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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)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
MASTSER PROCUREMENT AGREEMENT**

References are made to the announcements of the Company dated 28 December 2018 and 8 January 2019 in respect of the Existing Master Procurement Agreement. Since the Existing Master Procurement Agreement will be expired on 31 December 2021, and after conducting the bidding procedures, the Group expects such transactions will continue thereafter. The Board is pleased to announce that on 29 December 2021, FNE (Guangdong) and MF (Zhongshan), both being wholly-owned subsidiaries of the Company as purchasers and Keyvalve as supplier entered into the New Master Procurement Agreement to renew the Existing Master Procurement Agreement on substantially the same terms for a further term of three years which will take effect from 1 January 2022.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Mr. Fong, a non-executive Director of the Company and deemed to be interested in approximately 16.20% of the issued share capital of the Company within the meaning of Part XV of the SFO, is indirectly holding 43% equity interest in Keyvalve, thereby Keyvalve is an associate of Mr. Fong and a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the New Master Procurement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In respect of the annual caps under the New Master Procurement Agreement, the applicable percentage ratios (other than the profits ratio) as calculated in accordance with Rule 14.07 of the Listing Rules, exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the New Master Procurement Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

References are made to the announcements of the Company dated 28 December 2018 and 8 January 2019 in respect of the Existing Master Procurement Agreement. Since the Existing Master Procurement Agreement will be expired on 31 December 2021, and after conducting the bidding procedures, the Group expects such transactions will continue thereafter. The Board is pleased to announce that on 29 December 2021, FNE (Guangdong) and MF (Zhongshan), both being wholly-owned subsidiaries of the Company as purchasers and Keyvalve as supplier entered into the New Master Procurement Agreement to renew the Existing Master Procurement Agreement on substantially the same terms for a further term of three years which will take effect from 1 January 2022.

THE NEW MASTER PROCUREMENT AGREEMENT

A summary of the principal terms of the New Master Procurement Agreement is as follows:

Date:	29 December 2021
Parties:	(1) Keyvalve, as supplier; and (2) FNE (Guangdong) and MF (Zhongshan), both being indirect wholly-owned subsidiaries of the Company, as purchasers
Term:	From 1 January 2022 to 31 December 2024 (both days inclusive)
Subject:	The purchasers have agreed to purchase from Keyvalve certain categories of valves and heat exchangers for their manufacture of dyeing and finishing machines by issuing purchase orders from time to time to Keyvalve
Pricing policy:	Parties to the New Master Procurement Agreement will agree from time to time a price list setting out the price, specifications and delivery schedule in respect of each category of valves and heat exchangers, upon which the purchase orders must adhere to
Payment terms:	The purchasers shall pay the purchase price of the valves and/or heat exchangers supplied by Keyvalve within 90 days from the date of issue of a monthly statement by Keyvalve
Termination:	The purchasers may terminate the New Master Procurement Agreement at their sole and absolute discretion without giving any reason thereof whatsoever at any time by giving three months' prior written notice to the supplier

PRICE DETERMINATION

The Group will make reference to prices of similar products charged by its independent third party suppliers to ensure that Keyvalve is selling the products under the New Master Procurement Agreement at the then prevailing market prices. The Group has already implemented a policy to request suppliers, including Keyvalve and other independent third party suppliers, to provide quotations in respect of different products (except for materials of insignificant amount) before making purchase orders with Keyvalve. It is the Group's policy to obtain at least two to three quotations from suppliers. After receiving quotations, the Group will compare the price offered by Keyvalve and other criteria (such as capability to meet the Group's delivery schedule and quality of products) with that of independent third party suppliers.

The Group will conclude the purchase with Keyvalve only when those selection criteria can be met after taking into consideration of the range of relevant factors in order to safeguard the interests of the Group. In any event, terms of each purchase from Keyvalve will be no less favourable to the Group than terms which can be obtained from other independent third party suppliers for selling products of comparable quality, quantity and specifications. In accordance with the Group's internal policies, the continuing connected transactions under the New Master Procurement Agreement will be properly recorded, including but not limited to prices determined and transaction amounts. As the management of the Group will review the aforesaid pricing policy on a regular basis and compare the quotations provided by Keyvalve with that provided by the other independent third party suppliers, the Directors (including the independent non-executive Directors) are of the view that the aforesaid method and procedures can ensure that the continuing connected transactions under the New Master Procurement Agreement will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority shareholders.

HISTORICAL TRANSACTIONS AND ANNUAL CAPS

The historical transaction amounts of valves purchased by the Group from Keyvalve under the Existing Master Procurement Agreement for each of the two years ended 31 December 2019 and 2020 (audited) and for the ten months ended 31 October 2021 (unaudited) were as follows:

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the ten months ended 31 October 2021
Annual caps	RMB26,000,000	RMB28,000,000	RMB30,000,000
Actual transaction amount	RMB18,506,362	RMB21,245,551	RMB5,207,263

The proposed annual caps for the transaction amount of valves and heat exchangers purchased by the Group from Keyvalve under the New Master Procurement Agreement for each of the three years ending 31 December 2022, 2023 and 2024 are as follows:

	For the year ending 31 December		
	2022	2023	2024
Annual caps	RMB18 million (equivalent to approximately <u>HK\$21.96 million</u>)	RMB18 million (equivalent to approximately <u>HK\$21.96 million</u>)	RMB18 million (equivalent to approximately <u>HK\$21.96 million</u>)

The proposed annual caps in respect of the transactions contemplated under the New Master Procurement Agreement for each of the three years ending 31 December 2022, 2023 and 2024 are determined with reference to:

- (i) The historical transaction amounts in respect of purchases of valves by the Group from Keyvalve;
- (ii) the anticipated demand for valves and heat exchangers that may be derived from the possible future growth of the dyeing and finishing machine segment of the Group; and
- (iii) the prospect of the economic environment and the markets relevant to the Group, in particular the dyeing and finishing machine segment.

