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, 2007

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, 2007 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2007 – unaudited

	Notes	**2007** *HK$'000*	2006 *HK$'000*
Revenue	3	**1,474,679**	1,027,991
Cost of sales		**(1,054,793)**	(724,100)
Gross profit		**419,886**	303,891
Interest income		**7,887**	7,108
Other income		**20,815**	23,294
(Loss) gain on fair value change of the derivative component of convertible loan notes		**(6,977)**	13,981
Selling and distribution costs		**(79,743)**	(39,264)
General and administrative expenses		**(177,950)**	(127,922)
Other expenses		**(32,941)**	(26,500)
Loss on fair value change of financial instruments		**(411)**	–
Finance costs	5	**(29,545)**	(15,691)
Share of results of an associate		**637**	153
Share of results of jointly controlled entities		**40,215**	18,888
Profit before tax		**161,873**	157,938
Income tax expense	6	**(21,397)**	(23,132)
Profit for the period		**140,476**	134,806
Attributable to			
Equity holders of the parent		**140,476**	134,806
Earnings per share	7		
Basic		**25.16 Cents**	24.06 Cents
Dividends per share	8		
Interim		**9 Cents**	8 Cents
Special		**3 Cents**	3 Cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at June 30, 2007 – unaudited

	as at June 30, 2007 unaudited *HK$'000*	as at December 31, 2006 audited *HK$'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**308,735**	288,002
Prepaid lease payments	**11,469**	11,639
Intellectual property rights	**20,488**	21,934
Interests in an associate	**43,068**	42,431
Interests in jointly controlled entities	**91,527**	81,312
Deposits for acquisition of property, plant and equipment	**21,649**	9,958
Deposit for prepaid lease payments	**16,000**	–
Deferred tax assets	**5,138**	5,525
	518,074	460,801
Current assets		
Inventories	**1,066,362**	778,372
Trade and other receivables	**498,244**	404,475
Amount due from jointly controlled entities	**15,526**	2,475
Prepaid lease payments	**341**	341
Derivative financial instruments	**–**	27
Tax recoverable	**322**	691
Structured deposits	**15,846**	127,890
Bank balances, deposits and cash	**434,872**	580,464
	2,031,513	1,894,735
Current liabilities		
Trade and other payables	**438,863**	329,464
Amount due to a jointly controlled entity	**–**	1,701
Warranty provision	**16,166**	13,264
Derivative financial instruments	**657**	244
Tax liabilities	**43,940**	23,339
Borrowings – due within one year	**55,741**	54,613
	555,367	422,625
Net current assets	**1,476,146**	1,472,110
	1,994,220	1,932,911
Capital and reserves		
Share capital	**55,793**	55,842
Reserves	**1,010,641**	959,244
Equity attributable to equity holders of the parent	**1,066,434**	1,015,086
Minority interests	**1,290**	1,290
Total equity	**1,067,724**	1,016,376
Non-current liabilities		
Borrowings – due after one year	**102,500**	122,500
Deferred tax liabilities	**1,492**	1,190
Embedded derivative component of convertible loan notes	**32,775**	25,798
Convertible loan notes	**789,729**	767,047
	926,496	916,535
	1,994,220	1,932,911

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 2006.

The accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the Annual Report 2006.

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, 2007. 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, 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 component of convertible loan notes					**(6,977)**
Loss on fair value change of financial instruments					**(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

	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, 2006 (unaudited)				
Revenue					
External sales	598,685	326,878	102,428	–	1,027,991
Inter-segment sales	29,720	184,220	15,196	(229,136)	–
Total	628,405	511,098	117,624	(229,136)	1,027,991
Results					
Segment results	61,187	55,882	16,430		133,499
Interest income					7,108
Gain on fair value change of the derivative component of convertible loan notes					13,981
Finance costs					(15,691)
Share of results of an associate					153
Share of results of jointly controlled entities	18,888				18,888
Profit before tax					157,938
Income tax expense					(23,132)
Profit for the period					134,806
Other information					
Depreciation and amortisation	14,188	435	1,336		15,959

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

Geographical segments

	Revenue by geographical market for the six months ended June 30,	
	2007	2006
	unaudited	unaudited
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC")	**540,588**	355,514
Hong Kong	**363,566**	283,227
Asia Pacific (other than the PRC and Hong Kong)	**223,927**	223,579
Europe	**201,716**	88,748
North and South America	**129,747**	60,657
Others	**15,135**	16,266
	1,474,679	1,027,991

