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, 2010

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, 2010 together with the comparative figures for last year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Revenue	2	**2,587,182**	1,797,695
Cost of sales		**(1,784,134)**	(1,446,032)
Gross profit		**803,048**	351,663
Interest income		**2,667**	2,782
Other income		**59,482**	44,818
Other gains and losses		**13,127**	(330)
Selling and distribution costs		**(161,984)**	(127,373)
General and administrative expenses		**(335,999)**	(320,819)
Other expenses		**(56,131)**	(52,196)
Finance costs	3	**(42,142)**	(48,992)
Share of results of an associate		**(477)**	(178)
Share of results of jointly controlled entities		**89,555**	44,817
Profit (loss) before tax		**371,146**	(105,808)
Income tax expense	4	**(68,181)**	(527)
Profit (loss) for the year		**302,965**	(106,335)

	NOTE	2010 HK$'000	2009 HK$'000
Other comprehensive income (expense)			
Exchange difference arising on translation		**17,067**	(5,848)
Share of changes in translation reserve of an associate		**1,454**	83
Share of changes in translation reserve of jointly controlled entities		**4,381**	170
Gain on cash flow hedge		**9,694**	7,838
Other comprehensive income for the year		**32,596**	2,243
Total comprehensive income and expense for the year		**335,561**	(104,092)
Earning (loss) per share			
Basic	*5*	**54.9 HK cents**	(19.3) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2010

	NOTES	**12.31.2010** **HK$'000**	12.31.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment		**362,799**	399,441	418,062
Prepaid lease payments		**15,584**	15,586	15,485
Intellectual property rights		**10,595**	13,439	16,355
Interest in an associate		**35,013**	34,036	34,131
Interests in jointly controlled entities		**112,222**	78,286	73,299
Deposits for acquisition of property, plant and equipment		**2,368**	1,154	4,067
Deposits for acquisition of leasehold land		**24,072**	66,886	66,744
Deferred tax assets		**12,929**	11,147	4,745
		575,582	619,975	632,888
Current assets				
Inventories		**828,129**	742,916	864,689
Trade and other receivables	7	**332,832**	279,884	357,748
Prepaid lease payments		**484**	469	460
Amounts due from jointly controlled entities		**13,323**	14,295	1,438
Tax recoverable		**3,431**	5,392	17,883
Bank balances and cash		**394,829**	328,364	309,785
		1,573,028	1,371,320	1,552,003
Current liabilities				
Trade and other payables	8	**406,946**	471,371	336,464
Amount due to a jointly controlled entity		**–**	–	264
Warranty provision		**18,632**	11,685	12,684
Derivative financial instruments		**–**	210	408
Tax liabilities		**25,869**	6,947	1,433
Bank borrowings		**646,259**	676,046	896,672
		1,097,706	1,166,259	1,247,925
Net current assets		**475,322**	205,061	304,078
Total assets less current liabilities		**1,050,904**	825,036	936,966
Non-current liabilities				
Derivative financial instruments		**19,330**	29,024	36,862
Deferred tax liabilities		**10,290**	–	–
		29,620	29,024	36,862
		1,021,284	796,012	900,104
Capital and reserves				
Share capital		**55,145**	55,145	55,145
Share premium and reserves		**966,139**	740,867	844,959
		1,021,284	796,012	900,104

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 Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$469,158,000 and HK$656,662,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009 respectively.

As at December 31, 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$264,154,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Date for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
[2] Effective for annual periods beginning on or after July 1, 2010.
[3] Effective for annual periods beginning on or after July 1, 2011.
[4] Effective for annual periods beginning on or after January 1, 2013.
[5] Effective for annual periods beginning on or after January 1, 2012.
[6] Effective for annual periods beginning on or after January 1, 2011.
[7] Effective for annual periods beginning on or after February 1, 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either 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 accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. 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 presentation 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.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that 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.

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

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. 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 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, 2010

	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	**1,624,704**	**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**

For the year ended December 31, 2009

	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	1,228,043	363,693	205,959	1,797,695
Inter-segment sales	9,372	186,717	43,660	239,749
Segment revenue	1,237,415	550,410	249,619	2,037,444
Eliminations				(239,749)
Group revenue				1,797,695
Segment (loss) profit	(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)

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, gain (loss) 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.

