



FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 641

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003 together with comparative figures for 2002 as follows:

Consolidated Income Statement

| | | For the year ended December 31 | |
|--|--------------|-----------------------------------|-----------------------------|
| | <i>Notes</i> | 2003 HK\$ | 2002 HK\$ (Restated) |
| Turnover | | 1,350,380,079 | 1,142,419,206 |
| Cost of sales | | <u>(840,405,312)</u> | <u>(730,831,737)</u> |
| Gross profit | | 509,974,767 | 411,587,469 |
| Other operating income | | 31,296,456 | 17,970,914 |
| Distribution costs | | (54,404,259) | (36,920,222) |
| Administrative expenses | | (169,436,464) | (152,029,654) |
| Other operating expenses | | <u>(44,115,212)</u> | <u>(32,301,409)</u> |
| Profit from operations | | 273,315,288 | 208,307,098 |
| Finance costs | 3 | (4,874,750) | (8,017,464) |
| Interest income | | 1,325,762 | 1,430,910 |
| Share of results of associates | | 2,667,207 | (19,024,333) |
| Share of results of a jointly controlled entity | | <u>50,435,002</u> | <u>24,773,150</u> |
| Profit before tax | | 322,868,509 | 207,469,361 |
| Income tax expense | 4 | <u>(47,901,247)</u> | <u>(35,909,523)</u> |
| Profit before minority interests | | 274,967,262 | 171,559,838 |
| Minority interests | | <u>1,942,872</u> | <u>965,203</u> |
| Net profit for the year | | <u><u>276,910,134</u></u> | <u><u>172,525,041</u></u> |
| Earnings per share | 5 | | |
| Basic | | <u><u>49.2 HK cents</u></u> | <u><u>30.7 HK cents</u></u> |
| Diluted | | <u><u>49.2 HK cents</u></u> | <u><u>30.7 HK cents</u></u> |

Consolidated Balance Sheet

| | At December 31 | |
|---|--------------------|--------------------|
| | 2003 | 2002 |
| | HK\$ | HK\$ |
| | | (Restated) |
| Non-current assets | | |
| Property, plant and equipment | 257,221,653 | 243,008,269 |
| Intangible assets | – | 174,371 |
| Goodwill | 2,974,379 | 5,948,759 |
| Interests in associates | 31,342,135 | 35,112,174 |
| Interest in a jointly controlled entity | 56,200,152 | 32,386,884 |
| Deferred tax assets | 2,945,113 | 5,791,372 |
| | <u>350,683,432</u> | <u>322,421,829</u> |
| Current assets | | |
| Inventories | 265,382,760 | 178,034,748 |
| Trade and other receivables | 124,488,457 | 139,274,273 |
| Amount due from a jointly controlled entity | 980,213 | 5,641,424 |
| Tax recoverable | 4,589,195 | – |
| Bank balances, deposits and cash | 217,209,182 | 216,051,264 |
| | <u>612,649,807</u> | <u>539,001,709</u> |
| Current liabilities | | |
| Trade and other payables | 162,904,991 | 153,841,962 |
| Bills payable | 24,236,550 | 17,883,579 |
| Warranty provision | 6,300,000 | 3,766,200 |
| Tax liabilities | 6,226,849 | 29,865,196 |
| Obligations under finance leases | | |
| – due within one year | 2,231,885 | 3,502,081 |
| Bank borrowings | | |
| – due within one year | 38,257,757 | 63,468,600 |
| | <u>240,158,032</u> | <u>272,327,618</u> |
| Net current assets | <u>372,491,775</u> | <u>266,674,091</u> |
| | <u>723,175,207</u> | <u>589,095,920</u> |
| Capital and reserves | | |
| Share capital | 56,299,629 | 56,299,629 |
| Reserves | 661,644,433 | 523,926,463 |
| | <u>717,944,062</u> | <u>580,226,092</u> |
| Minority interests | <u>1,611,276</u> | <u>3,554,148</u> |
| Non-current liabilities | | |
| Obligations under finance leases | | |
| – due after one year | 1,518,067 | 3,738,739 |
| Bank borrowings | | |
| – due after one year | – | 831,500 |
| Deferred tax liabilities | 2,101,802 | 745,441 |
| | <u>3,619,869</u> | <u>5,315,680</u> |
| | <u>723,175,207</u> | <u>589,095,920</u> |

Notes:

