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

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2009

The Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2009 together with the comparative figures for last year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2009

	NOTES	**2009** *HK$'000*	2008 *HK$'000*
Revenue	*2*	**1,797,695**	2,499,856
Cost of sales		**(1,446,032)**	(2,076,023)
Gross profit		**351,663**	423,833
Interest income		**2,782**	9,348
Other income		**46,107**	64,301
(Loss) gain on fair value change of financial assets held for trading		**(264)**	1,123
Loss on fair value change of financial assets designated as at fair value through profit or loss ("FVTPL")		**–**	(53)
Net loss on embedded derivatives and convertible loan notes		**–**	(11,245)
Selling and distribution costs		**(127,373)**	(156,075)
General and administrative expenses		**(320,819)**	(351,638)
Other expenses		**(53,551)**	(67,088)
Finance costs	*3*	**(48,992)**	(81,083)
Share of results of an associate		**(178)**	(2,128)
Share of results of jointly controlled entities		**44,817**	30,309
Loss before tax		**(105,808)**	(140,396)
Income tax expense	*4*	**(527)**	(2,383)
Loss for the year		**(106,335)**	(142,779)

	NOTE	2009 HK$'000	2008 HK$'000
Other comprehensive (expense) income			
Exchange difference arising on translation		**(5,848)**	26,336
Share of changes in translation reserve of an associate		**83**	1,874
Share of changes in translation reserve of jointly controlled entities		**170**	3,715
Gain (loss) on cash flow hedge		**7,838**	(36,862)
Reclassification adjustment for the cumulative exchange loss included in profit or loss upon deregistration of a subsidiary		**–**	233
Other comprehensive income and expense for the year		**2,243**	(4,704)
Total comprehensive income and expense for the year		**(104,092)**	(147,483)
Loss per share	*5*		
Basic		**(19.3) HK cents**	(25.8) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2009

	NOTES	**2009** **HK$'000**	2008 HK$'000
Non-current assets			
Property, plant and equipment		**399,441**	418,062
Prepaid lease payments		**15,586**	15,485
Intellectual property rights		**13,439**	16,355
Interest in an associate		**34,036**	34,131
Interests in jointly controlled entities		**78,286**	73,299
Deposits for acquisition of property, plant and equipment		**1,154**	4,067
Deposits for acquisition of leasehold land		**66,886**	66,744
Deferred tax assets		**11,147**	4,745
		619,975	632,888
Current assets			
Inventories		**742,916**	864,689
Trade and other receivables	*7*	**279,884**	357,748
Prepaid lease payments		**469**	460
Amounts due from jointly controlled entities		**14,295**	1,438
Tax recoverable		**5,392**	17,883
Bank balances and cash		**328,364**	309,785
		1,371,320	1,552,003
Current liabilities			
Trade and other payables	*8*	**471,371**	336,464
Amount due to a jointly controlled entity		**–**	264
Warranty provision		**11,685**	12,684
Derivative financial instruments		**210**	408
Tax liabilities		**6,947**	1,433
Bank borrowings – due within one year		**206,888**	240,010
		697,101	591,263
Net current assets		**674,219**	960,740
Total assets less current liabilities		**1,294,194**	1,593,628
Non-current liabilities			
Bank borrowings – due after one year		**469,158**	656,662
Derivative financial instruments		**29,024**	36,862
		498,182	693,524
		796,012	900,104
Capital and reserves			
Share capital		**55,145**	55,145
Share premium and reserves		**740,867**	844,959
		796,012	900,104

NOTES TO THE 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 Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after July 1, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk.

