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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)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED JUNE 30, 2009

The board of directors (the "Board") of Fong's Industries Company Limited (the "Company") would like to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2009 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2009

		For the six months ended June 30,	
		2009	2008
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
	Notes		
Revenue	3	757,767	1,281,355
Cost of sales		(675,434)	(956,682)
Gross Profit		82,333	324,673
Interest income		1,800	4,326
Other income		23,996	30,351
Gain on fair value change of the derivative components of convertible loan notes		—	5,278
(Loss) gain on fair value change of financial assets held for trading		(54)	795
Selling and distribution costs		(58,236)	(76,082)
General and administrative expenses		(164,984)	(186,157)
Other expenses		(29,984)	(36,793)
Finance costs	4	(25,143)	(41,284)
Share of results of an associate		(1,770)	(686)
Share of results of jointly controlled entities		16,066	20,636
(Loss) profit before tax	5	(155,976)	45,057
Income tax	6	4,407	(14,273)
(Loss) profit for the period		(151,569)	30,784
Attributable to:			
Equity holders of the Company		(151,569)	30,784
Non-controlling interests		—	—
		(151,569)	30,784
		<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share			
Basic	7	(27.49)	5.56
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2009

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
(Loss) profit for the period	<u>(151,569)</u>	<u>30,784</u>
Other comprehensive income		
Exchange difference arising on translation of foreign operations	(6,497)	27,276
Share of changes in exchange reserve of a jointly controlled entity	(303)	6,882
Cash flow hedges	<u>6,103</u>	<u>—</u>
Other comprehensive income for the period	<u>(697)</u>	<u>34,158</u>
Total comprehensive income for the period	<u>(152,266)</u>	<u>64,942</u>
Total comprehensive income attributable to:		
Equity holders of the Company	(152,266)	64,942
Non-controlling interests	<u>—</u>	<u>—</u>
	<u><u>(152,266)</u></u>	<u><u>64,942</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2009

	At June 30, 2009 (unaudited) HK\$'000	At December 31, 2008 (audited) HK\$'000
Non-current assets		
Property, plant and equipment	407,593	418,062
Prepaid lease payments	14,886	15,485
Intellectual property rights	14,897	16,355
Interests in an associate	32,361	34,131
Interests in jointly controlled entities	89,669	73,299
Deposits for acquisition of property, plant and equipment	3,531	4,067
Deposits for acquisition of leasehold lands	66,744	66,744
Deferred tax assets	9,764	4,745
	<u>639,445</u>	<u>632,888</u>
Current assets		
Inventories	642,813	864,689
Trade and other receivables	230,322	357,748
Prepaid lease payments	448	460
Amounts due from jointly controlled entities	10,495	1,438
Tax recoverable	21,324	17,883
Bank balances, deposits and cash	426,775	309,785
	<u>1,332,177</u>	<u>1,552,003</u>
Current liabilities		
Trade and other payables	405,113	336,464
Amount due to a jointly controlled entity	–	264
Warranty provision	8,680	12,684
Derivative financial instruments	–	408
Tax liabilities	1,873	1,433
Bank borrowings – due within one year	183,199	240,010
	<u>598,865</u>	<u>591,263</u>
Net current assets	<u>733,312</u>	<u>960,740</u>
Total assets less current liabilities	<u><u>1,372,757</u></u>	<u><u>1,593,628</u></u>

	At June 30, 2009 (unaudited) <i>HK\$'000</i>	At December 31, 2008 (audited) <i>HK\$'000</i>
Capital and reserves		
Share capital	55,145	55,145
Reserves	<u>692,693</u>	<u>844,959</u>
Equity attributable to equity holders of the Company	747,838	900,104
Minority interests	<u>—</u>	<u>—</u>
Total equity	<u>747,838</u>	<u>900,104</u>
Non-current liabilities		
Bank borrowings – due after one year	594,160	656,662
Derivative financial instrument	<u>30,759</u>	<u>36,862</u>
	<u>624,919</u>	<u>693,524</u>
	<u><u>1,372,757</u></u>	<u><u>1,593,628</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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 six months ended June 30, 2009.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated 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 (the “HKICPA”) 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 2008. The accounting policies adopted in preparing the unaudited interim financial statements for the six months ended June 30, 2009 are consistent with those in the preparation of the Group’s annual financial statements for the year ended December 31, 2008, except for the impact of the adoption of the Standards and Interpretations described below.