1. Segment Information

Business segments

2003

| | Manufacture and sale of dyeing and finishing machines <i>HK\$</i> | Trading of stainless steel supplies <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 | 924,018,554 | 357,107,252 | 69,254,273 | – | 1,350,380,079 |
| Inter-segment sales | 16,839,319 | 133,261,396 | 24,157,087 | (174,257,802) | – |
| Total revenue | <u>940,857,873</u> | <u>490,368,648</u> | <u>93,411,360</u> | <u>(174,257,802)</u> | <u>1,350,380,079</u> |

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

RESULTS

| | | | | | |
|---|--------------------|-------------------|-------------------|---|--------------------|
| Segment results | <u>225,530,504</u> | <u>21,998,673</u> | <u>25,786,111</u> | – | 273,315,288 |
| Finance costs | | | | | (4,874,750) |
| Interest income | | | | | 1,325,762 |
| Share of results of associates | | | | | 2,667,207 |
| Share of results of a jointly controlled entity | 50,435,002 | | | | <u>50,435,002</u> |
| Profit before tax | | | | | 322,868,509 |
| Income tax expense | | | | | (47,901,247) |
| Minority interests | | | | | <u>1,942,872</u> |
| Net profit for the year | | | | | <u>276,910,134</u> |

2002

| | Manufacture and sale of dyeing and finishing machines <i>HK\$</i> | Trading of stainless steel supplies <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 | 780,936,224 | 310,308,959 | 51,174,023 | – | 1,142,419,206 |
| Inter-segment sales | <u>8,665,962</u> | <u>143,692,969</u> | <u>18,387,031</u> | <u>(170,745,962)</u> | <u>–</u> |
| Total revenue | <u><u>789,602,186</u></u> | <u><u>454,001,928</u></u> | <u><u>69,561,054</u></u> | <u><u>(170,745,962)</u></u> | <u><u>1,142,419,206</u></u> |

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

| | | | | | |
|---|--------------------|-------------------|------------------|----------|---------------------------|
| RESULTS | | | | | |
| Segment results | <u>179,245,521</u> | <u>22,341,205</u> | <u>6,720,372</u> | <u>–</u> | 208,307,098 |
| Finance costs | | | | | (8,017,464) |
| Interest income | | | | | 1,430,910 |
| Share of results of associates | | | | | (19,024,333) |
| Share of results of a jointly controlled entity | 24,773,150 | | | | <u>24,773,150</u> |
| Profit before tax | | | | | 207,469,361 |
| Income tax expense | | | | | (35,909,523) |
| Minority interests | | | | | <u>965,203</u> |
| Net profit for the year | | | | | <u><u>172,525,041</u></u> |

Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China ("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 | |
|---|---|-----------------------------|
| | 2003 <i>HK\$</i> | 2002 <i>HK\$</i> |
| The PRC | 627,684,244 | 415,823,275 |
| Hong Kong | 420,137,457 | 515,504,402 |
| Asia Pacific (other than the PRC and Hong Kong) | 176,271,396 | 113,586,921 |
| Europe | 88,083,649 | 68,528,701 |
| North and South America | 28,256,638 | 24,699,491 |
| Others | 9,946,695 | 4,276,416 |
| | <u>1,350,380,079</u> | <u>1,142,419,206</u> |

2. Depreciation and Amortisation

| | 2003 <i>HK\$</i> | 2002 <i>HK\$</i> |
|-----------------------------------|----------------------------|--------------------------|
| Amortisation of goodwill | 2,974,380 | 2,974,380 |
| Amortisation of intangible assets | 174,371 | 461,030 |
| Depreciation and amortisation: | | |
| Owned assets | 28,509,826 | 19,674,947 |
| Assets held under finance leases | 2,036,380 | 2,285,804 |
| | <u>33,694,957</u> | <u>25,396,161</u> |

3. Finance Costs

| | 2003 <i>HK\$</i> | 2002 <i>HK\$</i> |
|--|----------------------------|-------------------------|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | 300,660 | 4,085,547 |
| Obligations under finance leases | 235,291 | 251,127 |
| Bank charges | 4,103,972 | 3,461,329 |
| Factoring charges | 234,827 | 219,461 |
| | <u>4,874,750</u> | <u>8,017,464</u> |

