



FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)



Interim
Report **2006**

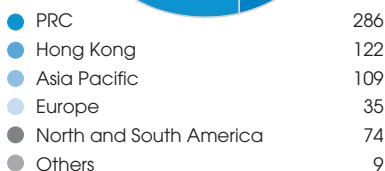
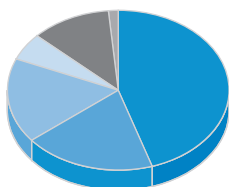
Financial Highlights

Revenue by Business Segment (HK\$ Million)

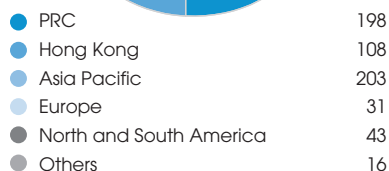
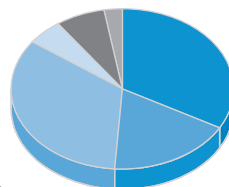
Manufacture and Sale of Dyeing and Finishing Machines

By geographical region

Interim
2005



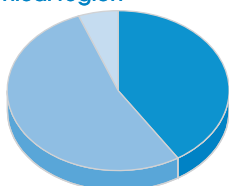
Interim
2006



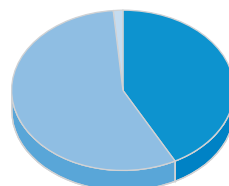
Trading of Stainless Steel Supplies

By geographical region

Interim
2005



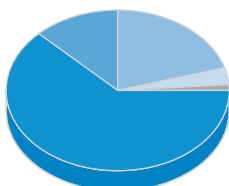
Interim
2006



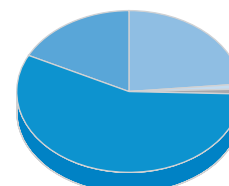
Manufacture and Sale of Stainless Steel Casting Products

By geographical region

Interim
2005



Interim
2006



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, 2006 together with the comparative figures as follows:

Condensed Consolidated Income Statement

For the six months ended June 30, 2006 - unaudited

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue		1,027,991	1,078,239
Cost of sales		(724,100)	(756,561)
Gross profit		303,891	321,678
Other income		37,275	24,540
Selling and distribution costs		(39,264)	(52,263)
General and administrative expenses		(127,922)	(117,745)
Other expenses		(26,500)	(22,376)
Finance costs	5	(15,691)	(8,799)
Interest income		7,108	604
Share of results of an associate		153	659
Share of results of jointly controlled entities		18,888	15,629
Profit before tax		157,938	161,927
Income tax expense	6	(23,132)	(20,968)
Profit for the period		134,806	140,959
Attributable to:			
Equity holders of the parent		134,806	141,303
Minority interests		-	(344)
		134,806	140,959
Earnings per share	7	24.06 Cents	25.22 Cents
Dividends per share	8		
Interim		8 Cents	8 Cents
Special		3 Cents	3 Cents

Condensed Consolidated Balance Sheet

As at June 30, 2006 - unaudited

	Notes	as at June 30, 2006 unaudited HK\$'000	as at December 31, 2005 audited HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	264,600	255,889
Prepaid lease payments		11,499	11,665
Intellectual property rights		23,380	24,826
Interest in an associate		33,295	33,142
Interest in jointly controlled entities	10	65,218	60,751
Deferred tax assets		4,673	4,268
		402,665	390,541
Current assets			
Inventories		649,385	367,973
Trade and other receivables	11	341,481	226,685
Amount due from a jointly controlled entity		-	8,703
Dividend receivable from a jointly controlled entity		-	7,500
Prepaid lease payments		332	332
Tax recoverable		219	7,725
Bank balances, deposits and cash		862,873	312,704
		1,854,290	931,622
Current liabilities			
Trade and other payables	12	300,850	221,164
Amount due to a jointly controlled entity		5,280	-
Warranty provision		13,836	12,299
Tax liabilities		18,926	6,012
Derivative component of convertible bonds		21,601	-
Borrowings - due within one year		61,093	87,016
		421,586	326,491
Net current assets		1,432,704	605,131
		1,835,369	995,672
Capital and reserves			
Share capital	13	56,002	56,038
Reserves	14	880,068	817,228
Equity attributable to equity holders of the parent		936,070	873,266
Minority interests		1,290	1,290
Total equity		937,360	874,556
Non-current liabilities			
Convertible bonds		744,367	-
Borrowings - due after one year		152,500	120,000
Deferred tax liabilities		1,142	1,116
		898,009	121,116
		1,835,369	995,672