4. Depreciation and Amortisation

During the period under review, depreciation of approximately HK$17,249,000 (2006: HK$14,513,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK$1,446,000 (2006: 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,	
	2007	2006
	unaudited	unaudited
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**3,125**	5,593
Effective interest expense on convertible loan notes	**22,682**	5,192
Bank charges	**3,576**	3,198
Issue cost of convertible loan notes in respect of the embedded derivative components	**–**	1,217
Factoring charges	**162**	491
	29,545	15,691

6. Income tax expense

	For the six months ended June 30,	
	2007	2006
	unaudited	unaudited
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Current period	**21,629**	17,063
Overseas income tax		
Current period	**2,356**	6,087
(Over) under provision in prior years	**(3,277)**	360
Deferred tax	**689**	(378)
	21,397	23,132

Hong Kong Profits Tax is calculated at 17.5% (2006: 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 parent for the period of approximately HK$140,476,000 (2006: HK$134,806,000) and the following data:

	For the six months ended June 30,	
	2007	2006
	unaudited	unaudited
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	**558,323,279**	560,346,285

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

8. **Dividends**

	For the six months ended June 30,	
	2007	2006
	unaudited	unaudited
	HK$'000	*HK$'000*
Dividends recognised as distribution during the period:		
Final dividend of 8 cents (2006: 5 cents) per share	**44,665**	28,019
Final special dividend of 7 cents (2006: 7 cents) per share	**39,082**	39,226
Dividends payable attributable to the interim period:		
Interim dividend of 9 cents (2006: 8 cents) per share	**50,168**	44,688
Interim special dividend of 3 cents (2006: 3 cents) per share	**16,722**	16,758

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 9 cents per share plus an interim special dividend of 3 cents per share (2006: an interim dividend of 8 cents per share plus an interim special dividend of 3 cents per share) to the shareholders of the Company whose names appear in the Register of Members of the Company on October 26, 2007.

It is expected that dividend warrants will be dispatched to the shareholders of the Company on or before November 8, 2007.

The Register of Members of the Company will be closed from October 22, 2007 to October 26, 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and interim special dividends, 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 Thursday, October 18, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF RESULTS

For the six months ended June 30, 2007, the Group achieved satisfactory results with growing revenue and profit. The Group recorded total revenue of approximately HK$1,475 million, representing an increase of 43% as compared with the same period last year. Gross profit increased to approximately HK$420 million, an increase of 38% against the same period last year. Profit attributable to shareholders increased to approximately HK$140 million, representing an increase of 4%. Earnings per share were 25.16 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, this core segment revenue increased by 22% to approximately HK$729 million (2006: HK$599 million), accounting for approximately 49% of the Group's total revenue. The increase in revenue was mainly attributable to the sales growth in our overseas markets and from the European operations (**THEN, Goller and Xorella**) driven by the Group's efforts in opening up new overseas markets and the increase in product range. Of the total, revenue derived from the European operations increased by 49% to approximately HK$215 million (2006: HK$144 million) accounting for 29% of the segment revenue. However, the segment results decreased 7% to approximately HK$57 million (2006: HK$61 million).

During the period under review, the management has implemented various measures to control operating costs and improve production efficiency. Nevertheless, the effect is partially offset by the operating losses of the European operations incurred during their initial stages of the turnaround to an aggregate amount of approximately HK$44 million (2006: HK$27 million). On a comparative level, losses have appeared to widen as a result of the addition of the Goller product range and operations starting only in April 2006. Consequently, as a whole, the segment results decreased by approximately HK$4 million to approximately HK$57 million for the period under review despite the growth in revenue.

It is believed that with the implementation of the various improvement measures as stated in the Annual Report 2006 and via continued growth in sales, turnaround in the performance of the European operations is expected to be realized in the coming year. We continue to believe that the European operations will bring significant synergy benefits to the Group in the long run.

STAINLESS STEEL TRADING

Fong’s Steels Supplies Company Limited

For the period under review, this segment revenue increased by 53% to approximately HK$499 million (2006: HK$327 million), accounting for approximately 34% of the Group's total revenue. The segment results increased 18% to approximately HK$66 million (2006: HK$56 million).

Due to the decrease in the price of nickel, being a major base metal for producing stainless steels, there has been a moderate downward slide in the stainless steel price during the period under review. Nevertheless, it is expected that the stainless steel price will still stay at relatively high levels as compared with the prices in the past years. The Group will continue to make efforts to strengthen customer credit management and fasten the recovery of trade receivables with a view to controlling the credit risk.

STAINLESS STEEL CASTING

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

With increasing number of customers, sales volume substantially increased 140% to approximately HK$246 million (2006: HK$102 million), accounting for approximately 17% of the Group's total revenue, the segment results increased 67% to approximately HK$28 million (2006: HK$16 million).

