



FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)



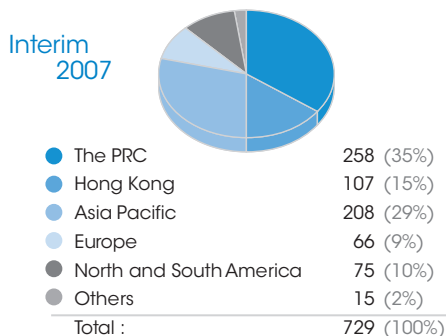
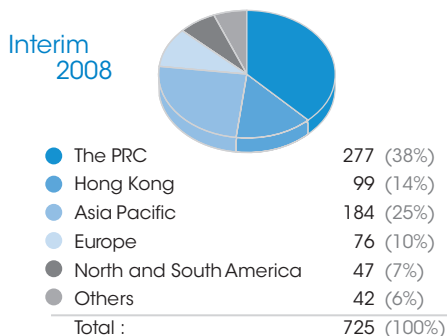
Interim Report 2008

Financial Highlights

REVENUE BY BUSINESS SEGMENT (HK\$ MILLION)

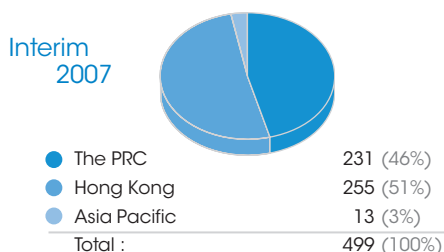
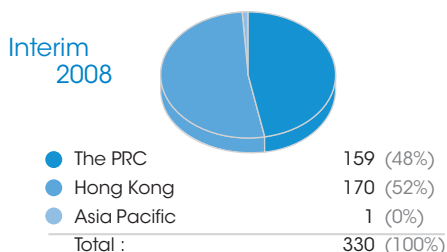
Manufacture and Sale of Dyeing and Finishing Machines

By geographical region



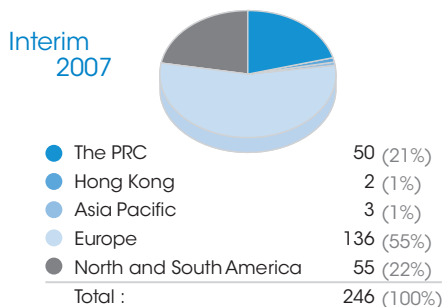
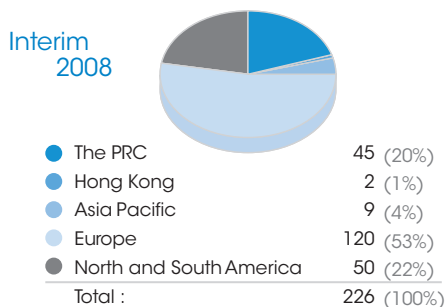
Trading of Stainless Steel Supplies

By geographical region



Manufacture and Sale of Stainless Steel Casting Products

By geographical region



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 Basic	7	5.56 HK Cents	25.16 HK Cents
Dividends per share Interim	8	2 HK Cents	9 HK Cents
Special		-	3 HK Cents

CONDENSED CONSOLIDATED BALANCE SHEET*As at June 30, 2008 – unaudited*

	<i>Notes</i>	as at June 30, 2008 unaudited HK\$'000	as at December 31, 2007 audited HK\$'000
Non-current assets			
Property, plant and equipment	9	417,487	378,940
Prepaid lease payments	9	67,298	13,099
Intellectual property rights		18,036	19,271
Interests in an associate		33,699	34,385
Interests in jointly controlled entities	10	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	11	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	12	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
Capital and reserves			
Share capital	13	55,145	55,542
Reserves	14	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

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the six months ended June 30, 2008 - unaudited

	2008	2007
	HK\$'000	HK\$'000
Net exchange difference arising on translation of overseas subsidiaries recognised directly in equity	27,276	(2,707)
Share of changes in exchange reserves of an associate and jointly controlled entities	6,882	-
Profit for the period	30,784	140,476
	<u> </u>	<u> </u>
Total recognised income and expense for the period attributable to equity holders of the Company	64,942	137,769
	<u> </u>	<u> </u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended June 30, 2008 - unaudited*

