



# FONG'S INDUSTRIES COMPANY LIMITED

## 立信工業有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2006

The board of directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2006 together with the comparative figures as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2006 – unaudited

|   | Notes | 2006<br>HK\$'000   | 2005<br>HK\$'000 |
|---|-------|--------------------|------------------|
| Revenue   |       | 1,027,991          | 1,078,239        |
| Cost of sales                                   |       | (724,100)          | (756,561)        |
| <b>Gross profit</b>                             |       | <b>303,891</b>     | 321,678          |
| Other income                                    |       | 37,275             | 24,540           |
| Selling and distribution costs                  |       | (39,264)           | (52,263)         |
| General and administrative expenses             |       | (127,922)          | (117,745)        |
| Other expenses                                  |       | (26,500)           | (22,376)         |
| Finance costs                                   | 5     | (15,691)           | (8,799)          |
| Interest income                                 |       | 7,108              | 604              |
| Share of results of an associate                |       | 153                | 659              |
| Share of results of jointly controlled entities |       | 18,888             | 15,629           |
| <b>Profit before tax</b>                        |       | <b>157,938</b>     | 161,927          |
| Income tax expense                              | 6     | (23,132)           | (20,968)         |
| <b>Profit for the period</b>                    |       | <b>134,806</b>     | <b>140,959</b>   |
| <b>Attributable to:</b>                         |       |                    |                  |
| Equity holders of the parent                    |       | 134,806            | 141,303          |
| Minority interest                               |       | –                  | (344)            |
|   |       | <b>134,806</b>     | <b>140,959</b>   |
| Earnings per share                              | 7     | <b>24.06 Cents</b> | 25.22 Cents      |
| Dividends per share                             | 8     |                    |                  |
| Interim   |       | <b>8 Cents</b>     | 8 Cents          |
| Special   |       | <b>3 Cents</b>     | 3 Cents          |

# CONDENSED CONSOLIDATED BALANCE SHEET

As at June 30, 2006 - unaudited

|  | as at June<br>30, 2006<br>unaudited<br>HK\$'000 | as at December<br>31, 2005<br>audited<br>HK\$'000 |
|--|---|---|
| <b>ASSETS</b>  |   |   |
| <b>Non-current assets</b>                            |   |   |
| Property, plant and equipment                        | 264,600   | 255,889   |
| Prepaid lease payments                               | 11,499  | 11,665  |
| Intellectual property rights                         | 23,380  | 24,826  |
| Interest in an associate                             | 33,295  | 33,142  |
| Interest in jointly controlled entities              | 65,218  | 60,751  |
| Deferred tax assets                                  | 4,673   | 4,268   |
|  | <u>402,665</u>                                  | <u>390,541</u>                                    |
| <b>Current assets</b>                                |   |   |
| Inventories  | 649,385   | 367,973   |
| Trade and other receivables                          | 341,481   | 226,685   |
| Amount due from a jointly controlled entity          | –   | 8,703   |
| Dividend receivable from a jointly controlled entity | –   | 7,500   |
| Prepaid lease payments                               | 332   | 332   |
| Tax recoverable                                      | 219   | 7,725   |
| Bank balances, deposits and cash                     | 862,873   | 312,704   |
|  | <u>1,854,290</u>                                | <u>931,622</u>                                    |
| <b>Current liabilities</b>                           |   |   |
| Trade and other payables                             | 300,850   | 221,164   |
| Amount due to a jointly controlled entity            | 5,280   | –   |
| Warranty provision                                   | 13,836  | 12,299  |
| Tax liabilities                                      | 18,926  | 6,012   |
| Derivative component of convertible bonds            | 21,601  | –   |
| Borrowings – due within one year                     | 61,093  | 87,016  |
|  | <u>421,586</u>                                  | <u>326,491</u>                                    |
| <b>Net current assets</b>                            | <u>1,432,704</u>                                | <u>605,131</u>                                    |
|  | <u><u>1,835,369</u></u>                         | <u><u>995,672</u></u>                             |