Condensed Consolidated Statement of Recognised Income and Expense

for the six months ended June 30, 2006 - unaudited

	2006 HK\$'000	2005 HK\$'000
Net exchange difference arising on translation of overseas subsidiaries recognised directly in equity	(3,533)	(910)
Share of changes in exchange reserves of an associate and jointly controlled entities	531	-
Net profit for the period	134,806	140,959
	<u>131,804</u>	<u>140,049</u>
Total recognised income and expense for the period	131,804	140,049
Attributable to:		
Equity holders of the parent	131,804	140,393
Minority interests	-	(344)
	<u>131,804</u>	<u>140,049</u>

Condensed Consolidated Cash Flow Statement

for the six months ended June 30, 2006 - unaudited

	2006 HK\$'000	2005 HK\$'000
Net cash (used in) generated from operating activities	(154,566)	4,364
Net cash generated from investing activities	7,676	26,345
Net cash generated from financing activities	701,834	46,977
Net increase in cash and cash equivalents	554,944	77,686
Cash and cash equivalents at beginning of the period	312,704	254,176
Effect of foreign exchange rate changes	(4,775)	(436)
Cash and cash equivalents at end of the period representing bank balances, deposits and cash	<u>862,873</u>	<u>331,426</u>

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 ("HKAS") 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 2005.

The accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the Annual Report 2005.

During the period under review, the Company issued convertible bonds with an aggregate principal amount of HK\$800 million. The convertible bonds are convertible into ordinary shares of HK\$0.10 each in the share capital of the Company. Details of the issue of the convertible bonds were disclosed in the Company's press announcement dated April 19, 2006.

With regard to the features of the convertible bonds, and the requirements of HKAS 32 and 39, convertible bonds are split into liability and derivative components. On issuance of the convertible bonds, the fair value of the derivative component is determined using an option-pricing model. This amount is carried as a liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognized in the income statement.

For the period under review, the imputed interest of approximately HK\$6,409,000 and the fair value adjustment of approximately HK\$13,981,000 was charged and credited to the condensed consolidated income statement respectively for the convertible bonds.

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 <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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	<u>628,405</u>	<u>511,098</u>	<u>117,624</u>	<u>(229,136)</u>	<u>1,027,991</u>
Inter-segment sales are charged at terms agreed between relevant parties					
Results					
Segment results	<u>75,168</u>	<u>55,882</u>	<u>16,430</u>		147,480
Finance costs					(15,691)
Interest income					7,108
Share of results of an associate					153
Share of results of jointly controlled entities	18,888				<u>18,888</u>
Profit before tax					157,938
Income tax expense					<u>(23,132)</u>
Profit for the period					<u>134,806</u>
Other information					
Depreciation and amortisation	<u>14,188</u>	<u>435</u>	<u>1,336</u>		<u>15,959</u>

3. Business and Geographical segments (Continued)

Business Segments (Continued)

	Manufacture and sale of dyeing and finishing machines <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended June 30, 2005 (unaudited)					
Revenue					
External sales	635,420	354,852	87,967	-	1,078,239
Inter-segment sales	19,891	171,671	11,938	(203,500)	-
Total	<u>655,311</u>	<u>526,523</u>	<u>99,905</u>	<u>(203,500)</u>	<u>1,078,239</u>
Inter-segment sales are charged at terms agreed between relevant parties					
Results					
Segment results	<u>101,920</u>	<u>39,286</u>	<u>12,628</u>		153,834
Finance costs					(8,799)
Interest income					604
Share of results of associates					659
Share of results of a jointly controlled entity	15,629				<u>15,629</u>
Profit before tax					161,927
Income tax expense					<u>(20,968)</u>
Profit for the period					<u>140,959</u>
Other information					
Depreciation and amortisation	<u>13,164</u>	<u>494</u>	<u>1,904</u>		<u>15,562</u>

3. Business and Geographical segments (Continued)

Geographical segments

	Revenue by geographical market for the six months ended June 30,	
	2006 unaudited HK\$'000	2005 unaudited HK\$'000
Hong Kong	283,227	325,088
The People's Republic of China (the "PRC")	355,514	454,352
Asia Pacific (other than the PRC and Hong Kong)	223,579	115,023
Europe	88,748	89,911
South & North America	60,657	85,157
Other	16,266	8,708
	1,027,991	1,078,239

4. Depreciation and Amortisation

For the period under review, depreciation of approximately HK\$14,513,000 (2005: HK\$14,356,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$1,446,000 (2005: HK\$1,206,000) was charged in respect of the Group's intellectual property rights.

