FONG'S INDUSTRIES COMPANY LIMITED
立信工業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2011

The Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2011 together with the comparative figures for last year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	NOTES	**2011** *HK$'000*	2010 *HK$'000*
Revenue	*2*	**2,198,608**	2,587,182
Cost of sales		**(1,615,710)**	(1,784,134)
Gross profit		**582,898**	803,048
Interest income		**2,340**	2,667
Other income		**46,468**	59,482
Other gains and losses		**(3,984)**	13,127
Selling and distribution costs		**(114,305)**	(161,984)
General and administrative expenses		**(373,225)**	(329,590)
Other expenses		**(73,396)**	(62,540)
Finance costs	*3*	**(35,200)**	(42,142)
Share of results of an associate		**(325)**	(477)
Share of results of jointly controlled entities		**41,888**	89,555
Profit before tax		**73,159**	371,146
Income tax expense	*4*	**(14,102)**	(68,181)
Profit for the year		**59,057**	302,965

	NOTE	2011 HK$'000	2010 HK$'000
Other comprehensive income			
Exchange difference arising on translation		**30,241**	17,067
Share of changes in translation reserve of an associate		**1,732**	1,454
Share of changes in translation reserve of jointly controlled entities		**6,048**	4,381
Gain on cash flow hedge		**12,194**	9,694
Other comprehensive income for the year		**50,215**	32,596
Total comprehensive income for the year		**109,272**	335,561
Earning per share			
Basic	*5*	**10.7 HK cents**	54.9 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**346,129**	362,799
Prepaid lease payments		**95,983**	15,584
Intellectual property rights		**7,672**	10,595
Interest in an associate		**36,420**	35,013
Interests in jointly controlled entities		**119,701**	112,222
Deposits for acquisition of property, plant and equipment		**3,068**	2,368
Deposits for acquisition of leasehold land		**7,953**	24,072
Deferred tax assets		**14,133**	12,929
		631,059	575,582
Current assets			
Inventories		**777,064**	828,129
Trade and other receivables	7	**416,576**	332,832
Prepaid lease payments		**2,168**	484
Amounts due from jointly controlled entities		**4,086**	13,323
Tax recoverable		**4,249**	3,431
Bank balances and cash		**278,164**	394,829
		1,482,307	1,573,028
Current liabilities			
Trade and other payables	8	**322,919**	406,946
Warranty provision		**12,108**	18,632
Derivative financial instruments		**2,882**	–
Tax liabilities		**12,730**	25,869
Bank borrowings		**756,410**	646,259
		1,107,049	1,097,706
Net current assets		**375,258**	475,322
Total assets less current liabilities		**1,006,317**	1,050,904
Non-current liabilities			
Derivative financial instruments		**4,254**	19,330
Deferred tax liabilities		**9,368**	10,290
		13,622	29,620
		992,695	1,021,284
Capital and reserves			
Share capital		**55,145**	55,145
Share premium and reserves		**937,550**	966,139
		992,695	1,021,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements
(as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects:

a) HKAS 24 (as revised in 2009) has changed the definition of a related party. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous standard.

b) In addition, HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. The Company and its subsidiaries are PRC government-related entities as defined in HKAS 24 (as revised in 2009). Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the PRC government that ultimately has significant influence over the Group and (b) other entities that are controlled, jointly controlled, or significantly influenced by the PRC government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group's financial performance and positions for the current and prior years.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after July 1, 2011.
2 Effective for annual periods beginning on or after January 1, 2013.
3 Effective for annual periods beginning on or after January 1, 2015.
4 Effective for annual periods beginning on or after January 1, 2012.
5 Effective for annual periods beginning on or after July 1, 2012.
6 Effective for annual periods beginning on or after January 1, 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the financial year ending December 31, 2015 and the application of the new standard may not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued by HKICPA, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on January 1, 2013. The Directors are in the process of assessing the impact of the amendments to the Group.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on January 1, 2013 and that the application of the new Standard may not affect the amounts reported in the consolidated financial statements but result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The Directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the performance of each group companies. The CODM reviews operating results and financial information on a group company by company basis. Each company is identified as an operating segment in accordance with HKFRS 8. When the group company is operating in similar business model with similar target group of customers, the Group's operating segments are aggregated.