|  | <b>as at June<br/>30, 2006<br/>unaudited<br/>HK\$'000</b> | <b>as at December<br/>31, 2005<br/>audited<br/>HK\$'000</b> |
|--|---|---|
| <b>Capital and reserves</b>                            |   |   |
| Share capital  | 56,002  | 56,038  |
| Reserves   | <u>880,068</u>  | <u>817,228</u>  |
| Equity attributable to equity<br>holders of the parent | <u>936,070</u>  | 873,266   |
| Minority interest                                      | <u>1,290</u>  | <u>1,290</u>  |
| <b>Total equity</b>                                    | <u><b>937,360</b></u>                                     | <u>874,556</u>  |
| <b>Non-current liabilities</b>                         |   |   |
| Convertible bonds                                      | 744,367   | –   |
| Borrowings – due after one year                        | 152,500   | 120,000   |
| Deferred tax liabilities                               | <u>1,142</u>  | <u>1,116</u>  |
|  | <u>898,009</u>  | <u>121,116</u>  |
|  | <u><b>1,835,369</b></u>                                   | <u>995,672</u>  |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products. There was no change in the principal activities of the Group during the period.

### 2. Basis of preparation and Accounting policies

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). These condensed consolidated financial statements should be read in conjunction with the Annual Report 2005.

The accounting policies adopted in the preparation of these condensed financial statements are consistent with those followed in the Annual Report 2005.

During the period under review, the Company issued convertible bonds with an aggregate principal amount of HK\$800 million. The convertible bonds are convertible into ordinary shares of HK\$0.10 each in the share capital of the Company. Details of the issue of the convertible bonds were disclosed in the Company’s press announcement dated April 19, 2006.

With regard to the features of the convertible bonds, and the requirements of HKAS 32 and 39, convertible bonds are split into liability and derivative components. On issuance of the convertible bonds, the fair value of the derivative component is determined using an option-pricing model. This amount is carried as a liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognized in the income statement.

For the period under review, the imputed interest of approximately HK\$6,409,000 and the fair value adjustment of approximately HK\$13,981,000 was charged and credited to the condensed consolidated income statement respectively for the convertible bonds.

3. The analysis of the business segments (the primary reporting format) and geographical segments of the operations of the Group during the period under review are as follows:

*Business Segments*

|  | Manufacture<br>and sale of<br>dyeing and<br>finishing machines<br><i>HK\$'000</i> | Trading of<br>stainless<br>steel supplies<br><i>HK\$'000</i> | Manufacture<br>and sale of<br>stainless steel<br>casting products<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--|---|--|--|---------------------------------|---------------------------------|
| Six months ended June 30, 2006 (unaudited) |   |  |  |                                 |                                 |
| <b>Revenue</b>                             |   |  |  |                                 |                                 |
| External sales                             | 598,685   | 326,878  | 102,428  | -                               | 1,027,991                       |
| Inter-segment sales                        | 29,720  | 184,220  | 15,196   | (229,136)                       | -                               |
| Total                                      | <u>628,405</u>  | <u>511,098</u>   | <u>117,624</u>   | <u>(229,136)</u>                | <u>1,027,991</u>                |

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

|   |               |               |               |  |                 |
|---|---------------|---------------|---------------|--|-----------------|
| <b>Results</b>                                    |               |               |               |  |                 |
| Segment results                                   | <u>75,168</u> | <u>55,882</u> | <u>16,430</u> |  | 147,480         |
| Finance costs                                     |               |               |               |  | (15,691)        |
| Interest income                                   |               |               |               |  | 7,108           |
| Share of results of an<br>associate               |               |               |               |  | 153             |
| Share of result of jointly<br>controlled entities | 18,888        |               |               |  | <u>18,888</u>   |
| Profit before tax                                 |               |               |               |  | 157,938         |
| Income tax expense                                |               |               |               |  | <u>(23,132)</u> |
| Profit for the period                             |               |               |               |  | <u>134,806</u>  |
| <b>Other information</b>                          |               |               |               |  |                 |
| Depreciation and<br>amortisation                  | <u>14,188</u> | <u>435</u>    | <u>1,336</u>  |  | <u>15,959</u>   |

|  | Manufacture<br>and sale of<br>dyeing and<br>finishing machines<br><i>HK\$'000</i> | Trading of<br>stainless<br>steel supplies<br><i>HK\$'000</i> | Manufacture<br>and sale of<br>stainless steel<br>casting products<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--|---|--|--|---------------------------------|---------------------------------|
|--|---|--|--|---------------------------------|---------------------------------|

