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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 31 DECEMBER 2012

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 31 December 2012 together with the comparative figures for last year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	**2012** *HK$'000*	2011 *HK$'000*
Revenue	2	**2,126,467**	2,198,608
Cost of sales		**(1,608,311)**	(1,615,710)
Gross profit		**518,156**	582,898
Interest income		**2,693**	2,340
Other income		**32,972**	46,468
Other gains and losses		**(10,424)**	(3,984)
Selling and distribution costs		**(140,231)**	(114,305)
General and administrative expenses		**(420,361)**	(373,225)
Other expenses		**(74,862)**	(73,396)
Finance costs	3	**(47,204)**	(35,200)
Share of results of an associate		**231**	(325)
Share of results of jointly controlled entities		**6,707**	41,888
Gain on remeasurement of previously held interests in jointly controlled entities		**288,399**	–
Profit before tax		**156,076**	73,159
Income tax expense	4	**(4,049)**	(14,102)
Profit for the year		**152,027**	59,057

	Note	**2012**	2011
		HK$'000	*HK$'000*
Other comprehensive (expense) income, net of nil tax			
Exchange difference arising on translation		**9,148**	30,241
Share of changes in translation reserve of an associate		**513**	1,732
Share of changes in translation reserve of jointly controlled entities		**2,093**	6,048
Reclassification adjustment of translation reserve upon deemed disposal of jointly controlled entities		**(24,308)**	–
Gain on cash flow hedge		**6,192**	12,194
Other comprehensive (expense) income for the year		**(6,362)**	50,215
Total comprehensive income for the year		**145,665**	109,272
Earnings per share			
Basic and diluted	6	**27.6 HK cents**	10.7 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**554,775**	346,129
Prepaid lease payments		**158,398**	95,983
Goodwill		**533,515**	–
Intangible assets		**102,617**	7,672
Interest in an associate		**37,164**	36,420
Interests in jointly controlled entities		**–**	119,701
Deposits for acquisition of property, plant and equipment		**21,123**	3,068
Deposits for acquisition of leasehold land		**29,195**	7,953
Deferred tax assets		**20,222**	14,133
		1,457,009	631,059
Current assets			
Inventories		**760,437**	777,064
Trade and other receivables	7	**561,317**	416,576
Prepaid lease payments		**3,541**	2,168
Amounts due from jointly controlled entities		**–**	4,086
Tax recoverable		**5,048**	4,249
Cash and cash equivalents		**412,870**	278,164
		1,743,213	1,482,307
Current liabilities			
Trade and other payables	8	**661,738**	322,919
Warranty provision		**13,328**	12,108
Derivative financial instruments		**944**	2,882
Tax liabilities		**17,378**	12,730
Borrowings		**1,185,845**	756,410
		1,879,233	1,107,049
Net current (liabilities) assets		**(136,020)**	375,258
Total assets less current liabilities		**1,320,989**	1,006,317

	2012	2011
	HK$'000	*HK$'000*
Non-current liabilities		
Derivative financial instruments	**–**	4,254
Deferred tax liabilities	**13,274**	9,368
Borrowings	**169,355**	–
	182,629	13,622
	1,138,360	992,695
Capital and reserves		
Share capital	**55,145**	55,145
Share premium and reserves	**1,083,215**	937,550
	1,138,360	992,695

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are effective for the current period of the Group and the Company. Of these, the following developments are relevant to the Group:

HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The adoption of these amendments has no significant impact on the Group's financial statements for the years presented.

The Group has not early applied the following new standards, amendments and interpretations to standards that have been issued but are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
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]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the Amendment HKAS 1[2]
HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
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]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transaction Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[3]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on the Group's results of operations and financial position.

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 company. 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 sale 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 31 December 2012

	Manufacture and sale of dyeing and finishing machines	**Trading of stainless steel supplies**	**Manufacture and sale of stainless steel casting products**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	**1,246,153**	**465,242**	**415,072**	**2,126,467**
Inter-segment sales	**5,849**	**175,749**	**31,383**	**212,981**
Segment revenue	**1,252,002**	**640,991**	**446,455**	**2,339,448**
Elimination				**(212,981)**
Group revenue				**2,126,467**
Segment (loss) profit	**(112,313)**	**(3,653)**	**21,216**	**(94,750)**
Interest income				**2,693**
Finance costs				**(47,204)**
Share of results of an associate				**231**
Share of results of jointly controlled entities				**6,707**
Gain on remeasurement of previously held interests in jointly controlled entities				**288,399**
Profit before tax				**156,076**

For the year ended 31 December 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

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, finance costs, share of results of an associate, share of results of jointly controlled entities and gain on remeasurement of previously held interests in 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 PRC and Germany.