Specifically, the Group's reportable segments under HKFRS 8 are aggregation of operating segments based on types of goods or services delivered or provided, as follows:

1. Manufacture and sales of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended December 31, 2011

	Manufacture and sale of dyeing and finishing machines *HK$'000*	**Trading of stainless steel supplies** *HK$'000*	**Manufacture and sale of stainless steel casting products** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	**1,133,152**	**602,276**	**463,180**	**2,198,608**
Inter-segment sales	**4,890**	**212,382**	**27,550**	**244,822**
Segment revenue	**1,138,042**	**814,658**	**490,730**	**2,443,430**
Elimination				**(244,822)**
Group revenue				**2,198,608**
Segment (loss) profit	**(1,819)**	**12,866**	**53,409**	**64,456**
Interest income				**2,340**
Finance costs				**(35,200)**
Share of results of an associate				**(325)**
Share of results of jointly controlled entities				**41,888**
Profit before tax				**73,159**

For the year ended December 31, 2010

	Manufacture and sale of dyeing and finishing machines *HK$'000*	Trading of stainless steel supplies *HK$'000*	Manufacture and sale of stainless steel casting products *HK$'000*	Total *HK$'000*
REVENUE				
External sales	1,624,704	621,028	341,450	2,587,182
Inter-segment sales	6,714	310,790	46,922	364,426
Segment revenue	1,631,418	931,818	388,372	2,951,608
Elimination				(364,426)
Group revenue				2,587,182
Segment profit	242,396	33,507	45,468	321,371
Interest income				2,667
Gain on fair value change of financial assets held for trading				172
Finance costs				(42,142)
Share of results of an associate				(477)
Share of results of jointly controlled entities				89,555
Profit before tax				371,146

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the results of each segment excluding interest income, gain on fair value change of financial assets held for trading, finance costs, share of results of an associate and share of results of jointly controlled entities. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at terms agreed between relevant parties.

Geographical information

The Group's operations are located mainly in Hong Kong, The People's Republic of China (the "PRC"), Germany and Switzerland.

Information about the Group's revenue from external customers is presented based on location of customers and information about its non-current assets is presented based on the geographical location of the assets, they are detailed below:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**843,283**	1,225,429	**572,574**	515,672
Hong Kong	**515,697**	501,414	**13,766**	12,255
Asia Pacific (other than the PRC and Hong Kong)	**306,350**	422,666	**129**	146
Europe	**274,581**	231,803	**30,418**	34,580
North and South America	**201,169**	162,788	**39**	–
Others	**57,528**	43,082	**–**	–
	2,198,608	2,587,182	**616,926**	562,653

Non-current assets excluded deferred tax assets. The management considered that the cost to develop the revenue by individual countries for "Asia Pacific", "Europe", "North and South America" and "Others" are excessive and revenue included in these areas attributed to each individual country is not material.

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended December 31, 2011 and 2010.

3. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**30,256**	35,534
Bank charges	**4,944**	6,608
	35,200	42,142

4. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**7,586**	8,362
Overprovision in prior years	**–**	(25)
PRC Enterprise Income Tax ("EIT"):		
Current year	**6,852**	45,403
Underprovision in prior years	**1,542**	343
PRC EIT for the capital gain on share transfer between intercompany:		
Current year	**–**	6,485
Overseas income tax:		
Current year	**243**	–
Under(over)provision in prior years	**5**	(895)
	16,228	59,673
Deferred tax:		
Current year	**(2,126)**	8,508
	14,102	68,181

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guafa [2007] No. 39), the applicable tax rate for those entities that previously enjoyed tax incentive rate at 15% would increase progressively to 25% over a five-year transitional period. Accordingly, the relevant tax rate for the Group's subsidiaries in the PRC is 24% for the year ended December 31, 2011 (2010: 22%).

Taxation arising in other jurisdictions is calculated at rates prevailing in the respective jurisdictions.

5. EARNING PER SHARE

The calculation of the basic earning per share attributable to owners of the Company is based on the following data:

	2011	2010
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic earning per share	**59,057**	302,965
	'000	*'000*
Number of ordinary shares for the purpose of basic earning per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at December 31, 2011 and 2010 and during the years ended December 31, 2011 and 2010.