Six months ended June 30, 2005 (unaudited)

### Revenue

|                     |                |                |               |                  |                  |
|---------------------|----------------|----------------|---------------|------------------|------------------|
| External sales      | 635,420        | 354,852        | 87,967        | –                | 1,078,239        |
| Inter-segment sales | 19,891         | 171,671        | 11,938        | (203,500)        | –                |
| Total               | <u>655,311</u> | <u>526,523</u> | <u>99,905</u> | <u>(203,500)</u> | <u>1,078,239</u> |

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

### Results

|  |                |               |               |  |                 |
|--|----------------|---------------|---------------|--|-----------------|
| Segment results                                      | <u>101,920</u> | <u>39,286</u> | <u>12,628</u> |  | 153,834         |
| Finance costs  |                |               |               |  | (8,799)         |
| Interest income                                      |                |               |               |  | 604             |
| Share of results of<br>associates                    |                |               |               |  | 659             |
| Share of result of a<br>jointly controlled<br>entity | 15,629         |               |               |  | <u>15,629</u>   |
| Profit before tax                                    |                |               |               |  | 161,927         |
| Income tax expense                                   |                |               |               |  | <u>(20,968)</u> |
| Profit for the period                                |                |               |               |  | <u>140,959</u>  |
| <b>Other information</b>                             |                |               |               |  |                 |
| Depreciation and<br>amortisation                     | <u>13,164</u>  | <u>494</u>    | <u>1,904</u>  |  | <u>15,562</u>   |

### Geographical segments

#### Revenue by geographical market for the six months ended June 30, 2006 unaudited *HK\$'000*

|   | 2006<br>unaudited<br><i>HK\$'000</i> | 2005<br>unaudited<br><i>HK\$'000</i> |
|---|--------------------------------------|--------------------------------------|
| Hong Kong                                       | 283,227                              | 325,088                              |
| The People's Republic of China (the "PRC")      | 355,514                              | 454,352                              |
| Asia Pacific (other than the PRC and Hong Kong) | 223,579                              | 115,023                              |
| Europe  | 88,748                               | 89,911                               |
| South & North America                           | 60,657                               | 85,157                               |
| Other   | 16,266                               | 8,708                                |
|   | <u>1,027,991</u>                     | <u>1,078,239</u>                     |

#### 4. Depreciation and Amortisation

For the period under review, depreciation of approximately HK\$14,513,000 (2005: HK\$14,356,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$1,446,000 (2005: HK\$1,206,000) was charged in respect of the Group's intellectual property rights.

#### 5. Finance costs

|  | For the six months ended June 30, |              |
|--|-----------------------------------|--------------|
|  | 2006                              | 2005         |
|  | unaudited                         | unaudited    |
|  | HK\$'000                          | HK\$'000     |
| Interest on:                                       |                                   |              |
| Bank borrowings wholly repayable within five years | 5,593                             | 6,039        |
| Obligations under finance leases                   | –                                 | 23           |
| Convertible bonds                                  | 6,409                             | –            |
| Bank charges                                       | 3,198                             | 2,186        |
| Factoring charges                                  | 491                               | 551          |
|  | <u>15,691</u>                     | <u>8,799</u> |

#### 6. Income Tax Expense

|                                       | For the six months ended June 30, |               |
|---------------------------------------|-----------------------------------|---------------|
|                                       | 2006                              | 2005          |
|                                       | unaudited                         | unaudited     |
|                                       | HK\$'000                          | HK\$'000      |
| Hong Kong Profits Tax                 |                                   |               |
| Current period                        | 17,063                            | 12,146        |
| Overseas income tax                   |                                   |               |
| Current period                        | 6,087                             | 9,926         |
| Under/(Over) provision in prior years | 360                               | (47)          |
| Deferred tax                          | (378)                             | (1,057)       |
|                                       | <u>23,132</u>                     | <u>20,968</u> |

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the period. Overseas income tax is calculated at the rates prevailing in the respective jurisdictions.