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after January 1, 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). This change in accounting policy has no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after July 1, 2009

2 Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate

3 Effective for annual periods beginning on or after January 1, 2010

4 Effective for annual periods beginning on or after February 1, 2010

5 Effective for annual periods beginning on or after July 1, 2010

6 Effective for annual periods beginning on or after January 1, 2011

7 Effective for annual periods beginning on or after January 1, 2013

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after January 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from January 1, 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

2. Revenue and Segment Information

The Group has adopted HKFRS 8 Operating Segments with effect from January 1, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standards (HKAS 14, Segment Reporting) required an entity to identity two sets of segments (business and geographical) using a risk and return approach. However, in prior years' segment information reported externally and to the Group's Finance Director for the purpose of resource allocation and assessment of performance was the same and analysed on the basis of the Group's operating divisions. As a result, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

For the purpose of resources allocation and performance assessment, the chief operating decision maker 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. The reportable segments comprise manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and 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, 2009

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	1,228,043	363,693	205,959	–	1,797,695
Inter-segment sales	9,372	186,717	43,660	(239,749)	–
Total	1,237,415	550,410	249,619	(239,749)	1,797,695
RESULTS					
Segment results	(61,059)	7,367	(50,281)		(103,973)
Interest income					2,782
Loss on fair value change of financial assets held for trading					(264)
Finance costs					(48,992)
Share of results of an associate					(178)
Share of results of jointly controlled entities					44,817
Loss before tax					(105,808)

For the year ended December 31, 2008

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	1,387,146	623,034	489,676	–	2,499,856
Inter-segment sales	87,986	400,741	28,217	(516,944)	–
Total	1,475,132	1,023,775	517,893	(516,944)	2,499,856
RESULTS					
Segment results	(104,008)	16,903	438		(86,667)
Interest income					9,348
Gain on fair value change of financial assets held for trading					1,123
Loss on fair value change of financial assets designated as at FVTPL					(53)
Net loss on embedded derivatives and convertible loan notes					(11,245)
Finance costs					(81,083)
Share of results of an associate					(2,128)
Share of results of jointly controlled entities					30,309
Loss before tax					(140,396)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the results of each segment excluding interest income, (loss) gain on fair value change of financial assets held for trading, loss on fair value change of financial assets designated as at FVTPL, net loss on embedded derivatives and convertible loan notes, finance costs, share of results of an associate and share of results of jointly controlled entities. This is the measure reported to the Finance Director for the purposes of resource allocation and performance assessment.

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

3. Finance Costs

	2009	2008
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**43,421**	30,229
Effective interest expense on convertible loan notes	**–**	36,698
Bank charges	**5,571**	14,156
	48,992	81,083

4. Income Tax Expense

	2009	2008
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**326**	1,520
Overprovision in prior years	**(87)**	(401)
Enterprise Income Tax in the People's Republic of China (the "PRC"):		
Current year	**4,510**	158
Under(over)provision in prior years	**815**	(410)
Overseas income tax:		
Current year	**1,281**	1,124
Underprovision in prior years	**84**	94
	6,929	2,085
Deferred tax:		
Current year	**(6,402)**	194
Attributable to a change in tax rate	**–**	104
	527	2,383

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, 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 20% for the year ended December 31, 2009 (2008: 18%).

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

5. Loss per Share

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

	2009	2008
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(106,335)**	(142,779)
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**551,446**	552,797

Diluted loss per share for the year ended December 31, 2008 has not been presented as the convertible loan notes had an anti-dilutive effect on the basic loss per share in 2008.

6. Dividends

No dividend was paid or declared during 2009.

Dividends recognised as distribution during the year ended December 31, 2008:

	HK$'000
2008 interim dividend of 2 HK cents per share	11,029
2007 final dividend of 8 HK cents per share	44,253
	55,282
2007 final special dividend of 7 HK cents per share	38,721

7. Trade and Other Receivables

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**194,381**	225,999
Less: Allowance for doubtful debts	**(2,454)**	(6,677)
	191,927	219,322
Bills receivables	**36,407**	60,141
	228,334	279,463
Other receivables	**51,550**	78,285
Total trade and other receivables	**279,884**	357,748

The Group allows an average credit period of 60 days (2008: 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:

	2009	2008
	HK$'000	*HK$'000*
0 – 60 days	**165,097**	213,369
61 – 90 days	**41,423**	44,934
Over 90 days	**21,814**	21,160
	228,334	279,463

8. Trade and Other Payables

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

	2009	2008
	HK$'000	*HK$'000*
0 – 90 days	**35,226**	37,596
91 – 120 days	**21,181**	22,606
Over 120 days	**6,775**	11,468
	63,182	71,670

The average credit period on purchase of goods is 90 days (2008: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of 5 HK cents per share (2008: Nil) to the shareholders on the register of members on May 18, 2010, amounting to approximately HK$28 million.