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**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**800,562**	843,283	**1,261,453**	572,574
Hong Kong	**382,098**	515,697	**11,132**	13,766
Asia Pacific (other than the PRC and Hong Kong)	**408,642**	306,350	**104**	129
Europe	**278,332**	274,581	**164,056**	30,418
North and South America	**228,793**	201,169	**42**	39
Others	**28,040**	57,528	**–**	–
	2,126,467	2,198,608	**1,436,787**	616,926

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 31 December 2012 and 2011.

3. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years	**40,575**	30,256
Bank charges	**6,629**	4,944
	47,204	35,200

4. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**2,812**	7,586
PRC Corporate Income Tax ("CIT"):		
Current year	**4,061**	6,852
Underprovision in prior years	**1,275**	1,542
Overseas income tax:		
Current year	**611**	243
(Over) underprovision in prior years	**(19)**	5
	8,740	16,228
Deferred tax:		
Current year	**(4,691)**	(2,126)
	4,049	14,102

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

Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and Implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 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 25% for the year ended 31 December 2012 (2011: 24%).

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

5. DIVIDENDS

Dividends recognised as distribution during the year:

	2012	2011
	HK$'000	*HK$'000*
2010 interim special dividend 20 HK cents per share	**–**	110,289
2011 interim dividend 5 HK cents per share	**–**	27,572
	–	137,861

An interim special dividend of 20 HK cents per share, amounting to approximately HK$110 million, was declared on 11 February 2011 and paid on 8 April 2011.

The Board of Directors resolved not to recommend the payment of a final dividend for the year ended 31 December 2012.

6. EARNINGS PER SHARE

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

	2012	2011
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**152,027**	59,057
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at 31 December 2012 and 2011 and during the years ended 31 December 2012 and 2011.

7. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**289,833**	237,820
Less: Allowance for doubtful debts	**(2,933)**	(1,504)
	286,900	236,316
Bills receivables	**112,090**	115,454
	398,990	351,770
Other receivables	**162,327**	64,806
Total trade and other receivables	**561,317**	416,576

The Group allows an average credit period of 60 days (2011: 60 days) to its trade customers.

The following is an ageing 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:

	2012	2011
	HK$'000	*HK$'000*
0 – 60 days	**322,816**	280,759
61 – 90 days	**49,555**	50,596
Over 90 days	**26,619**	20,415
	398,990	351,770

8. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**119,704**	39,110
Accrued salaries and bonus	**50,621**	34,115
Receipts in advance	**177,459**	102,185
Accrued commission expenses	**27,740**	26,954
Others	**286,214**	120,555
	661,738	322,919

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

	2012	2011
	HK$'000	*HK$'000*
0 – 90 days	**82,381**	23,851
91 – 120 days	**18,367**	13,081
Over 120 days	**18,956**	2,178
	119,704	39,110

The average credit period on purchase of goods is 90 days (2011: 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 any final dividend for the year ended 31 December 2012.

CHAIRMAN'S STATEMENT

The past year was the first year of operation under the management of the newly formed Board after the acquisition of the Company by China Hi-Tech Group Corporation (中國恒天集團有限公司) ("China Hi-Tech Group") on 3 June 2011. China Hi-Tech Group is a state-owned enterprise directly supervised and beneficially owned by State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

During the year under review, the Group's core businesses continued to be dyeing and finishing machine manufacturing, stainless steel trading and stainless steel product casting. After undergoing significant changes in the past year, the Group continued to develop its existing core businesses by implementing the following strategic measures:

1) On 3 June 2012, the Group entered into an acquisition agreement to acquire German Monforts Group and such acquisition was completed on 30 November 2012 at a consideration of approximately EUR46 million. After the completion of the acquisition, German Monforts Group and Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's"), originally the jointly controlled entities of the Group, became subsidiaries of the Group. German Monforts Group is a German textile finishing equipment manufacturer with over a hundred years of history that enjoys a global reputation for its innovative technology. Through this acquisition, the Group's competitiveness is further strengthened and enhanced as the Group's resources in respect of technology, product types and markets in the dyeing and finishing machine industry are perfectly complemented.

