

Unaudited Interim Results

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, 2001 as follows:

Condensed Consolidated Income Statement

For the six months ended June 30, 2001

		For the six months ended June 30,	
		2001	2000
	<i>Notes</i>	unaudited	unaudited
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		385,781	426,762
Cost of sales		(259,889)	(270,552)
Gross Profit		125,892	156,210
Other Revenue		4,216	1,409
Distribution costs		(15,846)	(19,106)
Administrative expenses		(54,896)	(58,332)
Other operating expenses		(12,558)	(15,574)
Profit from operations		46,808	64,607
Finance costs	6	(7,066)	(8,036)
Investment income		1,148	722
Share of results of associates		1,069	(419)
Share of results of a jointly controlled entity		443	–
Profit before taxation		42,402	56,874
Taxation	7	4,853	9,268
Profit before minority interests		37,549	47,606
Minority interests		–	(16)
Profit attributable to shareholders		37,549	47,622
Dividend	8		
Interim		14,104	16,259
Special		14,104	–
Earnings per share	9		
Basic		6.98 cents	9.38 cents
Diluted		6.97 cents	9.32 cents

Condensed Consolidated Balance Sheet

At June 30, 2001

		June 30, 2001 unaudited HK\$'000	December 31, 2000 restated HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		241,178	236,088
Intangible assets		890	1,156
Investments in associates		57,368	56,487
Interest in a jointly controlled entity	<i>11</i>	15,424	11,324
		<u>314,860</u>	<u>305,055</u>
Current assets			
Inventories		172,227	175,536
Trade and other receivables	<i>12</i>	108,578	114,075
Loans to an associate		–	142,200
Amount due from a jointly controlled entity		5,672	3,150
Taxation recoverable		4,816	3,877
Bank balances, deposits and cash		122,299	72,590
		<u>413,592</u>	<u>511,428</u>
Current liabilities			
Trade and other payables	<i>13</i>	91,613	132,879
Bills payable		12,856	17,542
Taxation payable		11,621	11,843
Obligations under finance leases – due within one year		3,504	3,217
Bank borrowings – due within one year		113,235	122,371
		<u>232,829</u>	<u>287,852</u>
Net current assets		<u>180,763</u>	<u>223,576</u>
		<u>495,623</u>	<u>528,631</u>

Condensed Consolidated Balance Sheet (Continued)

At June 30, 2001

		June 30, 2001 unaudited HK\$'000	December 31, 2000 restated HK\$'000
	<i>Notes</i>		
Capital and reserves			
Share capital	<i>14</i>	56,474	52,439
Reserves	<i>15</i>	429,437	461,847
		<u>485,911</u>	<u>514,286</u>
Minority interests		<u>1,290</u>	<u>1,290</u>
Non-current liabilities			
Obligations under finance leases			
– due after one year		1,766	3,063
Bank borrowings – due after one year		6,656	9,992
		<u>8,422</u>	<u>13,055</u>
		<u>495,623</u>	<u>528,631</u>

Condensed Consolidated Statement of Recognised Gains and Losses

		For the six months ended June 30, 2001 unaudited HK\$'000	2000 unaudited HK\$'000
Exchange differences arising on translation of overseas subsidiaries and associates not recognised in the condensed consolidated income statement		(19)	(161)
Profit for the period		<u>37,549</u>	<u>47,622</u>
Total recognised gains and losses		<u>37,530</u>	<u>47,461</u>

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2001

For the
six months ended
June 30, 2001
unaudited
HK\$'000

NET CASH INFLOW FROM OPERATING ACTIVITIES	17,699
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(89,216)
TAX PAID	(5,956)
NET CASH INFLOW FROM INVESTING ACTIVITIES	<u>122,680</u>
NET CASH INFLOW BEFORE FINANCING	45,207
NET CASH INFLOW FROM FINANCING	<u>4,522</u>
INCREASE IN CASH AND CASH EQUIVALENTS	49,729
CASH AND CASH EQUIVALENTS AT JANUARY 1, 2001	72,590
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(20)</u>
CASH AND CASH EQUIVALENTS CARRIED FORWARD, representing bank balances, deposits and cash	<u><u>122,299</u></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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that comparative figures in respect of the condensed consolidated cash flow statement have not been shown as the Group has taken advantage of the transitional provision set out in the Listing Rules.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the Group’s annual financial statements for the year ended December 31, 2000, except for the change in accounting policy for proposed dividend, consistent with SSAP 9 (Revised) “Events after the Balance Sheet Date”. Certain comparative figures have been reclassified to conform with the current period’s presentation.