Subject to the approval of the shareholders at the forthcoming annual general meeting, dividend warrants are expected to be despatched to the shareholders on June 2, 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from May 10, 2010 to May 18, 2010, both days inclusive, during which period no transfers of shares of the Company will be effected for the purpose of determining the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting of the Company.

In order to qualify for the entitlement of the final dividend, all share certificates accompanied by the duly completed transfer forms must be lodged with the Hong Kong Branch Registrars of the Company, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, May 7, 2010.

CHAIRMAN'S STATEMENT

Still suffering from the effect of the worldwide financial crisis, the Group recorded a revenue of approximately HK$1,798 million for the year ended December 31, 2009, representing a decrease of 28% as compared to that of 2008 and the loss attributable to owners of the Company was narrowed to approximately HK$106 million as compared with a loss of approximately HK$143 million for 2008. In addition, I would like to point out that the final results have shown a significant improvement in the Group's performance in the second half of the year as compared to a loss of approximately HK$152 million in the first half of 2009 and which is further evidence that the worst of the crisis has passed.

As disclosed in the section "Business Outlook" of our Interim Report 2009, we currently continue to witness the following factors:

- The banking system which facilitates world trade appears to be back to normal and exports of textiles and clothing have resumed albeit at a reduced volume due to the ongoing recession in the North American and European markets where retailers continue to be cautious with their buying.

- In 2009, State Council of China released a detailed support plan to adjust and strengthen the textile and garment industry in the coming years which includes targets to (i) reducing energy consumption and water discharge; (ii) phasing out of obsolete equipment and facilities and thus capacity; and (iii) promoting domestic consumption so as to maintain a healthy growth in the industry. These targets have been backed up with the policy of generous lending to the textile industry.

- According to recent announcement by the China Textile Industry Association, the proportion of domestic sales of the output of the China textile industry has increased from 77% in 2008 to 80% in 2009. Furthermore, despite a brief dip in the first quarter of 2009, China's retail sales growth of clothing is back to 20% or more and in line with pre-crisis levels.

- Major retailers from Walmart to Addidas have launched green sourcing initiatives which will further drive investments in new and more efficient machinery and technology.

- Internally, by the end of 2009, the Group will have a much more competitive cost structure in terms of both variable and fixed costs as the previously higher cost stainless steel inventories are replaced by lower ones and that the Group's restructuring program is further realized. Therefore, as sales growth gradually recovers, the Group will be in an ever more competitive position to capitalize its operational leverage and market position.

- Total sales of machinery in China have been recovering to pre-crisis levels and in particular with our new generation of **THEN AIRFLOW** models, with the benefits of significant water and energy reduction, showing growth of well over 50% despite the overall difficult market conditions.

Furthermore, since the end of the first quarter of 2010, we are also seeing a healthy recovery in the overseas markets and which have traditionally been a significant part of the Group's machinery business. Therefore, barring any unforeseeable circumstances, I am confident that the Group's machinery sales will recover to levels as seen prior to the global financial crisis.

Lastly, as disclosed in the previous announcement and Annual Report 2008, the Group, on May 16, 2007, entered into an agreement to acquire land use rights of a piece of land in phases with an aggregate area of approximately 1,250 mu (approximately 833,337.5 m^2) located at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the PRC at a consideration of approximately RMB320 million (i.e. RMB256,000 per mu or RMB384 per m^2) for the purpose of the expansion of the production facilities. In that regards, the Group acquired land use rights of two parcels of land ("Acquired Lands") with an aggregate area of approximately 178 mu (approximately 118,600 m^2) in May 2008, the aggregate land price of RMB45,561,000 together with the relevant transfer fees and tax levies in the sum of RMB1,366,830 were fully paid in cash and the relevant land use rights certificates were obtained on March 22, 2010.