HKAS 1 (revised) “Presentation of Financial Statements”

The revised Standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.

HKFRS 8 “Operating Segments”

HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS14 “Segment Reporting”, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s reporting format was business and geographical segments. The application of HKFRS8 has not resulted in a redesignation of the Group’s reporting segments and has had no impact on the reported results or financial position of the Group.

The following amendments and interpretations issued by the HKICPA, which are or have become effective, did not have any material impact on the accounting policies of the Group.

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the new and revised HKFRSs had no material effect on how the results and financial positions for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from January 1, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group’s executive directors in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment results.

(a) Primary reporting by business segment

The Group’s three reportable segments are classified according to the nature of the business:

Dyeing and finishing machines	–	manufacture and sale of dyeing and finishing machines
Stainless steel supplies	–	trading of stainless steel supplies
Stainless steel casting products	–	manufacture and sale of stainless steel casting products

For the six months ended June 30, 2009 (unaudited)

	Dyeing and finishing machines HK\$'000	Stainless steel supplies HK\$'000	Stainless steel casting products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue					
External sales	487,915	133,772	136,080	–	757,767
Inter-segment sales	7,155	49,315	7,761	(64,231)	–
	<u>495,070</u>	<u>183,087</u>	<u>143,841</u>	<u>(64,231)</u>	<u>757,767</u>
Results					
Segment results	<u>(107,072)</u>	<u>(10,893)</u>	<u>(28,910)</u>		(146,875)
Interest income					1,800
Loss on fair value change of financial assets held for trading					(54)
Finance costs					(25,143)
Share of results of an associate					(1,770)
Share of results of jointly controlled entities	16,066				<u>16,066</u>
Loss before tax					<u>(155,976)</u>

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

For the six months ended June 30, 2008 (unaudited)

	Dyeing and finishing machines <i>HK\$'000</i>	Stainless steel supplies <i>HK\$'000</i>	Stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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 assets held for trading					795
Finance costs					(41,284)
Share of results of an associate					(686)
Share of results of jointly controlled entities	20,636				<u>20,636</u>
Profit before tax					<u>45,057</u>

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

(b) Secondary reporting by geographical segment

The Group's operations are located mainly in Hong Kong, the People's Republic of China (the "PRC" or "China"), Germany and Switzerland. The following table provides an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods:

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue by geographical markets		
The PRC	295,351	481,211
Hong Kong	160,416	271,424
Asia Pacific (other than the PRC and Hong Kong)	125,863	193,758
Europe	111,354	197,028
North and South America	47,552	96,160
Others	<u>17,231</u>	<u>41,774</u>
	<u>757,767</u>	<u>1,281,355</u>

4. FINANCE COSTS

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	22,153	6,736
Effective interest expense on convertible loan notes	–	29,391
Bank charges	2,990	5,157
	<u>25,143</u>	<u>41,284</u>

5. (LOSS) PROFIT BEFORE TAX

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Amortisation of intellectual property rights (included in cost of sales)	1,458	1,458
Amortisation of prepaid lease payments	224	207
Depreciation of property, plant and equipment	30,002	24,957
	<u>31,684</u>	<u>26,622</u>
Total depreciation and amortisation	<u>31,684</u>	<u>26,622</u>
Profit on sale of properties	<u>2,375</u>	<u>–</u>

6. INCOME TAX

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Hong Kong Profits Tax:		
Current period	116	9,572
Overprovision in prior years	(87)	—
PRC Enterprise Income Tax:		
Current period	—	2,493
Overprovision in prior years	—	(363)
Overseas income tax:		
Current period	590	577
Overprovision in prior years	(8)	—
	611	12,279
Deferred tax	(5,018)	1,994
Income tax (credit) expenses	<u>(4,407)</u>	<u>14,273</u>

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to equity holders of the Company is based on the following data:

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
(Loss) profit for the period attributable to equity holders of the Company for the purposes of basic (loss) earnings per share	<u>(151,569)</u>	<u>30,784</u>
	'000	'000
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>551,446</u>	<u>554,163</u>

