



# FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2002

### Unaudited Interim Results

The board of directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2002 as follows:

### Condensed Consolidated Income Statement

For the six months ended June 30, 2002

	<i>Notes</i>	<b>2002 unaudited HK\$'000</b>	<b>2001 unaudited HK\$'000</b>
Turnover		485,004	385,781
Cost of sales		<u>(312,011)</u>	<u>(259,889)</u>
<b>Gross Profit</b>		172,993	125,892
Other revenue		5,419	4,216
Distribution costs		(18,708)	(15,846)
Administrative expenses		(64,966)	(54,896)
Other operating expenses		<u>(15,748)</u>	<u>(12,558)</u>
<b>Profit from operations</b>		78,990	46,808
Finance costs	5	(3,446)	(7,066)
Interest income		482	1,148
Share of results of associates		700	1,069
Share of results of a jointly controlled entity		<u>6,144</u>	<u>443</u>
<b>Profit before taxation</b>		82,870	42,402
Taxation	6	<u>(13,378)</u>	<u>(4,853)</u>
<b>Net profit for the period</b>		<u>69,492</u>	<u>37,549</u>
Earnings per share	7		
Basic		<u>12.36 cents</u>	<u>6.98 cents</u>
Diluted		<u>12.35 cents</u>	<u>6.97 cents</u>
Dividends per share			
Interim		<u>4.5 cents</u>	<u>2.5 cents</u>
Special		<u>2.5 cents</u>	<u>2.5 cents</u>

**Condensed Consolidated Balance Sheet**  
As at June 30, 2002

	as at June 30, 2002 unaudited HK\$'000	as at December 31, 2001 audited HK\$'000
Non-current assets		
Property, plant and equipment	243,769	249,412
Intangible assets	394	635
Interests in associates	57,101	56,745
Interest in a jointly controlled entity	17,364	17,539
	<u>318,628</u>	<u>324,331</u>
Current assets		
Inventories	175,320	140,664
Trade and other receivables	113,407	94,645
Amount due from a jointly controlled entity	5,425	4,184
Taxation recoverable	1,907	2,507
Bank balances, deposits and cash	179,491	130,941
	<u>475,550</u>	<u>372,941</u>
Current liabilities		
Trade and other payables	144,753	97,545
Warranty provision	2,120	1,200
Bills payable	22,168	25,679
Taxation payable	15,148	6,894
Obligations under finance leases		
– due within one year	2,174	2,175
Bank borrowings – due within one year	87,303	67,880
	<u>273,666</u>	<u>201,373</u>
<b>Net current assets</b>	<u>201,884</u>	<u>171,568</u>
	<u>520,512</u>	<u>495,899</u>
Capital and reserves		
Share capital	56,285	56,195
Reserves	455,597	425,161
	<u>511,882</u>	<u>481,356</u>
Minority interests	1,290	1,290
Non-current liabilities		
Obligations under finance leases		
– due after one year	1,517	2,427
Bank borrowings – due after one year	5,823	10,826
	<u>7,340</u>	<u>13,253</u>
	<u>520,512</u>	<u>495,899</u>

**Notes:**

1. The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing machines, trading of stainless steel supplies and machine parts, manufacture and sale of stainless steel casting products and property holding. There was no change in the principal activities of the Group during the period.

**2. Accounting policies**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The accounting policies adopted in the condensed financial statements are consistent with those used in the audited financial statements for the year ended December 31, 2001, with the exception of certain changes in accounting policies to comply with the new and revised SSAPs issued by the Hong Kong Society of Accountants, which are effective for accounting periods beginning on or after January 1, 2002.

The effect of changing of accounting policies to comply with the new and revised SSAPs is not material to the accounts. Disclosures and certain comparatives figures have been modified to conform with the current period’s presentation.