6. DIVIDENDS

Dividends recognised as distribution during the year:

	2011	2010
	HK$'000	*HK$'000*
2010 interim special – 20 HK cents (2010: 2010 interim special dividend 6 HK cents) per share	**110,289**	33,087
2011 interim – 5 HK cents (2010: 2010 interim dividend 9 HK cents) per share	**27,572**	49,630
2009 final dividend – 5 HK cents per share	**–**	27,572
	137,861	110,289

An interim special dividend of HK$0.20 per share, amounting to approximately HK$110 million, was declared on February 11, 2011 and paid on April 8, 2011.

The Board of Directors does not recommend the payment of final dividend for the year ended December 31, 2011.

7. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**237,820**	216,083
Less: Allowance for doubtful debts	**(1,504)**	(5,048)
	236,316	211,035
Bills receivables	**115,454**	65,246
	351,770	276,281
Other receivables	**64,806**	56,551
Total trade and other receivables	**416,576**	332,832

The Group allows an average credit period of 60 days (2010: 60 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts and bills receivables presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
0 – 60 days	**280,759**	194,526
61 – 90 days	**50,596**	63,641
Over 90 days	**20,415**	18,114
	351,770	276,281

8. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**39,110**	44,210
Accrued salary and bonus	**34,115**	42,542
Receipt in advance	**102,185**	161,503
Accrued commission expenses	**26,954**	28,088
Others	**120,555**	130,603
	322,919	406,946

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
0 – 90 days	**23,851**	30,788
91 – 120 days	**13,081**	5,661
Over 120 days	**2,178**	7,761
	39,110	44,210

The average credit period on purchase of goods is 90 days (2010: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended December 31, 2011.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company"), I am pleased to present the audited annual consolidated results of the Company and its subsidiaries (collectively the "Group" or "Fong's") for the year ended December 31, 2011.

As time passes another year has arrived, and in the past year the Company has undergone significant changes. Following the completion of the acquisition of a majority shareholding in the Company by 中國恒天集團有限公司 (China Hi-Tech Group Corporation) in June 2011, I was honoured to be elected the new Chairman of the Company and Mr. Fong Sou Lam was re-designated as the Honourable Chairman of the Company. Now, with a new team of 14 members on the Board, Fong's is beginning a new chapter in its history. Thanks to the concerted efforts of all our employees, Fong's has grown into the largest dyeing and finishing machine manufacturer in the world. I would like to take this opportunity to express my sincere gratitude to Mr. Fong for his great contribution in the past years of founding and growing Fong's. I believe Mr. Fong's in-depth experience and expertise in the textile dyeing and finishing machine industry will continue to be valuable to the Board. The Group believes that with the collaboration with 中國恒天集團有限公司 (China Hi-Tech Group Corporation) and expanded capabilities of the combined group, this alliance will accelerate Fong's market penetration in the textile dyeing and finishing machine market and further solidify its market leadership in the world.

The unfavourable business environment that existed for the first half of 2011, namely rising labour and raw material costs and the slowdown in the global economic recovery, continued to persist in the second half of 2011 when concerns about the Euro and the European economic situation intensified. As a result, the Group recorded a decrease in both revenue and net profit. The Group's revenue for the year ended December 31, 2011 declined 15% to approximately HK$2,199 million (2010: HK$2,587 million). The decline in revenue was mainly due to a decrease in sales revenue from the dyeing and finishing machine manufacturing segment during the year, while the net profit decreased significantly to approximately HK$59 million as compared to approximately HK$303 million in 2010.

Moving forward to 2012, even though there are signs of stabilization of the global economy, the road to recovery remains sluggish and uncertainties still prevail, we expect a challenging year for our businesses. However, we are taking proactive steps to manage our businesses and preserve cash flow by exercising tight capital expenditure and expense control during this difficult period. In addition, the Group is in the midst of finalizing its 3-Year Plan (2012-2014) in respect of its core businesses, namely dyeing and finishing machine manufacturing, stainless steel trading, stainless steel casting and waste water treatment and reuse solutions, with the aims of achieving the following objectives, which we believe are critical for our long-term success:

- Offering a variety of products for a broad array of markets
- Making advancements in the state-of-the-art technology in the textile dyeing and finishing machine industry
- Exploring new business opportunities and attracting talents so as to consolidate and fortify our strength
- Maximizing the long-term value to our shareholders

Besides the development of the existing core businesses, the Group will also explore and evaluate other potential investment opportunities which could bring long-term benefits to the Group.

