FONG'S INDUSTRIES COMPANY LIMITED
立信工業有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 641)

DISCLOSEABLE TRANSACTION AND RESUMPTION OF TRADING

The Directors are pleased to announce that on 31 July, 2004, FNECL, a wholly-owned subsidiary of the Company, entered into (i) the Agreement with the Seller whereby FNECL has agreed to acquire from the Seller the Assets and IP-Rights for a cash consideration of Euro 3.847 million (equivalent to approximately HK$36.08 million) and the Business Real Estate (which shall be dealt with and governed by the Real Estate Agreement); and (ii) the Real Estate Agreement whereby FNECL has agreed to acquire from the Seller the Business Real Estate for a cash consideration of Euro 2 million (equivalent to approximately HK$18.76 million). The Seller, STG and TG all are independent third parties not connected with the directors, chief executives, substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules).

Upon completion, the Group will have exclusive ownership and possession of the Assets, IP-Rights and Business Real Estate, all of which are related to manufacture and sale of dyeing machines.

The total consideration for the Acquisition is Euro 5.847 million (equivalent to approximately HK$54.84 million), which will be wholly financed by internal resources of the Group.

The Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular containing details of the Acquisition will be dispatched to the Shareholders within 21 days after the publication of this announcement.

RESUMPTION OF TRADING

Trading of the Company's shares on the Stock Exchange has been suspended at the request of the Company with effect from 9:30 a.m. on 2 August, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Company's shares from 9:30 a.m. on 5 August, 2004.

THE ACQUISITION

(i) The Agreement; and

(ii) the Real Estate Agreement

Date : 31 July, 2004

Parties

Purchaser FNECL

FNECL is entitled to a right to nominate its fellow subsidiary(ies) to take up all or any of its rights and obligations according to the Agreement and the Real Estate Agreement

Vendor Seller, Mr. Gerhard Tonhäuser, Attorney-at-law in Germany, an independent party of STG and TG who is acting in his capacity as interim insolvency administrator for STG and TG, and has been granted the authority to administer and to dispose of the estates of STG and TG

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Directors confirm that the Seller, STG, TG and their respective ultimate beneficial owners are not connected persons (as defined under the Listing Rules) of the Group.

When the Group was aware of the news of the liquidation of STG and TG, the Board directly approached to the Seller to offer for the Acquisition. Prior to the signing of the Agreement and the Real Estate Agreement, there was no business relationship between the Group and the Seller nor STG/TG.

STG and TG are related to the extent that they are fellow subsidiaries of ST Group.

Assets to be acquired

(i) The Agreement

(a) Assets;
(b) IP-Rights; and
(c) Business Real Estate (which shall be dealt with and governed by the Real Estate Agreement)

(ii) The Real Estate Agreement

The Business Real Estate is currently used for the manufacture and storage of dyeing machines in relation to textile industry and relevant administration by TG.

Consideration

(i) The Agreement

The consideration of approximately Euro 3.847 million (equivalent to approximately HK$36.08 million) comprises purchase prices for acquisition of Assets and IP-Rights.

(ii) The Real Estate Agreement

The consideration of Euro 2 million (equivalent to approximately HK$18.76 million) for the Business Real Estate.

The total consideration for the Acquisition is approximately Euro 5.847 million (equivalent to approximately HK$54.84 million), which will be wholly financed by internal resources of the Group.

Basis of the consideration

The total consideration of approximately Euro 5.847 million (being Euro 3.847 million plus Euro 2 million) (equivalent to approximately HK$54.84 million) for the Acquisition was arrived at arm's length negotiations between the Group and the Seller based on normal commercial terms after having taken into consideration, among others, the liquidation status of the STG and TG which provides a basis for the valuation of the assets at the net realizable value as of Cut Off Date in the specific industry of STG. and TG. There is no separate basis for the consideration for each individual asset comprising the Assets, IP-Rights and the Business Real Estate under the Acquisition the consideration of which is negotiated on a collective basis.

Prior to the signing of the Agreement and the Real Estate Agreement, the Group has not performed any operation nor financial due diligence review.

