



FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2001

RESULTS

The Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2001 together with comparative figures for 2000 as follows:-

	Notes	2001 HK\$	2000 HK\$
Turnover	1	758,336,454	922,877,282
Cost of sales		<u>(522,699,899)</u>	<u>(605,610,943)</u>
Gross profit		235,636,555	317,266,339
Other revenue		9,684,042	5,539,480
Distribution costs		(29,344,465)	(36,549,227)
Administrative expenses		(118,834,962)	(114,492,613)
Other operating expenses		<u>(24,360,020)</u>	<u>(25,074,004)</u>
Profit from operations	2	72,781,150	146,689,975
Finance costs	3	(11,573,031)	(17,664,344)
Interest income		2,693,857	471,242
Impairment of loan to an associate		-	(4,966,833)
Share of results of associates		2,801,997	1,897,295
Share of results of a jointly controlled entity		<u>3,379,596</u>	<u>306,543</u>

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Profit before taxation		70,083,569	126,733,878
Taxation	4	<u>(7,100,142)</u>	<u>(20,174,411)</u>
Net profit for the year		<u>62,983,427</u>	<u>106,559,467</u>
Earnings per share	5		
Basic		<u>11.4 cents</u>	<u>20.6 cents</u>
Diluted		<u>11.4 cents</u>	<u>20.6 cents</u>

Notes:-

- The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Revenue by		Contribution to	
	geographical market		profit from operations	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Hong Kong	315,994,530	428,349,420	28,876,575	51,320,604
The People's Republic of China (the "PRC")	269,680,953	313,154,330	30,843,727	70,278,184
Asia Pacific (other than the PRC and Hong Kong)	89,130,581	95,312,738	8,062,137	15,067,911
Europe	52,442,678	55,771,452	2,646,456	5,523,140
North and South America	16,797,711	20,131,856	1,017,828	2,767,400
Others	14,290,001	10,157,486	1,334,427	1,732,736
	<u>758,336,454</u>	<u>922,877,282</u>	<u>72,781,150</u>	<u>146,689,975</u>

- Profit from operations has been arrived at after charging depreciation and amortisation expenses amounting to HK\$20,544,538 (2000: HK\$18,946,269).
- Finance costs include interest on borrowings amounting to HK\$7,726,124 (2000: HK\$13,735,973).

4. TAXATION

	2001	2000
	HK\$	HK\$
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,481,727	12,606,611
Under(over)provision in prior years	631,267	(169,051)
Overseas taxation		
Current year	6,066,773	7,334,290
Overprovision in prior years	(2,965,281)	-
Share of taxation attributable to associates	463,251	402,561
Share of taxation attributable to a jointly controlled entity	<u>422,405</u>	<u>-</u>
	<u>7,100,142</u>	<u>20,174,411</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

5. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the net profit for the year of HK\$62,983,427 (2000: HK\$106,559,467) and the following data:

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	Number of shares	
	2001	2000
Weighted average number of ordinary shares for the purpose of basic earnings per share	550,822,318	516,154,891
Effect of dilutive potential ordinary shares - share options	<u>463,173</u>	<u>219,388</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>551,285,491</u>	<u>516,374,279</u>

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of 2 cents per share and a special dividend of 5 cents per share for the year ended December 31, 2001 (2000: final dividend of 4 cents and special dividend of 11 cents) to shareholders whose names appear on the register of members on June 25, 2002. Together with the interim dividend of 2.5 cents per share and special dividend of 2.5 cents per share (2000: interim dividend of 3 cents) paid on November 13, 2001, the total dividend for the full year will be 12 cents per share (2000: 18 cents).

Subject to the approval of shareholders at the forthcoming annual general meeting, dividend warrants are expected to be despatched to shareholders on or before June 28, 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 15, 2002 to May 22, 2002, both days inclusive in order to determine those shareholders entitled to attend and vote at the forthcoming annual general meeting.