2) In July 2012, Monforts Fong's relocated its production and operational facilities in Buji, Shenzhen to the Linhai Industrial Park in the Zhongshan Torch Industrial Development Zone (中山市火矩開發區臨海工業園) in Guangdong Province, the PRC. The plant has a site area of 200 mu (approximately 133,000 m^2) and approximately 70,000 m^2 of established factory space. The second phase of the Group's relocation project involves approximately 600 mu (approximately 400,000 m^2) of adjacent land lots. The construction project with a total floor area of approximately 330,000 m^2 has already commenced and it is expected that the relocation of the existing production facilities of all business sectors of the Group in Buji, Shenzhen to Zhongshan will be completed in 2015.

3) On 31 December 2012, the Group implemented a new management structure with a view to enhancing efficiency and capitalizing on the strong synergy within the Group. The number of Board members of the Company has reduced from 14 to 9. Mr. Fong Sou Lam resigned as an Executive Director of the Company, but still serves as the Honourable Chairman of the Company and a director of several subsidiaries of the Group. Mr. Fong has made outstanding achievements in the dyeing and finishing machine industry and is also a successful entrepreneur. He can certainly provide assistance to the Board and contribute his ideas when the Board formulates the Group's development strategies.

   Mr. Zhao Chuancong, Mr. Du Qianyi, Mr. Tou Kit Vai and Dr. Tsui Tak Ming, William also resigned as Executive Directors, but still serve as directors of several subsidiaries of the Group and members of the new management team under the direct supervision of the Chief Executive Officer, and are focused on their respective functions and departments.

   Mr. Wan Wai Yung, Executive Director of the Company, ceased to act as Chief Executive Officer, with effect from 1 January 2013, in order to focus on the follow-up work of the acquisition of German Monforts Group. Mr. Wan is the only person that is qualified for the position. Mr. Wan gained years of valuable experience when he was responsible for the operations of Monforts Fong's. As such, he developed unique insights and professional knowledge in the operations of German Monforts Group, which can help to enhance the synergy of the acquisition and allow the Group's world-leading dyeing and finishing machines to be sold to various markets in the world in the most efficient manner.

   Mr. Ji Xin, Executive Director of the Company, joined the Group in March 2012 and has assumed the role of Chief Executive Officer with effect from 1 January 2013. He is responsible for the daily management of the Group and reports to the Board. Mr. Ji is also the Chairman (and previously was also the General Manager) of Qingdao Textile Machinery Co., Ltd. (青島紡織機械股份有限公司), a corporation affiliated with China Hi-Tech Group. He has over 20 years of experience in the textile machinery industry. The Board believes that with Mr. Ji's experience in the textile machinery industry, he can lead the Group to achieve further development and bring its operations to new heights.

The Group's management team adopted various cost control measures in recent years in an effort to improve the Group's operational conditions. There were clear signs that the Group's costs had been held within a more reasonable level, and the turnover of the Group's dyeing and finishing machine business for the year was maintained at a level similar to last year under the tireless efforts of the management and staff. However, amid negative factors such as the global economic downturn, rising labour costs and the appreciation of Renminbi, coupled with the acquisition of German Monforts Group which involved expenses amounting to approximately HK$22 million, the Group's segment results recorded a loss of approximately HK$112 million. Nevertheless, as the acquisition of German Monforts Group brought a one-off gain of approximately HK$288 million under the item "gain on remeasurement of previously held interests in jointly controlled entities" to the Group during the year, the Group recorded a profit of HK$152 million for the year.

2013 is also the year that the Group celebrates its 50th anniversary. In order to explore new business development and create a better future, besides setting cost control as the main target for future operations, the Group also injected a series of new elements into its business development, such as (1) speeding up the commencement of the water recycling system and equipment business to form a new aspect of growth in its results; (2) launching more dyeing and finishing machines that fulfill market demand, conserve energy and are more environmental-friendly to form a new sales highlight, in bid to seize a greater market share in the fastest and most economical way.

