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, 2008

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, 2008 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended June 30, 2008 – unaudited

	Notes	**2008** *HK$'000*	2007 *HK$'000*
Revenue	*3*	**1,281,355**	1,474,679
Cost of sales		**(956,682)**	(1,054,793)
Gross profit		**324,673**	419,886
Interest income		**4,326**	7,887
Other income		**30,351**	20,815
Gain (loss) on fair value change of the derivative components of convertible loan notes		**5,278**	(6,977)
Gain (loss) on fair value change of financial instrument		**795**	(411)
Selling and distribution costs		**(76,082)**	(79,743)
General and administrative expenses		**(186,157)**	(177,950)
Other expenses		**(36,793)**	(32,941)
Finance costs	*5*	**(41,284)**	(29,545)
Share of results of an associate		**(686)**	637
Share of results of jointly controlled entities		**20,636**	40,215
Profit before tax		**45,057**	161,873
Income tax expense	*6*	**(14,273)**	(21,397)
Profit for the period attributable to equity holders of the Company		**30,784**	140,476
Earnings per share	*7*		
Basic		**5.56 HK Cents**	25.16 HK Cents
Dividends per share	*8*		
Interim		**2 HK Cents**	9 HK Cents
Special		**–**	3 HK Cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at June 30, 2008 – unaudited

	as at June 30, 2008 unaudited	as at December 31, 2007 audited
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	**417,487**	378,940
Prepaid lease payments	**67,298**	13,099
Intellectual property rights	**18,036**	19,271
Interests in an associate	**33,699**	34,385
Interests in jointly controlled entities	**86,793**	89,275
Deposits for acquisition of property, plant and equipment	**17,837**	20,282
Deposit for acquisition of a leasehold land	**18,338**	16,000
Deferred tax assets	**4,419**	7,844
	663,907	579,096
Current assets		
Inventories	**1,131,065**	951,869
Trade and other receivables	**410,984**	489,258
Amount due from jointly controlled entities	**6,239**	7,275
Prepaid lease payments	**414**	362
Derivative financial instrument	**795**	–
Tax recoverable	**1,662**	2,419
Structured deposits	**–**	57,853
Bank balances, deposits and cash	**797,807**	583,060
	2,348,966	2,092,096
Current liabilities		
Trade and other payables	**476,921**	409,648
Warranty provision	**22,458**	23,274
Derivative financial instrument	**–**	2,359
Tax liabilities	**12,284**	12,202
Borrowings – due within one year	**248,706**	143,000
Embedded derivative components of convertible loan notes	**13,798**	21,862
Convertible loan notes	**728,590**	813,725
	1,502,757	1,426,070
Net current assets	**846,209**	666,026
	1,510,116	1,245,122

	as at June 30, 2008 unaudited *HK$'000*	as at December 31, 2007 audited *HK$'000*
Capital and reserves		
Share capital	**55,145**	55,542
Reserves	**1,068,413**	1,102,989
Equity attributable to equity holders of the Company	**1,123,558**	1,158,531
Minority interests	**1,290**	1,290
Total equity	**1,124,848**	1,159,821
Non-current liabilities		
Borrowings – due after one year	**382,500**	82,500
Deferred tax liabilities	**2,768**	2,801
	385,268	85,301
	1,510,116	1,245,122

NOTES TO THE CONDENSED CONSOLIDATED 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 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 2007.

The accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the Annual Report 2007.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to its operations and effective for accounting periods beginning on January 1, 2008. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented, Accordingly, no prior period adjustment has been required.

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 under review are as follows:

Business Segments

	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*
	For the six months ended June 30, 2008 (unaudited)				
Revenue					
External sales	**724,825**	**330,230**	**226,300**	**–**	**1,281,355**
Inter-segment sales	**36,420**	**232,206**	**16,093**	(284,719)	**–**
Total	**761,245**	**562,436**	**242,393**	(284,719)	**1,281,355**
Results					
Segment results	**4,156**	**35,126**	**16,710**		**55,992**
Interest income					**4,326**
Gain on fair value change of the derivative components of convertible loan notes					**5,278**
Gain on fair value change of financial instrument					**795**
Finance costs					**(41,284)**
Share of results of an associate					**(686)**
Share of results of jointly controlled entities	**20,636**				**20,636**
Profit before tax					**45,057**
Income tax expense					**(14,273)**
Profit for the period					**30,784**
Other information					
Depreciation and amortisation	**22,680**	**529**	**3,413**		**26,622**