5. Finance costs

	For the six months ended June 30,	
	2006 unaudited HK\$'000	2005 unaudited HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	5,593	6,039
Obligations under finance leases	-	23
Convertible bonds	6,409	-
Bank charges	3,198	2,186
Factoring charges	491	551
	15,691	8,799

6. Income tax expense

	For the six months ended June 30,	
	2006 unaudited HK\$'000	2005 unaudited HK\$'000
Hong Kong Profits Tax		
Current period	17,063	12,146
Overseas income tax		
Current period	6,087	9,926
Under/(Over) provision in prior years	360	(47)
Deferred tax	(378)	(1,057)
	<u>23,132</u>	<u>20,968</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 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 basic earnings per share attributable to equity holders of the parent is based on the profit for the period attributable to equity holders of the parent of approximately HK\$134,806,000 (2005: HK\$141,303,000) and the following data:

	For the six months ended June 30,	
	2006	2005
	unaudited	unaudited
	Number of Shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>560,346,285</u>	<u>560,378,285</u>

Diluted earnings per share for the six months ended June 30, 2006 has not been presented as the convertible bonds had an anti-dilutive effect on the basic earnings per share for the period.

Diluted earnings per share for the six months ended June 30, 2005 has not been presented as there were no dilutive potential ordinary shares in issue in that period.

8. Dividends

	For the six months ended June 30,	
	2006	2005
	unaudited	unaudited
	HK\$'000	HK\$'000
Interim dividend of 8 cents (2005: 8 cents) per share	<u>44,688</u>	<u>44,830</u>
Interim special dividend of 3 cents (2005: 3.0 cents) per share	<u>16,758</u>	<u>16,811</u>

9. Additions to property, plant and equipment

During the period, the total cost of additions to property, plant and equipment of the Group was approximately HK\$22,106,000 (2005: HK\$12,262,000)

10. Interest in jointly controlled entities

	as at June 30, 2006 unaudited HK\$'000	as at December 31, 2005 audited HK\$'000
Share of net assets	<u>65,218</u>	<u>60,751</u>
	<u>65,218</u>	<u>60,751</u>

11. Trade and other receivables

	as at June 30, 2006 unaudited HK\$'000	as at December 31, 2005 audited HK\$'000
Trade receivables (net of allowance of doubtful debts)	<u>200,734</u>	<u>140,006</u>
Other receivables	<u>140,747</u>	<u>86,679</u>
Total trade and other receivables	<u>341,481</u>	<u>226,685</u>

The Group allows an average credit period of 60 days to its trade customers.

	as at June 30, 2006 unaudited HK\$'000	as at December 31, 2005 audited HK\$'000
Aged analysis of trade receivables:		
0-30 days	<u>188,519</u>	<u>131,843</u>
31-60 days	<u>3,924</u>	<u>4,975</u>
over 60 days	<u>8,291</u>	<u>3,188</u>
	<u>200,734</u>	<u>140,006</u>

12. Trade and other payables

The following is an aged analysis of trade payables:

	as at June 30, 2006 unaudited HK\$'000	as at December 31, 2005 audited HK\$'000
0-30 days	54,537	53,925
31-60 days	3,129	5,107
over 60 days	2,726	2,969
	<u>60,392</u>	<u>62,001</u>

13. Share capital

	as at June 30, 2006 unaudited HK\$'000	as at December 31, 2005 audited HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
At beginning of the year, 560,378,285 (2005: 560,378,285) ordinary shares of HK\$0.10 each	56,038	56,038
Repurchase of shares	<u>(36)</u>	<u>-</u>
At end of the period/year, 560,016,285 (2005: 560,378,285) ordinary shares of HK\$0.10 each	<u>56,002</u>	<u>56,038</u>

14. Movement of reserve

The Group

	Share Premium	Dividend reserve	Capital redemption reserve	Translation reserve	Retained Profits	Contributed Surplus	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2006	198,725	67,245	1,477	(7,935)	532,134	25,582	817,228
Repurchase of shares	(1,719)	-	36	-	(36)	-	(1,719)
Exchange difference arising on translation of overseas subsidiaries	-	-	-	(3,533)	-	-	(3,533)
Share of changes in exchange reserves of an associate and jointly controlled entities	-	-	-	531	-	-	531
Net profit for the period	-	-	-	-	134,806	-	134,806
Final dividend paid	-	(28,019)	-	-	-	-	(28,019)
Final special dividend paid	-	(39,226)	-	-	-	-	(39,226)
Interim dividend	-	44,688	-	-	(44,688)	-	-
Interim special dividend	-	16,758	-	-	(16,758)	-	-
At June 30, 2006	197,006	61,446	1,513	(10,937)	605,458	25,582	880,068

