

# MANAGEMENT DISCUSSION AND ANALYSIS



*FONG'S ECOTECH Series of Dyeing Machines*

## OPERATING RESULTS

For the year ended December 31, 2001, the Group's consolidated turnover decreased by 18% to approximately HK\$758.34 million as compared with last financial year. The net profit decreased by 41% to approximately HK\$62.98 million as compared to the previous year. Basic earnings per share is 11.4 cents (2000: 20.6 cents).

## DYEING AND FINISHING MACHINES MANUFACTURING

This major core business of dyeing and finishing manufacturing including trading of machine parts and servicing being engaged by **Fong's National Engineering Company, Limited** and **Fong's National Engineering (Shenzhen) Company Limited** accounted for approximately 59% of the Group's consolidated

turnover and amounted to approximately HK\$445.23 million. The sales of dyeing machines and machine parts decreased by 24% when compared with last financial year.

Firstly, the decrease in sales of our dyeing machines was a direct outcome of the general slowdown of the global economy. Secondly, the situation was further aggravated by the "911 Event" resulting in overall slower sales in the second half of the year.

However, through our committed efforts in technological innovation and new product development together with production efficiency enhancements including streamlining certain production lines, tightening the control on operating and manufacturing costs by the additions of more advanced production equipment and facilities over the years, this business was still able to achieve satisfactory development.



### Sales and marketing

Nevertheless, Fong's National Engineering Company, Limited has continued to increase its efforts in sales and marketing activities especially in the major markets, Mainland China and Asia Pacific region. This included the strengthening of our sales and after-sales service network in China. Consequently, this has not only further upgraded our quality of service to the existing customers but also placed us in a better position to serve and penetrate potential customers who have the requirements to enhance their production efficiency and quality of textile products by having technological upgrade in their production equipment.

In addition, China has now become an official member of the World Trade Organization, the management expects a significant number of our Chinese customers will need to make technological upgrade to their production equipment in order to compete with the textile industry of other countries and which will further serve as a catalyst to our sales in the future.

The Group will continue to implement its marketing strategy to strengthen the brand name "FONG'S" in our major markets by participating in trade shows, seminars and placing more advertisements.

### Research and development

With full commitment to research and development, the Group continues to invest the necessary resources in research and development instruments and software as well as competent professionals so as to develop the technical know-how and advanced technology for our products and product development. Currently, there are over 100 qualified engineering and technical professionals in the research and development team.

During the year, the ECOTECH series of Atmospheric and High Temperature Dyeing Machines was developed successfully. It targets the rapidly growing markets for the customers' need of environmentally friendly dyeing technology. In October 2001, the Group further demonstrated its initiative in environmental protection



**ViewTEX** Central Computer System



**FONG'S COS** High Temperature Package Dyeing Machine

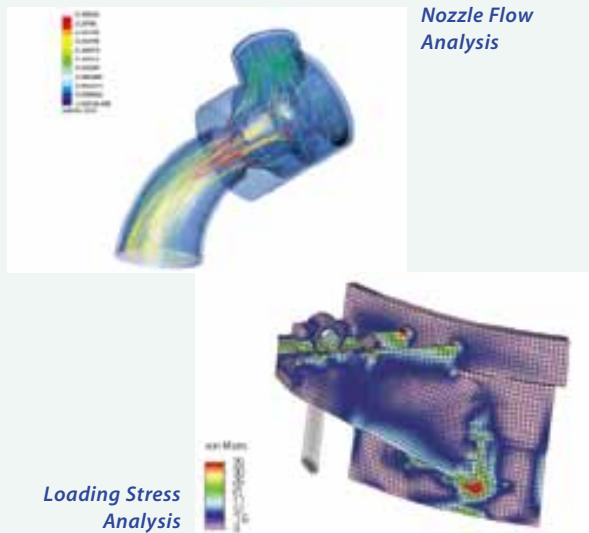
In February 2002, a sales and service centre was established in Thailand to enhance the sales and upgrade the after-sales services to our customers in Thailand and the Asia Pacific region. Also, to further broaden our customer base and strengthen our representation network in the Asia Pacific markets, we launched a new series of marketing programs with satisfactory results.