To cater for increasing orders from its growing clientele, the Group has actively enhanced and expanded the production capacity of the foundry plant during the period under review. At present, the annual production capacity for stainless steel casting products reaches 6,000 tonnes. Going ahead, the Group will actively upgrade production technology, improve production equipment, produce more value-added machined casting products which offer higher profit margins and strive for economies of scales to increase profit.

JOINTLY CONTROLLED ENTITY

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

During the first half of 2007, Monforts Fong’s maintained its market leading position and continued to be the largest manufacturer of stenters in the PRC.

During the period under review, Monforts Fong’s achieved outstanding performance with a sales growth of 78% to approximately HK$346 million (2006: HK$195 million). Together with the effective cost control, the Group’s share of profit after tax increased to approximately HK$40 million (2006: HK$19 million), representing an increase of 112% as compared with the corresponding period of 2006.

Driven by the continued growth of the textile industry in the PRC, the management expect to see the continued healthy and stable demands for stenters in the coming years and are optimistic about the business prospect of Monforts Fong's. Riding on its leadership in the China, Monforts Fong's will continue to capture and expand its market share this market.

ASSOCIATES

Foshan East Asia Company Limited (a 30% owned associate)

During the period under review, the sales revenue of woven color fabrics conducted by Foshan East Asia Company Limited increased 5% to approximately HK$112 million (2006: HK$106 million) and the Group's share of profit after tax amounted to approximately HK$637,000 as compared to approximately HK$153,000 for the corresponding period in 2006.

The Directors believe that the investment in this associate helps to enlarge the Group's network of potential customers in dyeing and finishing industry and create synergy on our dyeing and finishing machine manufacturing business and is expected to bring long-term benefits to the Group.

OUTLOOK

Despite some short term uncertainties in the China market as a result of the enforcement of environmental regulations, the Directors are optimistic about the Group's business outlook on the basis that both the exports of textiles from Asia are still growing and coupled with a strong domestic consumption scenario. Consequently, as the Group's production facilities are already operating at relatively high utilization rates, to cater for the anticipated business growth, the Group has planned to expand its production capacity.

The Company announced on May 16, 2007 that the Group has acquired the land use rights of an industrial site in Zhongshan, the PRC with an area of approximately 1,250 mu (approximately 833,337.5 m^2) at a purchase price of approximately RMB320 million with a view to construct a new manufacturing complex. Details of this acquisition were set out in the circular of the Company dated June 6, 2007.

Looking ahead, the Group will build on its sophisticated production and technical capabilities and the expertise of its management team to achieve growth. To maintain industry leadership, the Group will continue to allocate significant resources on research and development of environmentally friendly dyeing and finishing machines as well as on innovation of new application technology, with internally-developed intellectual property rights, for textile dyeing and finishing. The Group is committed to continue to enhance the product quality, improve the production efficiency and strengthen the cost control, in order to meet the increasing demands from our customers, thereby to further increase the market share and the competitiveness of the Group.

HUMAN RESOURCES

As at June 30, 2007, the Group had a total of approximately 5,000 employees (December 31, 2006: 4,500) 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, acquisition of fixed assets and increase in inventory.

On May 10, 2006, the Company issued HK$800 million zero couple 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 25, 2007, the adjusted conversion price is HK$7.81 per share). As at the date of this report, none of the convertible bonds have been redeemed or converted into any shares of the Company.

As at June 30, 2007, there was a gearing ratio of 51% and the current ratio was 3.7.

As at June 30, 2007, bank and other borrowings amounted to approximately HK$158 million. Most bank and other borrowings were sourced from Hong Kong, of which 90% were denominated in Hong Kong dollars, 9% were denominated in Euro and the remaining 1% was denominated in Japanese Yen. The bank and other borrowings of the Group are predominantly subject to floating interest rates.

At as June 30, 2007, the bank balances, deposits and cash amounted to approximately HK$435 of which 36% were denominated in US dollars, 27% in Hong Kong, 24% in Renminbi, 8% in Euro, 3% in Japanese Yen, 1% in Swiss France and and the remaining 1% in various foreign currencies.

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 year under review was not significant. Currently, the Group does not have a 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, 2007, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
January, 2007	100,000	5.20	5.20	520,000
June, 2007	388,000	5.55	5.55	2,153,400
	488,000			2,673,400

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$2,624,600 was charged against share premium. An amount of HK$48,800 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

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, 2007.

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, 2007.

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, 2007.

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, 2007 have been reviewed by the Audit Committee, who is of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

MEMBERS OF THE BOARD

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 (Managing Director), 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 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 24, 2007.