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

	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*
	For the six months ended June 30, 2007 (unaudited)				
Revenue					
External sales	729,189	499,205	246,285	–	1,474,679
Inter-segment sales	33,454	211,708	18,093	(263,255)	–
Total	762,643	710,913	264,378	(263,255)	1,474,679
Results					
Segment results	56,651	65,900	27,516		150,067
Interest income					7,887
Loss on fair value change of the derivative components of convertible loan notes					(6,977)
Loss on fair value change of financial instrument					(411)
Finance costs					(29,545)
Share of results of an associate					637
Share of results of jointly controlled entities	40,215				40,215
Profit before tax					161,873
Income tax expense					(21,397)
Profit for the period					140,476
Other information					
Depreciation and amortisation	16,361	521	1,813		18,695

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

Geographical segments

	Revenue by geographical market for the six months ended June 30,	
	2008	2007
	unaudited	unaudited
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC")	**481,211**	540,588
Hong Kong	**271,424**	363,566
Asia Pacific (other than the PRC and Hong Kong)	**193,758**	223,927
Europe	**197,028**	201,716
North and South America	**96,160**	129,747
Others	**41,774**	15,135
	1,281,355	1,474,679

4. Depreciation and Amortisation

During the period, depreciation of approximately HK$25,164,000 (2007: HK$17,249,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK$1,458,000 (2007: HK$1,446,000) was charged in respect of the Group's intellectual property rights.

5. Finance costs

	For the six months ended June 30,	
	2008	2007
	unaudited	unaudited
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**6,736**	3,125
Effective interest expense on convertible loan notes	**29,391**	22,682
Bank charges	**5,157**	3,738
	41,284	29,545

6. Income tax expense

	For the six months ended June 30, 2008 unaudited *HK$'000*	2007 unaudited *HK$'000*
Hong Kong Profits Tax		
Current period	**9,572**	21,629
Overseas income tax		
Current period	**3,070**	2,356
Overprovision in prior years	**(363)**	(3,277)
Deferred tax	**1,994**	689
	14,273	21,397

Hong Kong Profits Tax is calculated at 16.5% (2007: 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 the basic earnings per share is based on the profit attributable to equity holders of the Company for the period of approximately HK$30,784,000 (2007: HK$140,476,000) and the following data:

	For the six months ended June 30, 2008 unaudited	2007 unaudited
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	**554,162,889**	558,323,279

There is no diluted effect on earnings per share for the six months ended June 30, 2008 and June 30, 2007 as assuming the conversion of the Company's outstanding convertible loan notes would result in an increase in earnings per share for the period.

8. Dividends

	For the six months ended June 30, 2008 unaudited *HK$'000*	2007 unaudited *HK$'000*
Dividends recognised as distribution during the period:		
Final dividend of 8 HK cents (2007: 8 HK cents) per share	**44,434**	44,665
Overprovision of final dividend *(Note)*	**(181)**	–
	44,253	44,665
Final special dividend of 7 HK cents (2007: 7 HK cents) per share	**38,879**	39,082
Overprovision of final special dividend *(Note)*	**(158)**	–
	38,721	39,082
Dividends payable to equity holders of the Company attributable to the interim period:		
Interim dividend of 2 HK cents (2007: 9 HK cents) per share	**11,029**	50,168
Interim special dividend (2007: 3 HK cents per share)	**–**	16,722

Note: The amounts represented final and final special dividends for the shares repurchased before payment of dividends during the period.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 2 HK cents per share (2007: an interim dividend of 9 HK cents per share plus an interim special dividend of 3 HK cents per share) to the shareholders of the Company whose names appear in the Register of Members of the Company on October 24, 2008.

It is expected that dividend warrants will be dispatched to the shareholders of the Company on or before October 30, 2008.

The Register of Members of the Company will be closed from October 20, 2008 to October 24, 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Tricor 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 17, 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended June 30, 2008, the Group's revenue was approximately HK$1,281 million (2007: HK$1,475 million) representing a decrease of 13% against the same period last year. Profit attributable to equity holders of the Company amounted to approximately HK$31 million (2007: HK$140 million) representing a decrease of 78% as compared with that of the corresponding period last year. Basic earnings per share was 5.56 HK cents (2007: 25.16 HK 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) Ltd, Goller Textilmaschinen GmbH, Goller (HK) limited, Xorella AG and Xorella Hong Kong Limited

For the period under review, the revenue from this core manufacturing segment amounted to approximately HK$725 million (2007: HK$729 million) accounting for approximately 56% of the Group's revenue. However, the segment results were reduced by 93% to approximately HK$4 million (2007: HK$57 million).

