupies an area of approximately 115 mu (76,680 $m^2$) with a land use right of 50 years and the land premium was RMB40,257,000. The Group plans to construct a base in the park for research and development, design, manufacture and marketing of intelligent supporting system for dyeing and finishing equipment to our customers. The base will mainly focus on (i) central chemical measuring and dispensing system, (ii) central intelligent control system for printing and dyeing equipment, (iii) exhaust gas purification device and system for stenter frames, (iv) automated intelligent material handling system of textile fabrics and production supplies, and (v) computerised numerical controlled machining centre for core components required for the supporting systems. The establishment of such base for manufacture and supply of intelligent supporting systems for dyeing and finishing machines in Shaoxing will help cement the Group's market position and business development in the dyeing and finishing machinery industry.

The new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province is starting to conduct interior decoration and equipment installation by phases. It is expected that the relocation of production lines to the new Zhongshan plant will be completed in 2019. 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 improving energy conservation and production efficiency, as well as applying more automated processes in its production process to shorten the production cycle and reduce manpower and management costs, and thus improve the Group's operation efficiency.

Meanwhile, 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 propel domestic demand and promote requirements on "Environment Protection and Energy Saving" by encouraging technological transformation and upgrading in traditional industries to replace and purchase manufacturing equipment for capacity expansion. Those policies will have a positive effect on economic growth in the long run, and also provide new opportunities for the Group in the 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.

## TRADING OF STAINLESS STEEL SUPPLIES

The breakout of trade war between China and the United States has clouded the global economic environment. The ongoing trade war has negatively influenced the stainless steel supplies market, which led to a decrease in sales of stainless steel supplies of the Group. On the other hand, the stainless steel price has posted 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 2018, this business segment recorded revenue of approximately HK$262,000,000, accounting for approximately 7% of the Group's revenue and representing an decrease of 14% as compared to approximately HK$305,000,000 for last year. Operating profit for the year amounted to approximately HK$18,000,000 as compared to profit of approximately HK$14,000,000 for 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 2019, 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 2018, this business segment recorded revenue of approximately HK$494,000,000, accounting for 14% of the Group's revenue and representing an increase of 16% as compared to approximately HK$426,000,000 for last year. Operating profit increased to approximately HK$81,000,000 from approximately HK$56,000,000 for last year. This business segment performed well as a whole with satisfactory growth in results.

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. On the other hand, the Group has established a marketing centre in Atlanta, Georgia to expand its sales network in the United States, aiming for more orders and 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.

## ENVIRONMENTAL PROTECTION SERVICES

As stated in the 2017 Annual Report of the Company, the Group completed the acquisition of 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") on 27 October 2017. CSCE and its subsidiaries are principally engaged in kitchen wastes innocuous treatment projects and animal carcasses innocuous treatment projects in the PRC.

Taian China Science Environmental Engineering Co., Ltd. (泰安中科環保工程有限公司) ("CSEE"), a wholly-owned subsidiary of CSCE, obtained the concession rights to operate kitchen wastes recycling and innocuous treatment projects for the urban area of Taian City, Shandong Province in June 2013, and has established a kitchen wastes treatment plant at the northern foot of Hama Mountain (蛤蟆山) in Taian City. In 2014, CSEE was entrusted by the Environmental Health Management Office of Taian City (泰安市環境衛生管理處) ("Taian Health Office") to operate the sewage treatment plant of a landfill neighbouring its kitchen wastes treatment plant, pursuant to which, CSEE was required to upgrade the plant to improve its sewage treatment capability and provide treatment for the sewage generated from the landfill during its operations of burying ash-slag wastes on a free-of-charge basis for Taian Health Office. However, the domestic waste disposal operations in the ash-slag landfill resulted in a significant change in the leachate and the quantity of sewage from the landfill, which materially affected the biological wastewater treatment system of CSEE. Treatment of such sewage is beyond the scope of work stipulated in the agreement between CSEE and relevant government authority and also exceeds the sewage treatment capabilities of CSEE. As a result, the kitchen wastes treatment plant has been taken over by Taian Health Office since January 2019.

