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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 2019

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 2019 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 2019

	Note	**2019**	2018
		HK$'000	*HK$'000*
Revenue	*2*	**2,663,259**	3,472,497
Cost of sales		**(1,883,171)**	(2,369,420)
Gross profit		**780,088**	1,103,077
Interest income		**4,134**	9,577
Other income		**33,690**	26,060
Other gains (losses)		**303,860**	(11,837)
Selling and distribution costs		**(204,695)**	(299,628)
Administrative and other expenses		**(625,629)**	(611,593)
Finance costs	*3*	**(58,863)**	(42,401)
Share of results of an associate		**(113)**	(72)
Impairment loss on goodwill		**–**	(4,535)
Impairment loss on intangible assets		**(14,973)**	(14,837)
Profit before tax		**217,499**	153,811
Income tax expense	*4*	**(58,633)**	(29,189)
Profit for the year		**158,866**	124,622

	Note	**2019**	2018
		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		**(25,984)**	(68,776)
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary		**–**	(920)
Share of translation reserve of an associate		**(612)**	(1,196)
		(26,596)	(70,892)
Items that will not be reclassified to profit or loss:			
Remeasurement (loss) gain on defined benefit plan		**(2,363)**	253
Fair value gain (loss) on financial assets at fair value through other comprehensive income		**15,910**	(13,713)
		13,547	(13,460)
Other comprehensive expense for the year		**(13,049)**	(84,352)
Total comprehensive income for the year		**145,817**	40,270
Profit (loss) for the year attributable to:			
Owners of the Company		**168,836**	141,017
Non-controlling interests		**(9,970)**	(16,395)
		158,866	124,622
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**155,787**	56,665
Non-controlling interests		**(9,970)**	(16,395)
		145,817	40,270
Earnings per share			
Basic	*5(a)*	**15.35 HK cents**	12.82 HK cents
Diluted	*5(b)*	**15.35 HK cents**	12.82 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**1,720,671**	1,478,057
Right-of-use assets		**45,408**	–
Prepaid lease payments		**208,342**	212,557
Goodwill		**533,515**	533,515
Intangible assets		**219,871**	244,004
Financial assets at fair value through other comprehensive income		**170,707**	158,264
Investment in an associate		**27,726**	28,450
Deposits for acquisition of property, plant and equipment		**49,080**	103,833
Deposits for acquisition of leasehold land		**53,589**	7,394
Deferred tax assets		**39,779**	28,101
		3,068,688	2,794,175
Current assets			
Inventories		**765,848**	764,423
Trade and other receivables	*7*	**500,223**	617,469
Prepaid lease payments		**–**	5,273
Tax recoverable		**15,445**	10,184
Cash and bank balances		**331,820**	586,799
		1,613,336	1,984,148
Current liabilities			
Bank overdraft, unsecured		**3,592**	–
Trade and other payables	*8*	**641,807**	621,086
Contract liabilities		**181,395**	180,152
Warranty provision		**16,358**	16,191
Lease liabilities		**12,130**	–
Tax liabilities		**17,233**	19,930
Bank borrowings		**1,919,858**	1,894,522
		2,792,373	2,731,881
Net current liabilities		**(1,179,037)**	(747,733)
Total assets less current liabilities		**1,889,651**	2,046,442

	Note	**2019**	2018
	Note	***HK$'000***	*HK$'000*
Non-current liabilities			
Deferred revenue		**78,839**	82,007
Deferred tax liabilities		**89,541**	59,097
Lease liabilities		**33,871**	–
Other payable	*8*	**–**	341,751
		202,251	482,855
Net assets		**1,687,400**	1,563,587
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital		**55,011**	55,011
Share premium and reserves		**1,637,689**	1,503,906
		1,692,700	1,558,917
Non-controlling interests		**(5,300)**	4,670
Total equity		**1,687,400**	1,563,587

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 INITIAL APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND AMENDMENTS TO HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group had to change its accounting policies following the adoption of HKFRS 16. The other new and amendments to HKFRSs listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current period.

The following HKFRSs in issue at 31 December 2019 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 2019:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[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 1 and HKAS 8	Definition of Material[1]

[1] *Effective for annual periods beginning on or after 1 January 2020*

[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*

The Group is in the process of making an assessment of what the impact of new and amendments to HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

2 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The Group is 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:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of dyeing and finishing machines	**1,941,214**	2,695,020
Sales of stainless steel supplies	**216,310**	262,273
Sales of stainless steel casting products	**505,705**	494,393
Provision of environmental protection services	**30**	20,811
	2,663,259	3,472,497

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographical markets is disclosed in Notes 2(b)(i) and 2(b)(ii) respectively.