For those shareholders who are not already on the register of members, in order to be entitled to attend and vote at the forthcoming annual general meeting, all share certificates accompanied by the duly completed transfer forms must be lodged with the Hong Kong Branch Registrars of the Company, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on May 14, 2002.

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The register of members of the Company will also be closed from June 21, 2002 to June 25, 2002, both days inclusive in order to determine those shareholders entitled to the proposed final and special dividends.

For those shareholders who are not already on the register of members, in order to qualify for the final dividend/special dividend, all share certificates accompanied by the duly completed transfer forms must be lodged with the Hong Kong Branch Registrars of the Company, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on June 20, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS DYEING AND FINISHING MACHINES MANUFACTURING

This major core business being engaged by **Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Company Limited** accounted for approximately 59% of the Group's consolidated turnover and amounted to approximately HK\$445.23 million. The sales of dyeing machines and machine parts decreased by 24% when compared with last financial year.

Firstly, the decrease in sales of our dyeing machines was a direct outcome of the general slowdown of the global economy. Secondly, the situation was further aggravated by the "911 Event" resulting in overall slower sales in the second half of the year.

However, through our committed efforts in technological innovation and new product development together with production efficiency enhancements including streamlining certain production lines, tightening the control on operating and manufacturing costs by the additions of more advanced production equipment and facilities over the years, this business was still able to achieve satisfactory development.

Sales and marketing

Nevertheless, Fong's National Engineering Company Limited has continued to increase its efforts in sales and marketing activities especially in the major markets, Mainland China and Asia Pacific region. This included the strengthening of our sales and after-sales service network in China. Consequently, this has not only further upgraded our quality of service to the existing customers but also placed us in a better position to serve and penetrate potential customers who have the requirements to enhance their production efficiency and quality of textile products by having technological upgrade in their production equipment.

In addition, China has now become an official member of the World Trade Organization, the management expects a significant number of our Chinese customers will need to make technological upgrade to their production equipment in order to compete with the textile industry of other countries and which will further serve as a catalyst to our sales in the future.

In February 2002, the sales and service centre was established in Thailand to enhance the sales and upgrade the after-sales services to our customers in Thailand and the Asia Pacific region. Also, to further broaden our customer base and strengthen our representation network in the Asia Pacific markets, we launched a new series of marketing programs with encouraging results.

The Group will continue to implement its marketing strategy to strengthen the brand name "FONG'S" in our major markets by participating in trade shows, seminars and placing more advertisements.

Research and development

With full commitment to research and development, the Group continues to invest the necessary resources in research and development instruments and software as well as competent professionals so as to develop the technical know-how and advanced technology for our products and product development. Currently, there are over 100 qualified engineering and technical professionals in the research and development team.

During the year, the ECOTECH series of Atmospheric and High Temperature Dyeing Machines was developed successfully. It targets the rapidly growing markets for the customers' need of environmentally friendly dyeing technology. In October 2001, the Group further demonstrated its initiative in environmental protection by establishing the research collaboration with the Hong Kong University of Science & Technology in a project namely "The Development of a Novel Process for Environmental Cleanup in the Textile Industry". In addition, one of our new products, the GN28-Super Atmospheric Dyeing Machine, was awarded the Certificate of Merit in Machinery and Equipment Design in the 2001 Hong Kong Awards of Industry.

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The ECOTECH series, which is designed to provide environmentally friendly dyeing technology, has been successfully launched into the market during the second half of the year. With its innovative technology which can reduce the customers' processing costs and processing time, this series of new machines has now been widely and favorably accepted by our customers.

ViewTEX, the newly developed software of the centralized computer system for dyeing production planning and process control is being integrated into our product range. It is a milestone to link various dyeing machines together in the network and lead the customers' dyehouse into the automation process. It has been well recognized by our customers since its launch onto the market.

Awards

Mr. S L Fong, our Chairman, was recently awarded the "2001 Golden Bull Award" from the Shenzhen Association of Enterprises with Foreign Investment for the recognition of him as one of the most outstanding entrepreneurs.

