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

(Incorporated in Bermuda with limited liability)
(Stock Code: 641)

INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

The board of directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended June 30, 2005 – unaudited

	Notes	**2005** *HK$'000*	2004 *HK$'000* (restated)
Turnover		**1,078,239**	763,736
Cost of sales		**(756,561)**	(513,705)
Gross profit		**321,678**	250,031
Other revenue		**24,540**	12,449
Distribution costs		**(52,263)**	(30,564)
Administrative expenses		**(117,745)**	(83,968)
Other operating expenses		**(22,376)**	(18,399)
Profit from operations		**153,834**	129,549
Finance costs	*5*	**(8,799)**	(4,334)
Interest income		**604**	646
Share of results of associates		**659**	499
Share of results of a jointly controlled entity		**15,629**	11,478
Profit before tax		**161,927**	137,838
Income tax expense	*6*	**(20,968)**	(19,102)
Net profit for the period		**140,959**	118,736
Attributable to			
Equity holders of the Company		**141,303**	118,588
Minority interest		**(344)**	148
		140,959	118,736
Earnings per share	*7*		
Basic		**25.22 cents**	21.10 cents
Dividends per share	*8*		
Interim		**8 cents**	7 cents
Special		**3 cents**	3 cents

CONDENSED CONSOLIDATED BALANCE SHEET
As at June 30, 2005 – unaudited

	As at June 30, 2005 unaudited *HK$'000*	As at December 31, 2004 audited *HK$'000* (restated)
ASSETS		
Non-current assets		
Property, plant and equipment	**252,103**	254,673
Leasehold land and land use rights	**17,066**	28,088
Intellectual property rights	**23,891**	27,718
Interest in associates	**32,460**	31,801
Interest in a jointly controlled entity	**58,115**	57,486
Deferred tax assets	**4,892**	3,747
	388,527	403,513
Current assets		
Inventories	**512,715**	393,439
Trade and other receivables	**266,115**	193,156
Leasehold land and land use rights	**415**	415
Tax recoverable	**8,676**	9,636
Bank balances, deposits and cash	**331,426**	254,176
	1,119,347	850,822
Total assets	**1,507,874**	1,254,335
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	**56,038**	56,038
Reserves	**796,801**	734,860
	852,839	790,898
Minority interest	**1,403**	1,747
Total equity	**854,242**	792,645
Non-current liabilities		
Deferred tax liabilities	**1,040**	1,047
Total non-current liabilities	**1,040**	1,047
Current liabilities		
Trade and other payables	**290,077**	248,982
Amount due to a jointly controlled entity	**6,567**	2,420
Warranty provision	**11,601**	11,065
Tax liabilities	**26,677**	15,807
Obligations under finance leases – due within one year	**520**	1,518
Bank borrowings – due within one year	**317,150**	180,851
Total current liabilities	**652,592**	460,643
Total liabilities	**653,632**	461,690
Total equity and liabilities	**1,507,874**	1,254,335

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, manufacture and sale of stainless steel casting products and property holding. There was no change in the principal activities of the Group during the period.

2. Accounting policies

The condensed 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 Listing Rules of The Stock Exchange of Hong Kong Limited.

The condensed financial statements have been prepared in consistent with those followed in the Annual Report 2004 except the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods commencing on or after January 1, 2005. The adoption of the new HKFRSs has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required. The adoption of the new HKFRSs has resulted in certain changes in the presentation of the condensed financial statements as set out below. Certain comparative figures have been reclassified to conform with the current period's presentation.

(i) HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interest, share of net after-tax results of associated companies and a jointly controlled entity and other disclosures.

(ii) HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. Under HKAS 17, the land and buildings elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interest in land are reclassified as leasehold land and land use rights, which are carried at cost and amortised over the lease term on straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In previous periods, the leasehold land and buildings were included in property, plant and equipment and were accounted for at cost less accumulated depreciation and accumulated impairment.

(iii) HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in the change in accounting policy for recognition, measurement and derecognition of financial instruments. The Group's discounted bills with recourse, which were previously treated as contingent liabilities have not been derecognised. Instead, the related borrowings have been recognised prospectively on or after January 1, 2005.