**3. Segment information**

The analysis of the business segments (the primary reporting format) and geographical segments of the operations of the Group during the period are as follows:

**Business Segments**

	Manufacturing and sale of dyeing machines <i>HK\$’000</i>	Trading of stainless steel supplies <i>HK\$’000</i>	Trading of machine parts and servicing <i>HK\$’000</i>	Manufacturing and sale of stainless steel casting products <i>HK\$’000</i>	Eliminations <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
	<b>For the six months ended June 30, 2002 (unaudited)</b>					
<b>Revenue</b>						
External sales	282,403	134,978	44,529	23,094	-	485,004
Inter-segment sales	2,723	57,456	-	8,241	(68,420)	-
Total revenue	<u>285,126</u>	<u>192,434</u>	<u>44,529</u>	<u>31,335</u>	<u>(68,420)</u>	<u>485,004</u>
<b>Result</b>						
Segment result	<u>59,091</u>	<u>13,449</u>	<u>4,118</u>	<u>2,332</u>		78,990
Finance cost	(1,505)	(1,522)	(237)	(182)	-	(3,446)
Interest income						482
Share of results of associates						700
Share of results of a jointly controlled entity						<u>6,144</u>
<b>Profit before taxation</b>						<u>82,870</u>
Taxation						<u>(13,378)</u>
<b>Net profit for the period</b>						<u>69,492</u>
<b>Other information</b>						
Depreciation & amortisation	<u>7,378</u>	<u>302</u>	<u>1,163</u>	<u>2,161</u>	<u>-</u>	<u>11,004</u>

	Manufacturing and sale of dyeing machines <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Trading of machine parts and servicing <i>HK\$'000</i>	Manufacturing and sale of stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>For the six months ended June 30, 2001 (unaudited)</b>						
<b>Revenue</b>						
External sales	187,416	130,222	39,628	28,515	-	385,781
Inter-segment sales	1,070	28,901	-	4,843	(34,814)	-
Total revenue	<u>188,486</u>	<u>159,123</u>	<u>39,628</u>	<u>33,358</u>	<u>(34,814)</u>	<u>385,781</u>
<b>Result</b>						
Segment result	<u>38,788</u>	<u>4,879</u>	<u>1,425</u>	<u>1,716</u>		46,808
Finance cost	(2,813)	(3,860)	(576)	(313)	496	(7,066)
Interest income						1,148
Share of results of associates						1,069
Share of results of a jointly controlled entity						443
<b>Profit before taxation</b>						<u>42,402</u>
Taxation						<u>(4,853)</u>
<b>Net profit for the period</b>						<u>37,549</u>
<b>Other information</b>						
Depreciation & amortisation	<u>6,538</u>	<u>195</u>	<u>1,382</u>	<u>1,761</u>	<u>-</u>	<u>9,876</u>

#### Geographical segments

	Revenue by geographical market for the six months ended June 30,		Contribution to profit from operations for the six months ended June 30,	
	2002 unaudited <i>HK\$'000</i>	2001 unaudited <i>HK\$'000</i>	2002 unaudited <i>HK\$'000</i>	2001 unaudited <i>HK\$'000</i>
Hong Kong	210,429	163,153	31,210	24,851
The People's Republic of China, other than Hong Kong	183,505	122,713	33,792	14,167
Asia Pacific (other than The People's Republic of China)	45,921	52,399	7,621	4,520
Europe	33,261	29,775	4,626	1,936
South & North America	10,776	9,420	1,541	594
Others	1,112	8,321	200	740
	<u>485,004</u>	<u>385,781</u>	<u>78,990</u>	<u>46,808</u>

#### 4. Depreciation and Amortisation

During the period, depreciation of approximately HK\$10,762,000 (2001: HK\$9,609,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$242,000 (2001: HK\$267,000) was charged in respect of the Group's intangible assets.

**5. Finance cost**

	For the six months ended June 30,	
	2002 unaudited HK\$'000	2001 unaudited HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,792	5,240
Obligations under finance leases	110	248
Bank charges	1,448	1,375
Factoring charges	96	203
	<u>3,446</u>	<u>7,066</u>

**6. Taxation**

	For the six months ended June 30,	
	2002 unaudited HK\$'000	2001 unaudited HK\$'000
Taxation comprised:–		
Hong Kong Profits Tax		
Current period	10,333	2,367
Overseas Taxation		
Current period	3,807	2,428
Overprovision in prior periods	(1,994)	–
Share of taxation of associates	197	58
Share of taxation of a jointly controlled entity	1,035	–
	<u>13,378</u>	<u>4,853</u>

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the period.