Despite the challenging conditions of the Group's business and the market, the Board will continue to strive to expand our markets. In respect of the dyeing and finishing machine business market, there are signs that the macroeconomic environment in this year will be better than last year. Therefore, the number of orders received by the Group is expected to increase. I believe that given the Group's diverse and one-stop portfolio of product supply, strong market leadership, advanced technology development and solid foundation, together with the strong support from various parties, the Group is well positioned to achieve sustainable growth and a brighter future.

Finally, on behalf of the Board, I would like to express my deepest gratitude to the staff for their commitment and dedication through these difficult times. I would also like to thank our shareholders, customers, suppliers, bankers and business partners for their tremendous support and trust.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended 31 December 2012, the Group's consolidated revenue amounted to approximately HK$2,126 million (2011: HK$2,199 million), a decrease of 3% as compared to the previous year. The profit for the year was approximately HK$152 million (2011: HK$59 million), an increase of 158%. The significant increase in profit was due to the one-off gain of approximately HK$288 million on "gain on remeasurement of previously held interests in jointly controlled entities" from the acquisition of the German Monforts Group during the year (which will be explained in subsequent section). Basic earnings per share was 27.6 HK cents for the year under review (2011: 10.7 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

Fong's National Engineering Company, Limited, Fong's National Engineering (Shenzhen) Co., Ltd., Fong's Europe GmbH and Xorella Hong Kong Limited

Since the second half of 2011, the global economy has started to deteriorate rapidly, and market demand has remained low, resulting in an extremely difficult business environment for manufacturers. In particular, the textile and garment manufacturing companies have weathered a great impact. Affected by the Euro debt crisis and uncertain global economic outlook, customers' sentiment for investing in equipments is poor, while some customers have reduced their investment scale or have delayed their projects, resulting in a slowdown in sales in the Group's dyeing and finishing machines. For the year ended 31 December 2012, revenue from this segment increased by 10% to approximately HK$1,246 million (2011: HK$1,133 million), accounting for 58% of the Group's revenue. This segment recorded an operating loss of approximately HK$112 million as compared to an operating loss of approximately HK$2 million in 2011. The increase in revenue from this segment was mainly due to the inclusion of share of the revenue of German Monforts Group of approximately HK$124 million upon the completion of the acquisition of the German Monforts Group. Excluding this effect, this year's revenue was lower than last year by approximately HK$11 million.

Facing increasing operating costs in the PRC, certain textile buyers have shifted their orders to other countries in the Asia-Pacific region. As a result, the Group's new overseas order intake showed a significant rebound during the year under review. Both FONG'S and THEN brands have continued to see stable development and recorded an impressive performance in emerging markets such as Bangladesh, India, Indonesia and Turkey. Following the restructuring of its sales and marketing strategy in the previous year, the Group successfully re-established key referential and impressive orders for the GOLLER brand in India, Thailand and Malaysia, highlighting customers' confidence in the Group's products. Building on an established base with years of overseas market development experience, the Group will continue to enhance its competitive edge and to explore and capture the overseas market with its cost advantages. The Group has the confidence that the overseas market will continue to increase steadily.

Member companies engaging in this manufacturing segment have been restructured so that production bases in various locations and related products and brands can be centrally managed for maximizing resources and making room for expanding the Group's dyeing and finishing machine business.

Our core strategy is to continue to create value for our customers. The Group has undergone new model upgrades and product design optimization, including the areas of operating efficiency, level of automation, energy saving and environmental protection. Such optimization is to enhance the performance of our dyeing and finishing machines, so as to help our customers in reducing their overall production cost. Our newly launched products, namely TEC series of hydraulic dyeing machines and SYNERGY series of airflow dyeing machines continue to be well received by the market and will gradually supersede the older models. Despite the dim outlook of the market, the corresponding orders of the Group are still relatively satisfactory and are expected to become a new sales growth point.

As the global community has placed greater importance on environmental protection, many old and new customers plan to upgrade their existing dyeing and finishing machines, and set up additional sewage treatment facilities in the near future in order to improve their product quality and capacity standards, as well as to be prepared for compliance with new emission standards that are more demanding, which provides enormous business opportunities for the Group. In 2007, the Group already took the initiative to successfully develop a wastewater reuse system and equipment mainly designed for dye factories through its own engineering R&D team, which is entering the harvest stage now. The Group will actively seek projects to make it become a new profit growth point of the Group in the near future.