3. **Business and geographical segments**

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

Business Segments

	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$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
			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 revenue	**655,311**	**526,523**	**99,905**	**(203,500)**	**1,078,239**
	Inter-segment sales are charged at terms agreed between relevant parties				
Results					
Segment results	**101,920**	**39,286**	**12,628**		**153,834**
Finance costs					**(8,799)**
Interest income					**604**
Share of results of associates					**659**
Share of result of a jointly controlled entity	**15,629**				**15,629**
Profit before tax					**161,927**
Income tax expense					**(20,968)**
Net profit for the period					**140,959**
Other information					
Depreciation and amortisation	**13,164**	**494**	**1,904**		**15,562**

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Six months ended June 30, 2004 (unaudited and restated)				
Revenue					
External sales	396,446	316,273	51,017	–	763,736
Inter-segment sales	6,945	107,951	7,525	(122,421)	–
Total revenue	403,391	424,224	58,542	(122,421)	763,736
	Inter-segment sales are charged at terms agreed between relevant parties				
Results					
Segment results	80,388	42,855	6,306		129,549
Finance costs					(4,334)
Interest income					646
Share of results of associates					499
Share of result of a jointly controlled entity	11,478				11,478
Profit before tax					137,838
Income tax expense					(19,102)
Net profit for the period					118,736
Other information					
Depreciation and amortisation	12,263	413	2,078		14,754

Geographical segments

	Revenue by geographical market for the six months ended June 30,	
	2005	2004
	unaudited	unaudited
	HK$'000	*HK$'000*
Hong Kong	**325,088**	292,550
The People's Republic of China ("China")	**454,352**	254,140
Asia Pacific (other than Hong Kong and China)	**115,023**	130,658
Europe	**89,911**	54,210
South & North Amercia	**85,157**	25,329
Other	**8,708**	6,849
	1,078,239	763,736

4. Depreciation and amortisation

During the period, depreciation of approximately HK$14,356,000 (2004: HK$13,267,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK$1,206,000 (2004: nil) and nil (2004: HK$1,487,000) were charged in respect of the Group's intellectual property rights and goodwill respectively.

5. Finance costs

	For the six months ended June 30,	
	2005	2004
	unaudited	unaudited
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**6,039**	2,003
Obligations under finance leases	**23**	63
Bank charges	**2,186**	2,083
Factoring charges	**551**	185
	8,799	4,334

6. Income tax expense

	For the six months ended June 30,	
	2005	2004
	unaudited	unaudited
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current period	**12,146**	16,793
Overseas Taxation		
Current period	**9,926**	2,908
Overprovision in prior years	**(47)**	(8)
Deferred tax credit	**(1,057)**	(591)
	20,968	19,102

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

7. Earnings per share

The calculation of basic earnings per share is based on the profit for the period of approximately HK$141,303,000 (2004: HK$118,588,000) and the following data:

	For the six months ended June 30,	
	2005	2004
	unaudited	unaudited
	Number of Shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	**560,378,285**	562,086,384

No diluted earnings per share has been parsented as there were no potential ordinary shares in issue in either period.

8. Dividends

	For the six months ended June 30,	
	2005	2004
	unaudited	unaudited
	HK$'000	*HK$'000*
Interim dividend of 8 cents (2004: 7 cents) per share	**44,830**	39,227
Interim special dividend of 3 cents (2004: 3 cents) per share	**16,811**	16,811

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 (2004: an interim dividend of 7 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 September 30, 2005.

It is expected that dividend warrants will be sent to the shareholders on or around October 12, 2005.

The Register of Members of the Company will be closed from September 26, 2005 to September 30, 2005, 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 Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, September 23, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Results

For the six months ended June 30, 2005, the Group's turnover and net profit were approximately HK$1,078,239,000 (2004: HK$763,736,000) and HK$141,303,000 (2004: HK$118,588,000) respectively as a result of overall sales growths in all three of the Group's business segments. Basic earnings per share for the period was 25.22 HK cents (2004: 21.10 HK cents).