The major reasons for the large decrease in profit for this segment were as follows:

Our core machinery brand of FONG'S suffered a sales decrease of over 30% in the Chinese market during the period due to the "Perfect Storm" situation in the textile industry as described six months ago in our Annual Report 2007. Furthermore, this segment as a whole was impacted by the continued cost flow through of raw materials, labour costs and Renminbi appreciation coupled with the effects of insufficient leverage of fixed costs due to the decrease in sales, thus resulting in the significant decrease in profit.

At the same time, our European operations and brands achieved sales of approximately HK$346 million (2007: HK$215 million) representing an increase of 60% as compared to the same period last year which helped compensate the drop in sales of this segment in the Chinese market, but nevertheless incurred operating losses of approximately HK$43 million (2007: HK$44 million). Although strenuous internal efforts to turn around the European operations continued, the sales environment outside of China was also very difficult as the textile industry in other regions was also facing similar Perfect Storm conditions. In addition to the cost pressures mentioned above, sales prices were under pressure due to the significant rise in the Euro from the second half of 2007 resulting in losses despite the significant increase in sales.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

The sales of this trading segment amounted to approximately HK$330 million (2007: HK$499 million) representing a decrease of 34% and accounting for 26% of the Group's total revenue. Its operating profit was reduced by 47% to approximately HK$35 million (2007: HK$66 million) as compared to the same period last year.

During the period under review, the stainless steel price remained relatively stable compared to the previous year and prices appeared to have softened thus impacting the profit margins of this trading segment.

The Group will constantly evaluate and monitor the risk exposure to the stainless steel price in order to enhance the Group's ability to manage the exposure to the stainless steel price fluctuation within an acceptable tolerance limit.

STAINLESS STEEL CASTING

Tycon Alloy Industries (Hong Kong) Co., Ltd. and Tycon Alloy Industries (Shenzhen) Co., Ltd.

During the period under review, the revenue amounted to approximately HK$226 million (2007: HK$246 million), representing a decrease of 8% and accounting for 18% of the Group's total revenue. The segment results decreased 39% to approximately HK$17 million (2007: HK$28 million) which was mainly attributable to the combined effect of decrease in sales volume and the continuous increase of raw material prices and labour costs, fueling rise in production costs. The appreciation of Renminbi further exaggerated the inflationary pressure on the cost side.

The Group will continue to adjust its product mix by expanding the production volume and targeting on value added business so as to mitigate the effects of rising costs and maintain its business performance. In addition, the Group is also actively exploring new customers and focuses on control costs and expenditures, optimize production efficiency, reduce scrap rate, provide higher quality products and enhance automation by purchase of new automated processing equipment. Furthermore, it is expected that this segment will further stabilize as the pricing of new and repeat orders are renegotiated.

JOINTLY CONTROLLED ENTITY

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

The revenue of Monforts Fong's for the six months ended June 30, 2008 was approximately HK$233 million (2007: HK$346 million) representing a reduction of 33% and the Group's share of profit after tax decreased to approximately HK$21 million (2007: HK$40 million), representing a decrease of 48% as compared with that in the corresponding period last year.

During the first half of 2008, China experienced a very tough operating environment. Owing to shrinking profit margins of most of its export oriented customers caused by various unfavourable factors as mentioned above, a more conservative and prudent approach was adopted by its customers when investing in new equipment, which had inevitably resulted in a decrease in demand for Monforts Fong's flag-ship products "TwinAir" branded Stenter. Despite that, with its well established customer base and its products have functionality-to-price advantages, Monforts Fong's maintained its dominant market leadership position in terms of stenters sold in the China market.

In light of market competition and in response to market demand, Monforts Fong's has developed and introduced new series of textile finishing machines during the period in order to maintain and expand its market share. On the other hand, Monforts Fong's has also continued to focus on enhancing cost control, streamlining process workflow and optimizing production efficiency, so as to minimize the pressure on overall costs. The management remains highly confident towards the business development of Monforts Fong's due to its efficient set up and low overheads.

BUSINESS OUTLOOK

The second half of 2008 will continue to be a challenging period for the Group and for the textile manufacturing industry as a whole and we are preparing ourselves with the outlook that we may not see significant improvements in the textile industry within the next 12 months as the consolidation in the textile industry is still in progress coupled with the downturn in consumption of the western economies.