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

**7. Earnings per share**

The calculation of basic and diluted earnings per share is based on the profit for the period of approximately HK\$69,492,000 (2001: HK\$37,549,000) and the following data:

	For the six months ended June 30,	
	2002 unaudited Number of shares	2001 unaudited Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	562,169,766	538,071,733
Effect of dilutive potential ordinary shares – share options	<u>440,902</u>	<u>503,754</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>562,610,668</u>	<u>538,575,487</u>

**8. Events after the balance sheet date**

Subsequent to the balance sheet date, a wholly-owned subsidiary of the Group entered into an agreement with a third party on August 21, 2002 to acquire 80% stake of a Swiss company. The transaction is scheduled to be completed on September 25, 2002. Details of the transaction will be disclosed by way of press announcement in due course.

## **DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS**

The Board has resolved to pay an interim dividend of 4.5 cents and a special dividend of 2.5 cents (2001: an interim dividend of 2.5 cents and a special dividend of 2.5 cents) per share. The interim and special dividends will be paid on or about November 8, 2002 to those shareholders on the register of members on November 6, 2002. The register of members of the Company will be closed from November 1, 2002 to November 6, 2002, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim and special dividends, 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 Thursday, October 31, 2002.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Summary of Results**

The Group's performance for the first six months of this financial year has significantly improved as anticipated in our Annual Report 2001.

For the six months ended June 30, 2002, the Group's turnover and profit were HK\$485,004,000 and HK\$69,492,000 respectively, representing an increase of approximately 26% and 85% respectively over corresponding period in 2001. Basic earnings per share was HK12.36 cents, representing a growth of approximately 77%.

### **Dyeing and Finishing Machinery Manufacturing**

Fong's National Engineering Company, Limited ("FNECL")

During the period under review, this dyeing machines manufacturing business has remained the Group's growth driver, accounting for about 67% of the Group's turnover.

As reported in last year's Annual Report, FNECL has successfully launched the environmentally friendly **ECOTECH** model series and has received very good market reception. As a result we have been able to make marked improvement in both our brand name **FONG'S** and product competitiveness. This business recorded a robust growth with sales volume amounting to HK\$326,932,000, an increase of 44% as compared to that of corresponding period last year. This up-trend was consistent with the better performance and market sentiment in the China textile industry as a result of China's recent accession to the World Trade Organisation ("WTO").

To better accommodate the increased demands from the market in respect of both quantity and quality, FNECL is in the process of acquiring and installing new equipment to upgrade its productivity with the target to increase the existing production capacity to a monthly output of approximately 200 units of machines before the end of the year.

### **Stainless Steel Trading**

Fong's Steels Supplies Company Limited

During the period under review, this stainless steel trading business also reported improved profit compared to the same period last year. The sale was HK\$134,978,000, which accounted for approximately 28% of the Group's turnover.

As reported in last year's Annual Report, the stainless steel price has stabilized since the beginning of 2002. The management is of the opinion that this trading business will continue to post positive results for the second half of the year.

### **Stainless Steel Casting**

Tycon Alloy Industries (Hong Kong) Company Limited

During the period under review, the turnover of this stainless steel casting business was almost flat and slightly decreased from HK\$28,515,000 to HK\$23,094,000, but the profit margins improved as a result of stringent cost control and improved production efficiency.

Compared to corresponding period last year, the sales decreased as the management has adopted a strategy to solicit sale orders on products with higher profit margins. Meanwhile, the recent appreciation of the Euro has had a positive impact on this business. As sales to European customers are priced using the Euro, the appreciation reduced the currency risks for our customers and therefore, lowered the pressure of pricing negotiations and enhanced our profit margins.

One of our business strategies is to slowly migrate our business from producing lower end traditional sand casting products to the higher end investment casting products and machining, which will offer a higher selling price and profit margins. Recently, there are signs of rebound on market demand for casting products and turnover is expected to grow in the second half year.

