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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this Circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Fong's Industries Company Limited (the "Company"), you should at once hand this Circular to the purchaser or the transferee or the bank, stockbroker or other registered dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

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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)

**DISCLOSEABLE TRANSACTION  
ACQUISITION OF LAND-USE RIGHTS IN THE PRC**

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A letter from the Board is set out on pages 3 to 6 of this Circular.

6 June, 2007

\* *For identification purpose only*

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

|                                     |   |
|-------------------------------------|---|
| “Acquisition”                       | acquisition of the Land-use Rights by the Purchaser;  |
| “associate”                         | has the meaning ascribed under the Listing Rules;   |
| “Board”                             | the board of Directors;   |
| “Company”                           | Fong’s Industries Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;              |
| “Consideration”                     | total consideration of approximately RMB320,000,000 payable by the Purchaser for the Acquisition in accordance with the terms of the Land-use Rights Transfer Contract;           |
| “Directors”                         | the directors of the Company;   |
| “Group”                             | the Company and its subsidiaries;   |
| “Independent Third Parties”         | independent third parties not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates; |
| “Land-use Rights”                   | the land use rights in respect of the Land for a term of 50 years;  |
| “Land-use Rights Transfer Contract” | 土地使用權轉讓合同 (the Land-use Rights Transfer Contract) dated 16 May, 2007 entered into between the Vendor and the Purchaser in relation to the Acquisition;                            |
| “Latest Practicable Date”           | 31 May, 2007;   |
| “Listing Rules”                     | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;   |
| “PRC”                               | the People’s Republic of China;   |
| “Purchaser”                         | Fong’s China Investment (B.V.I.) Company Limited, a company incorporated in the British Virgin Islands and indirectly wholly owned by the Company;                                |
| “RMB”                               | Renminbi, the lawful currency of the PRC;   |

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## DEFINITIONS

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|---------------------------------|---|
| “SFO”                           | Securities and Futures Ordinance;   |
| “State”                         | The Central Government of the PRC and all provincial, municipal and other regional or local government entities;  |
| “Stock Exchange”                | The Stock Exchange of Hong Kong Limited;  |
| “Vendor”                        | 中山火炬開發區臨海工業園開發有限公司 (Zhongshan Torch Hi-tech Zone Linhai Industrial Park Development Company Limited), a PRC company wholly owned by 中山火炬高技術產業開發區管理委員會 (Zhongshan Torch Hi-tech Industrial Development Zone Management Committee); and |
| “Zero Coupon Convertible Bonds” | the zero coupon convertible bonds due 2011 in an aggregate principal amount of HK\$800,000,000 issued by the Company pursuant to a subscription agreement dated 19 April 2006 as announced by the Company on 19 April 2006.           |

*Unless otherwise specified, the RMB amount shown in this Circular have been translated into HK\$ at an exchange rate of HK\$110=RMB100 for indication purposes only.*



**FONG'S INDUSTRIES COMPANY LIMITED**

**立信工業有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock code: 641)

*Executive Directors:*

Mr. Fong Sou Lam (*Chairman*)  
Mr. Wan Wai Yung (*Managing Director*)  
Mr. Fong Kwok Leung, Kevin  
Mr. Fong Kwok Chung, Bill  
Mr. Tsui Wai Keung  
Dr. Tsui Tak Ming, William  
Ms. Poon Hang Sim, Blanche  
Mr. Tou Kit Vai

*Independent non-Executive Directors:*

Mr. Cheung Chiu Fan  
Dr. Yuen Ming Fai  
Dr. Keung Wing Ching

*Registered Office:*

Canon's Court,  
22 Victoria Street  
Hamilton HM12, Bermuda

*Principal place of business  
in Hong Kong:*

8th Floor  
22-28 Cheung Tat Road  
Tsing Yi  
Hong Kong

6 June 2007

*To the Shareholders,*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION  
ACQUISITION OF LAND-USE RIGHTS IN THE PRC**

**INTRODUCTION**

On 16 May 2007, the Board announced that the Purchaser, Fong's China Investment (B.V.I.) Company Limited, an indirect wholly owned subsidiary of the Company, entered into the Land-Use Rights Transfer Contract on 16 May, 2007 to acquire the Land-use Rights of the Land at an aggregate consideration of approximately RMB320,000,000.