	2008 HK\$'000	2007 HK\$'000
Net cash generated from (used in) operating activities	48,366	(110,291)
Net cash (used in) generated from investing activities	(1,563)	75,127
Net cash generated from (used in) financing activities	162,788	(107,100)
Net increase (decrease) in cash and cash equivalents	209,591	(142,264)
Cash and cash equivalents at beginning of the period	583,060	580,464
Effect of foreign exchange rate changes	5,156	(3,328)
Cash and cash equivalents at end of the period representing bank balances, deposits and cash	<u>797,807</u>	<u>434,872</u>

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 <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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	<u>761,245</u>	<u>562,436</u>	<u>242,393</u>	<u>(284,719)</u>	<u>1,281,355</u>
Results					
Segment results	<u>4,156</u>	<u>35,126</u>	<u>16,710</u>		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					<u>30,784</u>
Other information					
Depreciation and amortisation	<u>22,680</u>	<u>529</u>	<u>3,413</u>		<u>26,622</u>

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

3. Business and Geographical segments (Continued)

Business Segments (Continued)

	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
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	<u>762,643</u>	<u>710,913</u>	<u>264,378</u>	<u>(263,255)</u>	<u>1,474,679</u>
Results					
Segment results	<u>56,651</u>	<u>65,900</u>	<u>27,516</u>		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					<u>140,476</u>
Other information					
Depreciation and amortisation	<u>16,361</u>	<u>521</u>	<u>1,813</u>		<u>18,695</u>

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

3. Business and Geographical segments (Continued)
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
	<u>1,281,355</u>	<u>1,474,679</u>

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
	<u>41,284</u>	<u>29,545</u>

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
	<u>14,273</u>	<u>21,397</u>

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
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>554,162,889</u>	<u>558,323,279</u>

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 (<i>Note</i>)	(181)	-
	<u>44,253</u>	<u>44,665</u>
Final special dividend of 7 HK cents (2007: 7 HK cents) per share	38,879	39,082
Overprovision of final special dividend (<i>Note</i>)	(158)	-
	<u>38,721</u>	<u>39,082</u>
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	<u>11,029</u>	<u>50,168</u>
Interim special dividend (2007: 3 HK cents per share)	<u>-</u>	<u>16,722</u>

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

9. Additions to property, plant and equipment and prepaid lease payments

During the period, the total cost of additions to property, plant and equipment and prepaid lease payments of the Group were approximately HK\$40,071,000 (2007: HK\$37,154,000) and HK\$53,784,000 (2007: Nil) respectively.

10. Interests in jointly controlled entities

	as at June 30, 2008 unaudited HK\$'000	as at December 31, 2007 audited HK\$'000
Cost of unlisted investment in jointly controlled entities	10,779	10,779
Share of post-acquisition profits, net of dividends received	<u>76,014</u>	<u>78,496</u>
Share of net assets	<u>86,793</u>	<u>89,275</u>

11. Trade and other receivables

	as at June 30, 2008 unaudited HK\$'000	as at December 31, 2007 audited <i>HK\$'000</i>
Trade receivables (net of allowance for doubtful debts)	239,552	260,816
Bills receivables	48,913	135,644
	288,465	396,460
Other receivables	122,519	92,798
Total trade and other receivables	410,984	489,258

The Group allows an average credit period of 60 days to its trade customers.

	as at June 30, 2008 unaudited HK\$'000	as at December 31, 2007 audited <i>HK\$'000</i>
Aged analysis of trade receivables (net of allowance for doubtful debts) and bills receivables based on their due dates at the balance sheet date:		
0-30 days	260,841	366,356
31-60 days	17,567	24,432
over 60 days	10,057	5,672
	288,465	396,460

12. Trade and other payables

The following is an aged analysis of trade payables:

	as at June 30, 2008 unaudited HK\$'000	as at December 31, 2007 audited <i>HK\$'000</i>
0-30 days	106,563	160,263
31-60 days	12,093	9,882
over 60 days	7,925	5,559
	126,581	175,704

13. Share capital

	as at June 30, 2008 unaudited HK\$'000	as at December 31, 2007 audited HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
At beginning of the year, 555,420,285 (2007: 558,416,285) ordinary shares of HK\$0.10 each	55,542	55,842
Repurchase of shares	<u>(397)</u>	<u>(300)</u>
At end of the period/year, 551,446,285 (2007: 555,420,285) ordinary shares of HK\$0.10 each	<u>55,145</u>	<u>55,542</u>