The Group's revenue from external customers by location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**1,225,429**	809,518	**515,672**	547,189
Hong Kong	**501,414**	359,560	**12,255**	19,945
Asia Pacific (other than the PRC and Hong Kong)	**422,666**	294,588	**146**	166
Europe	**231,803**	197,462	**34,580**	41,528
North and South America	**162,788**	100,939	**–**	–
Others	**43,082**	35,628	**–**	–
	2,587,182	1,797,695	**562,653**	608,828

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 year ended December 31, 2010 and 2009.

3. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**35,534**	43,421
Bank charges	**6,608**	5,571
	42,142	48,992

4. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**8,362**	326
Overprovision in prior years	**(25)**	(87)
PRC Enterprise Income Tax ("EIT"):		
Current year	**45,403**	4,510
Underprovision in prior years	**343**	815
PRC EIT for the capital gain on share transfer between intercompany:		
Current year	**6,485**	–
Overseas income tax:		
Current year	**–**	1,281
(Over)underprovision in prior years	**(895)**	84
	59,673	6,929
Deferred tax:		
Current year	**8,508**	(6,402)
	68,181	527

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 22% for the year ended December 31, 2010 (2009: 20%).

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

5. EARNING (LOSS) PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earning (loss) per share	**302,965**	(106,335)
	'000	*'000*
Number of ordinary shares for the purpose of basic earning (loss) per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at December 31, 2010 and 2009 and during the year ended December 31, 2010 and 2009.

6. DIVIDENDS

Dividends recognised as distribution during the year ended December 31, 2010:

	HK$'000
2010 interim dividend of 9 HK cents per share	49,630
2010 interim special dividend of 6 HK cents per share	33,087
	82,717
2009 final dividend of 5 HK cents per share	27,572

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

7. TRADE AND OTHER RECEIVABLES

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	**216,083**	194,381	225,999
Less: Allowance for doubtful debts	**(5,048)**	(2,454)	(6,677)
	211,035	191,927	219,322
Bills receivables	**65,246**	36,407	60,141
	276,281	228,334	279,463
Other receivables	**56,551**	51,550	78,285
Total trade and other receivables	**332,832**	279,884	357,748

The Group allows an average credit period of 60 days (2009: 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:

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
0 – 60 days	**194,526**	165,097	213,369
61 – 90 days	**63,641**	41,423	44,934
Over 90 days	**18,114**	21,814	21,160
	276,281	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:

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	**30,788**	35,226	37,596
91 – 120 days	**5,661**	21,181	22,606
Over 120 days	**7,761**	6,775	11,468
	44,210	63,182	71,670

The average credit period on purchase of goods is 90 days (2009: 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 a final dividend for the year ended December 31, 2010 (2009: a final dividend of 5 HK cents per share).

The Company paid an interim dividend of 9 HK cents per share plus an interim special dividend of 6 HK cents per share on September 30, 2010. In addition, on February 11, 2011, the Board also declared a special dividend of HK$0.20 per share in respect of the year ended December 31, 2010 to be paid on or about April 8, 2011. The total dividend for the year would be HK$0.35 per share. The Board believes that this dividend level is appropriate in reflecting the growth of the net profit of the Group for the year ended December 31, 2010.

CHAIRMAN'S STATEMENT

On behalf of the Board of the Company, I am pleased to present the audited annual consolidated results of the Company and its subsidiaries for the year ended December 31, 2010.

With the rebounding economy and actions taken by management on the sales and cost sides, the Group achieved strong performance and growth in revenue and profitability. For the year ended December 31, 2010, the Group's revenue reached approximately HK$2,587 million (2009: HK$1,798 million), representing a 44% growth, while the Group recorded a turnaround to a profit of approximately HK$303 million as compared to a loss of approximately HK$106 million last year. The strong profit recovery was mainly attributable to (i) the growth of the Group's revenue; (ii) improvement of gross profit margins due to the decrease of moving average material costs; and (iii) the active management actions taken to streamline operations, improve production efficiency and reduce costs across our businesses.

Since the second half of 2009, there have been signs of gradual recovery of the global economy, the Group has adopted the strategy to encourage each of its core businesses to promote sales growth. The results now show that this strategy has been as decisive as it was effective. The expanding domestic demand in the Mainland China, coupled with the consolidation in the markets as weaker competitors have been weeded out in the course of the financial crisis, have all benefited the Group, as its competitive advantages have become even more evident during the tougher times. The fact that the Group's businesses were able to quickly rebound and get back on the growth trail is a testimony to the robustness of this strategy.