The Acquisition constituted a discloseable transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules. The purpose of this Circular is to give you further information in respect of the Acquisition as required under the Listing Rules.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### LAND-USE RIGHTS TRANSFER CONTRACT

**Date:** 16 May 2007

**Vendor:** 中山火炬開發區臨海工業園開發有限公司 (Zhongshan Torch Hi-tech Zone Linhai Industrial Park Development Company Limited)

The Directors confirm that, to the best of their knowledge, information and belief having made all reasonable enquiry, the Vendor and its beneficial owners are Independent Third Parties

**Purchaser:** Fong's China Investment (B.V.I.) Company Limited

**The Land:** a parcel of land with an aggregate area of approximately 1,250 mu (approximately 833,337.5 m<sup>2</sup>) located at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park in Zhongshan, Guangdong Province, the PRC

### Payment Terms:

The aggregate consideration for the Acquisition is approximately RMB320,000,000 (i.e. RMB256,000 per mu or RMB384 per square metre) and is payable by the Purchaser in the following manners:

- (a) RMB16,000,000, representing 5% of the Consideration, as initial deposit ("Deposit") shall be payable within 15 days upon signing of the Land-use Rights Transfer Contract; and
- (b) upon Completion, the Purchaser shall pay in aggregate RMB144,000,000 (i.e. RMB115,200 per mu or RMB172.8 per square metre), which together with the Deposit representing 50% of the Consideration, and deliver an irrevocable bank guarantee issued by a State-controlled bank in the PRC in respect of the remaining 50% of the Consideration; the remaining 50% of the Consideration shall be paid by the Purchaser in the following manner:
  - (i) in respect of the first portion of the Land, being an aggregate area of approximately 576 mu (the "First Portion of the Land"), by ten instalments, commencing on the first anniversary date on which land-use rights certificates for this First Portion of the Land have been obtained; and
  - (ii) in respect of the second portion of the Land, being an aggregate area of approximately 674 mu (the "Second Portion of the Land"), by ten instalments, commencing on the first anniversary date on which land-use rights certificates for this Second Portion of the Land have been obtained.

The Deposit was paid on 23 May, 2007 and funded from internal resources of the Group, whereas the remaining part of the Consideration will be funded from internal resources, bank loans and proceeds from the Zero Coupon Convertible Bonds of the Group.

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## LETTER FROM THE BOARD

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The Consideration was arrived at after arms' length negotiation with the Vendor. No valuation report has been obtained in respect of the Land; however, the Directors consider that the Consideration is fair and reasonable by reference to the market prices of similar properties in the surrounding areas of the Land judged on the basis of the industry experience of the Directors.

### **Completion:**

Completion of the Acquisition of the First Portion of the Land and the Second Portion of the Land shall take place upon receipt by the Purchaser of (i) the relevant land-use rights certificates, (ii) 建設用地許可證 (construction land use permit); and (iii) official receipt issued by 國土資源局 (National Land Bureau) in respect of the land premium paid for the First Portion of the Land and the Second Portion of the Land respectively.

According to the terms of the Land-use Rights Transfer Contract, the Vendor shall be responsible for all relevant registration procedures with 國土資源局 (National Land Bureau) in order to ensure that land use rights certificates for the First Portion of the Land, shall be obtained no later than 31 December 2007 and the land use rights certificates for the Second Portion of the Land, shall be obtained no later than 31 May 2008. No land use rights certificate in respect of the Land has been obtained by the Vendor as at the Latest Practicable Date.

### **REASONS OF THE ACQUISITION**

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and manufacture and sale of stainless steel casting products.

As production in the Group's existing production facilities located in Buji, Shenzhen, the PRC has reached its full capacity, the Group intends to use the Land for the construction of a new manufacturing complex so as to expand its existing production capacity. By constructing a new manufacturing complex, the Group's production capacity could be enhanced accordingly. However, since no land-use rights certificate in respect of the Land has been obtained yet, the Purchaser has no capital commitment regarding the construction of the new manufacturing complex at the current stage. The Directors expect that the Acquisition itself will have no impact on the earnings, assets and liabilities of the Group.

The Directors (including the Independent Non-executive Directors) consider that the terms of the Acquisition under the Land-use Rights Contract are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company intends to, after Completion, increase its investment in Zhongshan, the PRC, up to a total investment of approximately RMB2 billion (including the Consideration). The Company will issue further announcement in accordance with the Listing Rules if and when any further investment materialises.

