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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

Since the period from 2003 to 2004, the Group through its three subsidiaries has, in the ordinary course of its businesses, entered into agreements with PSP Marketing Inc. in relation to agency and marketing activities for the sales of the products of such subsidiaries in the respective territories as specified therein.

PSP Marketing Inc. is a corporation established in Charlotte N.C. USA and is beneficially owned as to 51% by Mr. Peter Rainer Philipp who was appointed as an Executive Director of the Company as of April 11, 2005. PSP Marketing Inc. is therefore an associate of Mr. Peter Rainer Philipp and hence, a connected person of the Company for the purposes of the Listing Rules. Accordingly, starting from April 11, 2005, the agreements entered into with PSP Marketing Inc. constitute Continuing Connected Transactions of the Company under the Listing Rules.

Since the applicable percentage ratios for the Continuing Connected Transactions on an annual basis are less than 2.5% and the aggregate annual amount is less than HK\$10 million, the Continuing Connected Transactions are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the Continuing Connected Transactions will be included in the Company's next published annual report and accounts in compliance with Rules 14A.45 and 14A.46 of the Listing Rules.

EXCLUSIVE SALES AGENCY AND COORDINATION ARRANGEMENTS

The Board of Directors of Fong's Industries Company Limited (the "Company" together with its subsidiaries referred to as the "Group") would like to announce that the Group through its three subsidiaries has, since the period from 2003 to 2004 and in the ordinary course of its businesses, entered into agreements with PSP Marketing Inc. in relation to agency and marketing activities for the sales of the products of such subsidiaries in the respective territories as specified therein.

PSP Marketing Inc. is a corporation established in Charlotte N.C. USA and is beneficially owned as to 51% by Mr. Peter Rainer Philipp who was appointed as an Executive Director of the Company as of April 11, 2005. PSP Marketing Inc. is therefore an associate of Mr. Peter Rainer Philipp and hence, a connected person of the Company for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Accordingly, starting from April 11, 2005, the five agreements entered into with PSP Marketing Inc. as listed below constitute Continuing Connected Transactions (as defined hereunder) of the Company under the Listing Rules.

REASONS FOR ENTERING INTO THE SALES AND COORDINATION ARRANGEMENTS

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, manufacture and sale of stainless steel casting products and property holding.

PSP Marketing Inc. was founded in 1983 by Mr. Peter Rainer Philipp and his business associates, who were third parties independent of the Company and were not connected persons (as defined under the Listing Rules) of the Group until Mr. Peter Rainer Philipp was appointed as an Executive Director of the Company on April 11, 2005, 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 Inc. maintains an excellent reputation and sales network in the industry.

The Continuing Connected Transactions have been entered into in the ordinary course of businesses of the Group, and were first entered into before PSP Marketing Inc. became a connected person of the Company on April 11, 2005.

The Continuing Connected Transactions are in line with the business and commercial strategies of the Group and it is believed that through these agency and sales coordination arrangements, 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 of the Company (including the Independent Non-Executive Directors of the Company) are of the opinion that the Continuing Connected Transactions have been entered into in the usual and ordinary course of businesses of the Group and the terms of the Continuing Connected Transactions have been negotiated and will be conducted on an arm's length basis and on normal commercial terms. The Continuing Connected Transactions and the terms thereof are fair and reasonable and in the best interests of the Group and the shareholders of the Company as a whole.

CONTINUING CONNECTED TRANSACTIONS

(A) The five agreements entered into with PSP Marketing Inc. (collectively as the "Continuing Connected Transactions") are summarized as follows:

1. Regional Sales Coordination Agreement entered into between Fong's National Engineering Company, Limited and PSP Marketing Inc. on May 1, 2003 (the "Regional Sales Coordination Agreement")

Fong's National Engineering Company Limited is a wholly-owned subsidiary of the Group engaged in the trading of **FONG'S** branded dyeing and finishing machines.

Pursuant to the Regional Sales Coordination Agreement, PSP Marketing Inc. has been appointed as the exclusive sales coordinator for an initial term of three years commencing from May 1, 2003 and the term shall be renewed automatically for successive one year thereafter until either party gives a 90 days' notice of termination without cause before expiration of the term.

PSP Marketing Inc. 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 in Central and South America.

2. 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 (the "1st Sales Agency Agreement")

Pursuant to the 1st Sales Agency Agreement, PSP Marketing Inc. has been appointed as the sole and exclusive sales agent commencing on October 4, 2003 until being terminated without cause by three months' prior notice in writing given by either party.

PSP Marketing Inc. shall serve Fong's National Engineering Company, Limited as the sole and exclusive agent for the sale of the **FONG'S** branded products in Canada and USA.

3. Technical, Sales and Marketing Support Agreement entered into between Xorella AG and PSP Marketing Inc. on May 14, 2003 (the "Technical, Sales and Marketing Support Agreement")

Xorella AG is a 80% subsidiary of the Group engaged in the business of manufacture and sale of **CONTEXXOR** branded vacuum yarn conditioning and steaming equipment.

Pursuant to the Technical, Sales and Marketing Support Agreement, PSP Marketing Inc. has been appointed as the technical support and marketing representative of Xorella AG in Central and South America commencing from May 2, 2003 until terminated without cause by either party by giving six months' prior written notice before the year-end date of each financial year.