Taian CSCE Environmental Engineering Technology Co., Ltd.（泰安中科潔能環境工程技術有限公司）("Taian CSCE") and Dongping CSCE Environmental Engineering Technology Co., Ltd.（東平中科潔能環境工程技術有限公司）("Dongping CSCE"), being wholly-owned subsidiaries of CSCE, obtained the concession rights to operate animal carcasses innocuous treatment projects in March 2017 and February 2018 respectively. Having obtained the concession rights, Taian CSCE invested and constructed an animal carcasses innocuous treatment facilities, but the facilities failed to meet the environmental requirements for its normal operations and had suspended operations since August 2017. Upon its acquisition of CSCE, the Group conducted technical transformation for the facilities of Taian CSCE to improve the production processes and rectify its odor problem. Following inspection by the Taian Daiyue District Government（泰安市岱岳區政府）, Taian CSCE received the approval to restore operations on 27 September 2018 and resumed trial production on 28 September 2018. Due to environmental problem, Dongping CSCE has suspended operations of the animal carcasses innocuous treatment facilities and stopped collection and transportation of animal carcasses. The Group is now actively negotiating with the government in respect of collection and innocuous treatment of animal carcasses, seeking to reach a solution on resumption of operations and realisation of relevant government subsidies so that the companies can continue its performance of concession agreement and normal operations to avoid causing losses to the companies.

For the year ended 31 December 2018, this business segment recorded revenue of approximately HK$21,000,000, while the operating loss amounted to approximately HK$33,000,000. The Board believes that the current operating position of this business segment will not have a material adverse effect on the overall financial position of the Group. The Company will consider disclosing updates on this business segment for any further development as and when appropriate.

## MAJOR ACQUISITION OF ASSETS

As disclosed in the 2018 Interim Report of the Company, on 12 April 2018, Fong's Manufacturers Company Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into a preliminary sale and purchase agreement (the "Preliminary Agreement") with Joyful Lake Limited (the "Vendor"), an independent third party for the acquisition of the entire issued share capital of PT Harvest Holdings Limited (the "Target Company"). The Target Company is a company incorporated in Hong Kong and is principally holding the properties, being the whole floor of Level 13, of Tower 2 with a gross floor area of approximately 24,959 square feet and eight car parks on Level 6 of Kowloon Commerce Centre, No. 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong. Further details of the Preliminary Agreement were disclosed in the Company's announcement dated 12 April 2018.

Subsequently, the formal sale and purchase agreement was entered into between the Vendor and the Purchaser on 28 June 2018 and the transaction was completed on 23 August 2018. The consideration for acquisition of the Target Company was approximately HK$325,293,000.

In December 2018, the Group relocated to Kowloon Commerce Centre as the head office premises of the Group and the Company's principal place of business in Hong Kong, to cope with the future expansion and development of the Group's business. The Board considers that the relocation of its head office to Kowloon Commerce Centre can better give prominence to the Group's business positioning and better reflect the corporate image of the Group. Furthermore, in view of the development of Hong Kong property market, the Board considers that the acquisition will enable the Group to save future rental expenses, broaden the fixed asset base of the Group and provide capital appreciation potential to the Group.

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

## HUMAN RESOURCES

As at 31 December 2018, the Group had a total of approximately 4,570 employees (31 December 2017: approximately 4,500 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2018, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$758,000,000 (2017: HK$745,000,000), accounting for 22% (2017: 22%) of its revenue. The Group will continue to monitor the market situation and consolidate its human resources 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 and positions on an ongoing basis so as to improve staff's quality to better cope with the future development of the Group.

## LIQUIDITY AND CAPITAL SOURCES

Given continuously increasing cost pressure, the Group strictly implemented prudent cost and cash flow management. During the year, the Group met its funding requirements in 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 2018, the Group's net cash inflow from operating activities was approximately HK$132,000,000. As at 31 December 2018, the Group's inventory level increased to approximately HK$764,000,000 as compared to approximately HK$751,000,000 as at 31 December 2017.

As at 31 December 2018, bank borrowings of the Group amounted to approximately HK$1,895,000,000. Most of the bank borrowings were sourced from Hong Kong, with 96% denominated in Hong Kong dollars and 4% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2018, the Group's bank balances and cash amounted to approximately HK$587,000,000, of which 48% was denominated in Renminbi, 26% in United States dollars, 13% in Hong Kong dollars, 12% 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 2018, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 84% (31 December 2017: 36%) and its current ratio was 0.73 (31 December 2017: 0.97). The change of gearing ratio was primarily due to the increase of the debt scale.

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 2018.

## CORPORATE GOVERNANCE

The Company wishes to highlight the importance of the Board in ensuring effective leadership and control of the Company, transparency and accountability of all aspects of operations and that its business is conducted in accordance with applicable laws and regulations.

The Company also recognises the importance of good corporate governance to the Group's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Group's needs.

For the year ended 31 December 2018, the Company 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"), except for the derivations from the code provision A.6.7 of the CG Code that independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Ying Wei, an Independent Non-executive Director, was unable to attend the annual general meeting of the Company held on 25 May 2018 due to other business engagement.

## 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 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 2018.

## 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 2018. 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 2018 as set out in this announcement have been agreed by the Company'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 2018 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
**CHTC Fong's International Company Limited**
**Ye Maoxin**
*Chairman*

Hong Kong, 27 March 2019

*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.*