As a necessary step to address the expansionary credit growth and hence fears of overheating, the Chinese government will continue to implement a host of credit tightening and austerity measures which would marginally weaken the Chinese economy in 2011. Against this backdrop, it is anticipated that after the rapid growth in 2010, the market condition will cool down slightly in 2011 and there might be a softening in sales volumes in respect of our machinery manufacturing business in 2011. With appreciating Renminbi together with the increasing labour costs and fluctuating raw material prices (in particular stainless steels), the Group will encounter certain uncertainty and challenges in its future operations. The Group will continue to increase the level of automation in its manufacturing process in order to soften the impact of cost increases and will also continue to invest in the development of new products and the strengthening of its global sales network. The Board is confident in the Group's future development in coming years.

With the increasing importance of environmental protection, there are enormous opportunities for growth of the waste water treatment and re-use industry. Up to date, the Group has participated in several waste water treatment projects in the PRC for the construction of waste water treatment facilities in dye-houses which have shown encouraging progress. Riding on the success of these projects and backed by extensive R&D and technical expertise, it is believed that the Group will become one of the leading turnkey wastewater treatment solutions providers in the market, especially in the textile sector. This new business segment will also have synergy effects with the Group's dyeing and finishing machine manufacturing business.

Plans are already underway to strengthen our management team structure, capacity expansions and new plant development. As disclosed in the Interim Report 2010, the Group will speed up the acquisition of lands at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the PRC. Up till now, the Group has entered into land-use rights sale and purchase agreements to acquire two parcels of land with an aggregate area of approximately 322 mu (215,000 m^2) at an aggregate consideration of RMB82,497,000. It is expected that a further lot of land with an area of approximately 280 mu may be available for acquisition in the second half of 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. The Board believes that the relocation of production base to Zhongshan will provide rooms for the Group to promote the optimal process flow and further upgrade the automation of production so as to ease the pressure of increasing labour costs and to minimize the extent of relying on production workforces.

As disclosed in the joint announcement dated 14 January 2011 made by the Company and China Hengtian Group Co., Ltd. ("China Hengtian"), an independent third party, China Hengtian will make a possible unconditional mandatory cash offer to acquire a majority shareholding in the Company at HK$5 per share upon obtaining all necessary authorizations, approvals and consents of the relevant government or regulatory authorities in the PRC by May 7, 2011. China Hengtian is a major state-owned enterprise under the supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Committee of the State Council of the PRC. The principal business activities of China Hengtian and its subsidiaries include textile machinery, cargo truck, textile production and trade, and other strategic investments, among which the textile machinery business is one of the core sectors of its businesses. The Board is of the opinion that the introduction of China Hengtian as a major shareholder of the Company will be a joining up of two strong groups, capitalizing on the complementary advantages, resources and synergetic effect, it will enable the Group to further enhance its market position and brand effect in the long term. China Hengtian will also offer strong support to the Group for its further business development, facilitating it to achieve better economies of scale and to further strengthening its competitiveness in the field of dyeing and finishing machinery in both China and abroad.

On behalf of the Board, I would like to take this opportunity to express my appreciation to our loyal staff, customers, shareholders, suppliers, bankers and business partners for their continuous support and encouragement to the Group during the recent difficult operating environment. I believe, with your support, encouragement and assistance, the Group will be able to continue to grasp every opportunity for business development and march towards in strides.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended December 31, 2010, the Group's consolidated revenue amounted to approximately HK$2,587 million (2009: HK$1,798 million), an increase of 44% as compared with the previous year. Profit for the year was approximately HK$303 million (2009: loss of HK$106 million) and basic earnings per share was 54.9 HK cents for the year under review (2009: basic loss per share was 19.3 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) Limited, Goller (HK) Limited, Goller Textile Machinery (Shenzhen) Co., Ltd., Xorella AG and Xorella Hong Kong Limited

For the year ended December 31, 2010, this segment remained the major source of revenue for the Group and accounted for 63% of the Group's revenue. It recorded a revenue of approximately HK$1,625 million (2009: HK$1,228 million) representing an increase of 32% as compared to last year, which indicated a strong turnaround in business to its pre-crisis level. This segment recorded an operating profit of approximately HK$242 million, which demonstrated a remarkable improvement as compared to an operating loss of approximately HK$61 million last year. The turnaround from loss-making to profit-making was mainly due to (i) increase in sales volume driven by the gradual recovery of the global economy; (ii) the increase in the gross profit margin of the products primarily attributable to decrease in the costs of raw materials (in particular the stainless steels) as compared to 2009; and (iii) the decrease in operating costs as a result of stringent cost controls and improvement on production efficiency.

