



# FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2002

### 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, 2002 together with comparative figures for 2001 as follows:–

### Consolidated Income Statement

		<i>For the year ended December 31</i>	
	<i>Notes</i>	<b>2002</b> <i>HK\$</i>	<b>2001</b> <i>HK\$</i>
Turnover		1,142,419,206	758,336,454
Cost of sales		<u>(730,831,737)</u>	<u>(522,699,899)</u>
Gross profit		411,587,469	235,636,555
Other operating income		17,970,914	9,684,042
Distribution costs		(36,920,222)	(29,344,465)
Administrative expenses		(152,029,654)	(118,834,962)
Other operating expenses		<u>(32,301,409)</u>	<u>(24,360,020)</u>
Profit from operations		208,307,098	72,781,150
Finance costs	4	(8,017,464)	(11,573,031)
Interest income		1,430,910	2,693,857
Share of results of associates		(19,024,333)	2,801,997
Share of results of a jointly controlled entity		<u>24,773,150</u>	<u>3,379,596</u>
Profit before taxation		207,469,361	70,083,569
Taxation	5	<u>(36,617,378)</u>	<u>(7,100,142)</u>
Profit before minority interests		170,851,983	62,983,427
Minority interests		<u>965,203</u>	<u>–</u>
Net profit for the year		<u>171,817,186</u>	<u>62,983,427</u>
Earnings per share	6		
Basic		<u>30.5 cents</u>	<u>11.4 cents</u>
Diluted		<u>30.5 cents</u>	<u>11.4 cents</u>

## Consolidated Balance Sheet

	<i>At December 31</i>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$</i>	<i>HK\$</i>
Non-current assets		
Property, plant and equipment	243,008,269	249,411,519
Intangible assets	174,371	635,401
Goodwill	5,948,759	–
Interests in associates	35,112,174	56,744,599
Interest in a jointly controlled entity	32,386,884	17,538,884
	<u>316,630,457</u>	<u>324,330,403</u>
Current assets		
Inventories	178,034,748	140,663,545
Trade and other receivables	139,274,273	94,644,809
Amount due from a jointly controlled entity	5,641,424	4,184,012
Taxation recoverable	–	2,507,173
Bank balances, deposits and cash	216,051,264	130,941,274
	<u>539,001,709</u>	<u>372,940,813</u>
Current liabilities		
Trade and other payables	153,841,962	97,544,795
Bills payable	17,883,579	25,678,647
Warranty provision	3,766,200	1,200,000
Taxation payable	29,865,196	6,894,467
Obligations under finance leases – due within one year	3,502,081	2,174,527
Bank borrowings – due within one year	63,468,600	67,880,145
	<u>272,327,618</u>	<u>201,372,581</u>
Net current assets	<u>266,674,091</u>	<u>171,568,232</u>
	<u>583,304,548</u>	<u>495,898,635</u>
Capital and reserves		
Share capital	56,299,629	56,194,629
Reserves	518,880,532	425,161,145
	<u>575,180,161</u>	<u>481,355,774</u>
Minority interests	<u>3,554,148</u>	<u>1,290,136</u>
Non-current liabilities		
Obligations under finance leases – due after one year	3,738,739	2,427,225
Bank borrowings – due after one year	831,500	10,825,500
	<u>4,570,239</u>	<u>13,252,725</u>
	<u>583,304,548</u>	<u>495,898,635</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 year.

## 2. Segment Information

*Business segments*

**2002**

	<b>Manufacture and sale of dyeing machines</b> <i>HK\$</i>	<b>Trading of stainless steel supplies</b> <i>HK\$</i>	<b>Trading of machine parts and service income</b> <i>HK\$</i>	<b>Manufacture and sale of stainless steel casting products</b> <i>HK\$</i>	<b>Eliminations</b> <i>HK\$</i>	<b>Consolidated</b> <i>HK\$</i>
REVENUE						
External sales	699,294,150	310,308,959	81,642,074	51,174,023	–	1,142,419,206
Inter-segment sales	<u>8,665,962</u>	<u>143,692,969</u>	<u>–</u>	<u>18,387,031</u>	<u>(170,745,962)</u>	<u>–</u>
Total revenue	<u>707,960,112</u>	<u>454,001,928</u>	<u>81,642,074</u>	<u>69,561,054</u>	<u>(170,745,962)</u>	<u>1,142,419,206</u>

Inter-segment sales are charged at terms agreed between relevant parties.

