

turnover. The business has managed to sustain its trend of growth in turnover and profit during the year.

The management is dedicated to strengthening its sales force and research & development team, broadening its customer base and improving its productivity with the aim to improve the quality and reliability of its products so as to provide thorough satisfactory services to its customers.

## Management Discussion and Analysis



FONG'S GN6-SUPER High Temperature Dyeing Machine

For the year ended December 31, 2000, the Group recorded a turnover of approximately HK\$922.88 million, representing an increase of 90% over the previous year. Profit for the year was approximately HK\$106.56 million, showing a remarkable increase of 180% over last year. Earnings per share were enhanced by 168%.

Such encouraging growth was mainly due to the successful implementation of the marketing strategies and cost savings exercises implemented over the last few years.

In addition to the satisfactory performance derived from our core business of dyeing and finishing machines manufacturing operation, the Group's other businesses were also on the right development path with encouraging results.

### DYEING AND FINISHING MACHINES MANUFACTURING

This major core business being engaged by Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Company Limited accounted for approximately 54% of the consolidated

### Sales and Marketing

The brand "FONG'S" has long established a high recognition in its major markets and remains customers' choice.

To cope with the increase in demand for its products and to reinforce market presence in its major market, China, the sales & marketing force will be further strengthened in the various sales offices in the major cities of China, namely Beijing, Shanghai, Wuhan, Qingdao, Guangzhou and Shenzhen.

Although China market remains strong, it is our determination to explore and break into new and higher growth markets, especially in Asia Pacific. A sales office is scheduled to open in Thailand shortly with the aims to have close and direct contacts with the customers and to strengthen our after-sales services.

It is also this business's strategy to further build up its brand by active participation in key trade shows and fairs in its major markets. More resources will be put to media advertising and market promotion in the coming year to strengthen the recognition of the "FONG'S" brand.

### Research and development ("R & D")

This business regards R & D as a key strategy in order to keep abreast of international technology development. In this respect, it has entered into a number of business collaborations with academic and R & D institutions in order to develop new and innovative technology for application to our products.

The R & D function unit comprises a team of over 120 engineering and technical professionals to keep abreast of the latest development in the area of dyeing machines and dyeing technology.

Recently, the stainless steel prices have become more stable. The management will continue to implement effective credit policy and credit management. It is anticipated that this business will continue to contribute to the Group's profits.

Furthermore, this trading business is complementary to our manufacturing activities by providing competitive and flexible sourcing for both our machine manufacturing and stainless steel casting businesses.

### STAINLESS STEEL CASTING AND MACHINING



*FONG'S CAS High Temperature Package Dyeing Machine*

During the year, as a recognition of our efforts, Fong's National Engineering Company, Limited has won the "HKITCC Certificate of Merit in Technological Achievement" in the 2000 Hong Kong Awards for Industry in respect of the product FC28, a newly developed microprocessor for controlling dyeing process. In the same year, the company's recently launched product GN6 SUPER High Temperature Dyeing Machine also won the "Energy saving and environmentally friendly products certification" award from the Dyeing and Finishing Industry Committee of the China Textile Engineering Institute.

### STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited accounted for approximately 31% of the consolidated turnover. Despite significant fluctuations in the stainless steel prices during the year, this business has managed to maintain reasonable profit margins through effective inventory control.

During the year under review, price competition was particularly intense, profit margins were unavoidably thinned but healthy growth can be seen.

Tycon Alloy Industries (Shenzhen) Company Limited comprises two major product lines, namely stainless steel casting and machining.

For the year under review, the turnover of the stainless steel casting business approximately doubled and generated profit contributions to the Group. The management will continue its tight inventory control measures and will establish more efficient production scheduling to reduce wastage ratio thereby enhancing the manufacturing margins.

As regards the value added precision machining division, the products will reap better margins and is expected to bring continued growth to the business.

During the year, in addition to the establishment of new production lines to extend into the machining business, its production facilities have been expanded by installing new and advanced machinery to upgrade and automate the production process to improve efficiency. As the production has gradually become more sophisticated, its products are being well received and recognised by the customers. Therefore, more orders with higher profit margins are being solicited especially from the European and US customers.

Utilising the sales networks and solid reputations of its two shareholders, Monforts Fong's has successfully launched its product under its brand name of "MONFONGS" which have been well received by customers in China.

To cope with the rapid growth of business in the coming years, Monforts Fong's has proceeded to move into a new block of production plant in the vicinity of the existing premises. The new plant is scheduled for full production by September, 2001 and will provide a gross production floor area of 5,000 square metres.