On the other hand, the Group has appointed a professional valuer, an independent third party not connected with the directors, chief executives, substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules), to carry out independent valuations on the Assets, IP-Rights and the Business Real Estate on both liquidation basis and going concern basis for reference purpose.

The Assets and IP-Rights as of 23 July, 2004 was valued at an aggregate value of Euro 7,030,800 (equivalent to approximately HK$65.95 million) on a going concern basis and at Euro 1,679,000 (equivalent to approximately HK$15.75 million) at a liquidation basis.

The Business Real Estate as of 15 May, 2004 was valued at Euro 4.75 million (equivalent to approximately HK$44.56 million) on the premise of open market value and at Euro 3.42 million (equivalent to approximately HK$32.08 million) on a liquidation basis.

The Directors negotiated with the Seller and determined the consideration for the Acquisition by making reference to an amount between the liquidation basis and going concern basis and the Directors believe that the consideration for the Acquisition, arrived at a collective basis, is fair and reasonable to the Company and the Shareholders as a whole.

Payment terms of the consideration

(i) the Agreement

The consideration amounting to Euro 3.847 million (equivalent to approximately HK$36.08 million) will be payable in the following manner :

First installment :	Euro 2.397 million (equivalent to approximately HK$22.48 million) payable no later than the Closing Date of the Agreement, which shall take place on 6 August, 2004
Second installment :	Euro 0.95 million (equivalent to approximately HK$8.91 million) payable on the completion of Swiss Transaction Agreement which is expected by FNECL to occur in the latter half of August 2004 *(note)*.
Third installment :	Euro 0.5 million (equivalent to approximately HK$4.69 million) payable upon the expiration of the warranty period, which shall occur after six months of the Closing Date of the Agreement

Upon the payment of the first installment, it is expected that the Assets and the IP-Rights will be transferred to the Group immediately after the Closing Date.

Note:

FNECL is currently negotiating with the interim insolvency administrator of two Swiss member companies of ST Group, namely ST and Scholl Switzerland AG (SAG") which are also under liquidation, in relation to a proposed acquisition of intellectual properties from the estate of ST and SAG at a consideration of CHF450,000 (equivalent to approximately HK$2.76 million). The intellectual properties owned by ST and SAG are complementary to the IP-Rights. ST, SAG and their interim insolvency administrator are third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Group.

(ii) The Real Estate Agreement

The purchase of the Business Real Estate for Euro 2.0 million (equivalent to approximately HK$18.76 million) will be due for payment two weeks after the notary having confirmed (i) registration of a reservation in rank and title with the land authority in favour of FNECL and (ii) mortgagees' consents to discharge the legal charges against the Business Real Estate before the end of September 2004 such that the Business Real Estate is free from any mortgage. At as the date of this announcement, the notary is arranging the execution of the conditions (i) and (ii) as set out above.

The Directors consider the terms of the Acquisition including the consideration and the payment terms to be fair and reasonable to the Company and the Shareholders and in the interest of the Company and the Shareholders as a whole.

Conditions Precedent to Completion

(i) The Agreement

Closing of the Agreement shall occur on 6 August, 2004 conditional upon fulfillment of the following conditions precedent:

1. There shall not have occurred an event materially, adversely affecting STG and TG, their business, any of the Assets, or FNECL or its business or financial situation;

2. There shall not have been any claim or action of whatever nature seeking to prevent the consummation of the transactions contemplated by the Agreement (including, but without limitation, the aforesaid discharge of legal charges); and

3. FNECL shall have the right but not the obligation to waive in writing any one, several or all of the aforesaid conditions.

The Directors confirm that they have no intention to waive any of the above conditions as of the date of this announcement.

(ii) The Real Estate Agreement

Completion of the Real Estate Agreement is conditional upon receiving a written notice from the notary confirming mortgagees' consents to discharge the relevant legal charges and in two weeks' time thereafter, FNECL shall pay into the notary's escrow account the purchase price in the sum of Euro 2 million to trigger off the conveyance. However, according to the Real Estate Agreement, each party thereto shall have the right to rescind the Real Estate Agreement, if the conditions precedent to the Closing Date set out in the Agreement have not been fulfilled on 30 September, 2004 at the latest.