3. Prior year adjustment

In accordance with SSAP 9 (Revised) “Events after the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively. The final and special dividend proposed for the year ended December 31, 2000 amounting to approximately HK\$79 million has been adjusted and shown under reserves on the face of the condensed consolidated balance sheet and disclosed in the notes to the condensed financial statements.

4. Segment information

The Group’s turnover and contribution to profit from operations for the six months ended June 30, 2001, analysed by principal activity and geographical region are as follows:–

	Turnover		Contribution to profit from operations	
	For the six months ended June 30,		For the six months ended June 30,	
	2001	2000	2001	2000
	unaudited	unaudited	unaudited	unaudited
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
By principal activity				
Manufacturing and sale of dyeing machines	187,416	236,343	38,788	46,139
Trading of stainless steel supplies	130,222	143,753	4,879	13,661
Trading of machine parts	39,628	28,515	1,425	4,592
Manufacturing and sale of stainless steel casting products	28,515	18,151	1,716	215
	<u>385,781</u>	<u>426,762</u>	<u>46,808</u>	<u>64,607</u>

	Turnover		Contribution to profit from operations	
	For the six months ended June 30,		For the six months ended June 30,	
	2001	2000	2001	2000
	unaudited	unaudited	unaudited	unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical region				
Hong Kong	163,153	207,304	24,851	20,988
The People's Republic of China, other than Hong Kong	122,713	136,593	14,167	28,932
Asia Pacific (other than the People's Republic of China)	52,399	41,794	4,520	9,069
Europe	29,775	25,927	1,936	2,524
North and South America	9,420	9,862	594	1,803
Others	8,321	5,282	740	1,291
	<u>385,781</u>	<u>426,762</u>	<u>46,808</u>	<u>64,607</u>

5. Depreciation/Amortisation

During the period, depreciation of approximately HK\$9,609,000 (2000: HK\$9,109,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$267,000 (2000: HK\$981,000) was charged in respect of the Group's intangible assets.

6. Finance cost

	For the six months ended June 30,	
	2001	2000
	unaudited	unaudited
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	5,240	6,142
Obligations under finance leases	248	192
Bank charges	1,375	1,702
Factoring charges	203	—
	<u>7,066</u>	<u>8,036</u>

7. Taxation

	For the six months ended June 30,	
	2001 unaudited HK\$'000	2000 unaudited HK\$'000
Taxation comprised:–		
The Company and its subsidiaries		
Hong Kong Profits Tax	2,367	7,183
Overseas Taxation	<u>2,428</u>	<u>1,975</u>
	4,795	9,158
Share of taxation of associates		
Overseas Taxation	<u>58</u>	<u>110</u>
	<u>4,853</u>	<u>9,268</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the period.

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

8. Dividend

	For the six months ended June 30,	
	2001 unaudited HK\$'000	2000 unaudited HK\$'000
Interim dividend of 2.5 cents (2000: 3.0 cents) per share	<u>14,104</u>	<u>16,259</u>
Special dividend of 2.5 cents (2000: Nil) per share	<u>14,104</u>	<u>–</u>

9. Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders for the period of approximately HK\$37,549,000 (2000: HK\$47,622,000) and the following data:

	For the six months ended June 30,	
	2001 unaudited Number of shares	2000 unaudited Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	538,071,733	507,943,559
Effect of dilutive potential ordinary shares		
– share options	503,754	514,776
– warrants	<u>–</u>	<u>2,662,404</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>538,575,487</u>	<u>511,120,739</u>

10. Additions to property, plant and equipment

During the period, the total cost of additions to property, plant and equipment of the Group was approximately HK\$14,824,000.