(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 2019

	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	1,941,214	216,310	505,705	–	2,663,229
Over time	–	–	–	30	30
External sales	1,941,214	216,310	505,705	30	2,663,259
Inter-segment sales	502	163,842	19,993	–	184,337
Segment revenue	1,941,716	380,152	525,698	30	2,847,596
Elimination					(184,337)
Group revenue					2,663,259
Segment profit (loss)	204,447	6,479	83,298	(21,883)	272,341
Interest income					4,134
Finance costs					(58,863)
Share of results of an associate					(113)
Profit before tax					217,499

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

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 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**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**1,274,518**	1,354,621	**2,290,327**	2,076,875
Hong Kong	**155,231**	261,911	**336,451**	327,155
Asia Pacific (other than the PRC and Hong Kong)	**673,676**	970,080	**593**	78
Europe	**300,216**	506,195	**199,528**	173,052
North and South America	**209,190**	327,091	**3,577**	2,200
Others	**50,428**	52,599	**–**	–
	2,663,259	3,472,497	**2,830,476**	2,579,360

Non-current assets excluded investment in an associate, deferred tax assets and financial assets at fair value through other comprehensive income. 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 2019 and 2018.

3 FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on borrowings	**75,435**	54,400
Less: Interest capitalised *(Note i)*	**(23,682)**	(20,293)
	51,753	34,107
Interest on lease liabilities *(Note ii)*	**885**	–
Bank charges	**6,225**	8,294
	58,863	42,401

Notes:

(i) Finance costs on funds borrowed generally are capitalised at a rate ranging from 3.45% to 4.48% (2018: 2.25% to 3.91%) per annum.

(ii) The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated.

4 INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**7,978**	11,018
Over-provision in prior years	**(436)**	(91)
PRC Corporate Income Tax:		
Current year	**29,891**	22,964
Over-provision in prior years	**(142)**	(2,969)
Overseas income tax:		
Current year	**302**	3,243
Under (over)-provision in prior years	**1,324**	(1,522)
	38,917	32,643
Deferred tax:		
Current year	**19,716**	(3,454)
	58,633	29,189

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:

	2019	2018
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of calculation of basic earnings per share	**168,836**	141,017
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**1,100,217**	1,100,217

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2019 is same as the basic earnings per share as the Group has no potential ordinary shares in issue during the year (2018: Diluted earnings per share was same as the basic earnings per share as the Group had no dilutive potential ordinary shares in issue during the year).

6 DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Proposed final dividend:		
2 HK cents (2018: 2 HK cents) per share	**22,004**	22,004
Interim dividend:		
Nil HK cents (2018: 3 HK cents) per share	**–**	33,006
	22,004	55,010

The final dividend in respect of the year ended 31 December 2019 of 2 HK cents (2018: 2 HK cents) per share has been proposed by the Board and is subject to the approval at the forthcoming annual general meeting of the Company.

7 TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**323,532**	317,260
Less: Loss allowance	**(5,322)**	(4,307)
	318,210	312,953
Bills receivable	**49,879**	79,895
	368,089	392,848
Other receivables	**57,543**	112,612
Loan to a related party *(Note i)*	**–**	45,652
Prepayments	**74,591**	66,357
Total trade and other receivables	**500,223**	617,469

Note:

(i) The loan is unsecured, interest bearing at a fixed rate of 11% per annum and repayable within one year.

The Group allows an average credit period of 60 days (2018: 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:

	2019	2018
	HK$'000	*HK$'000*
0 – 60 days	**251,243**	292,705
61 – 90 days	**14,364**	2,912
Over 90 days	**52,603**	17,336
	318,210	312,953

8 TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**143,532**	230,772
Amount due to ultimate holding company *(Note i)*	**5,135**	5,250
Loan from immediate holding company *(Note ii)*	**65,000**	–
Loan from a fellow subsidiary *(Note ii)*	**70,000**	–
Other payables and accrued charges	**358,140**	726,815
	641,807	962,837
Amount due after one year included under non-current liabilities *(Note iii)*	**–**	(341,751)
	641,807	621,086

Notes:

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

(ii) The loans are unsecured, interest bearing at a fixed rate of 4.3% per annum and repayable within one year.

(iii) 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).

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

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

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

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.

On 28 November 2019, it was agreed in writing ("Third Supplemental Agreement") that the Project Company has agreed to advance FNES a further amount RMB50 million as part of the fourth installment before 31 December 2019 and the payment was made on 18 December 2019. In addition, in accordance with the Third Supplemental Agreement, the total amount of RMB350 million is non-refundable and used to compensate the reallocation expenses, including plant disposal, employees' compensation and business losses arising from the reallocation, incurred during the year ended 31 December 2019. In view that substantial reallocation costs have been incurred and the variation of the terms of the Urban Renewal Project, the Group recognised RMB350 million as income resulting in a gain of HK$316,246,000 during the year ended 31 December 2019. Details of variation of the terms of the Urban Renewal Project were disclosed in the Company's announcement dated 20 December 2019.

