



Shenzhen plant

OPERATING RESULTS

For the year ended December 31, 2002, the Group achieved a consolidated turnover of approximately HK\$1,142.42 million (2001: HK\$758.34 million) and the net profit amounted to approximately HK\$171.82 million (2001: HK\$62.98 million), representing an increase of 51% and 173% respectively compared with that of last year. Basic earnings per share was 30.5 cents (2001: 11.4 cents).

DYEING AND FINISHING MACHINES MANUFACTURING

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

The business of dyeing and finishing machines manufacturing including trading of machine parts and servicing remained the key contributor to the Group's revenue in 2002. Turnover of this segment was approximately HK\$780.94 million (2001: HK\$445.23 million) or 68% of the Group's consolidated turnover and increasing by 75% compared to 2001.

During the year under review, the Textile Industry in Asia and China in particular experienced rapid growth due to China's entry into the World Trade Organisation ("WTO") and its robust consumer consumption growth. As a result, with the Textile Industry as a whole experiencing both sales and profit growth coupled with the launch of our new ECOTECH series of dyeing machines, our business of dyeing and finishing machines manufacturing also grew robustly in our major market of China.

Furthermore, with the investments made over the past years and adequate vertical integrations in production since migrating our production facilities to Shenzhen together with the well established sales and service networks, we were able to take advantage of the capacity available and thus generating a very healthy profit growth of 190% at the same time.



FONG'S ECOTECH Series of Dyeing Machines

Barring any unforeseeable circumstances, we remain cautiously optimistic for our business of dyeing and finishing machines manufacturing as we anticipate that our customers and the Textile Industry will continue to expand with the elimination of textile quotas in accordance with the WTO Trade Agreement and the healthy growth of the China domestic consumer market.

Sales and marketing

To cope with the market development, we have deployed adequate resources to conduct sales and marketing activities in a strategic manner. As an effort to step up our sales force and services, we have established various regional service centers in our major markets including Beijing, Qingdao, Shanghai, Wuhan, Guangzhou, Shenzhen and Thailand. Besides, we also provide continuing staff trainings to our salespeople and services engineers with the aims for better product knowledge, pre and after-sales services.

Research and development

The Group's research and development team has continued its persistent devotion to developing superior quality products with the latest technology and which has made **fong's** a brand name a leading choice in the Textile Industry. In the coming years, our research and development team will continue to focus on developing improvements to make our machines even more environmentally friendly and cost-effective to meet our customers' needs for advanced production equipment to increase their productivity and to reduce production costs.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

Despite the highly competitive trading environment, this segment achieved a healthy growth during the year under review. It accounted for approximately 27% of the Group's consolidated turnover. The sales of stainless steel products increased by 20% to approximately HK\$310.31 million as compared to last year.

Though the stainless steel prices have been increasing steadily in 2002 due to the rise in nickel prices, the management has adopted certain strategies to minimize the volatilities of the stainless steel market. Furthermore, the management is able to better forecast demand and supply thus allowing the Group to be more effective in managing the volatile pricing and control of the level of inventory of our stainless steel products.

STAINLESS STEEL CASTING AND MACHINING

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

The slow down of the economic conditions in the United States and the Europe had slowed down the business of stainless steel castings and machining in 2002. It accounted for approximately 4% of the Group's consolidated turnover. The turnover decreased by 6% to approximately HK\$51.17 million, but the profit from operation increased from HK\$2.18 million to HK\$6.72 million, an increase of 208% due to better margins and improvement in operating efficiency.