RESULT						
Segment result	<u>160,712,747</u>	<u>22,341,205</u>	<u>18,532,774</u>	<u>6,720,372</u>	<u>–</u>	208,307,098
Finance costs	(6,907,173)	(3,893,905)	(806,407)	(390,979)	3,981,000	(8,017,464)
Interest income						1,430,910
Share of results of associates	(19,024,333)					(19,024,333)
Share of results of a jointly controlled entity	24,773,150					<u>24,773,150</u>
Profit before taxation						207,469,361
Taxation						(36,617,378)
Minority interests						<u>965,203</u>
Net profit for the year						<u>171,817,186</u>

2001

	Manufacture and sale of dyeing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Trading of machine parts and service income <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Eliminations <i>HK\$</i>	Consolidated <i>HK\$</i>
REVENUE						
External sales	390,154,903	258,758,803	55,073,009	54,349,739	–	758,336,454
Inter-segment sales	5,030,996	57,446,502	–	9,772,629	(72,250,127)	–
Total revenue	<u>395,185,899</u>	<u>316,205,305</u>	<u>55,073,009</u>	<u>64,122,368</u>	<u>(72,250,127)</u>	<u>758,336,454</u>

Inter-segment sales are charged at terms agreed between relevant parties.

RESULT						
Segment result	<u>53,478,160</u>	<u>8,826,354</u>	<u>8,297,950</u>	<u>2,178,686</u>	<u>–</u>	72,781,150
Finance costs	(5,886,949)	(6,030,454)	(830,983)	(498,715)	1,674,070	(11,573,031)
Interest income						2,693,857
Share of results of associates	2,801,997					2,801,997
Share of results of a jointly controlled entity	3,379,596					<u>3,379,596</u>
Profit before taxation						70,083,569
Taxation						<u>(7,100,142)</u>
Net profit for the year						<u>62,983,427</u>

*Geographical segments*

The Group's operations are located in Hong Kong and The People's Republic of China (the "PRC"). The Group's trading and manufacture of goods are carried out in Hong Kong and the PRC, respectively.

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

	Revenue by geographical market	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Hong Kong	515,504,402	315,994,530
The PRC	415,823,275	269,680,953
Asia Pacific (other than the PRC and Hong Kong)	113,586,921	89,130,581
Europe	68,528,701	52,442,678
North and South America	24,699,491	16,797,711
Others	4,276,416	14,290,001
	<u>1,142,419,206</u>	<u>758,336,454</u>

### 3. Depreciation and Amortisation

	<b>2002</b> <i>HK\$</i>	<b>2001</b> <i>HK\$</i>
Amortisation of goodwill	2,974,380	–
Amortisation of intangible assets	461,030	521,276
Depreciation and amortisation:		
Owned assets	19,674,947	17,487,748
Assets held under finance leases	2,285,804	2,535,514
	<u>25,396,161</u>	<u>20,544,538</u>

### 4. Finance Costs

	<b>2002</b> <i>HK\$</i>	<b>2001</b> <i>HK\$</i>
Interest on:		
Bank borrowings wholly repayable within five years	4,085,547	7,284,821
Obligations under finance leases	251,127	441,303
Bank charges	3,461,329	3,544,206
Factoring charges	219,461	302,701
	<u>8,017,464</u>	<u>11,573,031</u>