## Management Discussion and Analysis



MONFONGS 328 Twin Air Stenter

In addition, this business also supplies moulds, machined and casted parts for the Group's dyeing machine manufacturing business acting as a strategic low cost and flexible supplier.

The management is confident that with continuous improvements in product quality and production capacity, the products have already gained recognition and orders are being received with higher margins. Barring any unforeseen circumstances, this business is expected to achieve satisfactory increases in both turnover and profitability in the coming year.

### JOINTLY CONTROLLED ENTITY

**Monforts Fong's Textile Machinery Co. Limited**  
("Monforts Fong's")  
(a 50% owned jointly controlled entity)

Monforts Fong's is a joint venture established in 1999 with a leading German textile machinery manufacturer to extend the sale and manufacture of stenters in mainland China. It is an alliance between two leaders in the industry to complement each other in many areas such as marketing, research & development and branding to improve market penetration for their products.

We are confident that given the business on hand and the continued positive market response for its product, encouraging results can be seen in the near future.

### ASSOCIATES

**Foshan East Asia Company Limited ("Foshan East Asia")**  
(a 30% owned associated company as at December 31, 2000)

Foshan East Asia is a company principally engaged in the manufacture and sale of colour woven fabrics and related products.

During the year, the Asian markets for colour woven fabrics continued to recover gradually. Profit margins were still under pressure due to keen price competition. Nevertheless, it is expected that the impending accession of China to the WTO is likely to open up new trading opportunities for Foshan East Asia.

To improve its production quality and efficiency, Foshan East Asia has expanded its existing production capacity by installing new and additional machinery during the year. Thus, the management is confident that Foshan East Asia will be more competitive and expected to generate satisfactory results in the coming years.

During the year, the Group has acquired additional 12% interest in Foshan East Asia for a consideration of approximately HK\$18 million.

**Sunshine City Limited ("Sunshine City")  
(a 35% owned associated company as at December 31, 2000)**

Sunshine City is a joint venture company having a 52% interest in the property development project for the construction of the International Finance Centre in Finance Street, Beijing, China.

On February 5, 2001, the Group entered into a sale and purchase agreement for the disposal of all its entire shares in and a shareholder's loan due from Sunshine City (being substantially the cost of investment in Sunshine City) to an independent third party for a cash consideration of US\$18,018,018 and the assignment of the land use rights of office premises of an area of not less than 200 square metres above the 4th Floor in Central Plaza at Beijing, China with an estimated value of approximately HK\$2,200,000. Details of which have been disclosed in the Company's circular to shareholders dated February 26, 2001. The disposal was completed on April 12, 2001.

The land use rights of the said office premises in Central Plaza are expected to be assigned to the Group in 2002 and the Group intends to use the said office premises as a representative office of the Group in Beijing, China.

## LIQUIDITY AND CAPITAL RESOURCES

The Group's balance sheet at December 31, 2000 continued to show considerable improvement resulting from a combination of improved profitability and asset management.

For the year ended December 31, 2000, the Group generated net cash inflow from operating activities of approximately HK\$129 million. As at December 31, 2000, cash and cash equivalents have been increased by 121% to approximately HK\$73 million.

During the year, the Company raised approximately HK\$15 million, net of related expenses, from the issue of new shares at HK\$0.50 per share upon the the exercises by the warrant holders of the Company's 2000 warrants. As at December 31, 2000, the Group had 524,386,285 shares in issue with a total shareholders' funds amounted to approximately HK\$436 million.



The Group spent approximately HK\$31 million on the construction of production plant as well as purchases of machinery and equipment to cope with the increase in businesses of the Group.

As at December 31, 2000, the Group had cash and bank balances of approximately HK\$73 million. All existing bank borrowings of the Group are subject to floating interest rates.

As at December 31, 2000, the Group had current assets of approximately HK\$511 million and current liabilities of approximately HK\$366 million. The debt to equity ratio was 87% (1999: 72%) and the gearing ratio was 15% (1999: 23%).

*FONG'S MK88 High Speed  
Dyeing Machine*

## HUMAN RESOURCES

The Group had a total of approximately 1,900 employees as at December 31, 2000. Human resources have always been important to the manufacturing industry and particularly are crucial to the continued success of the Group. To this end, the Group will continue to enrich our human resources by recruiting, training and developing experienced and talented people. Extensive in-house and external training courses are being made available to all staff members, with particular emphasis on tailoring training programmes to align with the business needs and the strategic directions of the Group.