by establishing the research collaboration with the Hong Kong University of Science & Technology in a project namely "The Development of a Novel Process for Environmental Cleanup in the Textile Industry". In addition, one of our new products, the GN28-Super Atmospheric Dyeing Machine, was awarded the Certificate of Merit in Machinery and Equipment Design in the 2001 Hong Kong Awards of Industry.



The ECOTECH series, which is designed to provide environmentally friendly dyeing technology, has been successfully launched into the market during the second half of the year. With its innovative technology which can reduce the customers' processing costs and processing time, this series of new machines has now been widely and favorably accepted by our customers.

ViewTEX, the newly developed software of the centralized computer system for dyeing production planning and process control is being integrated into our product range. It is a milestone to link various dyeing machines together in the network and lead the customers' dyehouse into the automation process. It has been well recognized by our customers since its launch onto the market.



## STAINLESS STEEL TRADING

**Fong's Steels Supplies Company Limited** accounted for approximately 34% of the Group's consolidated turnover. The sales of stainless steel decreased by 11% to approximately HK\$258.76 million as compared to last year.

During the year under review, the price of the stainless steel in the worldwide market decreased resulting in sharp drops in the selling price and profit margins. Nevertheless, over the years, a significant improvement in the inventory management has been made by our exercising better timing control in the sourcing from the suppliers and the delivery to the customers to minimize adverse exposure to price fluctuations. The Group will continue to closely monitor the stock level to ensure that it is in line with the orders requirement.

Starting in 2002, the price of stainless steel has risen in the worldwide market gradually. Such favorable price rise will improve the profit margins of this trading business in the coming year. The management will continue to broaden the customer base, improve the inventory management and monitor effective credit policy.

Furthermore, the stainless steel trading business will also continue to contribute to the Group by helping control on the cost and timely delivery of the major stainless steel raw materials being used in the Group's manufacturing businesses of dyeing machines and stainless steel castings.

## STAINLESS STEEL CASTING AND MACHINING

The business of manufacture and sale of stainless steel castings and machining being engaged by **Tycon Alloy Industries (Hong Kong) Company Limited** and **Tycon Alloy Industries (Shenzhen) Co., Ltd.** accounted for approximately 7% of the Group's consolidated turnover. The sales of stainless steel castings and machining increased by 18% to approximately HK\$54.35 million as compared to the last financial year.

Despite the increase in sales, the profit margins were lower. The reduction of profit margins was due to the management's strategy of exploring new customers and new markets under the keen price competition in the market. With the broadening of the customer base, the

## Awards

Mr. S L Fong, our Chairman, was recently awarded the "2001 Golden Bull Award" from the Shenzhen Association of Enterprises with Foreign Investment for the recognition of him as one of the most outstanding entrepreneurs.

In addition, during the year, Fong's National Engineering (Shenzhen) Company Limited also received two awards namely "Top 100 Export Company of Year 2001" and "Top 100 Company of Year 2001" from the Shenzhen Economic and Trade Bureau for its outstanding performance and contribution to the local economy.



management expects to get higher selling price in both Europe and the US in the coming year especially when the world economy shows signs of improvement in the near future.

Apart from the accreditation of ISO9001: 2000 and the TÜV Rheinland/Berlin-Brandenburg Certificate of Quality Management System, Tycon Alloy Industries (Shenzhen) Co., Ltd. received Lloyd's Certificate of Approved Manufacturer and TÜV Rheinland/Berlin-Brandenburg Certificate of Approved Material Manufacturer respectively during the year. These certifications have proved that the quality management, product quality and production processes conform to the international standards. Capitalizing the solid foundation of quality manufacturing, productivity improvement, installed production capacity and new market development, the management is confident that this business will lead to more satisfactory results and growth in the coming year.