### 5. Taxation

	<b>2002</b> <i>HK\$</i>	<b>2001</b> <i>HK\$</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	25,470,969	2,481,727
Underprovision in prior years	318,805	631,267
Overseas taxation		
Current year	9,098,780	6,066,773
Overprovision in prior years	(1,992,806)	(2,965,281)
Share of taxation attributable to associates	421,630	463,251
Share of taxation attributable to a jointly controlled entity	3,300,000	422,405
	<u>36,617,378</u>	<u>7,100,142</u>

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

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

## 6. Earnings per share

The calculation of basic and diluted earnings per share is based on the net profit for the year of HK\$171,817,186 (2001: HK\$62,983,427) and the following data:

	Number of shares	
	2002	2001
Weighted average number of ordinary shares for the purpose of basic earnings per share	562,558,614	550,822,318
Effect of dilutive potential ordinary shares – share options	285,747	463,173
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	562,844,361	551,285,491
	<hr/>	<hr/>

## DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of 6.5 cents per share and a special dividend of 6.5 cents per share for the year ended December 31, 2002 (2001: final dividend of 2 cents and special dividend of 5 cents) to shareholders whose names appear on the register of members on May 26, 2003. Together with the interim dividend of 4.5 cents per share and special dividend of 2.5 cents per share (2001: interim dividend of 2.5 cents and special dividend of 2.5 cents) paid on November 8, 2002, the total dividend for the full year will be 20 cents per share (2001: 12 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 12, 2003.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 19, 2003 to May 26, 2003, both days inclusive in order to determine those shareholders entitled to the proposed final and special dividends.

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 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on May 16, 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Results

For the year ended December 31, 2002, the Group achieved a consolidated turnover of approximately HK\$1,142.42 million (2001: HK\$758.34 million) and the net profit amounted to approximately HK\$171.82 million (2001: HK\$62.98 million), representing an increase of 51% and 173% respectively compared with that of last year. Basic earnings per share was 30.5 cents (2001: 11.4 cents).

## **Dyeing and Finishing Machines Manufacturing**

*Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Company Limited*

The business of dyeing and finishing machines manufacturing including trading of machine parts and servicing remained the key contributor to the Group's revenue in 2002. Turnover of this segment was approximately HK\$780.94 million (2001: HK\$445.23 million) or 68% of the Group's consolidated turnover and increasing by 75% compared to 2001.

During the year under review, the Textile Industry in Asia and China in particular experienced rapid growth due to China's entry into the World Trade Organisation ("WTO") and its robust consumer consumption growth. As a result, with the Textile Industry as a whole experiencing both sales and profit growth coupled with the launch of our new ECOTech series of dyeing machines, our business of dyeing and finishing machines manufacturing also grew robustly in our major market of China.

Furthermore, with the investments made over the past years and adequate vertical integrations in production since migrating our production facilities to Shenzhen together with the well established sales and service network, we were able to take advantage of the capacity available and thus generating a very healthy profit growth of 190% at the same time.

Barring any unforeseeable circumstances, we remain cautiously optimistic for our business of dyeing and finishing machines manufacturing as we anticipate that our customers and the Textile Industry will continue to expand with the eliminations of textile quotas in accordance with the WTO Trade Agreement and the healthy growth of the China domestic consumer market.

### *Sales and marketing*

To cope with the market development, we have deployed adequate resources to conduct sales and marketing activities in a strategic manner. As an effort to step up our sales force and services, we have established various regional service centers in our major markets including Beijing, Qingdao, Shanghai, Wuhan, Guangzhou, Shenzhen and Thailand. Besides, we also provide continuing staff trainings to our salespeople and services engineers with the aims for better product knowledge, pre and after-sales services.

### *Research and development*

The Group's research and development team has continued its persistent devotion to developing superior quality products with the latest technology and which has made **ronger** a brand name a leading choice in the Textile Industry. In the coming years, our research and development team will continue to focus on developing improvements to make our machines even more environmentally friendly and cost-effective to meet our customers' needs for advanced production equipment to increase their productivity and to reduce production costs.

## **Stainless Steel Trading**

### *Fong's Steels Supplies Company Limited*

Despite the highly competitive trading environment, this segment achieved a healthy growth during the year under review. It accounted for approximately 27% of the Group's consolidated turnover. The sales of stainless steel products increased by 20% to approximately HK\$310.31 million as compared to last year.