Despite the challenging market conditions, I believe that given Fong's diverse and one-stop portfolio of product supply, strong market leadership, advanced technology development and solid foundation, Fong's is well positioned to enable sustainable growth and continue delivering long-term value to its customers, shareholders and employees. This year is a historical turning point for Fong's, let's work together for a successful future.

Finally, I would like to thank our customers, suppliers, bankers, business partners, employees and shareholders for the tremendous support and understanding they have extended to us throughout the year.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended December 31, 2011, the Group's consolidated revenue amounted to approximately HK$2,199 million (2010: HK$2,587 million), a decrease of 15% as compared with the previous year. The profit for the year was approximately HK$59 million (2010: HK$303 million), a decrease of 81% and basic earnings per share was 10.7 HK cents for the year under review (2010: 54.9 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

Fong's National Engineering Company, Limited, Fong's National Engineering (Shenzhen) Co., Ltd., Fong's Europe GmbH, THEN Maschinen (HK) Ltd., Goller (HK) Limited, Goller Textile Machinery (Shenzhen) Co., Ltd., Xorella AG and Xorella Hong Kong Limited

With parts of Europe and North America continuing to be affected by economic uncertainties leading to the waning of consumer confidence and investment sentiment, these invariably created a challenging environment for many manufacturers, which was compounded by tightening credit. As a result, certain customers elected to postpone their projects until a later time leading to a slowdown in our sales of dyeing and finishing machines.

For the year ended December 31, 2011, revenue of this manufacturing segment reduced by 30% to approximately HK$1,133 million (2010: HK$1,625 million), accounting for 52% of the Group's revenue. This segment recorded an operating loss of approximately HK$2 million in contrast of an operating profit of approximately HK$242 million in 2010, which was mainly due to the significant decrease in sales volume, the escalating production costs in the PRC and volatility in raw material prices during the year under review.

Moving forward to 2012, uncertainties associated with the lingering European debt crisis will continue to affect the demand for our products. Volatile raw material prices, rising labour cost in the PRC and appreciating Renminbi will continue to exert pressures on the Group's profitability. In view of the rising operating costs, the Group will strive to maintain tight cost control and continue to implement lean manufacturing, standardization and automation policies as well as enhancement and optimization of its operating procedures so as to bolster the operation efficiency of this segment in order to maintain a satisfactory margin level, which remains a prime objective.

The Group will also continue its strategy to invest in product innovation, its brands and its global distribution. Recently, a new generation of products, namely **TEC** hydraulic Dyeing Machines and **SYNERGY** airflow Dyeing Machines, have been launched. These new machine models have made great improvements on reducing emission and energy consumption and have been well received by the customers and will gradually supersede the older models. We anticipate receiving more orders as a result.

According to the "12th Five-Year Plan" recently announced by the PRC government, it is the policy of the government to further develop the textile industry. With the continuous effort and support by the PRC government in promoting the economies and development of the textile industry, the Group believes that our dyeing and finishing machine manufacturing business will continue to grow and contribute positively to the Group's performance in the coming years.

Given that we possess a well diversified product portfolio and loyal support from customers, we anticipate the overall sales of dyeing and finishing machines to pick up significantly once market uncertainty dissipates and the global economy returns to a healthier state.

The management will continue employing a holistic strategy that examines, refines and coordinates all aspects of operation so that the Group is constantly evolving, raising its competitiveness and fortifying its position as a leading dyeing and finishing machine manufacturer in the world.

STAINLESS STEEL TRADING
Fong's Steels Supplies Company Limited and Leefull Metal (Shenzhen) Co., Ltd.