By leveraging its understanding of customers' need for cash in their investments in new equipment, during the year, the Group has entered into an agreement with a leading financial service company specializing in equipment-based financial leasing, which will provide its customers in the PRC with a commercial arrangement for financing their purchase of dyeing and finishing machines from the Group. The Group believes that through this arrangement, the machinery replacement momentum from clients will pick up gradually and thus will help sustain the Group's market share within the industry.

On 30 November 2012, the Group completed the acquisition of the German Monforts Group, which will expand the whole industry chain of textile, dyeing and finishing of the Group, and allow both parties to share their sales network with each other. The Group believes that the synergies generated by the acquisition will gradually take effect next year.

In addition, the Group commenced the construction of phase II of the Zhongshan plant during the year, which is expected to be completed by 2015, upon which all production facilities of the Group will be relocated to Zhongshan from Shenzhen. As a result, the Group's production capacity will double as compared to the current level.

Looking ahead, the global economy will continue to be unstable. Operating costs will continue to rise and labor cost will remain at a high level. As the management has fully realized the difficulties and challenges, the Group will (1) in respect of marketing, continue the current marketing strategy, that is to say, be committed to the development of high-end products to provide customers with one-stop product supply mix, and adjust pricing to mitigate certain pressures arising from higher production costs by passing them onto the customers; (2) regarding production, continue to take measures to improve production and human resource efficiency; (3) in terms of production facilities, invest more resources to improve productivity and production capacity; (4) as for research and development, develop dyeing and finishing equipment which is more efficient, more energy saving and environment-friendly, in light of market changes and requirements; and (5) in the aspect of financial management, maintain a conservative financial policy and maintain a healthy cash flow.

Given that the Group possesses a well diversified product portfolio and enjoys strong support from customers, the Group anticipates 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 31 December 2012, sales of stainless steel of the Group amounted to approximately HK$465 million (2011: HK$602 million), representing a drop of 23% as compared to the previous year and accounted for 22% of the Group's total revenue. Its operating loss was approximately HK$4 million in contrast of an operating profit of approximately HK$13 million last year. The decrease in profitability was mainly attributable to the impact of the macro economic environment during the year, leading to a continuous drop in stainless steel price and resulting in a decline in gross profit.

Since 2012, the Group has also been 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 for the Group 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. At the same time, the Group will strengthen the management of accounts receivables, in order to lower the risk of bad debt and to maintain a sufficient level of operating cash.

Following the approval of a large number of infrastructure projects from the National Development and Reform Commission of the PRC, which is responsible for domestic government planning, coupled with the gradual recovery of the global economy, the Group expects a significant upward market demand for stainless steels in the mid to long term. Therefore, business for the stainless steel trading segment will continue to be promising and will deliver a healthy growth in the coming years.

STAINLESS STEEL CASTING

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

During the year under review, despite the downturn of the European economy, the Group secured support from customers under the leadership of its dedicated management team as well as its stable supply capacity and good product quality. As a result, the revenue for this business segment maintained a similar level as of last year. For the year ended 31 December 2012, this business segment recorded a revenue of approximately HK$415 million (2011: HK$463 million), representing a decrease of 10% as compared to the corresponding period last year, and accounted for 20% of the Group's revenue. Although the Group already strengthened its operational management, the drop in revenue and increase in manufacturing costs caused the operating profit to decline from approximately HK$53 million last year to approximately HK$21 million this year.

The management believes that the market demand for high-quality stainless steel castings will continue to grow. In order to further increase its market share, the Group is required to have a solid foundation. Therefore, the Group will (1) increase its production capacity and reduce the scrappage rate of our products, including further automation and reducing its reliance on manpower; (2) purchase advanced computerized design system and mold manufacturing equipment to further improve its molding capabilities to reduce development time for customers, and to better control the quality of metal molds manufactured by the Group; and (3) purchase equipment for the computerized digital-control machine center, and enhance machining and surface treatment service capability, thus providing customers with higher value-added services.

Due to the economic uncertainties in Europe and the United States, the management maintains prudent in the turnover and profit growth for this business segment in the coming year. The management is, however, confident that this business segment will maintain a steady growth in revenue in the mid to long term.