Though the stainless steel prices have been increasing steadily in 2002 due to the rise in nickel prices, the management has adopted certain strategies to minimize the volatilities of the stainless steel market. Furthermore, the management is able to better forecast demand and supply thus allowing the Group to be more effective in managing the volatile pricing and control of the level of inventory of our stainless steel products.

## **Stainless Steel Casting and Machining**

### *Tycon Alloy Industries (Hong Kong) Company Limited and Tycon Alloy Industries (Shenzhen) Company Limited*

The slow down of the economic conditions in the United States and the Europe had slowed down the business of stainless steel castings and machining in 2002. It accounted for approximately 4% of the Group's consolidated turnover. The turnover decreased by 5.8% to approximately HK\$51.17 million, but the profit from operation increased from HK\$2.18 million to HK\$6.72 million, an increase of 208% due to better margins and improvement in operating efficiency.

Capitalising the productivity improvement and new market development, the Board believes that both the production capacity and profit will improve. It is anticipated that the demand of castings from the overseas buyers will be improving this year because most of them had completed their inventory level adjustments in the past two years.

## **Jointly Controlled Entity**

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

During the year under review, the turnover of products manufactured by Monforts Fong's under the brand name "**MONFONGS**" increased by 134% to approximately HK\$244.6 million.

During the second half of 2002, with the combined efforts of our German partner's advanced technology and our Group's established sales network in China, Monforts Fong's has successfully launched the additional products of Relaxation Dryers and Levelling and Stretching Machines onto the China market in addition to the leading MONFONGS Stenter Machine. The initial feedback on these new products from the industry is promising. The management expects Monforts Fong's will further expand its market share in China.



To cope with the anticipated sales growth, Monforts Fong's has planned to extend its existing production plant to an aggregate floor areas of approximately 20,000 square metres in the existing Fong's manufacturing complex in Shenzhen. This new plant is scheduled to be put into use by the second half of 2004. Upon the launch of the new production area the production capacity of Monforts Fong's can be greatly increased to meet its future business growth.

## **Associates**

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

The performance of the sales of woven color fabrics was inevitably affected by the fall in market prices due to keen market competition. During the year under review, its turnover decreased by 17% to approximately HK\$154.15 million. Despite this, this business continued to contribute steady and stable revenue to the Group.

During the year, the management of Foshan East Asia had made an impairment loss of approximately HK\$70 million due to obsolescence of certain properties and equipment and doubt over the recoverability of certain trade and other receivables. 30% of the impairment loss amounting to HK\$21 million has therefore been reflected in the consolidated income statement of the Group.

## **Human Resources**

It is the people who make our Group a success. At December 31, 2002, the Company and its subsidiaries employed a total of approximately 2,400 staff members. The Group's remuneration policies are primarily based on the prevailing market salary levels, while bonuses may be granted on a discretionary basis. Other employee benefits include provident fund scheme and share option scheme.

We shall continue to align our human resource practice with our corporate objective so as to maximize shareholder value and to achieve growth.

## **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 December 31, 2002, net of total borrowings, the Group's net cash and bank balance was approximately HK\$144.51 million. In 2002, there is no gearing ratio shown as the Group has a net cash and bank balance. The current ratio was 1.98 reflecting a healthy liquidity level.

As at December 31, 2002, bank borrowings amounted to approximately HK\$64.30 million of which approximately 61% were secured by the Group's certain assets. More than 99% 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 17% 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\$216.05 million of which approximately 75% were denominated in Hong Kong dollars, 11% in US dollars, 6% in Euro, 4% in Swiss Franc, 3% in Renminbi and the remaining were denominated in various foreign currencies.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

#### **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 8, 2003

## 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 Monday, May 26, 2003 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, 2002.
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 8, 2003

*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.
- (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 19, 2003 to May 26, 2003, 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 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, May 16, 2003.

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