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FONG'S INDUSTRIES COMPANY LIMITED

立信工業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

CONTINUING CONNECTED TRANSACTIONS

BACKGROUND

As disclosed on 3 December, 2007, certain wholly-owned subsidiaries of Fong's Industries Company Limited (the "Company"; together with its subsidiaries, the "Group") have entered into a total of five agreements with PSP Marketing Inc. in relation to agency and marketing activities for the sales of the products of such subsidiaries in the respective territories specified therein, details of which have been set out in the Company's announcement dated 3 December, 2007 (the "Announcement"). Unless the context requires otherwise, terms defined in the Announcement shall have the same meanings herein.

In view of the expiration of the Sole and Exclusive Regional Sales Coordination Agreement (the "Old Agreement") on 31 December, 2008, the parties have negotiated and concluded to renew the Old Agreement by entering into a new agreement (the "New Regional Sales Coordination Agreement") on substantially the similar terms for a further term of one year on 16 January, 2009.

NEW REGIONAL SALES COORDINATION AGREEMENT

- Date: 16 January, 2009
- Parties: (i) Fong's National Engineering Company, Limited, a wholly-owned subsidiary of the Company, as principal; and
- (ii) PSP Marketing Inc. as coordinator
- Term: One year from 1 January, 2009 to 31 December, 2009 (both days inclusive) unless terminated by three months' prior written notice by either party to the other.
- Services: PSP Marketing Inc. shall be responsible for, among other things, promoting by itself or through its appointed regional sales agents, the sales and marketing activities and pursuing sales coordination and sales management in respect of the "FONG'S" branded dyeing and finishing machines (including spare parts thereof) traded by the principal in Central and South America.

Under the New Regional Sales Coordination Agreement, PSP Marketing Inc. shall be entitled to a monthly retainer fee and commissions at the market rate of a prescribed percentage of the net sales proceeds of the sales contracts solicited or procured by it.

REASONS FOR RENEWAL OF THE REGIONAL SALES COORDINATION AGREEMENT

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

PSP Marketing Inc. is a corporation established in Charlotte N.C., USA being specified in the business of selling, marketing and servicing state-of-the-art textile machinery and related products to the North American textile industry. With over two decades of business experience and expertise in international sales and marketing of textile machinery, PSP Marketing Inc. maintains an excellent reputation and sales network in the industry.

PSP Marketing Inc. is beneficially owned as to 51% by Mr. Peter Rainer Philipp who is currently a director of two subsidiaries of the Company, namely Xorella AG and Plexxor Co., Limited. PSP Marketing Inc. is therefore an associate of Mr. Peter Rainer Philipp and hence, a connected person of the Company (as defined under the Listing Rules) and the New Regional Sales Coordination Agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

The New Regional Sales Coordination Agreement has been entered into in the ordinary course of businesses of the Group and is in line with the business and commercial strategies of the Group and it is believed that through these sales coordination arrangements, it will enable the Group to further expand its sales networks and to enhance its position as one of the leading providers of renowned dyeing and finishing machines in the industry in the Latin American and North American markets.

The Directors (including the Independent Non-executive Directors) of the Company are of the opinion that the New Regional Sales Coordination Agreement was entered into (i) in the ordinary and usual course of business of the Group and (ii) on normal commercial terms after arm's length negotiations between the parties. They consider that the terms of the New Regional Sales Coordination Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

NEW ANNUAL CAPS

The annual caps of the sales commission and other payables under the various agreements entered into with PSP Marketing Inc. as disclosed in the Announcement and this announcement for the years 2009 and 2010 are as follows:

	Year ending 31 December		Expiry Date
	2009	2010	
	HK\$'000	HK\$'000	
New 1st Sales Agency Agreement	118	118	31 December, 2010
New 2nd Sales Agency Agreement	690	690	31 December, 2010
New 3rd Sales Agency Agreement	660	660	31 December, 2010
New 4th Sales Agency Agreement	1,370	1,030	31 December, 2010
New Regional Sales Coordination Agreement	1,800	N/A	31 December, 2009
Total:	<u>4,638</u>	<u>2,498</u>	

The above annual caps are determined with reference to: (i) the historical amounts of the sales of the Group's products in the Latin American and North American markets; (ii) the anticipated sales in the next two years due to the demand cycle for the Group's products as a whole in the Latin American and North American markets.

Since the applicable percentage ratios on an aggregate basis in respect of the above agreements are less than 2.5%, the above continuing connected transactions are subject to reporting and announcement requirements but are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Particulars of the above continuing connected transactions will be disclosed in the annual report and accounts of the Company for each of the relevant financial years in accordance with Rule 14A.46 of the Listing Rules.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, 16 January, 2009.

As at the date of this announcement, the Executive Directors are Mr. Fong Sou Lam, Mr. Wan Wai Yung, 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; the Independent Non-executive Directors are Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.

* *For identification purpose only*