## 7. Earnings per share

The calculation of basic earnings per share attributable to equity holders of the parent is based on the profit for the period attributable to equity holders of the parent of approximately HK\$134,806,000 (2005:HK\$141,303,000) and the following data:

|   | <b>For the six months ended June 30,</b> |                    |
|---|--|--------------------|
|   | <b>2006</b>                              | 2005               |
|   | <b>unaudited</b>                         | unaudited          |
|   | <b>Number of Shares</b>                  |                    |
| Weighted average number of ordinary shares<br>for the purpose of basic earnings per share | <b><u>560,346,285</u></b>                | <u>560,378,285</u> |

Diluted earnings per share for the six months ended June 30, 2006 has not been presented as the convertible bonds had an anti-dilutive effect on the basic earnings per share for the period.

Diluted earnings per share for the six months ended June 30, 2005 has not been presented as there were no dilutive potential ordinary shares in issue in that period.

## 8. Dividends

|  | <b>For the six months ended June 30,</b> |               |
|--|--|---------------|
|  | <b>2006</b>                              | 2005          |
|  | <b>unaudited</b>                         | unaudited     |
|  | <b>HK\$'000</b>                          | HK\$'000      |
| Interim dividend of 8 cents<br>(2005: 8 cents) per share           | <b><u>44,688</u></b>                     | <u>44,830</u> |
| Interim special dividend of 3 cents<br>(2005: 3.0 cents) per share | <b><u>16,758</u></b>                     | <u>16,811</u> |

## **DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS**

The Board has resolved to pay an interim dividend of 8 cents per share plus an interim special dividend of 3 cents per share (2005: an interim dividend of 8 cents per share plus an interim special dividend of 3 cents per share) to the shareholders of the Company whose names appear in the Register of Members of the Company on October 20, 2006.

It is expected that dividend warrants will be dispatched to the shareholders of the Company on or before November 2, 2006.

The Register of Members of the Company will be closed from October 16, 2006 to October 20, 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and interim special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Secretaries Limited, at the 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, October 13, 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Summary of Results

The Group's revenue and profit attributable to the equity holders of the Company for the six months period ended June 30, 2006 amounted to approximately HK\$1,027,991,000 and HK\$134,806,000 (2005: HK\$1,078,239,000 and HK\$141,303,000) respectively, marginally lower than that of the same period in 2005 but have shown significant improvements in comparison with the second half of 2005. Basic earnings per share for the period were 24.06 cents (2005: 25.22 cents).

### 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, Xorella AG and Xorella Hong Kong Limited*

For the period under review, the revenue from this segment as a whole was similar to that of the corresponding period in 2005 as a result of a moderate slowdown in sales in the China market while solid growth in the overseas markets balanced the set back. In addition, sales in the China market have already shown improvements as compared to the second half of 2005. The revenue amounted to approximately HK\$598,685,000 (2005: HK\$635,420,000), representing a decrease of 6% as compared with the same period in 2005. It accounted for approximately 58% of the Group's consolidated revenue. The segment results dropped 26% to approximately HK\$75,168,000 (2005: HK\$101,920,000).

The decrease in profitability of this segment can be largely attributable to the greater losses in the European operations namely **THEN**, **XORELLA** and the recently acquired **GOLLER** as compared to the same period last year. Although continued efforts have been made to improve the performance of these divisions, sales have not been satisfactory mainly due to the recent Financial Volatility Shock in the Turkish market which traditionally contributes to 20-30% of sales for European textile machinery manufacturers. Nevertheless, with the Financial Volatility Shock in the Turkish market similar to the financial crisis of Asia in 1998, we expect the Turkish market to gradually improve in the next 12 months and efforts are being made to focus on improving sales beyond this market, particularly focusing on South Asia.

Also recently, driven by the recent tightened Chinese Government directives on pollution particularly in southern China, we noticed that some mainland Chinese and Hong Kong customers have shown certain hesitancy or the deferring of their investment decisions on textile equipment. Although this may cause some minor uncertainty in the near future, we nevertheless believe that this will have an overall neutral impact on our business as we expect that many customers will have to further upgrade their machinery to our latest models in order to reduce the amount of waste water for their plants.



