



FONG'S INDUSTRIES COMPANY LIMITED

立信工業有限公司*

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2003

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, 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2003 – unaudited

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 restated <i>HK\$'000</i>
Turnover		666,780	485,004
Cost of sales		(405,797)	(312,011)
Gross profit		260,983	172,993
Other revenue		7,511	5,419
Distribution costs		(24,814)	(18,708)
Administrative expenses		(77,988)	(64,966)
Other operating expenses		(25,107)	(15,748)
Profit from operations		140,585	78,990
Finance costs	5	(3,416)	(3,446)
Interest income		708	482
Share of results of associates		1,032	700
Share of results of a jointly controlled entity		27,128	6,144
Profit before taxation		166,037	82,870
Taxation	6	(26,280)	(11,268)
Profit before minority interests		139,757	71,602
Minority interests		772	–
Net profit for the period		140,529	71,602
Earnings per share	7	Cents	Cents
Basic		24.96	12.74
Diluted		24.96	12.73

Dividends per share	Cents	Cents
Interim	9.0	4.5
Special	3.0	2.5

CONDENSED CONSOLIDATED BALANCE SHEET

As at June 30, 2003

	As at June 30, 2003 unaudited HK\$'000	As at December 31, 2002 restated <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	239,418	243,009
Intangible assets	–	174
Goodwill	4,462	5,949
Interest in associates	35,813	35,112
Interest in a jointly controlled entity	55,372	32,387
	335,065	316,631
Current assets		
Inventories	215,337	178,035
Trade and other receivables	120,617	139,274
Amount due from a jointly controlled entity	2,322	5,641
Deferred tax assets	5,991	5,046
Bank balances, deposits and cash	251,724	216,051
	595,991	544,047
Current liabilities		
Trade and other payables	140,384	153,842
Warranty provision	4,500	3,766
Bills payable	16,288	17,884
Taxation payable	44,022	29,865
Obligations under finance leases – due within one year	2,711	3,502
Bank borrowings – due within one year	68,649	63,469
	276,554	272,328
Net current assets	319,437	271,719
	654,502	588,350

Capital and reserves		
Share capital	56,300	56,300
Reserves	592,781	523,927
	<u>649,081</u>	<u>580,227</u>
Minority interests	2,782	3,554
Non-current liabilities		
Obligations under finance leases		
– due after one year	2,639	3,738
Bank borrowings – due after one year	–	831
	<u>2,639</u>	<u>4,569</u>
	<u>654,502</u>	<u>588,350</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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 and the disclosure requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies adopted in the condensed financial statement are consistent with those followed in the Annual Report 2002, with the exception of changes in accounting policies to comply with SSAP 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants, which is effective for accounting periods beginning on or after January 1, 2003.

Under SSAP 12 (Revised), deferred taxation is provided in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The new accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

3. Business and geographical segments

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

	Manufacture and sale of dyeing machines <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Trading of machine parts and service income <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended June 30, 2003 (unaudited)						
Revenue						
External sales	439,641	158,676	38,137	30,326	-	666,780
Inter-segment sales	5,883	75,509	-	11,966	(93,358)	-
Total revenue	<u>445,524</u>	<u>234,185</u>	<u>38,137</u>	<u>42,292</u>	<u>(93,358)</u>	<u>666,780</u>
Results						
Segment results	<u>108,573</u>	<u>9,581</u>	<u>9,680</u>	<u>12,751</u>		140,585
Finance costs	(1,488)	(1,615)	(127)	(186)		(3,416)
Interest income						708
Share of results of associates	1,032					1,032
Share of results of a jointly controlled entity	27,128					27,128
Profit before taxation						166,037
Taxation						(26,280)
Minority interests						772
Net profit for the period						<u>140,529</u>
Other information						
Depreciation & amortisation	<u>9,789</u>	<u>352</u>	<u>839</u>	<u>2,030</u>		<u>13,010</u>