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

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	**111,576**	196,174
91 – 120 days	**484**	2,275
Over 120 days	**31,472**	32,323
	143,532	230,772

The average credit period on purchase of goods is 90 days (2018: 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 5 June 2020. Details of the dividends for the year ended 31 December 2019 are set forth in Note 6 hereof.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Thursday, 28 May 2020 ("2020 AGM"), the register of members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, 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 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

Subject to the approval of the proposed final dividend at the 2020 AGM, the register of members of the Company will be closed from Thursday, 4 June 2020 to Friday, 5 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 3 June 2020. Dividend warrants will be despatched on Friday, 19 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE

For the year ended 31 December 2019 (the "Year"), the Group recorded consolidated revenue of approximately HK$2,663,000,000, representing a decrease of 23% as compared to approximately HK$3,472,000,000 for last year. Profit attributable to owners of the Company was approximately HK$169,000,000, representing an increase of 20% as compared to approximately HK$141,000,000 for last year. Basic earnings per share for the Year was 15.35 HK cents as compared to 12.82 HK cents for last year.

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

During 2019, the trade friction between China and the United States continued to intensify and the global economic environment was highly volatile, causing many customers to adopt a wait-and-see attitude on investment in production equipment. Meanwhile, the competition remained keen in the dyeing and finishing equipment industry, which inevitably affected the Group's business. In addition, on 4 June 2019, a staff assembling event occurred in one of the dyeing and finishing machine production plants of the Group located at Longgang District, Shenzhen City. Through mutual understanding and negotiation between the Group and its staff, the staff assembling event was successfully resolved on 3 July and the plant has also resumed to normal production since then. Though the staff assembling event caused interruption on the production to a rather limited degree during the period, it did not have any direct material impact on the operating performance and the financial position of the Group for the Year.

For the Year, this business segment recorded revenue of approximately HK$1,941,000,000, accounting for 73% of the Group's revenue and representing a decrease of 28% from approximately HK$2,695,000,000 for last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,082,000,000, representing a decrease of 12% from approximately HK$1,228,000,000 for last year; and sales from overseas markets were approximately HK$859,000,000, representing a decrease of 41% from approximately HK$1,467,000,000 for last year. Nevertheless, operating profit increased by approximately 69% to approximately HK$204,000,000 from approximately HK$121,000,000 for last year, which was primarily attributable to the recognition of income before tax of approximately HK$316,000,000 in the Year in respect of portions of the payment received from the urban renewal project of the land in Shenzhen (in the form of resettlement and demolition compensation) totalling RMB350,000,000 (equivalent to approximately HK$388,000,000), net of related costs of approximately HK$72,000,000, as the Group has started to relocate part of its production facilities from Shenzhen to Zhongshan in stages during 2019.

The new production plant of the Group located at Linhai Industrial Park, Cuihang New District, Zhongshan City, Guangdong Province, which has been undertaking interior decoration and equipment installment by phases, has several production lines put into operation and is expected to be ready for use in mid-2020. Upon full operation of the Zhongshan new plant, the Group's production capacity is expected to increase. 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.

Since the outbreak of the novel coronavirus (COVID-19) in early 2020, the management has been monitoring the development of the epidemic and has taken timely actions and measures to protect the Group's employees from being infected. The Group's plants in Shenzhen and Zhongshan postponed the resumption of operations after the Lunar New Year holidays for a limited period of time to late February. The Group's operations have not experienced any material disruptions. The management will continue to monitor the development of the epidemic and take appropriate measures when necessary.

In order to cater to the future development of the textile printing and dyeing 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. The Group is committed to the research and development (R&D) of supporting intelligent dyeing and finishing equipment systems, mainly focusing 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 development of intelligent equipment projects will not only bring positive impacts on the technological improvement, core competitiveness enhancement and improvement of the Group's performance, but also play an important role in propelling industrial upgrading and technological advancement for the dyeing and finishing industry.

In 2020, the Group will move forward to:

– enhance our R&D capability and create additional technical values to our products;

– improve manufacturing capacity, persistently optimise manufacturing management and organisational structure, continuously innovate process technology, accelerate manufacturing automation, increase manufacturing efficiency and pursue better product quality;

– strengthen cost management and control, and continuously optimise suppliers and supply channels;

– standardise management processes, fine-tuning management system, boost management efficiency and reduce operating costs;

– conform to market demands through offering more premium products and strengthen after-sales technical services;

– explore new markets and sales channels to expand the Group's customer base and market share of its products, thereby maintaining its leadership in the market; and

– strengthen the development of talents and corporate culture.