To further improve competitiveness, the management will continue to diversify in products as well as expand the customer base in North America and Japan. The management sees turnover improving as new and more price competitive products are launched in the later half of the year.

#### **Jointly controlled entity**

Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's")

With the investments made during the last two years and a total of approximately 7,000 square metres of production area in our manufacturing factory in Shenzhen, the production capacity of Monforts Fong's has increased by more than 50% compared to the same period in 2001. Furthermore, the new set up and operations have facilitated this joint venture to lower production costs as well as increasing product quality.

The sales of stenter machines under the brand name **MONFONGS** have increased from HK\$42.4 million to HK\$82.7 million. This achievement reflects its innovative designs and the management's success in exploring the China market. Monforts Fong's is now positioned to: diversify its product range, improve production efficiency, strengthen its market position and to expand its customer base.

With its strong focus in China, this business is well positioned to grasp the vast opportunities resulting from China's WTO entry and this business is capitalised with synergy of the marketing network of the Group. The Board believes Monforts Fong's will continue to contribute fruitful results to the Group in the coming years.

#### **Associates**

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

Due to the keen price competition in the market, the performance of the business of manufacture and sale of color woven fabrics and related products carried out by Foshan East Asia was inevitably affected adversely to a certain extent. However, due to its established customer base and adequate measures to improve production efficiency and product quality implemented, the operating results remained stable during the period under review and contributed positively to the Group.

The management of Foshan East Asia has taken steps to tighten the overall cost control, to further broaden its customer base and to enlarge the overseas market coverage in order to maintain its competitive edge in the market.

#### **Prospects**

Despite the uncertainties caused by the recent developments in the world's geopolitical arena and barring any unforeseeable circumstances that may significantly impact upon China's economic growth, the Board remains very optimistic for this financial year for the reasons stated in our Annual Report 2001.

These are, "Firstly the strong international competitiveness of the Asian and China textile industry in terms of price, quality, and delivery. Secondly, the recent accession of China into the WTO and thus providing our customers with confidence and incentive to expand and further upgrade their production machinery. And lastly, the continued low interest rate environment for capital investment." In addition, it is now apparent that the domestic consumption of textiles and garments in China and Asia has been playing a significant role in generating demand in the relevant textile industries and which has helped to buffer some of the effects of slower export demands in the Western countries.

#### **Liquidity and Capital Resources**

The management considers the Group's financial position as healthy and believes that the Group has adequate financial resources to meet its cash flow requirements.

As at June 30, 2002, net of total borrowings, the Group's net cash and bank balance was approximately HK\$82.67 million. In 2002, there is no gearing ratio shown as the Group has a net cash and bank balance. The current ratio was 1.74 reflecting a healthy liquidity level.

As at June 30, 2002, bank borrowings amounted to approximately HK\$93.13 million of which approximately 52% were secured by the Group's certain assets. More than 93% of the bank borrowings are repayable within one year and the remaining are repayable within two years. Most bank borrowings were sourced from Hong Kong, of which approximately 19% were denominated in Hong Kong dollars, 79% 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\$179.49 million of which approximately 67% were denominated in Hong Kong dollars, 14% in Euro, 14% in US dollars, 4% in Renminbi and the remaining were denominated in various foreign currencies.

#### **Human Resources**

The Group, including its subsidiaries employed approximately 2,300 employees as at June 30, 2002. The Group's remuneration policies are primarily based on the prevailing market salary levels, performance of the respective companies and individuals concerned and the local governing labour laws. Fringe benefits, which include provident fund and training, are provided. In addition, share options may also be granted from time to time in accordance with the terms of the Company's approved share option scheme.

#### **AUDIT COMMITTEE**

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited condensed financial statements for the six months ended June 30, 2002.

#### **DETAILED RESULTS ANNOUNCEMENT**

A detailed results announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be subsequently published on The Stock Exchange of Hong Kong Limited's website in due course.

On behalf of the Board  
**Fong Sou Lam**  
*Chairman*

Hong Kong, September 18, 2002

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