REASONS FOR ENTERING INTO THE NEW MASTER PROCUREMENT AGREEMENT

FNE (Guangdong) and MF (Zhongshan) are indirect wholly-owned subsidiaries of the Company and engaged in the manufacture and sale of dyeing and finishing machines and spare parts thereof.

Keyvalve is a wholly-foreign owned enterprise established in the PRC on 29 December 2010 and engaged in the manufacture and sale of various types of valves for industrial use and industrial automated control systems including but not limited to heat exchangers. Keyvalve has been selected as a qualified supplier for years after going through the Group's qualification and bidding procedures. The Board believes that having reliable and cooperative suppliers is very important for and beneficial to the Group and it is commercially justified for the Group to enter into the New Master Procurement Agreement. The purchases of the valves and heat exchanger required by the Group for the purpose of manufacturing its dyeing and finishing machines from Keyvalve give assurance to the Group in terms of the quality and timely delivery of such spare parts for its production.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Mr. Fong, a non-executive Director of the Company and deemed to be interested in approximately 16.20% of the issued share capital of the Company within the meaning of Part XV of the SFO, is indirectly holding 43% equity interest in Keyvalve, thereby Keyvalve is an associate of Mr. Fong and a connected person of the Company under the Listing Rules. The remaining 57% equity interest of Keyvalve are being owned as to 43% by Mr. Tsui Wai Keung, a third party independent of the Company and its connected persons and as to 14% by Mr. Lo Chi Chong, who was a former director of certain subsidiaries of the Group, which are principally engaged in the manufacture and sale of stainless steel casting products.

The Directors (including the independent non-executive Directors) consider that the New Master Procurement Agreement was entered into on normal commercial terms after arm's length negotiations between the parties and in the ordinary and usual course of business of the Group, and that the terms of the New Master Procurement Agreement are fair and reasonable and the continuing connected transactions contemplated thereunder are in the interests of the Company and its shareholders as a whole.

Mr. Fong, being a non-executive Director of the Company, is considered to have a material interest in the New Master Procurement Agreement, and therefore abstained from voting on the board resolutions for approving the New Master Procurement Agreement and the continuing connected transactions contemplated thereunder.

INFORMATION OF THE PARTIES

The Company acts as an investment holding company and the Group is principally engaged in the manufacture and sale of dyeing and finishing machines, manufacture and sale of stainless steel casting products and trading of stainless steel supplies.

FNE(Guangdong) and MF (Zhongshan) are indirect wholly-owned subsidiaries of the Company and engaged in the manufacture and sale of dyeing and finishing machines and spare parts thereof.

Keyvalve is a wholly-foreign owned enterprise established in the PRC and engaged in the manufacture and sale of various types of valves for industrial use and industrial automated control systems including but not limited to heat exchangers.

IMPLICATIONS UNDER THE LISTING RULES

Keyvalve is owned as to 43% by Mr. Fong (a non-executive Director and a substantial shareholder of the Company) and therefore is an associate of Mr. Fong. As such, Keyvalve is a connected person of the Company. Accordingly, the transactions contemplated under the New Master Procurement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In respect of the annual caps under the New Master Procurement Agreement, the applicable percentage ratios (other than the profits ratio) as calculated in accordance with Rule 14.07 of the Listing Rules, exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the New Master Procurement Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with applicable continuing connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	CHTC Fong’s International Company Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Master Procurement Agreement”	the procurement agreement dated 28 December 2018 entered into between Keyvalve (as seller) and certain wholly-owned subsidiaries of the Company (as purchaser) in relation to the sale and purchase of certain categories of valves for industrial use for three financial years commencing on 1 January 2019 and ending on 31 December 2021
“FNE (Guangdong)”	立信染整機械(廣東)有限公司 (Fong’s National Engineering (Guangdong) Co., Ltd.*), a wholly-foreign owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Keyvalve”	奇偉閥門 (深圳) 有限公司 (Keyvalve (Shenzhen) Co., Ltd.*), a wholly-foreign owned enterprise established in the PRC with limited liability and is an associate of a connected person of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“MF (Zhongshan)”	立信門富士紡織機械 (中山) 有限公司 (Monforts Fong’s Textile Machinery (Zhongshan) Co., Ltd*), a wholly-foreign owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Mr. Fong”	Mr. Fong Kwok Leung, Kevin
“New Master Procurement Agreement”	the procurement agreement dated 29 December 2021 entered into among FNE (Guangdong) and MF (Zhongshan) (as purchasers) and Keyvalve (as seller) in relation to the sale and purchase of certain categories of valves for industrial use and heat exchangers for three financial years commencing on 1 January 2022 and ending on 31 December 2024
“percent ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“%”	per cent

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translations of company names in Chinese which are marked with “” is for identification purpose only.*

In this announcement, the conversions of RMB into HK\$ has been made at an exchange rate of RMB1: HK\$1.22. Such conversions should not be construed as a representation that any amount has been, could have been or may be, exchanged at these or any other rates.

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

Hong Kong, 30 December 2021

As at the date of this announcement, the Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Guan Youping (Chief Executive Officer), Ms. Guo Yunfei (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.