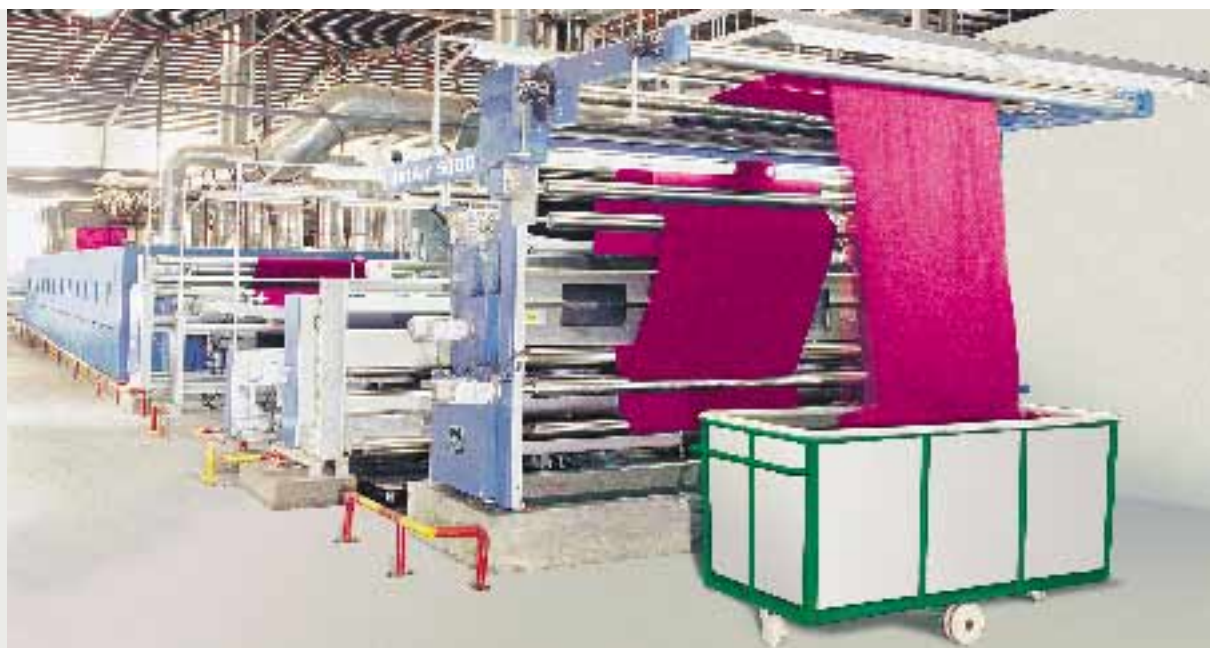
Capitalising the productivity improvement and new market development, the Board believes that both the production capacity and profit will improve. It is anticipated that the demand of castings from the overseas buyers will be improving this year because most of them had completed their inventory level adjustments in the past two years.

JOINTLY CONTROLLED ENTITY

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

During the year under review, the turnover of products manufactured by Monforts Fong's under the brand name **MONFONGS** increased by 134% to approximately HK\$244.6 million.

During the second half of 2002, with the combined efforts of our German partner's advanced technology and our Group's established sales network in China, Monforts Fong's has successfully launched the additional products of Relaxation Dryers and Levelling and Stretching Machines onto the China market in addition to the leading **MONFONGS** Stenter Machines. The initial feedback on these new products from the industry is promising. The management expects Monforts Fong's will further expand its market share in China.



MONFONGS JetAir 5000 Relaxation Dryer

To cope with the anticipated sales growth, Monforts Fong's has planned to extend its existing production plant to an aggregate floor area of approximately 20,000 square metres in the existing Fong's manufacturing complex in Shenzhen. This new plant is scheduled to be put into use by the second half of 2004. Upon the launch of the new production area, the production capacity of Monforts Fong's can be greatly increased to meet its future business growth.

ASSOCIATES

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

The performance of the sales of woven color fabrics was inevitably affected by the fall in market prices due to keen market competition. During the year under review, its turnover decreased by 17% to approximately HK\$154.15 million. Despite this, this business continued to contribute steady and stable revenue to the Group.

During the year, the management of Foshan East Asia had made an impairment loss of approximately HK\$70 million due to obsolescence of certain properties and equipment and doubt over the recoverability of certain trade and other receivables. 30% of the impairment loss amounting to HK\$21 million has therefore been reflected in the consolidated income statement.

HUMAN RESOURCES

It is the people who make our Group a success. At December 31, 2002, the Company and its subsidiaries employed a total of approximately 2,400 staff members. The Group's remuneration policies are primarily based on the prevailing market salary levels, while bonuses may be granted on a discretionary basis. Other employee benefits include provident fund scheme and share option scheme.

We shall continue to align our human resource practices with our corporate objectives so as to maximize shareholders' value and to achieve growth.

LIQUIDITY AND CAPITAL RESOURCES

The management 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, 2002, net of total borrowings, the Group's net cash and bank balance was approximately HK\$144.51 million. In 2002, there is no gearing ratio shown as the Group has a net cash and bank balance. The current ratio was 1.98 reflecting a healthy liquidity level.

As at December 31, 2002, bank borrowings amounted to approximately HK\$64.30 million of which approximately 61% were secured by the Group's certain assets. More than 99% of the bank borrowings are repayable within one year and the remaining are repayable within two years. Most bank borrowings were sourced from Hong Kong, of which approximately 17% were denominated in Hong Kong dollars, 79% 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\$216.05 million of which approximately 75% were denominated in Hong Kong dollars, 11% in US dollars, 6% in Euro, 4% in Swiss Franc, 3% in Renminbi and the remaining were denominated in various foreign currencies.