There is no damage clause stipulated in neither the Agreement nor the Real Estate Agreement. In the event that the conditions in relation to the Agreement or Real Estate Agreement cannot be fulfilled before 30 September, 2004, the Group is entitled to receive full repayment of any consideration paid.

The Directors confirm that the Agreement, the Real Estate Agreement and the Swiss Transaction Agreement are complementary to each other for the Group's operation. In the event that any one of these agreements cannot become unconditional, the Group will not proceed with the remaining agreements and will be entitled to receive full repayment of any installment paid for the Acquisition.

Information of STG and TG in ST Group

ST Group was formed in November 2002 as a result of the merger of a Swiss group "SCHOLL SWITZERLAND AG" founded in 1937 and a German group founded in 1919 comprising STG and TG which are specialized in manufacture of dyeing machines for the textile industry. STG and TG have been the major operating arms of ST Group which were engaged in the design, manufacture and sales of dyeing machines under the common name "SCHOLL-THEN".

However, STG and TG underwent bankruptcy liquidation in May 2004. The Seller has been appointed as interim insolvency administrator for STG and TG by decisions of the Local Court of Heilbronn in Germany dated 12 May, 2004 and 14 May, 2004 respectively. By further decision of the Local Court of Heilbronn dated 18 June, 2004, the Seller has been granted the authority to administer and to dispose of the estates of STG and TG.

Reasons of the Acquisition

The Group's core business is in the design, manufacture and sales of dyeing and finishing machines in addition to the trading of stainless steel, manufacture and sale of stainless steel casting products and property holding.

Through the Acquisition, the Group will be able to further complement its product range in the field of dyeing and finishing machines and will also acquire a well-established brand name in addition to its own brand of "FONG'S". Moreover, it will allow the Group to leverage and extend its sales network worldwide and enable cross-marketing of Fong's products and Then's products on a worldwide market basis. In general, the Acquisition will further enhance the Group's strategy of providing its customer with the widest range of products and with the latest technology in the field of design, manufacture and sales of dyeing and finishing machines. It is foreseeable that cross-fertilization of research and development will take place between the Chinese and the German research and technical teams within the Group, and continuous innovation and technological development will therefore be ensured.

Accordingly, the Directors believe that the terms of the Acquisition are fair and reasonable and in the interests of the Group and the Shareholders.

RESUMPTION OF TRADING

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GENERAL

The Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular containing details of the Acquisition will be dispatched to the Shareholders within 21 days after the publication of this announcement.

DEFINITIONS

In this announcement, the following expressions have the meanings as set out below unless the context requires otherwise.

"Acquisition"	the acquisition by FNECL of the Assets, IP-Rights and the Business Real Estate from the Seller, pursuant to the Agreement and the Real Estate Agreement respectively
"Agreement"	a final transaction agreement signed on 31 July, 2004 between FNECL and the Seller in respect of the acquisition of the Assets, the IP-Rights and Business Real Estate (which shall be dealt with and governed by the Real Estate Agreement)
"Assets"	Fixed Assets, Inventory, WIP and Finished Goods of TG and STG to be transferred by the Seller to the Group under the Agreement with aggregate value of Euro 1.75 million (equivalent to approximately HK$16.42 million)
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Brand Names"	Any and all trademarks, brand names, trade names, company names, domain names and designations whatsoever used in the business of TG and STG
"Business Day"	a day on which banks in Hong Kong and Schwäbisch-Hall in Germany are open for business
"Business Real Estate"	a 43,560 square-metre land parcel improved with buildings and structures thereon having a gross floor area of 14,067 square metres and land improvements situated at Milchgrundstr.32, 74544 Michelbach a.d. Bilz, Baden-Württemberg, Germany with value of Euro 2 million (equivalent to approximately HK$18.76 million) as of Cut Off Date and registered in the name of TG as sole owner
"Closing"	Consummation of the transactions contemplated in the Agreement and/or the Real Estate Agreement as the case may be
"Closing Date"	6 August, 2004
"Company"	Fong's Industries Company Limited, an exempted company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange

"Cut Off Date"	1 August, 2004
"Designs"	Any and all designs, in particular including registered designs, including any applications relating thereto used by any of TG and STG for the conduct of their business
"Director(s)"	The director(s) of the Company
"Drawings"	Any and all drawings relating to the design, manufacturing, improvement, adaptation of the products of TG and STG
"Finished Goods"	The finished goods with aggregate values of Euro 150,000 (equivalent to approximately HK$1.41 million) listed out in the Agreement
"Fixed Assets"	The fixed assets with aggregate values of Euro 675,000 (equivalent to approximately HK$6.33 million) belonging to TG and STG as at the Cut Off Date consisting of facilities and machines as well as operating and business equipment as set out in the Agreement
"FNECL"	Fong's National Engineering Company Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Inventory"	The inventory with aggregate values of Euro 675,000 (equivalent to approximately HK$6.33 million) belonging to TG and STG as at the Cut Off Date consisting of raw materials, supplies and operating materials as set out in the Agreement
"IP-Rights"	Patents, utility Patents, Trade Marks, Brand Names and other designations, Designs, Drawings and Know-How of TG and STG with aggregate values of Euro 2,097,000 (equivalent to approximately HK$19.67 million) as of Cut Off Date
"Know-How"	Any and all other intellectual property rights such as in particular copyrights, copyrights in design drawings, approval drawings, production drawings, software, product description, hand books, calculations, know-how, business and trade secrets, construction know-how, transferable licenses, domain names, results of research and development products used by any of TG and STG for the conduct of their business
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Patents"	Any and all patents and utility patents owned by TG and STG including any application for any patent in particular as set out in the Agreement

"Real Estate Agreement"	The Real Estate Sale and Purchase Agreement dated 31 July, 2004 entered into between FNECL and the Seller in respect of the acquisition of the Business Real Estate
"Seller"	Mr. Gerhard Tonhäuser, Attorney-at-law in Germany, acting in his capacity as interim insolvency administrator for STG and TG, who has been granted the authority to administer and to dispose of the estate of TG and STG
"Shareholder(s)"	holder(s) of share(s) of HK$0.1 each in the capital of the Company
"ST"	Scholl-Then AG, the holding company of TG and STG, which was incorporated in Switzerland and is currently in bankruptcy liquidation
"ST Group"	ST and its wholly owned subsidiaries including TG and STG
"STG"	SCHOLL-THEN GmbH, a limited company incorporated in Germany
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Swiss Transaction Agreement"	An agreement, for which FNECL and the interim insolvency administrator of two Swiss member companies of ST Group, which are also under liquidation, are currently negotiating in relation to a proposed acquisition of intellectual properties from the estate of the two Swiss member companies at a consideration of CHF450,000 (equivalent to approximately HK$2.76 million)
"TG"	Then Maschinen- und Apparatebau GmbH, a limited company incorporated in Germany
"Trade Marks"	Any and all trade and service marks including any applications relating thereto in particular as set out in the Agreement
"WIP"	The semi finished goods with aggregate values of Euro 250,000 (equivalent to approximately HK$2.35 million) belonging to TG and STG as at the Cut-Off Date as set out in the Agreement
"Euro"	the lawful currency of the European Union
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"CHF"	The lawful currency of Switzerland
"%"	per cent.

Unless otherwise specified, the conversion of Euro into HK$ and CHF into HK$ in this announcement is based on the approximate exchange rate of 1 Euro to HK$9.38 and 1 CHF to HK$6.13 respectively.

As at the date of this announcement, Mr. Fong Sou Lam, Mr. Lee Che Chiu, Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill, Mr. Mo Yiu Leung, Jerry, Mr. Cheuk Hon Kin, Kelvin, Dr. Tsui Tak Ming, William and Ms. Poon Hang Sim, Blanche are Executive Directors; Mr. Cheung Chiu Fan and Mr. Lui Chi Lung, Louis are Independent Non-Executive Directors.

By Order of the Board
Fong Sou Lam
Chairman

Hong Kong, 4 August, 2004

* *For identification only*

"Please also refer to the published version of this announcement in the South China Morning Post"