In addition, during the year, Fong's National Engineering (Shenzhen) Co., Limited also received two awards namely "Top 100 Export Company of Year 2001" and "Top 100 Company of Year 2001" from the Shenzhen Economic and Trade Bureau for its outstanding performance and contribution to the local economy.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited accounted for approximately 34% of the Group's consolidated turnover. The sales of stainless steel decreased by 11% to approximately HK\$258.76 million as compared to last year.

During the year under review, the price of the stainless steel in the worldwide market decreased resulting in sharp drops in the selling price and profit margins. Nevertheless, over the years, a significant improvement in the inventory management has been made by our exercising better timing control in the sourcing from the suppliers and the delivery to the customers to minimize adverse exposure to price fluctuations. The management will continue to closely monitor the stock level to ensure that it is in line with the orders requirement.

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Starting in 2002, the price of stainless steel has risen in the worldwide market gradually. Such favorable price rise will improve the profit margins of this trading business in the coming year. The management will continue to broaden the customer base, improve the inventory management and monitor effective credit policy.

Furthermore, the stainless steel trading business will also continue to contribute to the Group by helping control on the cost and timely delivery of the major stainless steel raw materials being used in the Group's manufacturing businesses of dyeing machines and stainless steel castings.

STAINLESS STEEL CASTING AND MACHINING

Tycon Alloy Industries (Hong Kong) Company Limited ("Tycon") accounted for approximately 7% of the Group's consolidated turnover. The sales of stainless steel castings and machining increased by 18% to approximately HK\$54.35 million as compared to the last financial year.

Despite the increase in sales, the profit margins were lower. The reduction of profit margins was due to the management's strategy of exploring new customers and new markets under the keen price competition in the market. With the broadening of the customer base, the management expects to get higher selling price in both Europe and the US in the coming year especially when the world economy shows signs of improvement in the near future.

Apart from the accreditation of ISO9001:2000 and the TÜV Rheinland/Berlin-Brandenburg Certificate of Quality Management System, Tycon received Lloyd's Certificate of Approved Manufacturer and TÜV Rheinland/Berlin-Brandenburg Certificate of Approved Material Manufacturer respectively during the year. These certifications have proved that the quality management, product quality and production processes conform to the international standards. Capitalizing the solid foundation of quality manufacturing, productivity improvement, installed production capacity and new market development, the management is confident that this business will lead to more encouraging results and growth in the coming year.

This business continues to act as the strategic low cost and flexible supplier to the Group's manufacturing of dyeing machine by supplying essential casted and machined parts.

JOINTLY CONTROLLED ENTITY

**Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's")
(A 50% owned jointly controlled entity)**

Monforts Fong's, a joint venture established in 1999 with a leading Germany textile machine manufacturer, recorded satisfactory results for the year under review. By leveraging the strength of the extensive sales network of Fong's National Engineering Company Limited and the strong technical supports from the German partner, Monforts Fong's has successfully sold and installed over sixty "MONFONGS" stenters by the end of 2001, which are well known for its advanced technology for the knitted and woven industries.

To cope with the rapidly-growing market in China and the customers' requirements for greater degree of automation, Monforts Fong's has plans to optimize its production capacity and upgrade the product programs. The new manufacturing plant, which has a floor area of approximately 5,000 square metres has been successfully put into full operation in September 2001.

It is expected that Monforts Fong's will produce even more encouraging results in the very near future by capitalizing the advanced product technology, modernized manufacturing facilities, strong and skilled after-sales service team and the further establishment of the "MONFONGS" brand of stenter machinery in China.

ASSOCIATES

**Foshan East Asia Company Limited ("Foshan East Asia")
(A 30% owned associate)**

Foshan East Asia recorded a moderate increase of sales of woven color fabrics for the year under review. The installation of new production machinery in the previous year made its production more cost effective and hence the profit margins have improved. To cope with the expected increase of sales and to further improve the profitability, Foshan East Asia has purchased additional production machinery.