In retrospect, during the global financial crisis that broke out in the fourth quarter of 2008, the Group, like many other equipment manufacturers, experienced a drop in orders or postponement in deliveries leading to a slump in sales. However, against the various economic stimulus measures taken by the PRC government subsequent to the financial crisis, delivery of the postponed orders have resumed gradually and new orders also have increased rapidly since the second half of 2009. The growth momentum in the Mainland China market, which is regarded as our major market, was encouraging. The sales volume of the Group's dyeing and finishing machines products from the China market increased by 38% over last year. In addition, despite the European economy were suffering and recovering slowly, the sales of our dyeing and finishing machines products from overseas markets, particularly in Bangladesh, India and Latin America, also recorded a satisfactory performance and have showed notable sign of improvements. The revenue of this segment from the overseas markets for the year amounted to approximately HK$600 million, which increased by 31% over last year.

With the gradual recovery of the global economy, the demand in the textile industry continues to grow this year. The anticipated continued upsurge in the prices of raw materials, in particular cotton and cotton yarn, has driven up cost of products substantially in the textile and apparel supply chain, which will in turn benefit the textile machinery industry. Foreseeing a brighter and ascertained prospect, our customers will be eager to make investments in advanced and more efficient equipment in order to reduce their production costs and expand their manufacturing capacity to cope with the growing demand for their products.

During the year under review, the Group has, as mentioned in the Interim Report 2010, undergone a reorganization of its sales teams whereby the Group's sales teams will visit the customers and potential customers on a more frequent and regular basis to promote its comprehensive product portfolio in respect of the three brands of dyeing and finishing machines, namely **"FONG'S", "THEN" and "Goller"** with a view to fostering closer business relationships with its customers, capturing business opportunities with potential customers and obtaining the latest market information. As the Group offers a one-stop shop supply chain with a comprehensive portfolio of dyeing and finishing machines, our products have good reception from the customers.

In 2010, we achieved remarkable results through a variety of measures on cost control. The most important measures were leveraging economies of scale, improving production techniques and workflow, implementing better cost control on raw materials and inventory.

As a global trend, more stringent environmental rules and regulations on the textile industry will be imposed by many governments worldwide, which in turn will facilitate another round of equipment investment by customers on more advanced and environmentally friendly dyeing and finishing machines.

Looking ahead, the Group will also face same challenges as other manufacturers in China – the fluctuation of stainless steel raw material prices, the rise of labour costs and the uncertain economic environment. Against the backdrop of such challenges, the Group will endeavor to further strengthen its marketing teams and sales network through maintaining good and close relationship with distribution agents and valuable customers, and to improve our operational efficiency by optimizing our production process with an aim to better control our operating costs. The Group also keeps putting effort in research and development of new products and improvement of existing products in order to meet the needs of the dynamic textile industry. The Board believes that our Group enjoys its significant advantage in brandname and comprehensive product portfolio, our Group is confident to encounter those challenges ahead.

To cater for the anticipated business growth, the Group, as mentioned in the Chairman Statement, has entered into land-use rights sale and purchase agreements to acquire two parcels of land in Zhongshan, one of which with a site area of approximately 172 mu (115,000 m^2) will be for use by this business segment. The construction of the new production plant is expected to commence within this year and will be completed by the end of 2012.

STAINLESS STEEL TRADING

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

In 2010, the performance of this trading segment was satisfactory. For the year ended December 31, 2010, the sales volume amounted to approximately HK$621 million (2009: HK$364 million), representing an increase of 71% as compared to the previous year and accounted for 24% of the Group's total revenue. Its operating profit was approximately HK$34 million as compared to approximately HK$7 million last year. The increase in profitability was mainly attributable to the increase in sales volume and selling price of stainless steel products.

This segment's stainless steel materials are sold to customers mainly in the Mainland China and Hong Kong in the sectors of construction, houseware, machinery, chemical processes, watch and kitchen equipment, the high growth in sales volume was due to the strong demand in the relevant industries driven by the recovery of global economy in 2010. In addition, the stainless steel prices have reversed the decline since the second quarter of 2009 and the prices are anticipated to be on a moderate upward trend in line with the rising commodity prices. As the sales volume and profit margin were boosted by the increasing demand and stainless steel prices, this trading segment recorded a remarkable improvement in profit in 2010.

The Group will continue to adopt a prudent approach 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.