For the year ended December 31, 2011, sales of stainless steel products amounted to approximately HK$602 million (2010: HK$621 million), representing a slight drop of 3% as compared to the previous year and accounted for 27% of the Group's total revenue. Its operating profit was approximately HK$13 million as compared to approximately HK$34 million last year. The decrease in profitability was mainly attributable to the modest reduction in the average selling price of our stainless steel stocks during the year under review.

Starting from 2012, the Group has also engaged in the business of slitting and processing of stainless steel materials, which is complementary to the stainless steel trading business. The management believes that this will bring in additional sales orders from existing and new customers.

Due to the prevailing global macro economic environment that is mixed and difficult to predict, the outlook for stainless steel prices is still uncertain. The Group will continue to adopt a prudent approach in running this business and take appropriate actions in relation to market risk control via timely and appropriate adjustments to prices and inventory based on market analysis and judgment in order to accelerate the turnover ratio of the inventory and to minimize the risk on price fluctuation.

STAINLESS STEEL CASTING
Tycon Alloy Industries (Hong Kong) Co., Ltd. and Tycon Alloy Industries (Shenzhen) Co., Ltd.

For the year ended December 31, 2011, this segment recorded a steady growth with revenue of approximately HK$463 million(2010: HK$341 million), representing an increase of 36% over last year and accounting for 21% of the Group's revenue. The operating profit for the year was approximately HK$53 million as compared to approximately HK$45 million last year.

The management is fully aware that sound foundations are needed to underpin growth. Hence, ongoing enhancement of operations, including further automation and less reliance on human labour will be pursued. The management is optimistic about this business segment to maintain a steady growth in revenue in the mid to long term.

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

For the year ended December 31, 2011, Monforts Fong's recorded a revenue of approximately HK$665 million (2010: HK$952 million), representing a decrease of 30%. The decrease in revenue was mainly caused by the reduction in the sales orders due to the credit austerity measures in the PRC and the worse off of the Europe's sovereign debt crisis.

The Group's share of profit after tax amounted to approximately HK$42 million (2010: HK$90 million), representing a decrease of 53% as compared to last year. Apart from the reduction in sales orders volume as mentioned above, the increase in the production overheads during the year due to the appreciation of the Renminbi currency, the rise of the minimum wages level in the PRC and the higher operation costs in running productions in Shenzhen and Zhongshan simultaneously in a transition period before completion of plant relocation to Zhongshan also caused the lower profitability.

Under the current business environment, Monforts Fong's will continue its focus on maintaining excellent customer relations, strengthening its product portfolio, exploring new market, while continuing to develop advanced technology and reduce costs, in an effort to position itself as a strong and more competitive player in the industry when the global economy recovers. Although the road ahead may be full of challenges, Monforts Fong's as equipped with healthy financial position and ample experience in the manufacture of quality machines is ready to confront these challenges.

As reported in previous reports, Monforts Fong's, through one of its subsidiaries, acquired a piece of land of approximately 200 mu (133,000m^2) in Zhongshan, Guangdong Province, the PRC at a consideration of RMB51,200,000 in July 2010 for production relocation purpose. The construction of the new production plant is on progress and scheduled to be completed by mid-2012. The operations in the existing Shenzhen plant will be relocated once the construction is completed, The management is of the view that the new production plant will achieve cost-effectiveness for Monforts Fong's and increase its competitiveness in the long-run. In order to ensure smooth operations of the new production plant and to minimize the possible impacts during the relocation period in the new year, Monforts Fong's is providing various trainings to its staff to enhance their technical and product knowledge.

HUMAN RESOURCES

To maintain and boost its competitiveness in the long run, the Group has been implementing tight control on operating expenses and cash flow through reduction of headcount and rationalization of its production facilities.

As at December 31, 2011, the Group had a total of approximately 3,760 employees (December 31, 2010: 3,920 employees) spreading among the PRC, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central and South America. Staff costs, including directors' remuneration were approximately HK$260 million (2010: HK$216 million). The increase in staff costs was mainly attributable to the appreciation of Renminbi and other foreign currencies where the Group operated, the increases in minimum wages in the PRC which led to increase in general wages level of the employees of the Group, the implementation of additional social security benefits and performance-related incentive payments during the year. The continuing appreciation of Renminbi further intensified the impact of the rise of minimum wages and other operating costs for the Group's production in the PRC. To alleviate the above unfavourable operating environment, the Group will monitor the market situation constantly and to adjust the labour force and labour structure in enhancing the operation efficiency with better staff mix.