Consequently, with the rapid downturn in sales and outlook, the Group will take measures to reduce costs, inventories, and capital expenditure requirements. As part of this process, the Group reluctantly has already started restructuring activities in terms of personnel in the various divisions. As a result, the Group's results for the full year may be marginally negative once the restructuring costs are realized.

With regards to the earlier announced manufacturing expansion plans located at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the PRC, the Group has up to now only acquired an aggregate area of approximately 178 mu (approximately 118,600 m^2) at the purchase price of approximately RMB46 million for use by its dyeing and finishing machine manufacturing business and water treatment business respectively. Given the rapid changes in the economic environment and the PRC property regulations, the Group is in the progress of negotiating for better terms before making further land acquisition. The expansion remains uncertain at this stage and will not have any impact on the Group's capital expenditure requirements in the near future.

With the above mentioned strategies and the Group's four and a half decades of experience, we are confident that the Group is well prepared to weather the coming storm in the textile industry both operationally and financially. Furthermore, we expect that the Group will have an even stronger market position once the market recovers.

HUMAN RESOURCES

As at June 30, 2008, the Group had a total of approximately 5,400 employees (December 31, 2007: 5,300) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey and Central-South America.

Employees are remunerated based on their performances, experience and prevailing industry practice. 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 retirement benefits scheme and share option scheme.

To equip with the workforces to face the challenges ahead, the Group will continue to offer training programs to staff in different levels and positions on an ongoing basis. The aim of these various programs 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 principal sources of liquidity and capital resources have been cash flow from operations and proceeds from financing including bank borrowings. In addition, the Group obtained cash from issuance of convertible bonds. The principal uses of cash were operational costs, acquisitions of fixed assets and increase in inventory.

On May 10, 2006, the Company issued HK$800 million zero coupon convertible bonds due 2011. The convertible bonds will carry rights to convert into new shares of the Company at the conversion price of HK$8.37 per share, subject to adjustment (as from May 28, 2008, the adjusted conversion price is HK$7.34). Pursuant to the terms and conditions of the convertible bonds, the holders of the convertible bonds will have the right, at such holder's option, to require the Company to redeem all or some only of the convertible bonds at 111.36% of their principal amount on November 10, 2008. As at the date hereof, the Company has not received any notice from any holder to require early redemption of any convertible bonds.

As at June 30, 2008, there was a gearing ratio of 51% and the current ratio was 1.6.

As at June 30, 2008, bank and other borrowings amounted to approximately HK$631 million. Most bank and other borrowings were sourced from Hong Kong, of which 67% were denominated in Hong Kong dollars, 28% were denominated in US dollars and the remaining 5% were denominated in Euro. The bank and other borrowings of the Group are predominantly subject to floating interest rates.

As at June 30, 2008, the bank balances, deposits and cash amounted to approximately HK$798 million of which 64% were denominated in Hong Kong dollars, 19% in US dollars, 10% in Euro, 6% in Renminbi and 1% in Swiss France.

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign exchange risks. Certain trade receivables 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 fixed and regular 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.

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

During the six months ended June 30, 2008, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HK$	*HK$*	*HK$*
April, 2008	2,264,000	4.31	4.28	9,734,920
May, 2008	1,710,000	4.28	4.12	7,206,260
	3,974,000			16,941,180

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$16,543,780 was charged against share premium. An amount of HK$397,400 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

During the six months ended June 30, 2008, the Company repurchased its convertible bonds as follows:

Month of repurchase	Principal amount of the convertible bonds repurchased	Amount paid for each HK$1 principal amount of the convertible bonds Highest	Lowest	Aggregate consideration paid
	HK$	*HK$*	*HK$*	*HK$*
May, 2008	80,000,000	1.065	1.06	85,087,500
June, 2008	30,000,000	1.065	1.065	31,950,000
	110,000,000			117,037,500

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, 2008.

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 six months ended June 30, 2008.

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 six months ended June 30, 2008.

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 (committee 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, 2008 have been reviewed by the Audit Committee, who is of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

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

The results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkexnews.hk and the Company's website at www. fongs.com. The Interim Report of the Company for the six months ended June 30, 2008 will be despatched to the shareholders and published on the website of the HKEX and the Company's website in due course.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, September 23, 2008

As at the date of this announcement, the Board consists of eleven directors, of which eight are 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, Mr. Tsui Wai Keung, Dr. Tsui Tak Ming William and Ms. Poon Hang Sim, Blanche and three independent non-executive directors are Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.

* *For identification only*