This business continues to act as the strategic low cost and flexible supplier to the Group's manufacturing of dyeing machine by supplying essential casted and machined parts.



*Monforts Fong's new plant*

### JOINTLY CONTROLLED ENTITY

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

(a 50% owned jointly controlled entity)

Monforts Fong's, a joint venture established in 1999 with a leading German textile machine manufacturer, recorded satisfactory results for the year under review. By leveraging the strength of the extensive sales network of Fong's National Engineering Company, Limited and the strong technical supports from the German partner, Monforts Fong's has successfully sold and installed over sixty

"MONFONGS" stenters by the end of 2001, which are well known for its advanced technology for the knitted and woven industries.

To cope with the rapidly-growing market in China and the customers' requirements for greater degree of automation, Monforts Fong's has plans to optimize its production capacity and upgrade the product programs. The new manufacturing plant, which has a floor area of approximately 5,000 square metres, has been successfully put into full operation in September 2001.

It is expected that Monforts Fong's will produce more encouraging results in the very near future by capitalizing the advanced product technology, modernized manufacturing facilities, strong and skilled after-sales service team and the further establishment of the "MONFONGS" brand of stenter machinery in China.

### ASSOCIATES

#### **Foshan East Asia Company Limited ("Foshan East Asia")**

(a 30% owned associate)

Foshan East Asia recorded a moderate increase of sales of woven color fabrics for the year under review. The installation of new production machinery in the previous year made its production more cost effective and hence the profit margins were improved. To cope with the expected increase of sales and to further improve the profitability, Foshan East Asia has purchased additional production machinery.

Recently, Foshan East Asia has observed price increases for increases in demand for their exported woven color fabrics. The management will closely monitor the market situation and the recovery of the global economy. With the continuing improvement in production efficiency and increase of sales, Foshan East Asia is expected to show stable improvement in the business performance in the coming year.

#### **Sunshine City Limited**

As disclosed in the last Annual Report 2000 and the Interim Report 2001, the transaction for the disposal of the Group's entire interests in Sunshine City Limited was completed on April 12, 2001. It is expected that the



assignment of the land use rights of office premises in Central Plaza, China, being part of the consideration for the said transaction, will be effected in 2002.

**HUMAN RESOURCES**

As at December 31, 2001, the Group employed approximately 1,970 staff and workers in our Shenzhen factory and Hong Kong office.

The Group understands that, to achieve continuous business growth, innovations, as well as to gain competitive edge, qualified personnel is indispensable. During the year, the Group committed to adopt a prudent approach towards the size of workforce and commit to staff development and training programs.

In addition to receiving salaries and bonus, employees in Hong Kong are also entitled to retirement scheme contribution. Share options are made available to certain employees of the Group.

**LIQUIDITY AND CAPITAL RESOURCES**

The Group continued to maintain a healthy financial position throughout the year.

As at December 31, 2001, the Group's net cash and bank balance was approximately HK\$47.63 million, net of total borrowings. The gearing ratio, calculated as the total net borrowings of the Group divided by shareholders' funds, was 0.13 in 2000. In 2001, there is no gearing ratio shown as the Group has a net cash and bank balance. The current ratio was 1.85 reflecting a healthy liquidity level.

As at December 31, 2001, bank borrowings amounted to approximately HK\$78.71 million of which approximately 58% were secured by the Group's certain assets. More than 86% of the bank borrowings are repayable within one year and the remaining are repayable between two to five years. Most bank borrowings were sourced from Hong Kong, of which approximately 33% were denominated in Hong Kong dollars, 58% 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.

The cash and bank balance amounted to approximately HK\$130.94 million of which approximately 55% were denominated in Hong Kong dollars, 23% in Euro, 11% in US dollars, 10% in Renminbi and the remaining were denominated in various foreign currencies.



*FONG'S SCN-24ST Open Width Stretcher Combined Compactor*