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FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

CONNECTED TRANSACTION

Xorella Hong Kong Limited, a wholly-owned subsidiary of the Company, has completed the acquisition of the entire issued share capital of Xorella AG. As part of the consideration for such acquisition, Xorella Hong Kong Limited issued shares representing 20% of its issued share capital to the vendor of Xorella AG. Therefore, according to the Listing Rules, he has become a connected person.

On Completion, Xorella Hong Kong Limited granted the vendor of Xorella AG, Mr. Freddy Wanger, a put option whereby the Vendor will have the right to sell his shares in Xorella Hong Kong Limited to the other shareholder of Xorella Hong Kong Limited which is also a wholly owned subsidiary of the Company.

Such granting of put option constitutes a connected transaction and is subject to disclosure by way of this announcement under Rule 14.25(1) of the Listing Rules, with details as required in Rule 14.25(1) (A) to (D) of the Listing Rules to be set out in the Annual Report of the Company for the year ending 31st December 2002.

The board of directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce that on 25th September 2002, Xorella Hong Kong Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, has completed (the "Completion") the acquisition of the entire issued share capital of Xorella AG for a consideration comprising cash and 700,000 shares of US\$1.00 each in the Purchaser representing 20% of the Purchaser's issued share capital ("Consideration Shares"). The issue of the Consideration Shares is approximately 20% of the total consideration for such acquisition. On Completion, the Purchaser has granted a put option to Mr. Freddy Wanger, the vendor of Xorella AG (the "Vendor") exercisable within a period of six months after the second anniversary of 25th September 2002 whereby, upon the exercise of such option, the Vendor shall have the right to sell the Consideration Shares to the other shareholder of the Purchaser, which is also a wholly owned subsidiary of the Company, for a purchase price of US\$700,000 (approximately HK\$5,460,000). Such amount is based on 20% of the total consideration for such acquisition, which is arrived at after arm's length negotiation. The said put option is a part and parcel of the acquisition described above and therefore it is at no extra cost. After the said six months, such put option shall lapse. It is at present expected that, upon the exercise of the put option by the Vendor, the Company and its subsidiaries (the "Group") will be able to pay the purchase price out of internal resources. The Vendor is a merchant and an independent third party, and save and except for as described herein, is not otherwise connected with the Company, its directors, chief executive or substantial shareholder or any of its subsidiaries, or any of their associates.

The Purchaser is a single purpose company for the sole purpose of holding Xorella AG. The sole asset of Xorella Hong Kong Limited is therefore the holding of Xorella AG. Xorella AG is a joint stock company incorporated in Switzerland. It is principally engaged in the development, design and manufacture of textile machinery. Its main products include steaming systems for treating and heatsetting textile products ranging from fiber to fabric, conditioning systems for textiles, and process equipment for sterilizing textile products. On Completion, the Vendor will join the board of the Purchaser and the Group will benefit from his expertise in the textile machinery. It is expected that such business will be able to complement the core businesses of the Group.

Since the Vendor has on Completion become a substantial shareholder holding 20% of the issued share capital of the Purchaser, it is a connected person of the Company. Accordingly, the granting of the put option will constitute a connected transaction of the Company under the Listing Rules. However, in the event the put option is exercised, it is only for an amount of US\$700,000 (HK\$5,460,000) which is less than 3% of the net tangible assets of the Company as at 30th June, 2002. Accordingly, such transaction will only be disclosed by way of this announcement under Rule 14.25(1) of the Listing Rules, with details as required in Rule 14.25(1)(A) to (D) of the Listing Rules to be set out in the Annual Report of the Company for the year ending 31st December 2002.

Because of the size of such acquisition, except for the put option constitutes a connected transaction, it is not otherwise a notifiable transaction.

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

The Board (including the independent non-executive directors) considers the terms of the said put option to be fair and reasonable based upon normal commercial terms after arm's length negotiation.

By order of the Board
Fong Sou Lam
Chairman

Hong Kong, 26th September, 2002

“Please also refer to the published version of this announcement in The Standard”.