## **Stainless Steel Trading**

### *Fong's Steels Supplies Company Limited*

For the six months ended June 30, 2006, the revenue of this trading segment amounted to approximately HK\$326,878,000 (2005: HK\$354,852,000) representing a decrease of 8% as compared with the same period in 2005. It accounted for 32% of the Group's consolidated revenue. However, the segment results grew 42% to approximately HK\$55,882,000 (2005: HK\$39,286,000).

During the period under review, this trading segment continued to achieve satisfactory performance mainly attributable to a surge of global market prices of stainless steels starting in the second quarter of 2006 resulting in an increase in our selling prices and correspondingly the profits of this segment.

## **Stainless Steel Casting**

### *Tycon Alloy Industries (Hong Kong) Company Limited and Tycon Alloy Industries (Shenzhen) Co., Ltd.*

This segment achieved continuous growth in revenue and segment results. During the six months ended June 30, 2006, the revenue increased to approximately HK\$102,428,000 (2005: HK\$87,967,000), representing an increase of 16% as compared with the corresponding period in 2005. It accounted for 10% of the Group's consolidated revenue. The segment results grew 30% to approximately HK\$16,430,000 (2005: HK\$12,628,000). Larger sales volume has led to higher plant utilization and improvement in gross margins in addition to more orders for high value added services in machined parts have been received from customers.

With the extended production capacity, the external customers' orders have been increased. The management has successfully diversified its customer base and widened the variety of casting products, therefore in addition to the Group's consumption and supplementing the dyeing machine manufacturing process, the enlarged range of casting products could better meet external customer demands and satisfaction as well.

As the management believes the demand from external customers will be increasing, complemented by the Group's internal demand, this segment will continue to have a positive contribution to the Group.

## **Jointly Controlled Entity**

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

For the six months ended June 30, 2006, the revenue of Monforts Fong's was approximately HK\$195 million (2005: HK\$196 million) while the Group's share of profit after tax amounted to approximately HK\$18,888,000 (2005: HK\$15,629,000) representing an increase of 21% as compared with the same period last year. Enhancements of production capability, including further horizontal integration, and improvements in manufacturing efficiency have contributed to the growth in profit margins.

## **Associates**

*Foshan East Asia Company Limited (a 30% owned associate)*

For the six months ended June 30, 2006, the sales revenue of woven color fabrics conducted by this associate amounted to approximately HK\$106 million (2005: HK\$89 million) and the Group's share of profit after tax was approximately HK\$153,000 (2005: HK\$648,000). The woven color fabric market continued to face intense competition and pricing pressure during the period under review. Despite an increase of 19% in sales volume, the competitive environment caused a decline of 76% in profit.

## **Prospects**

Barring any unforeseeable circumstances, the Group expects that sales will be relatively stable for the remainder of the year. Looking ahead, the Group will continue to implement effective cost-saving measures and to further implement its synergy strategy at its European operations so as to further improve the overall efficiency, and thereby enhancing the competitiveness of its dyeing machine manufacturing business. Moreover, synergy effects from the acquisitions of the three **THEN, GOLLER** and **XORELLA** businesses are expected to be gradually materialized. These European subsidiaries are targeted to turnaround and become profitable after completion of their re-structuring of operations and launches of new product ranges in the coming years.

Though the operating environments are challenging, the Group is dedicated to strive for the best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will continue to strengthen its core business, streamline its existing operations and tighten cost control measures and inventory measures. The Group is confident all these efforts can sustain and enhance its business growth.

## **Liquidity and Capital Resources**

The Group generally finances its operations through internally generated funds and banking facilities provided by its principal bankers and other financial institutions. The Group successfully maintained a strong and healthy liquidity and financial position during the period under review.

