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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**

During 2003 and 2004, the Group through its three subsidiaries had entered into five agreements with PSP Marketing in relation to agency and marketing activities for the sales of the products of such subsidiaries in the respective territories specified therein. Such agreements will expire on December 31, 2007. On December 3, 2007, four of these agreements were renewed on substantially the same terms (with the remaining one to terminate on its expiry) and one new sales agency agreement was entered into between the Group and PSP Marketing.

PSP Marketing is a corporation established in Charlotte N.C., USA and is beneficially owned as to 51% by Mr. Peter Rainer Philipp who is currently a director of certain operating subsidiaries of the Company and was an executive Director from April 11, 2005 to April 11, 2006. PSP Marketing is therefore an associate of Mr. Philipp and hence, a Connected Person of the Company for the purposes of the Listing Rules. Accordingly, the transactions under the New Agreements constitute continuing connected transactions of the Company under the Listing Rules. Since the applicable percentage ratios for these transactions on an annual basis will be less than 2.5%, the New Agreements are only subject to requirements of reporting and announcement but exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules.

### **INTRODUCTION**

As disclosed in the Company's announcement dated April 20, 2005, the Group, through its three subsidiaries had, during 2003 and 2004 entered into five agreements with PSP Marketing in relation to agency and marketing activities for the sales of the products of such subsidiaries in the respective territories specified therein. Such agreements will expire on December 31, 2007. For more details, please refer to the Announcement.

On December 3, 2007, four of these agreements were renewed on substantially the same terms (with the remaining one to terminate on its expiry) and one new sales agency agreement was entered into between the Group and PSP Marketing.

## **NEW AGREEMENTS**

The principal terms of the New Agreements are set out as follows:

### **1. New 1st Sales Agency Agreement**

Date: December 3, 2007

Parties: (i) Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) as principal

(ii) PSP Marketing Inc. as agent

Service: PSP Marketing shall serve as the principal's sole and exclusive agent for the sale of the principal's products in Canada and the USA.

### **2. New 2nd Sales Agency Agreement**

Date: December 3, 2007

Parties: (i) Xorella AG (a wholly-owned subsidiary of the Company) as principal

(ii) PSP Marketing Inc. as agent

Service: PSP Marketing shall serve as the principal's sole and exclusive agent for the sale of the principal's specified products in Canada and the USA.

### **3. New 3rd Sales Agency Agreement**

Date: December 3, 2007

Parties: (i) THEN Maschinen GmbH (a wholly-owned subsidiary of the Company) as principal

(ii) PSP Marketing Inc. as agent

Service: PSP Marketing shall serve as the principal's sole and exclusive agent for the sale of the principal's products in the USA.

#### **4. New 4th Sales Agency Agreement**

Date: December 3, 2007

Parties: (i) Fong's National Dyeing and Finishing Machinery (Macao Commercial Offshore) Co. Ltd. (a wholly-owned subsidiary of the Company) as principal

(ii) PSP Marketing Inc. as agent

Service: PSP Marketing shall serve as the principal's sole and exclusive agent for the sale of the principal's products in Canada and the USA.

#### **5. New Regional Sales Coordination Agreement**

Date: December 3, 2007

Parties: (i) Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) as principal

(ii) PSP Marketing Inc. as coordinator

Service: PSP Marketing 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 products traded by the principal in Central and South America.

The products involved in the above agreements are all dyeing and finishing machines.

Subject to compliance with the requirements of the Listing Rules, the appointment of PSP Marketing under the New Agreements will commence on January 1, 2008 for a period of three years (save for New Regional Sales Coordination Agreement which has a term of one year) until terminated by three months' prior written notice by either party to the other.

Under each of the New Agreements, PSP Marketing is entitled to a commission at the market rate of a prescribed percentage of the net sales proceeds of the sales contracts solicited or procured by PSP Marketing as specified in the relevant agreements. The payments under the New Agreements will be settled in cash. The terms of each of the New Agreements are on normal commercial terms and were determined after arm's length negotiations between the parties.

## HISTORICAL AMOUNTS

As disclosed in the Announcement, the annual caps of the sales commission and other payables under the Existing Agreements (before renewal) and the Technical, Sales and Marketing Support Agreement (which will terminate on its expiry on December 31, 2007) for each of the three years ending December 31, 2007 is HK\$10 million. The aggregate amounts paid or payable under these agreements for each of the three years ending December 31, 2007 are approximately HK\$4,771,000, HK\$7,866,000 and HK\$9,853,000 respectively.

