



**FONG'S INDUSTRIES COMPANY LIMITED**

**立信工業有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 641)**

**INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2004**

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, 2004 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended June 30, 2004 – unaudited*

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Turnover		<b>763,736</b>	666,780
Cost of sales		<b>(513,705)</b>	(405,797)
<b>Gross profit</b>		<b>250,031</b>	260,983
Other revenue		<b>12,449</b>	7,511
Distribution costs		<b>(30,564)</b>	(24,814)
Administrative expenses		<b>(83,968)</b>	(77,988)
Other operating expenses		<b>(18,399)</b>	(25,107)
<b>Profit from operations</b>		<b>129,549</b>	140,585
Finance costs	5	<b>(4,334)</b>	(3,416)
Interest income		<b>646</b>	708
Share of results of associates		<b>694</b>	1,032
Share of results of a jointly controlled entity		<b>13,142</b>	27,128
<b>Profit before tax</b>		<b>139,697</b>	166,037
Income tax expense	6	<b>(20,961)</b>	(26,280)
<b>Profit before minority interests</b>		<b>118,736</b>	139,757
Minority interests		<b>(148)</b>	772
<b>Net profit for the period</b>		<b>118,588</b>	140,529
Earnings per share	7		
Basic		<b>21.10 cents</b>	24.96 cents
Diluted		<b>21.10 cents</b>	24.96 cents
Dividends per share	8		
Interim		<b>7.0 cents</b>	9.0 cents
Special		<b>3.0 cents</b>	3.0 cents

**CONDENSED CONSOLIDATED BALANCE SHEET***As at June 30, 2004 – unaudited*

	As at <b>June 30,</b> <b>2004</b> <b>unaudited</b> <i>HK\$'000</i>	As at December 31, 2003 audited <i>HK\$'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	260,364	257,222
Goodwill	1,487	2,974
Interest in associates	31,842	31,342
Interest in a jointly controlled entity	52,677	56,200
Deferred tax assets	2,429	2,945
	<u>348,799</u>	<u>350,683</u>
<b>Current assets</b>		
Inventories	446,925	265,384
Trade and other receivables	187,110	124,488
Amount due from a jointly controlled entity	–	980
Tax recoverable	4,589	4,589
Bank balances, deposits and cash	202,435	217,209
	<u>841,059</u>	<u>612,650</u>
<b>Current liabilities</b>		
Trade and other payables	159,700	162,905
Amount due to a jointly controlled entity	6,406	–
Bills payable	9,878	24,237
Warranty provision	6,604	6,300
Tax liabilities	21,471	6,227
Obligations under finance leases – due within one year	2,112	2,232
Bank borrowings – due within one year	251,416	38,257
	<u>457,587</u>	<u>240,158</u>
<b>Net current assets</b>	<u>383,472</u>	<u>372,492</u>
	<u>732,271</u>	<u>723,175</u>
<b>Capital and reserves</b>		
Share capital	56,038	56,300
Reserves	672,954	661,644
	<u>728,992</u>	<u>717,944</u>
Minority interests	<u>1,759</u>	<u>1,611</u>
<b>Non-current liabilities</b>		
Obligations under finance leases – due after one year	525	1,518
Deferred tax liabilities	995	2,102
	<u>1,520</u>	<u>3,620</u>
	<u>732,271</u>	<u>723,175</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 and finishing machines, trading of stainless steel supplies, 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 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements under Appendix 16 to the Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies adopted in the condensed financial statements are consistent with those followed in the Annual Report 2003.

### 3. Business and geographical segments

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

#### *Business segments*

	Manufacture and sale of dyeing and finishing machines <i>HK\$'000</i>	Trading of stainless steel supplies <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>
<b>Six months ended June 30, 2004 (unaudited)</b>					
<b>Revenue</b>					
External sales	396,446	316,273	51,017	–	763,736
Inter-segment sales	<u>6,945</u>	<u>107,951</u>	<u>7,525</u>	<u>(122,421)</u>	<u>–</u>
Total revenue	<u><u>403,391</u></u>	<u><u>424,224</u></u>	<u><u>58,542</u></u>	<u><u>(122,421)</u></u>	<u><u>763,736</u></u>
<b>Inter-segment sales are charged at terms agreed between relevant parties</b>					
<b>Results</b>					
Segment results	<u><u>80,388</u></u>	<u><u>42,855</u></u>	<u><u>6,306</u></u>		129,549
Finance costs					(4,334)
Interest income					646
Share of results of associates					694
Share of results of a jointly controlled entity	13,142				<u>13,142</u>
Profit before tax					139,697
Income tax expense					(20,961)
Minority interests					<u>(148)</u>
Net profit for the period					<u><u>118,588</u></u>
<b>Other information</b>					
Depreciation and amortisation	<u><u>12,375</u></u>	<u><u>413</u></u>	<u><u>2,078</u></u>		<u><u>14,866</u></u>