On 10 May, 2006, the Company issued HK\$800 million zero coupon convertible bonds due 2011, the convertible bonds will carry a right to convert into new shares of the Company at the conversion price of, subject to adjustment, HK\$8.18 per share (as adjusted). The net proceeds after deducting the relevant expenses amounted to approximately HK\$773 million. The Group will utilize the above said proceeds for the establishment of new production facilities within the nearby Guangdong region, possible future acquisitions of business or potential joint ventures relating to its core business and to fund the Group's general working capital. As at June 30, 2006, the proceeds have been placed in banks as short-term deposits. The directors may review and vary the purpose for which the proceeds are used in light of what they consider to be the optimal use of proceeds from time to time.

As at June 30, 2006, there was a gearing ratio of 12% and the current ratio was 4.4.

As at June 30, 2006, bank and other borrowings amounted to approximately HK\$214 million. Most bank and other borrowings were sourced from Hong Kong, of which 85% were denominated in Hong Kong dollars, 14% were denominated in US dollars and the remaining were denominated in Euro. The bank and other borrowings of the Group are predominantly subject to floating interest rates.

As at June 30, 2006, the cash and bank balance amounted to approximately HK\$863 million of which 66% were denominated in Hong Kong dollars, 14% in US dollars, 11 % in Renminbi, 5% in Euro, 3% in Swiss France and 1% in Japanese yen.

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign exchange risks. Certain trade receivable and trade payables of the Group are denominated in foreign currencies. The exposure to foreign exchange risks of the Group during the period under review was not significant. Currently, the Group does not have a foreign currency hedging policy. However, the directors will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposure should the need arises.

### **Human Resources**

As at June 30, 2006, the Group had a total of approximately 3,800 (December 31, 2005: 3,300) employees spreading among China, Hong Kong, Germany, Switzerland and Thailand.

Employees are remunerated based on their performance, experience and the prevailing industry practice. The Group's remuneration policies and packages are being reviewed by its management on a periodic 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 retirement benefits scheme and share option scheme. Up to the date of this announcement, no share option had been granted under the existing share option scheme adopted by the Company.

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

During the six months ended June 30, 2006, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

| <b>Month of repurchase</b> | <b>No. of<br/>Ordinary shares<br/>of HK\$0.10 each</b> | <b>Price per share</b>  |                        | <b>Aggregate<br/>consideration<br/>paid<br/>HK\$</b> |
|----------------------------|--|-------------------------|------------------------|--|
|                            |  | <b>Highest<br/>HK\$</b> | <b>Lowest<br/>HK\$</b> |  |
| June, 2006                 | 362,000  | 4.85                    | 4.85                   | 1,755,700  |

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to HK\$1,719,500 was charged against share premium. An amount of HK\$36,200 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2006.

#### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code for securities transactions. Having made specific enquiry with all directors, the Company confirmed that all directors have complied with the required standards set out in the Model Code during the period under review.

#### **CORPORATE GOVERNANCE**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("GC Code") as set out in Appendix 14 of the Listing Rules, which came into effect on January 1, 2005, as its own code of corporate governance.

The directors consider that the Company was in full compliance with the code provisions set out in the GC Code during the period under review.

#### **AUDIT COMMITTEE**

The Company has set up an Audit Committee with written terms of reference based upon the provisions of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. At present, members of the Audit Committee comprise Mr. Cheung Chiu Fan (chairman), Dr. Yuen Ming Fai and Dr. Keung Wing Ching, being the three independent non-executive directors of the Company.

The Group's unaudited condensed consolidated financial statements for the six months ended June 30, 2006 have been reviewed by the Audit Committee, who is of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

## **DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

The Interim Report 2006 of the Company containing all the information required by Appendix 16 to the Listing Rules will be published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.fongs.com](http://www.fongs.com)) respectively and will be sent to the shareholders of the Company as soon as practicable.

On behalf of the Board  
**Fong Sou Lam**  
*Chairman*

Hong Kong, September 18, 2006.

*As at the date of this announcement, the Board consists of ten directors, of which seven are executive directors, namely Mr. Fong Sou Lam (Chairman), Mr. Wan Wai Yung ( Managing Director), Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill, Dr. Tsui Tak Ming William, Ms. Poon Hang Sim, Blanche and Mr. Tsui Wai Keung and three independent non-executive directors, namely Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.*

\* *For identification purpose only*

Please also refer to the published version of this announcement in South China Morning Post.