Dyeing and Finishing Machine Manufacturing

Fong's National Engineering Company, Limited, Fong's National Engineering (Shenzhen) Co., Ltd., THEN Maschinen GmbH, XORELLA Hong Kong Limited and XORELLA AG.

For the period under review, the revenue from this segment as a whole was approximately HK$635,420,000 (2004: HK$396,446,000), representing an increase of 60% as compared with the same period last year. It accounted for approximately 59% (2004: 52%) of the Group's consolidated turnover. The operating profit grew 27% to approximately HK$101,920,000 (2004: HK$80,388,000) as compared with the same period last year.

Furthermore, a large part of the sales growth in this segment was the result of the acquisition of our German subsidiary, THEN Maschinen GmbH during the second half of 2004. During the period under review, this subsidiary recorded a turnover of approximately HK$116,000,000 representing approximately 18% of our dyeing machine sales. The Group has confidence that this German subsidiary can be successfully turnaround in the year to come and its renowned "**THEN**" branded products will make substantial contribution to the Group's sales and operating profit in the near future.

As regards our 80% owned subsidiaries, XORELLA Hong Kong Limited and XORELLA AG both engaging in the business of yarn conditioning equipment, they recorded a consolidated turnover of approximately HK$26,000,000 and an operating loss of approximately HK$1,700,000 for the six months ended June 30, 2005 as compared with a turnover of approximately HK$26,000,000 and operating profit of approximately HK$1,200,000 in the same period last year. The poor performance of these subsidiaries was mainly attributable to higher material costs and poor marketing efforts. Consequently, the marketing of the core XORELLA products is currently being reorganised to improve the performance of these subsidiaries. In addition, both research and marketing efforts are underway to develop newer applications of the XORELLA technology in order to further expand its product range and which together should see improvements of these subsidiaries in the near future.

Stainless Steel Trading
Fong's Steels Supplies Company Limited

For the six months ended June 30, 2005, the turnover of this trading segment increased 12% to approximately HK$354,852,000 (2004: HK$316,273,000). It accounted for 33% (2004: 41%) of the Group's consolidated turnover. The operating profit dropped 8% to approximately HK$39,286,000 (2004: HK$42,855,000) as compared with the corresponding period last year. During the period under review, we have seen stainless steel prices peaking in the second quarter of 2005 and have since experienced gradual price easing for this segment. Consequently, the margins of this business were somewhat lower for the period as compared to the previous year when stainless steel was experiencing a consistent price rise.

Looking ahead, we expect the profit margins of this business will trend back to more historical average levels as it appears that stainless steel prices will further stabilize after peaking in the second quarter of 2005. In addition, the management will continue to adopt a prudent approach in inventory management and account receivables management with a view to stabilize the profit of this segment.

Lastly, strategically, this business segment continues to serve the role of an internal supplier of stainless steel, a major raw material, to our other manufacturing segments to ensure the adequate source of supply and constant quality of stainless steels and thus maintain the competitive edge of the Group's manufacturing businesses.

Stainless Steel Casting
Tycon Alloy Industries (Hong Kong) Company Limited and Tycon Alloy Industries (Shenzhen) Co., Ltd.

For the six months ended June 30, 2005, this segment recorded a turnover of approximately HK$87,967,000 (2004: HK$51,017,000). It represents an increase of 72% as compared with the same period last year. It accounted for 8% (2004: 7%) of the Group's consolidated turnover. The operating profit grew 100% to approximately HK$12,628,000 (2004: HK$6,306,000).

Following the margin squeeze experienced in the first half of 2004 due to the abrupt rise in stainless steel prices, this segment has been recovering very steadily as a result of renegotiations of orders and the ability to pass on part of the cost increases to our customers. Consequently, sales have increased in both unit prices and volume due to improved demand resulting in better profit performance.

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

For the six months ended June 30, 2005, the turnover of Monforts Fong's was approximately HK$196 million (2004: HK$121 million), representing an increase of 62% as compared with the same period last year, while the Group's share of profit after tax amounted to approximately HK$15,629,000 (2004: HK$11,478,000) representing an increase of 36% as compared with the same period last year.