**5. Finance costs**

	<b>For the six months ended June 30,</b>	
	<b>2004 unaudited HK\$'000</b>	<b>2003 unaudited HK\$'000</b>
Interest on:		
Bank borrowings wholly repayable within five years	2,003	1,308
Obligations under finance leases	63	141
Bank charges	2,083	1,878
Factoring charges	185	89
	<u>4,334</u>	<u>3,416</u>

**6. Income tax expense**

	<b>For the six months ended June 30,</b>	
	<b>2004 unaudited HK\$'000</b>	<b>2003 unaudited HK\$'000</b>
The charge comprises:		
Hong Kong Profits Tax		
Current period	16,793	14,670
Under provision in prior years	–	147
Overseas taxation		
Current period	2,909	8,148
Over provision in prior years	(8)	(136)
Deferred tax credit	(591)	(946)
Share of income tax attributable to associates	194	254
Share of income tax attributable to a jointly controlled entity	1,664	4,143
	<u>20,961</u>	<u>26,280</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) 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 net profit for the period of approximately HK\$118,588,000 (2003: HK\$140,529,000) and the following data:

	<b>For the six months ended June 30,</b>	
	<b>2004 unaudited Number of Shares</b>	<b>2003 unaudited Number of Shares</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>562,086,384</u>	<u>562,996,285</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>562,086,384</u>	<u>562,996,285</u>

There were no dilutive potential ordinary shares outstanding for the six months ended June 30, 2004 and 2003.

## 8. Dividends

	For the six months ended June 30,	
	2004 unaudited HK\$'000	2003 unaudited HK\$'000
Proposed Interim dividend of 7.0 cents (2003: 9.0 cents) per share	<u>39,227</u>	<u>50,670</u>
Proposed Special dividend of 3.0 cents (2003: 3.0 cents) per share	<u>16,811</u>	<u>16,890</u>

### DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 7.0 cents and a special dividend of 3.0 cents (2003: an interim dividend of 9.0 cents and a special dividend of 3.0 cents) per share. The interim and special dividends will be paid on or about November 3, 2004 to those shareholders on the register of members on October 21, 2004. The register of members of the Company will be closed from October 18, 2004 to October 21, 2004, 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 the Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, October 15, 2004.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Summary of Results

For the six months ended June 30, 2004, the Group's consolidated turnover amounted to approximately HK\$763,736,000 (2003: HK\$666,780,000), representing an increase of 15% compared with the corresponding period last year. The net profit for the period under review amounted to approximately HK\$118,588,000, a decrease of 16% (2003: HK\$140,529,000). Basic earnings per share was 21.10 cents (2003: 24.96 cents).

#### Dyeing and Finishing Machinery Manufacturing

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

During the period under review, the sales of dyeing and finishing machines were directly affected by China's recent austerity measures to prevent the overheating of its economy. In particular, the tightening of bank loan credits for our local Chinese customers has significantly hampered their ability to expand. And at the same time, sales to our overseas markets have shown healthy growth but were not able to offset the difference in the China market. Consequently, the turnover of this core business of the Group for the six months ended June 30, 2004 was approximately HK\$396,446,000 (2003: HK\$477,778,000), a decrease of 17% as compared to that of the corresponding period last year.

As disclosed in the Company's circular dated August, 24, 2004, the Group has successfully acquired the production facilities and intellectual property rights of **SCHOLL-THEN**, a renowned German group of companies engaged in dyeing machine manufacturing, for a cash consideration of approximately HK\$54,840,000. Through this acquisition, the Group will be able to further advance its strategy of providing customers with the widest range of products and improves its leading position in the industry on a global basis.

#### Stainless Steel Trading

*Fong's Steels Supplies Company Limited*

During the period under review, this business segment recorded a turnover and operating profit of approximately HK\$316,273,000 (2003: HK\$158,676,000) and HK\$42,855,000 (2003: HK\$9,581,000) respectively, representing an increase of 99% and 347% respectively as compared with the corresponding period last year.

Owing to the weakening of the US dollar, a strong demand for stainless steel driven by global economic growth coupled with an imbalance between supply and demand of nickel, the major raw material for the production of stainless steels, stainless steel prices experienced a significant rise starting from the last quarter of 2003. While enjoying an environment in which our products' sales prices increase in line with that of stainless steel prices and robust demand, the management has adopted a prudent approach in conducting this trading business. The management has exercised cautions in selecting customers and tightening credit control in order to minimize the risk associated with accounts receivables. In addition, the management will maintain the sales volume of this business segment at the current level and optimize its stock by better anticipating the sales orders. Moreover, it is anticipated that stainless steel prices will be relatively stable for the remainder of the year.