14. Movement of reserve

The Group

	Share Premium HK\$'000	Dividend reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Retained Profits HK\$'000	Contributed Surplus HK\$'000	Total HK\$'000
At January 1, 2008	<u>173,805</u>	<u>83,313</u>	<u>1,973</u>	<u>47,395</u>	<u>770,921</u>	<u>25,582</u>	<u>1,102,989</u>
Repurchase of shares	(16,544)	-	397	-	(397)	-	(16,544)
Exchange difference arising on translation of overseas subsidiaries	-	-	-	27,276	-	-	27,276
Share of changes in equity of an associate and jointly controlled entities	-	-	-	6,882	-	-	6,882
Profit for the period	-	-	-	-	30,784	-	30,784
Final dividend paid	-	(44,434)	-	-	181	-	(44,253)
Final special dividend paid	-	(38,879)	-	-	158	-	(38,721)
Interim dividend	-	11,029	-	-	(11,029)	-	-
At June 30, 2008	<u>157,261</u>	<u>11,029</u>	<u>2,370</u>	<u>81,553</u>	<u>790,618</u>	<u>25,582</u>	<u>1,068,413</u>

15. Capital commitments

	as at June 30, 2008 unaudited <i>HK\$'000</i>	as at December 31, 2007 audited <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	3,225	8,467

16. Related party transactions

	For the six months ended June 30, 2008 unaudited <i>HK\$'000</i>	2007 unaudited <i>HK\$'000</i>
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During the period, the Group entered into the following transactions with related parties:

Related parties in which certain directors of the Group have beneficial interests

Sales of goods	2,993	289
Service fee paid	242	174
Purchase of goods	788	15
Commission and agency fee paid	2,519	3,623
Management fee received	52	-
Rental paid	3,794	2,964

Jointly controlled entities

Sales of goods	9,179	14,466
Purchase of materials	5,541	7,418
Commission and management fee received	10,812	15,897
Rental received	2,560	-

Compensation of key management personnel

Short-term benefits	18,380	16,618
Post-employment benefits	1,022	894
	19,402	17,512

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).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DYEING AND FINISHING MACHINE MANUFACTURING (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JOINTLY CONTROLLED ENTITY (CONTINUED)

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

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 m²) 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS OUTLOOK (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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 arise.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at June 30, 2008, the interests of the directors and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY (CONTINUED)

LONG POSITION IN ORDINARY SHARES OF HK\$0.10 EACH OF THE COMPANY

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr Fong Sou Lam	Beneficial owner	38,736,000	7.02%
Mr Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.03%
	Held by discretionary trusts ⁽¹⁾	304,875,601	55.29%
		<u>306,625,601</u>	<u>55.60%</u>
Mr Fong Kwok Chung, Bill	Beneficial owner	2,998,000	0.54%
	Corporate Interest ⁽²⁾	4,444,000	0.81%
	Held by discretionary trusts ⁽¹⁾	304,875,601	55.29%
		<u>312,317,601</u>	<u>56.64%</u>
Mr. Wan Wai Yung	Beneficial owner	1,677,500	0.30%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%
Mr. Tou Kit Vai	Beneficial owner	30,000	0.005%

Notes:

- (1) 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.
- (2) Fong Kwok Chung, Bill, is deemed to be interested in 4,444,000 shares held by Precision Private Capital Co., Ltd. as he wholly owns Precision Private Capital Co., Ltd.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY (CONTINUED)

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 nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at June 30, 2008.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at June 30, 2008, the register maintained by the Company pursuant to section 336 of the SFO shows that, other than the interests disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

LONG POSITION IN ORDINARY SHARES OF HK\$0.10 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued share capital of the Company
Capital Research and Management Company	Investment Manager	36,590,000	6.64%
Aberdeen Asset Management plc.	Investment Manager	33,626,000	6.10%
Mondrian Investment Partners Ltd	Investment Manager	30,228,000	5.48%

Save as disclosed above, as at June 30, 2008, the Company has not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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 HK\$
		Highest	Lowest	
		HK\$	HK\$	
April, 2008	2,264,000	4.31	4.28	9,734,920
May, 2008	<u>1,710,000</u>	4.28	4.12	<u>7,206,260</u>
	<u>3,974,000</u>			<u>16,941,180</u>

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 HK\$	Amount paid for each HK\$1 principal amount of the convertible bonds		Aggregate consideration paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
May, 2008	80,000,000	1.065	1.06	85,087,500
June, 2008	<u>30,000,000</u>	1.065	1.065	<u>31,950,000</u>
	<u>110,000,000</u>			<u>117,037,500</u>

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, Listing Rules and legal requirements, and that adequate disclosures have been made.

MEMBERS OF THE BOARD

As at the date of this Report, 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.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, September 23, 2008.