In December, 2009, the Group was notified that due to changes of the development planning in relation to the usage of the area of which the Acquired Lands form part in accordance with the working direction laid down by 中山火炬高技術產業開發區管理委員會 (Management Committee of Zhongshan Torch Hi-tech Industrial Development Zone), the Acquired Lands need to be resumed by 中山市國土資源局 (Zhongshan Bureau of Land Resources), the land price and relevant transfer fees and taxes paid shall be returned to the Group upon surrender of the relevant land use rights certificates to 中山市國土資源局 (Zhongshan Bureau of Land Resources). The Group will be allowed to acquire other parcels of land in close proximity to the Acquired Lands. Accordingly, the Group has surrendered the Acquired Lands to 中山市國土資源局 (Zhongshan Bureau of Land Resources) on March 29, 2010 and has planned to take up lands which it has contracted for in May, 2007, in four lots in sometimes starting from May, 2010 to June, 2011. As previously disclosed, the Group intends to use the land for the construction and setting up a manufacturing complex for its group companies, which will provide the Group with additional space for future operational expansion to further enhance the Group's manufacturing capability to cope with business development.

On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers, bankers, business partners, the management team and staff for their continuous support. Only with their continued support, we can manage to develop steadily through the recent difficult times. I would also like to thank particularly our shareholders for their continuous support to the Group. The Group is confident to achieve better results in the coming future.

MANAGEMENT DISCUSSION AND ANALYSIS

DYEING AND FINISHING MACHINE MANUFACTURING

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

For the year under review, this segment remained the major source of revenue for the Group. Revenue generated from this segment was approximately HK$1,228 million (2008: HK$1,387 million) representing a decrease of 11% as compared to the previous year and accounting for 68% of the Group's revenue. This segment recorded an operating loss of approximately HK$61 million as compared to an operating loss of approximately HK$104 million for 2008 and an operating loss of approximately HK$107 million for the first half of 2009. The decrease in loss was mainly due to (i) the increase in the gross profit margin of the products primarily attributable to decrease in price of raw materials (in particular stainless steels); and (ii) the decrease in operating costs as a result of stringent cost controls and improvement on production efficiency.

The business environment had remained very challenging in year 2009. In the first half of 2009, the global financial crisis that broke out in the fourth quarter of 2008 has hit different industries including the textile manufacturing industry leading to a drop in market sentiment and capital expenditure, the customers were placing orders in conservative approach. The situation only improved in the second half of 2009 when governments' economic stimulus policies started having results.

Looking ahead, we remain cautiously optimistic on the performance and growth of this segment for the reasons as mentioned in the Chairman's Statement. In addition, apart from textile machinery demand driven by capacity expansion as a result of healthy domestic retail sales of textiles in China and the rest of Asia, we expect a significant portion of the demand in the near future to come from replacement requirements so that our customers can meet environmental standards as requested by the various governments worldwide and as well as the consumers and retailers.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the year ended December 31, 2009, the sales of this trading segment amounted to approximately HK$364 million (2008: HK$623 million), representing a decrease of 42% as compared to the previous year and accounted for 20% of the Group's total revenue. Its operating profit was approximately HK$7 million as compared to approximately HK$17 million last year. This trading segment has continually yielded positive contribution.

Due to the ongoing worldwide financial crisis in the first half of 2009, this trading segment suffered an operating loss of approximately HK$11 million mainly attributable to decreases in both sales volume and selling prices. Nevertheless, the stainless steel prices reversed the decline in the second quarter of 2009 and the prices are anticipated to be on a moderate upward trend. As the sales volume and profit margin were boosted by the increasing demand and stainless steel prices, this trading segment returned to profit in the second half of 2009.

The Group will continue to be responsive to the stainless steel market 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 under review, this business segment recorded a revenue of approximately HK$206 million (2008: HK$490 million), representing a decrease of 58% over last year and accounting for 12% of the Group's total revenue and an operating loss of approximately HK$50 million as compared to an operating profit of approximately HK$0.4 million for 2008. The setback in performance was a result of (i) slack in demand from the United States of America and Europe, which are our major markets, leading to receipt of fewer sales orders and the decrease in sales volume in turn translated into increased unit operating costs; and (ii) the high cost of pre-crisis raw materials in our inventory carried over, thus resulting in poor gross margins. To prevail in this difficult environment, expenses are being tightly controlled and cost cutting measures have been implemented to reduce overall operating costs.