PSP Marketing Inc. shall be responsible for, among other things, providing technical support, sales support and marketing support in respect of the products of Xorella AG in Central and South America.

4. Sales Agency Agreement entered into between Xorella AG and PSP Marketing Inc. on July 22, 2003 together with subsequent amendments thereto (the “2nd Sales Agency Agreement”)

Pursuant to the 2nd Sales Agency Agreement, PSP Marketing Inc. has been appointed as the sole and exclusive sales agent for an initial term of 18 months commencing from July 22, 2003 and its term shall be renewed automatically for successive one year thereafter until either party gives a three months’ notice of termination without cause before expiration of the term.

PSP Marketing Inc. shall serve Xorella AG as the sole and exclusive agent for the sale of the products of Xorella AG in Canada and USA.

5. Sales Agency Agreement entered into between THEN Maschinen GmbH and PSP Marketing Inc. on November 4, 2004 (the “3rd Sales Agency Agreement”)

THEN Maschinen GmbH is a wholly-owned subsidiary of the Group engaged in the business of manufacture and sale of **THEN** branded dyeing and finishing machines.

Pursuant to the 3rd Sales Agency Agreement, PSP Marketing Inc. has been appointed as the sole and exclusive sales agent commencing from November 1, 2004 until determined without cause by either party by giving six weeks’ notice of termination.

PSP Marketing Inc. shall serve THEN Maschinen GmbH as the sole and exclusive agent for the sale of the **THEN** branded products in USA.

- (B) By a subsequent mutual agreement between PSP Marketing Inc. and the Group, the parties have agreed that with effect from April 10, 2005, notwithstanding any provisions set out in the Continuing Connected Transactions and unless otherwise being earlier terminated by either party, each of the Continuing Connected Transactions shall not be renewable beyond December 31, 2007 and all the agreements in relation to the Continuing Connected Transactions shall expire on December 31, 2007.
- (C) The amounts payable to PSP Marketing Inc. under the Continuing Connected Transactions.
 - (a) Under each of the Continuing Connected Transactions, PSP Marketing Inc. 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 Inc. as specified in the relevant agreements.
 - (b) The terms of each of the Continuing Connected Transactions are on normal commercial terms (on arm’s length basis or on terms no less favourable to the Group than terms available to or from independent third parties).

HISTORICAL FIGURES

The aggregate amounts paid under the Continuing Connected Transactions for each of the two years ended December 31, 2004 were approximately HK\$1,293,000 and HK\$2,250,000 respectively.

AGGREGATE ANNUAL CAP

The Directors anticipate that the aggregate annual amount of the sales commission and other payables under the above Continuing Connected Transactions for each of the three financial years ending December 31, 2007 will not exceed HK\$10 million. The basis of the cap amount is determined with reference to: (i) the historical figures of the sales of the Group’s products in the Latin American and North American markets; (ii) the anticipated business growth in the next three years due to the increasing demand for the Group’s products as a whole in the Latin American and North American markets in view of the recovery of the world economy having taken into account of the following factors:

- (a) Following the elimination of textile quotas under the WTO agreement as from January 1, 2005, customers are expected to purchase new textile equipment to enhance productivity in order to pave their way for future development and competition.
- (b) the existing enlarged and renowned products launched by each of the three 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.

The Directors consider that the annual cap deems reasonable.

The following is a summary of the estimated annual amount payable under each of the Continuing Connected Transactions for each of the three financial years ending December 31, 2007:

	Year ending December 31		
	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Regional Sales Coordination Agreement	3,300	2,900	2,500
1st Sales Agency Agreement	600	600	600
Technical, Sales and Marketing Support Agreement	280	500	700
2nd Sales Agency Agreement	470	700	1,200
3rd Sales Agency Agreement	1,600	1,800	1,600
	<u>6,250</u>	<u>6,500</u>	<u>6,600</u>
	<u>6,250</u>	<u>6,500</u>	<u>6,600</u>

LISTING RULES IMPLICATIONS

Since the applicable percentage ratio of the Listing Rules on an annual basis is less than 2.5% and the aggregate annual amount payable under the Continuing Connected Transactions is less than HK\$10 million, the Continuing Connected Transactions are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the Continuing Connected Transactions will be included in the Company's next published annual report and accounts in compliance with Rules 14A.45 and 14A.46 of the Listing Rules.

The Company will comply with the requirements under Rule 14A.36 of the Listing Rules if the aggregate annual amount of any of the Continuing Connected Transactions exceeds the de minimis thresholds under Rule 14A.34 of the Listing Rules during each of the three years ending December 31, 2007, or when any of the Continuing Connected Transactions is renewed or there are material changes to the terms of the Continuing Connected Transactions. The Company will also comply with the requirements under Rule 14A.37 to Rule 14A.41 of the Listing Rules in relation to the Continuing Connected Transactions during each of the three years ending December 31, 2007.

By Order of the Board
Fong Sou Lam
Chairman

Hong Kong, April 20, 2005.

As at the date of this announcement, the Executive Directors are Mr. Fong Sou Lam, Mr. Wan Wai Yung, 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, Mr. Tsui Wai Keung, Ms. Poon Hang Sim, Blanche and Mr. Peter Rainer Philipp; the Independent Non-Executive Directors are Mr. Cheung Chiu Fan, Mr. Lui Chi Lung, Louis and Dr. Yuen Ming Fai.

* *For identification only*

"Please also refer to the published version of this announcement in The Standard"