11. Interest in a jointly controlled entity

	June 30, 2001 unaudited HK\$'000	December 31, 2000 audited HK\$'000
Share of net assets/(liabilities)	8,399	(693)
Loan to a jointly controlled entity	7,025	12,017
	<u>15,424</u>	<u>11,324</u>

12. Trade and other receivables

Except for retention money held by customers for sales of dyeing machines, the Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade and other receivables at June 30, 2001:-

	June 30, 2001 unaudited HK\$'000	December 31, 2000 audited HK\$'000
Trade receivables		
0-30 days	55,051	61,566
31-60 days	7,417	8,417
61-90 days	3,744	6,222
over 90 days	1,852	-
	<u>68,064</u>	<u>76,205</u>
Bills receivables	21,207	12,244
Other receivables	19,307	25,626
	<u>108,578</u>	<u>114,075</u>

13. Trade and other payables

The following is an aged analysis of trade and other payables at June 30, 2001:–

	June 30, 2001 unaudited HK\$'000	December 31, 2000 audited HK\$'000
Trade payables		
0-30 days	28,448	38,596
31-60 days	704	11,800
over 60 days	3,764	3,540
	<hr/>	<hr/>
	32,916	53,936
Deposits and temporary receipts	24,184	25,800
Other payables and accrued charges	34,513	53,143
	<hr/>	<hr/>
	91,613	132,879
	<hr/>	<hr/>

14. Share Capital

	June 30, 2001 unaudited HK\$'000	December 31, 2000 audited HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
	<hr/>	<hr/>
<i>Issued and fully paid:</i>		
At beginning of the year, 524,386,285 (2000: 495,512,366) ordinary shares of HK\$0.10 each	52,439	49,551
Exercise of warrants	–	2,749
Exercise of options	4,275	447
Repurchase of shares	(240)	(308)
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At the end of the period/year, 564,740,285 (2000: 524,386,285) ordinary shares of HK\$0.10 each	56,474	52,439
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15. Movement of reserves

The Group

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Total <i>HK\$'000</i>
At January 1, 2001							
– as originally stated	202,213	696	(14,723)	156,991	–	38,134	383,311
– prior year adjustment (notes 3)	–	–	–	–	78,536	–	78,536
– as restated	202,213	696	(14,723)	156,991	78,536	38,134	461,847
Premium on repurchase of shares	(1,241)	–	–	–	–	–	(1,241)
Premium on issue of shares	16,250	–	–	–	–	–	16,250
Transfer upon repurchase of shares	–	240	–	(240)	–	–	–
Exchange difference arising on translation of overseas subsidiaries and associates	–	–	(19)	–	–	–	(19)
Profit for the period	–	–	–	37,549	–	–	37,549
Dividend paid	–	–	–	(6,413)	(78,536)	–	(84,949)
Dividends							
– Interim	–	–	–	(14,104)	14,104	–	–
– Special	–	–	–	(14,104)	14,104	–	–
At June 30, 2001	217,222	936	(14,742)	159,679	28,208	38,134	429,437

16. Contingent Liabilities

	June 30, 2001 unaudited <i>HK\$'000</i>	December 31, 2000 audited <i>HK\$'000</i>
Export bills discounted with recourse	10,997	10,506
Guarantees given to bankers in respect of banking facilities granted to a jointly controlled entity	1,650	1,650

17. Capital commitments

	June 30, 2001 unaudited HK\$'000	December 31, 2000 audited HK\$'000
Capital expenditure contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment	—	818

18. Related Party Transactions

	For the six months ended June 30,	
	2001 unaudited HK\$'000	2000 unaudited HK\$'000
Rental payable by the Group to a related company (note)	1,981	1,957
Transactions with the jointly controlled entity		
Sales of goods	10,022	841
Commission and management fee received	2,396	—
Rental received	625	170

The above transactions were carried out at market price or where no market price was available, at cost

note: The party concerned is related to the Group since it is an enterprise in which Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests. The rentals were negotiated on an arm's length basis and were determined by independent rental valuations.

19. Disposal of an associate

On February 5, 2001, the Group entered into an agreement to dispose of its entire shares in and a shareholder's loan due from Sunshine City Limited, the then associate of the Group, to an independent third party at a total consideration of US\$18,301,158 (equivalent to approximately HK\$142,200,000), comprising a cash consideration of US\$18,018,018 (equivalent to approximately HK\$140,000,000) and the assignment of the land use rights of office premises with an estimated value of US\$283,140 (equivalent to approximately HK\$2,200,000) made by the directors. The transaction was completed on April 12, 2001.