With the gradual recovery of the global economy and the tremendous efforts contributed in the past years to the improvement in production efficiency and cost cutting, it is anticipated that this business segment will show an increase in sales volume and a turnaround in profit in the coming year as we have already seen improvements in orders since the fourth quarter of 2009.

JOINTLY CONTROLLED ENTITY

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

Riding on the economy growth of the Mainland, the demands for Monforts Fong's flag-ship "TwinAir" branded Stenters are continuously strong. For the year ended December 31, 2009, the revenue of Monforts Fong's increased 16% to approximately HK$494 million (2008: HK$425 million) and the Group's share of profit after tax amounted to approximately HK$45 million (2008: HK$32 million), representing an increase of 41%. The increase in profitability was mainly due to increase in sales volume as well as stringent cost controls and improvement on production efficiency.

Furthermore and as mentioned in our Interim Report 2009, with the strategic foresight and support of our joint venture partner, A. Monforts Textilmaschinen GmbH & Co. KG, Monforts Fong's has been given access to sell its machinery in 14 additional designated countries in Asia whereas previously the sales had been limited to the China market solely. In addition, Monforts Fong's will become the new OEM for the machinery supplier of A. Monforts Textilmaschinen GmbH & Co. KG worldwide. This will be a significant development for Monforts Fong's and will pave the way for continued robust growth in the coming years.

To cope with the anticipated business growth, Monforts Fong's is scheduled to relocate its manufacturing operation to Zhongshan, the PRC in the next 12 months in order to continue to meet the requirements of its expanding delivery schedule.

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.

The Group has launched a structuring programme to downsize workforce since the second half of 2008. As at December 31, 2009, the Group had a total of approximately 3,800 employees (December 31, 2008: 4,700) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. Staff costs, including directors' remuneration were approximately HK$225 million (2008: HK$260 million).

The Group believes the success of its business hinges on employee commitment, thus it spares no effort in 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 recongnizes 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 from operations, as well as long-term and short-term bank borrowings.

Net cash inflow in the amount of approximately HK$286 million and was generated from operating activities primarily due to the reduction of inventories and account receivables. As at December 31, 2009, the Group's inventory level was reduced to approximately HK$743 million as compared to approximately HK$865 million as at December 31, 2008.

As at December 31, 2009, bank borrowings amounted to approximately HK$676 million. Most bank borrowings were sourced from Hong Kong, of which 92% were denominated in Hong Kong dollars and 8% were denominated in United States dollars. 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$600 million to hedge interest rate fluctuation.

As at December 31, 2009, the bank balances and cash amounted to approximately HK$328 million of which 43% were denominated in Renminbi, 26% in United States dollars, 21% in Hong Kong dollars, 9% in Euro and 1% in Indian Rupees.

As at December 31, 2009, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was reduced to 44% (December 31, 2008: 65%) and the current ratio was 2.0 (December 31, 2008: 2.6). These ratios were at reasonable and adequate levels.

The Board is in the opinion that the Group will be in a healthy financial position and has sufficient resources in support of its working capital requirements and meet its foreseeable capital expenditures.

As the Group's sales were principally denominated in Renminbi and United States dollars while purchases were transacted mainly in United States dollars, Renminbi and 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, 2009.

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, 2009.

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, 2009.

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, 2009.

ANNUAL REPORT

The Annual Report for the year ended December 31, 2009 will be despatched to shareholders and will be published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.fongs.com) in due course.

ANNUAL GENERAL MEETING

The 2010 Annual General Meeting of the Company will be held on Tuesday, May 18, 2010. Notice of the Annual General Meeting 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 22, 2010.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, April 12, 2010

* *For identification purpose only*

As at the date of this announcement, the Board comprises seven Executive Directors, namely Mr. Fong Sou Lam (Chairman), Mr. Wan Wai Yung (Chief Executive Officer), Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill, Mr. Tou Kit Vai, Dr. Tsui Tak Ming, William and Ms. Poon Hang Sim, Blanche and three Independent Non-executive Directors, namely Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.