## NEW ANNUAL CAPS

The new annual caps for each of the New Agreements are as follows:

	Year ending December 31		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
New 1st Sales Agency Agreement	118	118	118
New 2nd Sales Agency Agreement	624	690	690
New 3rd Sales Agency Agreement	2,356	660	660
New 4th Sales Agency Agreement	4,992	1,370	1,030
New Regional Sales Coordination Agreement	3,818	N/A	N/A
Total:	<u>11,908</u>	<u>2,838</u>	<u>2,498</u>

The above new 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 three years due to the demand cycle for the Group's products as a whole in the Latin American and North American markets having taken into account of the following factors:

- (a) Following the elimination of textile quotas under the World Trade Organisation ("WTO") agreement as from January 1, 2005, the CAFTA United States-Dominican Republic-Central America Free Trade Agreement ("US-DR-CAFTA") and US-Peru Free Trade Agreement ("US-Peru FTA"), customers are expected to purchase new textile equipment to enhance productivity in order to pave their way for future development and competition, particularly in 2008.
- (b) the existing enlarged and renowned products launched by each of the four said subsidiaries of the Group are supplementary and complementary to each other and will enable the Group to provide further one-stop shopping convenience to customers wishing to purchase textile equipment and in turn will improve the Group's market position and enhance sales growth.

If the aggregate annual amounts of the continuing connected transactions under the New Agreements exceed the new annual caps as mentioned above, the Company will further comply with all relevant requirements of Chapter 14A of the Listing Rules.

## **REASONS FOR ENTERING INTO THE NEW AGREEMENTS**

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 was founded in 1983 by Mr. Peter Rainer Philipp and his business associates who were independent third parties, for the purpose 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 maintains an excellent reputation and sales network in the industry.

The Existing Agreements had been entered into in the ordinary course of businesses of the Group, and were first entered into before PSP Marketing became a Connected Person of the Company on April 11, 2005 when Mr. Philipp was appointed as an executive Director then.

The New Agreements are in line with the business and commercial strategies of the Group and it is believed that through these agency and sales coordination arrangements under the New Agreements, 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) are of the opinion that the New Agreements and the transactions thereunder were 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 Agreements and the transactions thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

PSP Marketing is a corporation established in Charlotte N.C., USA and is beneficially owned as to 51% by Mr. Peter Rainer Philipp who is currently a director of certain operating subsidiaries of the Company and was an executive Director from April 11, 2005 to April 11, 2006. PSP Marketing is therefore an associate of Mr. Philipp and hence, a Connected Person of the Company for the purposes of the Listing Rules. Accordingly, the transactions under the New Agreements constitute continuing connected transactions of the Company under the Listing Rules. Since the applicable percentage ratios for these transactions on an annual basis will be less than 2.5%, the New Agreements are only subject to requirements of reporting and announcement but exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules.

## DEFINITIONS

1st Sales Agency Agreement	Sales Agency Agreement entered into between Fong's National Engineering Company, Limited and PSP Marketing Inc. on October 4, 2003 together with the subsequent amendments thereto (please refer to the Announcement for details)
2nd Sales Agency Agreement	Sales Agency Agreement entered into between Xorella AG and PSP Marketing Inc. on July 22, 2003 together with subsequent amendments thereto (please refer to the Announcement for details)
3rd Sales Agency Agreement	Sales Agency Agreement entered into between THEN Maschinen GmbH and PSP Marketing Inc. on November 4, 2004 together with subsequent amendments thereto (please refer to the Announcement for details)
Announcement	the Company's announcement dated April 20, 2005
associate	has the meaning ascribed to it in the Listing Rules
Board	the board of Directors
Company	Fong's Industries Company Limited, a limited liability company incorporated in Bermuda, the shares of which are listed on the main board of the Stock Exchange
Connected Person	a director, chief executive, or substantial shareholder of the Company or any of its subsidiaries, or any of their respective associates
Director(s)	director(s) of the Company
Existing Agreements	the 1st Sales Agency Agreement, the 2nd Sales Agency Agreement, the 3rd Sales Agency Agreement and the Regional Sales Coordination Agreement
Group	the Company and its subsidiaries
independent third parties	a person who is not a Connected Person
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange

New Agreements	the New 1st Sales Agency Agreement, the New 2nd Sales Agency Agreement, the New 3rd Sales Agency Agreement, the New 4th Sales Agency Agreement and the New Regional Sales Coordination Agreement, details of which are set out under the heading “New Agreements” in this announcement
PSP Marketing	PSP Marketing Inc., a corporation established in Charlotte N.C., USA and is beneficially owned as to 51% by Mr. Peter Rainer Philipp
percentage ratios	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
Regional Sales Coordination Agreement	Regional Sales Coordination Agreement entered into between Fong’s National Engineering Company, Limited and PSP Marketing Inc. on May 1, 2003 (please refer to the Announcement for details)
Share(s)	ordinary share(s) in the Company with a nominal value of HK\$0.10 each
Shareholder(s)	holder(s) of the Shares
Stock Exchange	The Stock Exchange of Hong Kong Limited
Technical, Sales and Marketing Support Agreement	Technical, Sales and Marketing Support Agreement entered into between Xorella AG and PSP Marketing Inc. on May 14, 2003 (please refer to the Announcement for details)

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

Hong Kong, December 3, 2007.

*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. Tsui Wai Keung, Dr. Tsui Tak Ming, William, Ms. Poon Hang Sim, Blanche and Mr. Tou Kit Vai; the independent non-executive Directors are Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.*

\* *For identification only*