The Group believes the success of its business hinges on employee commitment, thus it spares for providing a harmonious working environment to employees to encourage dedication to work. Employees are remunerated according to remuneration benchmarks in the industry as well as prevailing market conditions and their experience and performance. The Group's remuneration policies and packages were reviewed by its management on a regular basis. Bonus and rewards may also be awarded to employees based on performance evaluation, with an aim to encourage and reward staff to achieve better performance. Other employee benefits available for eligible employees include medical insurance, retirement benefits scheme, and share option scheme.

The Group recognizes the importance of having a high caliber and competent staff; hence, in order to equip with the workforces to face the challenges ahead, the Group will continue to offer training programmes to staff in different levels and positions on an ongoing basis. The aim of these programmes is to cultivate a dynamic corporate culture and develop effective communication and customer service skills among staff members. Moreover, system controls will also be reinforced to ensure high operational efficiency and performance.

LIQUIDITY AND CAPITAL RESOURCES

The Group met its funding requirements in its usual course of business by cash flows generated from its operations and existing banking facilities. The Board is in the opinion that the Group is in a healthy financial position and has sufficient resources in support of its working capital requirements.

During the year ended December 31, 2011, the net cash outflow used in operating activities was approximately HK$24 million. As at December 31, 2011, the Group's inventory level decreased to approximately HK$777 million as compared to approximately HK$828 million as at December 31, 2010.

As at December 31, 2011, bank borrowings amounted to approximately HK$756 million. Most bank borrowings were sourced from Hong Kong, of which 70% were denominated in Hong Kong dollars, 24% were denominated in United States dollars and 6% were denominated in Renminbi. The Group's bank borrowings are predominantly subject to floating interest rates. The Group adopted interest rate swaps for the interest payables on the aggregate principal amount of HK$260 million to hedge interest rate fluctuation.

As at December 31, 2011, the bank balances and cash amounted to approximately HK$278 million of which 42% were denominated in United States dollars, 33% in Renminbi, 19% in Hong Kong dollars, 5% in Euro and 1% in Indian Rupees and other currency.

As at December 31, 2011, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was increased to 48% (December 31, 2010: 25%) and the current ratio was 1.3 (December 31, 2010: 1.4). The Board considers these ratios were still at healthy and adequate levels. The Group continued to maintain prudent financial management policies during the year under review.

As the Group's sales were principally denominated in Renminbi or United States dollars, while purchases were transacted mainly in United States dollars, Renminbi or Hong Kong dollars, the Group does not foresee significant exposure to exchange rate risk and does not have a fixed and regular foreign currency hedging policy. However, the Board will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposures should the need arises.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year ended December 31, 2011.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the year ended December 31, 2011.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Company for the year ended December 31, 2011.

ANNUAL REPORT

The Annual Report for the year ended December 31, 2011 will be despatched to shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) as well as the website of the Company (www.fongs.com) in due course.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting of the Company (the "AGM") will be held on Friday, May 18, 2012. Notice of the AGM will be published on the website of the Stock Exchange as well as the website of the Company, and despatched to shareholders on or about April 16, 2012.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members will be closed from Monday, May 14, 2012 to Friday, May 18, 2012, both days inclusive, during which period no transfers of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, May 11, 2012.

On behalf of the Board
He Fengxian
Chairman

Hong Kong, March 28, 2012

* *For identification purpose only*

As at the date of this announcement, our Chairman and Executive Director is Ms. He Fengxian; our Honourable Chairman and Executive Director is Mr. Fong Sou Lam; our Vice-Chariman and Non-executive Director is Mr. Ye Maoxin; our other Executive Directors are Mr. Wan Wai Yung (Chief Executive Officer), Mr. Ji Xin, Mr. Fong Kwok Leung, Kevin, Mr. Zhao Chuancong, Mr. Tou Kit Vai, Dr. Tsui Tak Ming, William and Mr. Du Qianyi; and our Indendpent Non-executive Directors are Mr. Zhou Yucheng, Mr. Ying Wei, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.