8. DIVIDEND

The Board resolved not to pay an interim dividend for the six months ended June 30, 2009 (2008: an interim dividend of 2 HK cents per share).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

During the period, the worldwide financial crisis, which started in 2008 causing credit to freeze up and resulting in a virtual standstill in the foreign trade of textiles and clothing, had continued to have a significant impact on the Group's financial results for the first half of 2009. Consequently, the Group's revenue for the six months ended June 30, 2009 was approximately HK\$758 million (2008: HK\$1,281 million), representing a 41% decrease as compared to the same period last year. The loss attributable to shareholders of the Company was approximately HK\$152 million as compared to a profit of approximately HK\$31 million in the corresponding period of the previous year. The basic loss per share was 27.49 HK cents for the period under review (For the six months ended June 30, 2008: basic earnings per share of 5.56 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

Fong's National Engineering Co., Ltd., Fong's National Engineering (Shenzhen) Co., Ltd., THEN Maschinen GmbH, THEN Maschinen (HK) Ltd., Goller Textilmaschinen GmbH, Goller (HK) Ltd., Xorella AG and Xorella Hong Kong Limited

The market conditions during the first half of 2009 were just as difficult if not more challenging than the second half of 2008. As a result of the adverse effects of the global financial crisis and the freezing of credit for global trade, many customers have scaled down their production or postponed their investment projects in the wake of the sudden drop in their customers' orders. In turn, our performance has been significantly impacted. Accordingly, in the first half of 2009, this core manufacturing division recorded a revenue of approximately HK\$488 million (2008: HK\$725 million) accounting for approximately 64% of the Group's revenue and incurred an operating loss of approximately HK\$107 million (2008: profit of HK\$4 million).

The losses were mainly attributable to several factors including the large drop in sales, more aggressive pricing due to difficult market conditions and the high cost of pre-crisis raw materials in our inventory carried over, thus resulting in both poor gross margins as well as operating margins during the period. The Group has continued to implement an array of expense control and belt tightening measures, including reduction of surplus manpower and voluntary salary reduction of our senior management, to curtail our production costs and overhead expenses. In addition, the Group has also continued to closely monitor its inventory levels. Our inventory in this division was reduced to approximately HK\$410 million at June 30, 2009 as compared to approximately HK\$670 million as at June 30, 2008 and HK\$550 million as at December 31, 2008.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

The revenue of this division decreased by 59% to approximately HK\$134 million (2008: HK\$330 million) and accounted for 18% of the Group's revenue for the six months ended June 30, 2009. This trading division suffered an operating loss of approximately HK\$11 million (2008: profit of HK\$35 million). The loss was mainly attributable to the decrease in sales volume and selling price.

In the first half of 2009, the average price of basic stainless steel has decreased by over 50% as compared to the same period of 2008. Nevertheless, since the second quarter of 2009, the stainless steel price appears to have recovered moderately from its low. The management will follow closely the changes of the market situation and to adjust our marketing and inventory strategies accordingly.

The management will also continue to monitor closely the inventory and keep the inventory at reasonable levels. During the period, the inventory for this division has been reduced to approximately HK\$110 million at June 30, 2009 as compared to approximately HK\$270 million as at June 30, 2008 and approximately HK\$140 million as at December 31, 2008.

In addition, the management has continued to make efforts in collecting account receivables from our customers to avoid bad debts. More frequent review on customers' credit term was performed to prevent further credit sales to customers with bad repayment history and to proactively recover the long outstanding receivables in time.

STAINLESS STEEL CASTING

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

Under the shadow of the global financial crisis, most industries faced enormous challenges during the period under review. Our major export markets in the United States and Europe continue to be hard hit by the global recession and the difficult operating environment, customers are more conservative in placing orders. As a result, the revenue of this division for the six months ended June 30, 2009 decreased by 40% to approximately HK\$136 million (2008: HK\$226 million) and accounted for 18% of the Group's revenue for the period under review. This division suffered a loss of approximately HK\$29 million as compared to an operating profit of approximately HK\$17 million in the corresponding period of the previous year.