4. Income Tax Expense

| | 2003 | 2002 |
|---|--------------------------|--------------------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current year | 26,275,757 | 25,470,969 |
| (Over)underprovision in prior years | (1,378,353) | 318,805 |
| Overseas taxation | | |
| Current year | 13,934,787 | 9,098,780 |
| Overprovision in prior years | (3,316,773) | (1,992,806) |
| Deferred tax | | |
| Current year | 4,675,676 | (707,855) |
| Attributable to a change in tax rate in Hong Kong | (473,056) | – |
| | <hr/> | <hr/> |
| Taxation attributable to the Company and its subsidiaries | 39,718,038 | 32,187,893 |
| Share of income tax attributable to associates | 543,475 | 421,630 |
| Share of income tax attributable to a jointly controlled entity | 7,639,734 | 3,300,000 |
| | <hr/> | <hr/> |
| | <u>47,901,247</u> | <u>35,909,523</u> |

The Hong Kong Profits Tax rate has been increased from 16% to 17.5% with effect from year of assessment 2003/04. Accordingly, the Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. The effect of this increase has been reflected in the calculation of current and deferred tax balance at December 31, 2003.

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\$276,910,134 (2002: HK\$172,525,041) and the following data:

| | Number of shares | |
|--|---------------------------|---------------------------|
| | 2003 | 2002 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 562,996,285 | 562,558,614 |
| Effect of dilutive potential ordinary shares – share options | – | 285,747 |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>562,996,285</u> | <u>562,844,361</u> |

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of 9 cents per share and a special dividend of 7 cents per share for the year ended December 31, 2003 (2002: final dividend of 6.5 cents and special dividend of 6.5 cents) to shareholders whose names appear on the register of members on May 25, 2004. Together with the interim dividend of 9 cents per share and special dividend of 3 cents per share (2002: interim dividend of 4.5 cents and special dividend of 2.5 cents) paid on November 7, 2003, the total dividend for the full year will be 28 cents per share (2002: 20 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 9, 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 17, 2004 to May 25, 2004, 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 14, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

For the year ended December 31, 2003, the Group's consolidated turnover was approximately HK\$1,350 million (2002: HK\$1,142 million) and the net profit amounted to approximately HK\$277 million (2002: HK\$173 million), representing an increase of 18% and 60% respectively as compared with that of last year. Basic earnings per share was 49.2 cents (2002: 30.7 cents). The surge in profit from operations was mainly attributable to two factors: increase in sales turnover and improvement in cost effectiveness via efficient cost control and operational leverage.

Dyeing and Finishing Machinery Manufacturing

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

During the year under review, this business segment recorded a turnover of approximately HK\$924 million (2002: HK\$781 million) or 68% of the Group's consolidated turnover, generating an operating profit of approximately HK\$226 million (2002: HK\$179 million). This core business remains the largest income contributor to the Group with the PRC as its major market.

Research and Development

The Group's research and development ("R&D") capability is always one of our key competitive strength in an industry in which businesses are always competing for the best design and functions as well as the quickest response to customers' needs. During the year under review, the Group successfully launched the ALLWIN High Temperature Package Dyeing Machine and the LABWIN Laboratory Package Dyeing Machine. These machines were well received in the market as they satisfy users' need for an excellent performance in terms of quality and cost savings achieved at a reasonable price.

With their innovative and environmentally friendly designs, the ALLWIN and the LABWIN were honored with the "Machinery and Equipment Design Award" and the "Machinery and Equipment Design Certificate of Merit" respectively in the 2003 Hong Kong Awards for Industry. These awards represent a formal recognition of the achievements made by the Group's R&D team.

Sales and Marketing

Apart from focusing on R&D, the Group will continue to expand its sales force and intensify its marketing and promotion efforts. In order to diversify its customer base and to tap into new potential markets, the Group is prepared to further explore textile markets in South America and in the Asia Pacific region. The Group intends to expand its sales network, on one hand, by establishing sales offices or appointing sales agents in new locations, and on the other hand, by strengthening its existing sales and marketing team to further promote the Group's products. In 2003, the Group participated in the largest textile machinery exhibitions held in Birmingham, the U.K. and Shanghai, the PRC and received favourable responses therefrom. The Group sees participating in such exhibitions as an opportunity to further expand its customer base and to strengthen our brand and market position.

In 2002, the Group acquired a 80% interest in Xorella AG, a Swiss company which is the technology and market leader in yarn steam setting and conditioning systems. Through this alliance, the Group has extended its product range into the yarn conditioning equipment sector. Although the initial market feedback in the PRC appears to be very encouraging, the performance of this division during 2003 was somewhat below management's expectation as the demand from the conventional overseas markets for European machines was poor. However, we anticipate that the performance of this division in 2004 will make up the minor setback of 2003.