	Manufacture and sale of dyeing machines <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Trading of machine parts and service income <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended June 30, 2002 (unaudited and restated)						
Revenue						
External sales	282,403	134,978	44,529	23,094	–	485,004
Inter-segment sales	<u>2,723</u>	<u>57,456</u>	<u>–</u>	<u>8,241</u>	<u>(68,420)</u>	<u>–</u>
Total revenue	<u><u>285,126</u></u>	<u><u>192,434</u></u>	<u><u>44,529</u></u>	<u><u>31,335</u></u>	<u><u>(68,420)</u></u>	<u><u>485,004</u></u>
Results						
Segment results	<u><u>59,091</u></u>	<u><u>13,449</u></u>	<u><u>4,118</u></u>	<u><u>2,332</u></u>		78,990
Finance costs	(1,505)	(1,522)	(237)	(182)		(3,446)
Interest income						482
Share of results of associates	700					700
Share of results of a jointly controlled entity	6,144					<u>6,144</u>
Profit before taxation						82,870
Taxation						<u>(11,268)</u>
Net profit for the period						<u><u>71,602</u></u>
Other information						
Depreciation & amortisation	<u><u>7,378</u></u>	<u><u>302</u></u>	<u><u>1,163</u></u>	<u><u>2,161</u></u>		<u><u>11,004</u></u>

Geographical segments

	Revenue by geographical market for the six months ended June 30,	
	2003 unaudited <i>HK\$'000</i>	2002 unaudited <i>HK\$'000</i>
Hong Kong	237,455	210,429
People's Republic of China	317,519	183,505
Asia Pacific	62,384	45,921
Europe	35,986	33,261
South & North America	11,538	10,776
Other	1,898	1,112
	<u><u>666,780</u></u>	<u><u>485,004</u></u>

4. Depreciation and amortisation

During the period, depreciation of approximately HK\$11,348,000 (2002: HK\$10,762,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$1,662,000 (2002: HK\$242,000) was charged in respect of the Group's intangible assets.

5. Finance costs

	For the six months ended June 30,	
	2003 unaudited HK\$'000	2002 unaudited HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,308	1,792
Obligations under finance leases	141	110
Bank charges	1,878	1,448
Factoring charges	89	96
	<u>3,416</u>	<u>3,446</u>

6. Taxation

	For the six months ended June 30,	
	2003 unaudited HK\$'000	2002 unaudited and restated HK\$'000
Taxation comprised:		
Hong Kong Profits Tax		
Current year	14,670	10,333
Underprovision in prior years	147	–
Overseas Taxation		
Current year	8,148	3,807
Overprovision in prior years	(136)	(1,994)
Share of taxation of associates	254	197
Share of taxation of a jointly controlled entity	4,143	1,035
Deferred taxation credit	(946)	(2,110)
	<u>26,280</u>	<u>11,268</u>

Note:

- (a) Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

- (b) The change in accounting policy in accordance with SSAP 12 (revised) “Income Taxes” has been applied retrospectively and the comparatives have been restated. The taxation charge for the six months ended June 30, 2002 has been reduced by approximately HK\$2,110,000 as a result of this restatement.

7. Earnings per share

The calculation of basic and diluted earnings per share is based on the profit for the period of approximately HK\$140,529,000 (2002: HK\$71,602,000) and the following data:

	For the six months ended June 30,	
	2003 unaudited Number of Shares	2002 unaudited Number of Shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	562,996,285	562,169,766
Effect of dilutive potential ordinary shares – share options	–	440,902
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>562,996,285</u>	<u>562,610,668</u>

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 9.0 cents and a special dividend of 3.0 cents (2002: an interim dividend of 4.5 cents and a special dividend of 2.5 cents) per share. The interim and special dividends will be paid on or about November 7, 2003 to those shareholders on the register of members on October 31, 2003. The register of members of the Company will be closed from October 29, 2003 to October 31, 2003, 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 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, October 28, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Results

Year 2003 marks both the 40th Anniversary of the Group and a year of continuous growth. For the six months ended June 30, 2003, the Group’s consolidated turnover and net profit were approximately HK\$666,780,000 and HK\$140,529,000 respectively, representing an increase of approximately 37% and 96% respectively over corresponding period in 2002. Basic earnings per share was HK24.96 cents, representing a growth of approximately 96%.

Dyeing and Finishing Machinery Manufacturing

Fong's National Engineering Co., Ltd. and Fong's National Engineering (Shenzhen) Co., Ltd.

The turnover of this core business of the Group for the period under review was approximately HK\$477,778,000, an increase of 46% as compared to that of the corresponding period last year. Our strategy in supplying top quality products at competitive prices has allowed us to capture a significant portion of the China market.