With the gradual recovery of the global economy and the tremendous efforts contributed in the past years to the improvement on production efficiency and cost cutting, this business segment managed to sustain growth during the first half of the year and even achieved rapid growth during the second half of the year, driven by restocking and even with sustained demand from developing markets.

For the year ended December 31, 2010, this business segment recorded a revenue of approximately HK$341 million (2009: HK$206 million), representing an increase of 66% over last year and accounting for 13% of the Group's revenue. The operating profit for the year was approximately HK$45 million as compared to an operating loss of approximately HK$50 million last year.

Through our strong efforts in operations management coupled with production process improvement and automation, we have enhanced our productivity and yield rate to minimize the overall production and energy costs. The total shipments amounted to approximately 4,200 tons in 2010 with an increase of 35% as compared to 2009. Besides, during the year, the European economy enjoyed a modest recovery, the Group actively explored and opened up new overseas markets leading to the increase in overall sales orders. Currently, our order book is satisfactory and increases on a month-to-month basis. With a satisfactory order condition, it is anticipated that the business of this segment can maintain to grow in a steady manner.

To cater for the anticipated business growth, the Group, as mentioned in the Chairman Statement, has entered into land-use rights sale and purchase agreements to acquire two parcels of land in Zhongshan, one of which with a site area of approximately 150 mu (100,000 m^2) will be for use by this business segment. The construction of the new production plant is expected to commence within this year and will be completed by the end of 2012.

JOINTLY CONTROLLED ENTITY

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

Following the general recovery of the global economy since the second half of 2009, the textile industry especially in the mainland China has recovered gradually. Benefiting from such recovery and introduction of new products, the revenue of Monforts Fong's during the year under review reached a record high of approximately HK$952 million (2009: HK$494 million), an increase of 93% as compared to last year, while the Group's share of profit after tax also reached a record high of approximately HK$90 million (2009: HK$45 million), representing an increase of 100% over last year. The proportionate increase in profitability was mainly due to its strict cost controls and sustained efforts in exploring new markets in the 14 designated Asian countries.

After gaining access to sell its products in the designated Asian countries in 2009, the sales in such overseas markets have grown faster than our expectations and reached approximately HK$128 million during the past year, representing 13% of the total sales of Monforts Fong's. Benefiting from China's sustained economic growth and the enormous business opportunities in the new Asian markets, the management expects the business of Monforts Fong's to continue to grow in a steady manner.

To meet its capacity needs, Monforts Fong's, through one of its subsidiaries, acquired a piece of land of approximately 200 mu (133,000 m^2) in Zhongshan, Guangdong Province, the PRC at a cost of RMB51,200,000 in July 2010 and the construction of the new factory plant on that piece of land is on progress and scheduled to be completed by mid-2012. Meanwhile, the existing production facilities have been expanded by leasing a four-storey factory premises with a floor area of approximately 7,000 m^2 in Zhongshan City and commercial operations have commenced since the fourth quarter of 2010 in order 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.

As at December 31, 2010, the Group had a total of approximately 3,920 employees (December 31, 2009: 3,800 employees) spreading among mainland China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. Staff costs, including directors' remuneration were approximately HK$216 million (2009: HK$225 million).

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 and meeting its foreseeable capital expenditures.

During the year ended December 31, 2010, the net cash inflow generated from operating activities was approximately HK$154 million. At December 31, 2010, the Group's inventory level was increased to approximately HK$828 million as compared to approximately HK$743 million at December 31, 2009.

At December 31, 2010, bank borrowings amounted to approximately HK$646 million. Most bank borrowings were sourced from Hong Kong, of which 77% were denominated in Hong Kong dollars, 22% were denominated in United States dollars and 1% was denominated in Euro. 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$460 million to hedge interest rate fluctuation.

At December 31, 2010, the bank balances, deposits and cash amounted to approximately HK$395 million of which 41% were denominated in Renminbi, 31% in United States dollars, 17% in Hong Kong dollars, 10% in Euro and 1% in Indian Rupees.

At December 31, 2010, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was reduced to 25% (December 31, 2009: 44%) and the current ratio was 1.4 (December 31, 2009: 1.2). These ratios were at reasonable and adequate levels.

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, 2010.

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, 2010.

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, 2010.

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, 2010.

ANNUAL REPORT

The Annual Report for the year ended December 31, 2010 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 2011 Annual General Meeting of the Company will be held on Wednesday, May 18, 2011. 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 8, 2011.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, March 28, 2011

* *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.