The loss was primarily due to lower sales and higher proportion of low margin sales during the period under review. The reduction in production volume made an undesirable effect on the economies of scale previously attained by this division. With the less than optimal operating level resulted in a loss due to unabsorbed fixed costs. The cost of the major raw material, particularly stainless steel scraps, remained high during the period under review and with difficult economic environment worldwide, costs could not be passed on to our customers. Under these circumstances, we had to bear higher production costs and the limited scope of price increases due to economic slowdown in our major markets. Consequently, the gross margin was squeezed.

The inventory for this division was reduced to approximately HK\$120 million as at June 30, 2009 as compared to approximately HK\$190 million as at June 30, 2008 and approximately HK\$170 million as at December 31, 2008.

The management will continue to update production technology, improve production equipment and facilities, produce more high value-added products, improve internal management and control production costs stringently, so as to improve production efficiency and cost-effectiveness.

JOINTLY CONTROLLED ENTITY

Monforts Fong's Textile Machinery Co. Limited (“Monforts Fong’s”)

For the six months ended June 30, 2009, Monforts Fong's recorded a revenue of approximately HK\$199 million (2008: HK\$233 million), representing a decrease of 15% as compared to the same period last year and the Group's share of profit after tax amounted to approximately HK\$16 million (2008: HK\$21 million), representing a 24% decrease as compared with the corresponding period last year. The decrease in operating profit was largely attributable to substantial lower level of capacity utilization resulting from deteriorated market conditions, which were partially offset by cost reduction during the period under review.

In the first half of 2009, although the Chinese economy has shown impressive resilience relative to other parts of the world, the poor market sentiment and liquidity crunch have led to a substantial slowdown in our sales in the first quarter of 2009. Despite such difficult operating environment, TwinAir branded Stenters continued to have been well received since its first launch in 2000 and has maintained its market leading position during the period under review.

With the strategic foresight and support of our joint venture partner, A. Monforts Textilmaschinen GmbH & Co. KG, Monfort Fong's has recently been given access to sell its machinery in 14 additional designated countries in Asia whereas it's sales were solely limited to the China market in the past. In addition, Monforts Fong's will become the exclusive OEM supplier for the machinery of A. Monforts Textilmaschinen GmbH & Co. KG worldwide. This will be a significant development for Monforts Fong's and will pave the way for continued robust growth in the coming years.

BUSINESS OUTLOOK

As a result of the global financial crisis and experiencing a crisis in the textile industry of a proportion and magnitude which has never been seen before in the Group's 46 years of history, we remain cautiously optimistic with our outlook in view of the following factors:

- The banking system which facilitates the world trade appears to be back to normal and exports of textiles and clothing have resumed albeit at a reduced volume due to the ongoing recession in the North American and European markets and where retailers continue to be cautious with their buying.

- At the very end of April 2009, the State Council of China released a detailed support plan to adjust and strengthen the textile and garment industry in the coming years which includes targets to reduce energy consumption and water discharge; to phase out obsolete equipment and facilities and thus capacity; and to promote domestic consumption so as to maintain a healthy growth in the industry. These targets have been backed up with the policy of generous money lending to the textile industry.
- According to a recent announcement by the China Textile Industry Association, the proportion of domestic sales of the output of the China textile industry has increased from 77% in 2008 to 80% in 2009. Furthermore, despite a brief dip in the first quarter of 2009, China's retail sales growth of clothing is back to 20% or more and in line with pre-crisis levels.
- In the last 12-24 months, major retailers from Walmart to Addidas have launched Green sourcing initiatives which will further drive investments in new and more efficient machinery and technology.
- Internally, by the end of 2009, the Group will have a much more competitive cost structure in terms of both variable and fixed costs as the previously higher cost stainless steel inventories are replaced by lower ones and that the Group's restructuring program is further realized. Therefore, as sales growth gradually recovers, the Group will be in an ever more competitive position to capitalize on its operational leverage and market position.

With the above mentioned factors, we are now seeing total sales of machinery in China recovering to pre-crisis levels and in particular our new generation of THEN AIRFLOW model of dyeing machines, with the benefits of significant water and energy reduction, is showing growth of well over 50% despite the overall difficult market conditions.