In addition, our ongoing focus on research and development is the key factor assisting the Group in maintaining a competitive edge in the market.

The Group is well positioned to maintain its leadership in the industry and is committed to providing world-class quality and environmentally friendly dyeing and finishing equipment and services to the total satisfaction of its customers.

Stainless Steel Trading

Fong's Steels Supplies Company Limited

During the period under review, the turnover of this business segment amounted to approximately HK\$158,676,000, an increase of 18% as compared to the same period in the prior year, but the profit margins were however lower due to the impact of SARS in the second quarter of this year.

As mentioned in our Annual Report 2002, the Group will continue to manage the inventory levels on its forecasts of stainless steel prices. The management anticipates that the profit margins will improve as nickel prices increase.

Stainless Steel Casting

Tycon Alloy Industries (Hong Kong) Co., Ltd. and Tycon Alloy Industries (Shenzhen) Co., Ltd.

During the period under review, this business segment recorded a turnover and profit of approximately HK\$30,326,000 and HK\$12,751,000 respectively, representing an increase of 31% and 447% respectively as compared to the same period in the prior year. The increases in both turnover and profit are the results of our marketing efforts and the expansion of the production capacity.

The management will concentrate their efforts on improving production efficiencies and on new market development.

Jointly Controlled Entity

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

As mentioned in the Annual Report 2002, Monforts Fong's introduced two new products, Relaxation Dryer and Levelling and Stretching Machine, in 2002. Both of these machines were well received by the market. During the period under review, the business turnover of Monforts Fong's increased to approximately HK\$155,000,000, an increase of 88% as compared to the corresponding period last year.

The management believes that as China's economy will continue to grow at a fast pace, and as such the demand of our products is expected to grow even further in future. Monforts Fong's is on the right track in achieving a steady growth in both turnover and operating profit in 2003.

To cope with the anticipated increase in demand of its products, Monforts Fong's has recently commenced the construction of a 20,000 square metre factory building within the existing production complex of the Group. This new factory building is expected to commence production by September, 2004.

Associates

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

The business of the sale of woven color fabrics conducted by Foshan East Asia Limited reported a modest growth. During the period under review, our share of profit increased from HK\$788,000 to HK\$1,095,000 as the management has taken steps to reduce costs and increase competitiveness. The Board believes that this business will continue to make a steady contribution to the profit of the Group in the coming years.

Acquisition of a subsidiary

In September 2002, the Group acquired an 80% equity interests in Xorella AG at a consideration of HK\$21,840,000. Founded in 1971, Xorella AG is the technology and market leader in yarn steam setting and conditioning systems in Switzerland. This investment is expected to benefit the Group as it extends our product range into the yarn conditioning equipment sector.

Prospects

China's entry into the WTO and the resultant robustness of the China market have provided significant opportunities for the Group. Looking ahead, we are confident that our leading position in the industry, our high quality products and our diversifications into new products and new markets will underpin our efforts to strive for a better performance in future.

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.

At June 30, 2003, the Group's cash and bank balance, net of total borrowings, was approximately HK\$177,726,000. There is no gearing ratio shown as the Group has a net positive cash and bank balance. The current ratio was 2.16 reflecting a healthy liquidity level.

At June 30, 2003, bank borrowings amounted to approximately HK\$68,649,000 of which approximately 41% were secured by certain assets of the Group. All bank borrowings are repayable within one year. Most bank borrowings were sourced from Hong Kong, of which approximately 11% were denominated in Hong Kong dollars and the remaining were denominated in US dollars. The bank borrowings of the Group are predominantly subject to floating interest rates.

At June 30, 2003, the cash and bank balance amounted to approximately HK\$251,724,000 of which approximately 46% were denominated in Hong Kong dollars, 25% in US dollars, 19% in Euro, 5% in Renminbi and the remaining were denominated in various foreign currencies.

Human Resources

At June 30, 2003, the Group employed approximately 2,500 staff. The Group remunerates its employees based on their performance, experience and prevailing industry practice.

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, 2003. The members of the Audit Committee comprise the two independent non-executive directors of the Company, Mr. Cheung Chiu Fan and Mr. Lui Chi Lung, Louis.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be 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 15, 2003

* *For identification purpose only*

“Please also refer to the published version of this announcement in the South China Morning Post”