### **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 of approximately HK\$51,017,000, (2003: HK\$30,326,000) representing an increase of 68% over the same period last year, but the operating profit decreased by 51% to approximately HK\$6,306,000 (2003: HK\$12,751,000).

Owing to the long lead-time associated with this business and the relatively fast rise of its stainless steel raw material, the profit margins of this business have been unfavourably affected. Nevertheless, the management expects that the profit margins will gradually improve as new orders are renegotiated. Furthermore, to maintain competitiveness, the management has already taken appropriate cost control measures and will focus on their efforts on improvement in production efficiencies and continue to diversify its products and sales to additional geographical areas.

### **Jointly Controlled Entity**

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

During the period under review, the turnover of Monforts Fong's was approximately HK\$121,159,000, a decrease of 22% as compared with the corresponding period last year. The decrease in sales volume was mainly hampered by the short-term slowdown in capital expenditure in the textile industry due to China's austerity measures. Nevertheless, the management believes that following the elimination of US textile quotas in January, 2005, China is expected to gain a decisive share of the global apparel market. Customers are expected to purchase new textile equipment to enhance productivity in order to pave their way for future development and competition.

In addition to its flagship product "Stenters", Monforts Fong's has recently launched a new product "Thermefix", which are for thermosoling, curing and dyeing of dimensionally stable woven fabrics, thus offering customers with greater choices. These products have received very positive market responses.

As mentioned in the Annual Report 2003, the production facilities of the new factory building at the Group's existing factory site in Buji, Shenzhen, China will be completed by the end of September, 2004. The management believes that the expanded factory complex will further increase production capacity and efficiency and thus enhance profitability.

### **Associates**

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

The business of sale of woven color fabrics conducted by Foshan East Asia Company Limited reported a modest set back. During the period under review, the Group's share of profit decreased from HK\$1,095,000 to HK\$726,000. The management has endeavored to keep on its efforts on reducing costs and increasing competitiveness. Nevertheless, the Board believes that this business will continue to provide positive contribution to the profit of the Group.

### **Prospects**

Despite the slowdown in our core business caused directly by the austerity measures being implemented in China, the Board continues to maintain an optimistic outlook for the Group's businesses. In particular, with only approximately four months remaining in the removal of quotas under the WTO agreement, following the acquisition of SCHOLL-THEN and the increase in the production capacity at our Monforts Fong's Joint Venture, the Group is now well positioned to take advantage of the foreseeable acceleration in the growth of the textile industry in both China and Asia. Consequently, the Board views the current slow down in sales and profit of its core business as only temporary following several years of very strong growth.

## 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 June 30, 2004, the Group's bank borrowings, net of cash and bank balances, were as approximately HK\$51,617,000. The gearing ratio of 7% and the current ratio of 1.84 times reflected a healthy liquidity level.

As at June 30, 2004, bank borrowings amounted to approximately HK\$251,416,000 of which approximately 35% 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 32% 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.

As at June 30, 2004, the cash and bank balances amounted to approximately HK\$202,435,000 of which approximately 31% were denominated in Renminbi, 28% in Hong Kong dollars, 22% in Euro, 14% in US dollars, 4% in Japanese Yen and the remaining 1% were denominated in various foreign currencies.

## Human Resources

As at June 30, 2004, the Group employed a total of approximately 3,000 employees. They were remunerated according to their performance, working experience and the prevailing industry practice and market conditions. Other employee benefits available for eligible employees include retirement benefits scheme, share option scheme, performance bonus and sales commission.

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

During the six months ended June 30, 2004, the Company purchased 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\$	
April	2,502,000	6.85	6.60	16,853,300
May	116,000	6.85	6.75	789,700
	<u>2,618,000</u>			<u>17,643,000</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\$17,362,640 (net of dividend entitlement of HK\$18,560) was charged against share premium. An amount of HK\$261,800 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2004.

## CODE OF BEST PRACTICE

The directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for any part of the six months ended June 30, 2004.

## 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, 2004. The members of the Audit Committee comprise the three independent non-executive directors of the Company, Mr. Cheung Chiu Fan, Mr. Lui Chi Lung, Louis and Dr. Yuen Ming Fai.

## **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's website in due course.

As at the date of this announcement, Mr. Fong Sou Lam, Mr. Lee Che Chiu, Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill, Mr. Mo Yiu Leung, Jerry, Mr. Cheuk Hon Kin, Kelvin, Dr. Tsui Tak Ming, William, Mr. Tsui Wai Keung and Ms. Poon Hang Sim, Blanche are Executive Directors; Mr. Cheung Chiu Fan, Mr. Lui Chi Lung, Louis and Dr. Yuen Ming Fai are Independent Non-Executive Directors.

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

Hong Kong, September 9, 2004

\* *For identification purpose only*

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