JOINTLY CONTROLLED ENTITIES

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

Upon the completion of the acquisition of German Monforts Group on 30 November 2012, the Group's interest in Monforts Fong's increased from 50% to 90.1%. Therefore, the status of Monforts Fong's has changed from jointly controlled entities to subsidiaries of the Group. According to the terms and conditions of the acquisition, the seller can exercise a put option within 3 months commencing from and including the third anniversary after the completion date of the acquisition, to sell its remaining 9.9% interest in German Monforts Group (including Monforts Fong's) to the Group. If the put option is not exercised before the expiry date, the Group has the right to exercise a call option within the subsequent month to purchase the remaining 9.9% interest in German Monforts Group (including Monforts Fong's).

Textile markets across the world continued to slow down due to the lingering Eurozone debt crisis and the credit austerity measures in the PRC. Coupled with the significant decline in cotton prices in overseas markets, textile manufacturers in the PRC faced competitive pressure on prices, causing the growth of the entire textile industry to slow down and the profitability to decrease. As such, some customers deferred their investment on dyeing and finishing machines and equipment. As of the year ended 31 December 2012, Monforts Fong's recorded a revenue of approximately HK$508 million (2011: HK$665 million), representing a decrease of 24%.

As the status of Monforts Fong's has changed, the Group's share of Monforts Fong's profit after tax before the acquisition of German Monforts Group amounted to approximately HK$6.7 million (2011: HK$42 million) and was reflected under the item "share of results of jointly controlled entities" in the consolidated statement of comprehensive income. After the acquisition of German Monforts Group by the Group, the revenue and operating results of Monforts Fong's have been included in the operating segment "manufacture and sale of dyeing and finishing machines". The acquisition generated gain on remeasurement of previously held interests in jointly controlled entities of approximately HK$288 million for the Group. The relevant deemed gain was calculated based on the difference between the fair value of the Group's original investment in the jointly controlled entities and the carrying amount of the investment as at the date on which the acquisition was completed.

During the year under review, the Group's share of profit after tax decreased significantly. Apart from the decline in revenue as mentioned above, the Group's operating costs increased and profitability decreased as a result of the increase in the production overheads during the year due to the appreciation of the Renminbi, the rise of the minimum wages level in the PRC and the adjustment made as a result of running productions in Shenzhen and Zhongshan simultaneously in the transition period before completing the relocation of the plant to Zhongshan.

The new production plant in Zhongshan, which is in excellent condition, has commenced full production since September 2012. Together with the synergy generated from the acquisition of German Monforts Group, the production and operation of Monforts Fong's is on track as its overall productivity is gradually increasing. It is expected that the business will achieve greater improvement. Furthermore, the product range and market coverage of Monforts Fong's will be further expanded through the acquisition, and its competitiveness in the market will be further enhanced. In the future, the Group will be able to provide German Monforts Group with components purchased or produced with lower production costs in the PRC. The Group will continue to produce high-end MONFORTS brand textile machinery and equipment in Austria, so as to provide better service to customers that prefer machines to be manufactured in Europe. Meanwhile, with lower production costs and the Group's sales network, MONFORTS brand textile machinery and equipment will be able to quickly enter into traditional textile markets such as India, Bangladesh, Turkey and Indonesia, thereby facilitating the future profit growth for these markets.

Under the current business environment, Monforts Fong's will continue its focus on maintaining excellent customer relations, strengthening its product portfolio, exploring new markets, 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.

HUMAN RESOURCES

To maintain and boost its competitiveness in the long run, the Group continues to implement tight control on operating expenses and cash flows through the reduction of headcount and rationalization of its production facilities.

As at 31 December 2012, the Group had a total of approximately 4,620 employees (31 December 2011: 3,760 employees) spreading across the PRC, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey and Central-South America. The increase in the number of employees is mainly due to the addition of approximately 940 employees from the acquisition of the German Monforts Group. Staff costs, including directors' remuneration, were approximately HK$294 million (2011: HK$260 million). The increase in staff costs was mainly attributable to the appreciation of Renminbi and other foreign currencies in countries where the Group operates, the increase in minimum wages in the PRC which led to an increase in the general wages level of the employees of the Group, and the increase in related expenses such as the implementation of additional social security benefits by the PRC government. 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 unfavourable operating environment as mentioned above, the Group will continue to monitor the market situation on a regular basis and will adjust the labour force and labour structure accordingly in order to enhance the operational efficiency with better staff mix.