Recently, Foshan East Asia has observed price increases for increases in demand for their exported woven color fabrics. The management will closely monitor the market situation and the recovery of the global economy. With the continuing improvement in production efficiency and increase of sales, Foshan East Asia is expected to show stable improvement in the business performance in the coming year.

Sunshine City Limited

As disclosed in the last Annual Report 2000 and the Interim Report 2001, the transaction for the disposal of the Group's entire interests in Sunshine City Limited was completed on April 12, 2001. It is expected that the assignment of the land use rights of office premises in Central Plaza, China, being part of the consideration for the said transaction, will be effected in 2002.

HUMAN RESOURCES

As at December 31, 2001, the Group employed approximately 1,970 staff and workers in our Shenzhen factory and Hong Kong office.

The Group understands that, to achieve continuous business growth, innovations, as well as to gain competitive edge, qualified personnel is indispensable. During the year, the Group committed to adopt a prudent approach towards the size of workforce and commit to staff development and training programs.

In addition to receiving salaries and bonus, employees in Hong Kong are also entitled to retirement scheme contribution. Share options are made available to certain employees of the Group.

LIQUIDITY AND CAPITAL RESOURCES

The Group continued to maintain a healthy financial position throughout the year.

As at December 31, 2001, the Group's net cash and bank balance was approximately HK\$47.63 million, net of total borrowings. The gearing ratio, calculated as the total net borrowings of the Group divided by shareholders' funds, was 0.13 in 2000. In 2001, there is no gearing ratio shown as the Group has a net cash and bank balance. The current ratio was 1.85 reflecting a healthy liquidity level.

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As at December 31, 2001, bank borrowings amounted to approximately HK\$78.71 million of which approximately 58% were secured by the Group's certain assets. More than 86% of the bank borrowings are repayable within one year and the remaining are repayable between two to five years. Most bank borrowings were sourced from Hong Kong, of which approximately 33% were denominated in Hong Kong dollars, 58% in US dollars and the remaining were denominated in various foreign currencies. The bank borrowings of the Group are predominantly subject to floating interest rates.

The cash and bank balance amounted to approximately HK\$130.94 million of which approximately 55% were denominated in Hong Kong dollars, 23% in Euro, 11% in US dollars, 10% in renminbi and the remaining were denominated in various foreign currencies.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
February 2001	210,000	0.57	0.53	118,300
March 2001	600,000	0.58	0.56	346,000
June 2001	1,586,000	0.65	0.63	1,016,580
July 2001	200,000	0.64	0.62	125,040
August 2001	400,000	0.64	0.64	256,000
September 2001	710,000	0.64	0.58	432,300
October 2001	992,000	0.71	0.64	672,600
November 2001	492,000	0.67	0.66	325,880
	<u>5,190,000</u>			<u>3,292,700</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to HK\$2,773,700 was charged against share premium. An amount of HK\$519,000 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

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Save as mentioned above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be subsequently published on the Stock Exchange's website in due course.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, April 15, 2002

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of the Company will be held at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong on Wednesday, May 22, 2002 at 10:00 a.m. for the following purposes:

1. To receive and adopt the audited Financial Statements and Reports of the Directors and Auditors for the year ended December 31, 2001.
2. To declare a final dividend/special dividend.
3. To re-elect Directors and to fix a maximum number of Directors.
4. To re-appoint Messrs. Deloitte Touche Tohmatsu as Auditors and authorise the Directors to fix their remuneration.
5. To transact any other ordinary business(es).

By Order of the Board
C.K. Lee
Company Secretary

Hong Kong, April 15, 2002

Notes:

- (a) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, the proxy form and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's principal place of business at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong not less than 48 hours before the time fixed for holding the Annual General Meeting or any adjourned meeting.

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- (b) In order to determine who are entitled to attend and vote at the Annual General Meeting, the register of members will be closed from May 15, 2002 to May 22, 2002, both days inclusive, during which period no transfer of shares can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 p.m. on Tuesday, May 14, 2002.

"Please also refer to the published version of this announcement in the SCMP"