As mentioned in our Annual Report 2004, the new production plant has become fully operational and its production capacity has potentially doubled. The management believes that the new plant will surely enhance its ability to manufacture a wider range of products and achieve the benefits of economy of scale with the effect of reducing costs and improving profit.

Associates

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

For the period under review, the sales revenue of woven color fabrics conducted by this associate amounted to approximately HK$89 million (2004: HK$89 million) and the Group's share of profit after tax was approximately HK$648,000 (2004: HK$532,000). The sales and profit remained largely unchanged. The Group believes that Foshan East Asia will continue to contribute positively to the Group's overall results.

Prospects

For our core business of dyeing and finishing machinery, following a solid recovery starting in the second half of 2004, the second half of 2005 looks to be quite challenging due to the on-going and unresolved textile trade dispute between China and the major textile importing regions of the EU and the United States. Moreover, this dispute has dragged on much longer than we have anticipated and is starting to cause major disruptions in the textile to retail supply chain and which in turn is affecting our major markets of Hong Kong and China based customers. Consequently, the performance of our business in the second half will very much be dependant upon how quickly the above mentioned trade dispute can be resolved. Nevertheless, looking beyond the immediate six months, the fundamental of the textile industry in Asia remains strong and we remain cautiously optimistic of the continued growth of the Group's core and other existing businesses.

And in order to cope with these challenges, the Group will continue to invest in research and development and to provide a wider range of machines of superior quality for our customers. The Group will also increase its marketing efforts and broaden its customer base by expanding its sales team and distribution channels in the overseas markets. It is anticipated that with the complete elimination of quota restraints among the members of WTO effective from 2008 and the continued GDP growth in Asia, a solid business outlook for the Asian textile industry will prevail.

In addition, the Group will continue to explore other investment opportunities that have earning potentials to expand and/or to diversify its businesses.

Liquidity and Capital Resources

The Board considers the Group's financial position as healthy and believes that the Group has adequate resources to meet it cash flow requirements.

As at June 30, 2005, there was no gearing ratio shown as the Group had a net cash and bank balance (net of borrowings) of approximately HK$14 million. The current ratio was 1.71 reflecting a healthy liquidity level.

As at June 30, 2005, bank borrowings amounted to approximately HK$317 million of which approximately 33% were secured by certain assets of the Group. All bank borrowings are repayable within one year. Most bank borrowings were sourced from Hong Kong, of which 53% were denominated in US dollars and the remaining were denominated in Hong Kong dollars. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at June 30, 2005, the cash and bank balance amounted to approximately HK$331 million of which 47% were denominated in Renminbi, 20% in Hong Kong dollars, 15% in Swiss France, 7% in US dollars, 6% in Euro and 5% in Japanese yen.

Human Resources

As at June 30, 2005, the Group had a total of approximately 3,450 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 is awarded to employees according to the assessment of individual performance and industrial practice. 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

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, 2005.

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. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended June 30, 2005.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended June 30, 2005 except the following deviations:

1. The Board is in the process of defining the composition and terms of reference of the Remuneration Committee. It is expected that such process will be completed by the end of December, 2005 where a board meeting is scheduled.

2. The Group will release a memorandum to all of its employees to provide guidelines and procedures in respect of their dealings in the shares of the Company by the end of September, 2005.

3. The Board is in the process of defining the schedule of matters specially reserved to the Board for its decision. It is expected that such process will be completed by the end of September, 2005.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters.

The Audit Committee has reviewed the Company's unaudited interim financial statements for the six months ended June 30, 2005.

MEMBERS OF THE BOARD

As at the date of this announcement, the Executive Directors are Mr. Fong Sou Lam (Chairman), Mr. Wan Wai Yung (Joint Managing Director), Mr. Lee Che Chiu (Joint Managing Director), Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill, Dr. Tsui Tak Ming William, Ms. Poon Hang Sim, Blanche, Mr. Tsui Wai Keung and Mr. Peter Rainer Philipp; the Independent Non-executive Directors are Mr. Cheung Chiu Fan, Mr. Lui Chi Lung, Louis and Dr. Yuen Ming Fai.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, August 29, 2005

** For identification purpose only*

Please also refer to the published version of this announcement in SCMP-Business.