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## LETTER FROM THE BOARD

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### GENERAL

The Acquisition constituted a discloseable transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules.

Your attention is also drawn to the general information as set out in the Appendix to this Circular.

On behalf of the Board

**Fong Sou Lam**

*Chairman*

## RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this Circular misleading.

## DISCLOSURE OF INTERESTS

## Interests of Directors in the shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Issuers and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:–

*Long position in ordinary shares of HK\$0.10 each of the Company (“Shares”)*

| Name of director              | Capacity                                     | Number of Shares held | Percentage of the issued share capital of the Company |
|-------------------------------|--|-----------------------|---|
| Mr. Fong Sou Lam              | Beneficial owner                             | <u>23,976,000</u>     | <u>4.29%</u>  |
| Mr. Fong Kwok Leung,<br>Kevin | Beneficial owner                             | 1,550,000             | 0.27%   |
|                               | Held by spouse                               | 200,000               | 0.04%   |
|                               | Held by discretionary trusts ( <i>note</i> ) | 304,875,601           | 54.61%  |
|                               |  | <u>306,625,601</u>    | <u>54.92%</u>   |
| Mr. Fong Kwok Chung,<br>Bill  | Beneficial owner                             | 7,442,000             | 1.33%   |
|                               | Held by discretionary trusts ( <i>note</i> ) | 304,875,601           | 54.61%  |
|                               |  | <u>312,317,601</u>    | <u>55.94%</u>   |
| Mr. Wan Wai Yung              | Beneficial owner                             | <u>1,677,500</u>      | <u>0.30%</u>  |
| Ms. Poon Hang Sim,<br>Blanche | Beneficial owner                             | <u>120,000</u>        | <u>0.02%</u>  |



*Note:* The 304,875,601 Shares are owned by two discretionary trusts, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members. These shares represented an interest duplicated amongst those two Directors.

As at the Latest Practicable Date, save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, none of the Directors, chief executive nor their associates had any interests or short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

### **Interests of substantial shareholders and other persons in the share capital of the Company**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by, the Directors and chief executives of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

#### *(a) Long position in the Shares of the Company*

| <b>Name of shareholder</b>              | <b>Capacity</b>  | <b>Number of Shares held</b> | <b>Percentage of the issued share capital of the Company</b> |
|---|------------------|------------------------------|--|
| Capital Research and Management Company | Beneficial owner | 36,590,000                   | 6.55%  |
| Aberdeen Asset Management Plc.          | Beneficial owner | 33,626,000                   | 6.00%  |

*(b) Interest in shares of the Company's subsidiaries*

| <b>Name of shareholder</b> | <b>Capacity</b>  | <b>Name of Subsidiary</b> | <b>Percentage of equity interest in the relevant subsidiary</b> |
|----------------------------|------------------|---------------------------|---|
| Plexus Cotton Limited      | Beneficial owner | Plexxor Co., Limited      | 49%   |

Save as disclosed above, as at the Latest Practicable Date, as far as is known to the Directors and chief executives of the Company, none of the persons, other than a Director or chief executive of the Company, had any interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, any interests in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

**Competing business**

None of the Directors or any of their respective associates has any interests in any business which competes or is likely to complete, either directly or indirectly, with the Group's businesses.

**Service contracts with the Independent Non-executive Directors**

Mr. Cheung Chiu Fan was appointed under a service contract for a term of two years commencing on 1 January, 2007 and expiring on 31 December, 2008. Dr. Yuen Ming Fai was appointed under a service contract for a term of two years commencing on 1 September, 2006 and expiring on 31 August, 2008. Dr. Keung Wing Ching was appointed under a service contract for a term of two years commencing on 1 June, 2006 and expiring on 31 May, 2008.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies in force which has more than 12 months to run, or is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

**LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

**GENERAL**

- (a) The Company Secretary of the Company is Mr. Lee Che Keung, an associate member of the Hong Kong Institute of Chartered Secretaries.
- (b) The qualified accountant of the Company for the purpose of Rule 3.24 of the Listing Rules is Ms. Poon Hang Sim, Blanche, an associate member of the Hong Kong Institute of Certified Public Accountants and a CPA, Australia.
- (c) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principle place of business in Hong Kong of the Company is at the 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong.
- (d) The branch share registrars and transfer office in Hong Kong of the Company is Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) The English text of this Circular shall prevail over the Chinese text.