The Group believes the success of its business hinges on employee commitment. Thus it strives to provide a harmonious working environment for its 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 are 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 from the Group include medical insurance, retirement benefits scheme and share option scheme.

The Group recognizes the importance of having high caliber and competent staff. Hence, in order to prepare the workforces to face the challenges ahead, the Group will continue to offer training programs to staff at different levels and positions on an ongoing basis. The aim of these programs 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 good performance from employees.

LIQUIDITY AND CAPITAL RESOURCES

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

During the year ended 31 December 2012, the Group's net cash inflow generated from operating activities was approximately HK$147 million. As at 31 December 2012, the Group's inventory level decreased to approximately HK$760 million as compared to approximately HK$777 million as at 31 December 2011.

As at 31 December 2012, bank borrowings from the Group amounted to approximately HK$1,165 million. Most bank borrowings were sourced from Hong Kong of which 53% was denominated in Hong Kong dollars, 42% was denominated in United States dollars, 2% was denominated in Euro and 3% was 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$60 million to hedge interest rate fluctuation.

As at 31 December 2012, the bank balances and cash of the Group amounted to approximately HK$413 million of which 43% was denominated in Renminbi, 33% in United States dollars, 17% in Hong Kong dollars, 5% in Euro and 2% in Indian rupees and other currencies.

As at 31 December 2012, the gearing ratio of the Group, defined as bank's net borrowings (other than payables in the ordinary course of business) over total equity, increased to 66% (31 December 2011: 48%) and the current ratio was 0.93 (31 December 2011: 1.3). The Board considers these ratios to be still at acceptable levels as the Group continued to maintain prudent financial management policies during the period 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 continue to monitor the Group's overall foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arise.

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 31 December 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability. It is committed to achieving a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Company has applied the principles set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code (the "CG Code") during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the period from 1 January 2012 to 31 March 2012, the Company has complied with the code provisions of the former Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules; and during the period from 1 April 2012 to 31 December 2012, the Company has complied with the code provisions set out in the CG Code, save and except for the deviation from code provisions A.4.1 and A.6.7. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviations are summarized below.

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. However, Mr. Ye Maoxin was appointed an Non-executive Director and the Vice-Chairman of the Company on 9 June 2011 without a specific term but he was subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company, which stipulates that one-third of the Directors for the time being, or, if their number is not a multiple of three, then the number nearest to one-third shall retire from the office by rotation at each annual general meeting. To comply with the code provision A.4.1 of the CG Code, on 18 May 2012, the Company entered into a service contract with Mr. Ye Maoxin for a term of two years commencing on 18 May 2012 and expiring on 17 May 2014, subject to re-election in accordance with the provisions of the Bye-laws of the Company.

Code provision A.6.7 of the CG Code stipulates that Independent Non-executive Directors and other Non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, Mr. Ye Maoxin (the Vice-Chairman and Non-executive Director) and Mr. Zhou Yucheng, Mr. Ying Wei and Dr. Keung Wing Ching (the Independent Non-executive Directors), were unable to attend the special general meeting of the Company held on 6 August 2012 due to their respective unavoidable business engagements.

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 to 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 31 December 2012.

REVIEW OF ACCOUNTS

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 31 December 2012. The figures contained in the financial information set out in pages 1 to 13 of this announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Group's auditor, Baker Tilly Hong Kong Limited, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by Baker Tilly Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Baker Tilly Hong Kong Limited on the preliminary announcement.

ANNUAL REPORT

The Annual Report for the year ended 31 December 2012 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 2013 Annual General Meeting of the Company (the "AGM") will be held on Wednesday, 15 May 2013. 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 12 April 2013.

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, 13 May 2013 to Wednesday, 15 May 2013 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, 10 May 2013.

On behalf of the Board
He Fengxian
Chairman

Hong Kong, 27 March 2013

* *For identification purpose only*

As at the date of this announcement, our Chairman and Executive Director is Ms. He Fengxian; our Vice-Chairman and Non-executive Director is Mr. Ye Maoxin; our other Executive Directors are Mr. Ji Xin (Chief Executive Officer), Mr. Wan Wai Yung and Mr. Fong Kwok Leung, Kevin; and our Independent Non-executive Directors are Mr. Zhou Yucheng, Mr. Ying Wei, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.