Looking forward, the Chinese government has proactively launched various economic reforms 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 strive for greater market share and develop us into a stronger and bigger group.

TRADING OF STAINLESS STEEL SUPPLIES

During 2019, the intensifying trade friction between China and the United States has clouded the global economic environment and had a negative influence on the stainless steel supplies market, which led to a decrease in sales of stainless steel supplies of the Group. For the year ended 31 December 2019, this business segment recorded revenue of approximately HK$216,000,000, accounting for approximately 8% of the Group's revenue and representing a decrease of 18% as compared to approximately HK$262,000,000 for last year. Due to the decrease in revenue, operating profit for the Year amounted to approximately HK$6,000,000 as compared to profit of approximately HK$18,000,000 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 2020, 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 supplies. 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 2019, this business segment recorded revenue of approximately HK$506,000,000, accounting for 19% of the Group's revenue and representing an increase of 2% as compared to approximately HK$494,000,000 for last year. Operating profit increased to approximately HK$83,000,000 from approximately HK$81,000,000 for last year. This business segment performed well as a whole with satisfactory growth in results.

The Group will remain committed to promoting its production capacity through streamlined production processes and automatic machines as well as strengthening controls on production costs (including labour costs), thus to further improve the gross profit margin. The Group also implements sales strategies focusing on high-margin products in different businesses and related customer sectors. 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

This business segment principally engaged in operating kitchen wastes innocuous treatment projects and animal carcasses innocuous treatment projects in the PRC.

Since January 2019, the kitchen wastes treatment plant of Taian China Science Environmental Engineering Co., Ltd.(泰安中科環保工程有限公司)("**CSEE**"), located at the northern foot of Hama Mountain(蛤蟆山)in Taian City, has been taken over by the Environmental Health Management Office of Taian City(泰安市環境衛生管理處). The animal carcasses innocuous treatment facility of 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**") resumed limited production after technological upgrade in September 2018. Due to environmental pressure, the facility had suspended operations for a period. After that, the facility resumed operations in April 2019 but had been operating on an intermittent basis. Due to the recent outbreak of COVID-19, the animal carcasses innocuous treatment facility has been closed after the Lunar New Year holidays. For the year ended 31 December 2019, this business segment recorded revenue of approximately HK$30,000, while the operating loss amounted to approximately HK$22,000,000. 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.

In early 2020, the Group had a meeting with relevant governmental authorities of Taian City to communicate on matters concerning the concession rights and business rationalisation of CSEE and Taian CSCE, seeking support from local government so as to resume normal operations of the business. The Company will consider disclosing updates on this business segment for any further development as and when appropriate.

HUMAN RESOURCES

As at 31 December 2019, the Group had a total of approximately 4,150 employees (31 December 2018: approximately 4,570 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2019, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$781,000,000 (2018: HK$758,000,000), accounting for 29% (2018: 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 and contributions to retirement benefits schemes 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, banking facilities and debt financing. The management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

During the year ended 31 December 2019, the Group's net cash outflow used for operating activities was approximately HK$52,000,000. As at 31 December 2019, the Group's inventory level increased to approximately HK$766,000,000 as compared to approximately HK$764,000,000 as at 31 December 2018.

As at 31 December 2019, bank borrowings of the Group amounted to approximately HK$1,920,000,000. Most of the bank borrowings were sourced from Hong Kong, with 94% denominated in Hong Kong dollars, 5% in United States dollars and 1% in Renminbi. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2019, the Group's bank balances and cash amounted to approximately HK$332,000,000, of which 49% was denominated in Renminbi, 24% in United States dollars, 17% in Hong Kong dollars, 8% in Euros and the remaining 2% in other currencies.

The Group continued to maintain prudent financial management policies during the Year. As at 31 December 2019, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 94% (31 December 2018: 84%) and its current ratio was 0.58 (31 December 2018: 0.73). 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 2019.

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.

Throughout the year ended 31 December 2019, 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"), 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 and Dr. Yuen Ming Fai, both being Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 28 May 2019 due to other business engagement.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the year ended 31 December 2019.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees of the Group on terms no less exacting than the required standard set out in the Model Code to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its subsidiaries. No incident of non-compliance was noted by the Company for the year ended 31 December 2019.

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 2019. 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 2019 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 2019 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 2020

As at the date of this announcement, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Guan Youping (Chief Executive Officer), Mr. Du Qianyi (Chief Financial Officer) and Mr. Wu Xudong; 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.