Looking ahead, while the world economy is on the road to recovery, the overall operating environment will still be very challenging and competitive in the coming years. In particular, we have experienced a significant increase in stainless steel prices, a major component of the Group's production cost, towards the end of 2003 and this increase appears to be sustainable in the foreseeable future. And despite the Group's efforts to hedge the costs of our major raw material and to take appropriate cost control measures, we anticipate that we may raise our average selling prices in the second half of this year. Furthermore, we will continue to concentrate our expertise and experience in providing high standard machines and better services. Being one of the leading manufactures with the widest range of textile machinery and equipment in this field, we remain confident of reinforcing and to further establish ourselves as a leader in the market.

Stainless Steel Trading

Fong's Steels Supplies Company Limited

For the year under review, the turnover of this business segment amounted to approximately HK\$357 million, an increase of 15% over last year, while the operating profit remained at approximately HK\$22 million, same as that of last year due to the impact of SARS epidemic during the second and third quarters of the year.

Stainless steel prices are expected to remain high in the near future due to the imbalance between supply and demand of nickel, one of the major raw materials for the production of stainless steels. The Group has been actively managing the inventory level based on its forecasts of stainless steel prices and demand in order to maximize profitability.

As the PRC continues to report strong economic growth, it is expected that the demand for a large variety of stainless steel products in the PRC will be sustainable in the foreseeable future, which means this trading business will be able to grow along with this demand trend.

Stainless Steel Casting

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

During the year under review, this stainless steel casting business managed to report an increase in sales and profit. The turnover increased by 35% to approximately HK\$69 million (2002: HK\$51 million), net of inter-segment sales of approximately HK\$24 million (2002: HK\$18 million) and the operating profit increased by 284% to approximately HK\$26 million (2002: HK\$7 million). These encouraging results were mainly attributable to management restructuring in this division. Besides, the Group will also focus on maintaining effective measures in controlling expenses and costs in order to maximize operational efficiency.

To cope with the increased demand from overseas customers in respect of both quantity and quality, the Group has invested in new equipment to enhance productivity. The Group expects this casting business to have steady growth in turnover and operating profit in the coming years.

Jointly Controlled Entity

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

For the year under review, Monforts Fong's recorded a turnover of approximately HK\$306 million (2002: HK\$245 million), representing an increase of approximately 25% in comparison to last year. The increase in turnover was attributable to the continuing demand for Stenters and other new products, namely the JetAir Relaxation Dryers and the Levelling and Stretching Machines. These new products are gaining increasing acceptance in the PRC market where demand is expected to grow further in the years to come. For the year ended December 31, 2003, the Group's share of profit amounted to approximately HK\$50 million (2002: HK\$25 million).

As mentioned in the Interim Report 2003, construction of the 20,000 square metres factory building within the existing production complex of the Group in Shenzhen is progressing smoothly with completion expected within the third quarter of 2004. Upon completion of the new production plant, Monforts Fong's production capacity is expected to double in volume.

Associates

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

As mentioned in the Interim Report 2003, the woven colour fabrics trading business conducted by this associate reported a modest growth. For the year under review, the turnover increased 14% to approximately HK\$176 million compared to HK\$154 million in 2002 and the Group's share of profit before taxation was approximately HK\$3 million.

Human Resources

As of December 31, 2003, the Group employed a total of approximately 3,000 employees. They were remunerated according to their performance, working experience and market conditions. Other employee benefits available for eligible employees include retirement benefits scheme, share option scheme, performance bonus and sales commission.

Liquidity and Capital Resources

The Board 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, 2003, net of borrowings, the Group's net cash and bank balance was approximately HK\$175 million. In 2003, there was no gearing ratio shown as the Group had a net cash and bank balance. The current ratio was 2.55 reflecting a healthy liquidity level.

As at December 31, 2003, bank borrowings amounted to approximately HK\$38 million of which approximately 67% were secured by certain assets of the Group. All of the bank borrowings are repayable within one year. Most bank borrowings were sourced from Hong Kong, of which 99% were denominated 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.

As at December 31, 2003, the cash and bank balance amounted to approximately HK\$217 million of which approximately 33% were denominated in US dollars, 29% in Renminbi, 23% in Euro, 11% in Hong Kong dollars and the remaining were denominated in various other 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 13, 2004

“Please also refer to the published version of this announcement in SCMP-Business”