Nevertheless, we wish to caution that overseas sales are still at low levels which have traditionally been a significant part of the Group's machinery business. In addition, the pace of the recovery of the overseas markets will be much harder to predict due to many various factors and as a result the Group's recovery to pre-crisis profit levels may take some time. Therefore, the Directors view that it is of paramount importance that the Group should exercise stringent control of its financial resources at hand and to minimize its capital expenditures until the overall business recovery is more apparent.

In the meantime, the Group has continued to invest with research and development to align our future products to provide the necessary tools, equipment, and technology for the textile industry to produce its products in a much more energy efficient and less polluting manner. With regards to the water treatment and recycling division which was launched in 2008, the process of production pilot run with its first installation will be completed at the end of this year and it is expected to gradually become a new source of business growth for the Group in the years to come.

Barring any unforeseeable circumstances, losses experienced in the last 12 months are not expected to repeat again given the efforts of the Group and its management and the stabilization of the various businesses. Furthermore, we expect the Group to break even and show marginal profitability in the second half of 2009 despite still incurring some restructuring and redundancy costs in various divisions. We hope that the second half of 2009 will be the last of our Group's overall restructuring program as a result of the global financial crisis and that any further changes in human resources will be due to the normal course of business.

Lastly, the land use rights certificates for two parcels of land in Zhongshan with an aggregate site area of approximately 178 mu (approximately 118,600 m²) earmarked for our dyeing machine and water treatment businesses respectively are expected to be granted and issued in the next few months.

HUMAN RESOURCES

As mentioned in our Annual Report 2008, the Group had launched a restructuring programme to downsize its workforce since the second half of 2008. As at June 30, 2009, the Group had approximately 4,000 employees, a further decrease of 15% from approximately 4,700 employees as at December 31, 2008 and as compared to approximately 5,400 employees as at June 30, 2008. In the first half of 2009, staff costs, including directors' remuneration and redundancy payments were approximately HK\$116 million as compared to HK\$260 million for the full year of 2008.

Employees are remunerated based on their performances, experience and prevailing industry practice. The Group's remuneration policies and packages are reviewed by its Remuneration Committee on a regular base. 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 to eligible employees include medical insurance, retirement benefits scheme and share option scheme.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2009, the Group's total assets amounted to approximately HK\$1,972 million, representing a decrease of approximately HK\$213 million compared with HK\$2,185 million at December 31, 2008. The Group met its funding requirements in its usual course of operation by cash flows from operations, as well as long-term and short-term bank borrowings.

Net cash inflow in the amount of approximately HK\$281 million was generated from operating activities primarily due to decreases in inventories and account receivables. As at June 30, 2009, the Group's inventory level was further reduced to approximately HK\$643 million as compared to approximately HK\$775 million as at February 28, 2009 and approximately HK\$865 million as at December 31, 2008.

As at June 30, 2009, bank borrowings amounted to approximately HK\$777 million. Most bank borrowings were sourced from Hong Kong, of which 93% were denominated in Hong Kong dollars and 7% were denominated in Renminbi. The bank borrowings of the Group are predominantly subject to floating interest rates. The Group adopted interest rate swaps for the interest payable on the aggregate principal amount of HK\$640 million to hedge interest rate fluctuation.

As at June 30, 2009, the bank balances, deposits and cash amounted to approximately HK\$427 million of which 38% were denominated in Hong Kong dollars, 29% in Renminbi, 20% in US dollars and 13% in Euro.

As at June 30, 2009, the Company's current ratio was 2.2 when compared to 2.6 as at December 31, 2008 and the gearing ratio was 47%. These ratios were at reasonable and adequate levels as at June 30, 2009.

In the opinion of the Directors, in light of the various measures together with the expected results of other measures, the Group will have sufficient working capital for its current requirements and financial requirements in the near future.

The Group's sales are principally denominated in US dollars or Euro while purchases are transacted in US dollars, Renminbi and Hong Kong dollars. Currently, the Group does not have a fixed and regular foreign currency hedging policy. However, the Board will constantly monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposures should the need arises.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2009.

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, 2009.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended June 30, 2009 with all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

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, 2009 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.

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, 2009 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 28, 2009

As at the date of this announcement, the Board comprises ten directors, of which seven 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, Dr. Tsui Tak Ming, William and Ms. Poon Hang Sim, Blanche and three are Independent Non-executive Directors, namely Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.

* *For identification only*