15. Capital commitments

	as at June 30, 2006 unaudited HK\$'000	as at December 31, 2005 audited HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	4,362	3,226

16. Related party transactions

For the six months ended June 30,	
2006	2005
unaudited	unaudited
<i>HK\$'000</i>	<i>HK\$'000</i>

During the period under review, the Group entered into the following transactions with related parties:

Related parties in which Directors have beneficial interests

Sales of goods	130	96
Purchase of materials	110	49
Commission and agency fee paid	3,046	2,495
Management fee received	-	153
Rental paid	<u>2,964</u>	<u>2,964</u>

Jointly controlled entities

Sales of goods	5,663	3,348
Purchase of materials	10,139	10,465
Commission and management fee received	<u>12,574</u>	<u>11,376</u>

Compensation of key management personnel

Short-term benefits	21,776	20,964
Post-employment benefits	<u>1,151</u>	<u>817</u>
	<u>22,927</u>	<u>21,781</u>

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 8 cents per share plus an interim special dividend of 3 cents per share (2005: 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 20, 2006.

It is expected that dividend warrants will be dispatched to the shareholders of the Company on or before November 2, 2006.

The Register of Members of the Company will be closed from October 16, 2006 to October 20, 2006, 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, 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 Friday, October 13, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF RESULTS

The Group's revenue and profit attributable to the equity holders of the Company for the six months period ended June 30, 2006 amounted to approximately HK\$1,027,991,000 and HK\$134,806,000 (2005: HK\$1,078,239,000 and HK\$141,303,000) respectively, marginally lower than that of the same period in 2005 but have shown significant improvements in comparison with the second half of 2005. Basic earnings per share for the period were 24.06 cents (2005: 25.22 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) Limited, Goller Textilmaschinen GmbH, Goller (HK) Limited, Xorella AG and Xorella Hong Kong Limited

For the period under review, the revenue from this segment as a whole was similar to that of the corresponding period in 2005 as a result of a moderate slowdown in sales in the China market while solid growth in the overseas markets balanced the set back. In addition, sales in the China market have already shown improvements as compared to the second half of 2005. The revenue amounted to approximately HK\$598,685,000 (2005: HK\$635,420,000), representing a decrease of 6% as compared with the same period in 2005. It accounted for approximately 58% of the Group's consolidated revenue. The segment results dropped 26% to approximately HK\$75,168,000 (2005: HK\$101,920,000).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

DYEING AND FINISHING MACHINE MANUFACTURING (Continued)

The decrease in profitability of this segment can be largely attributable to the greater losses in the European operations namely **THEN**, **XORELLA** and the recently acquired **GOLLER** as compared to the same period last year. Although continued efforts have been made to improve the performance of these divisions, sales have not been satisfactory mainly due to the recent Financial Volatility Shock in the Turkish market which traditionally contributes to 20-30% of sales for European textile machinery manufacturers. Nevertheless, with the Financial Volatility Shock in the Turkish market similar to the financial crisis of Asia in 1998, we expect the Turkish market to gradually improve in the next 12 months and efforts are being made to focus on improving sales beyond this market, particularly focusing on South Asia.

Also recently, driven by the recent tightened Chinese Government directives on pollution particularly in southern China, we noticed that some mainland Chinese and Hong Kong customers have shown certain hesitancy or the deferring of their investment decisions on textile equipment. Although this may cause some minor uncertainty in the near future, we nevertheless believe that this will have an overall neutral impact on our business as we expect that many customers will have to further upgrade their machinery to our latest models in order to reduce the amount of waste water for their plants.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the six months ended June 30, 2006, the revenue of this trading segment amounted to approximately HK\$326,878,000 (2005: HK\$354,852,000) representing a decrease of 8% as compared with the same period in 2005. It accounted for 32% of the Group's consolidated revenue. However, the segment results grew 42% to approximately HK\$55,882,000 (2005: HK\$39,286,000).

During the period under review, this trading segment continued to achieve satisfactory performance mainly attributable to a surge of global market prices of stainless steels starting in the second quarter of 2006 resulting in an increase in our selling prices and correspondingly the profits of this segment.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

STAINLESS STEEL CASTING

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

This segment achieved continuous growth in revenue and segment results. For the six months ended June 30, 2006, the revenue increased to approximately HK\$102,428,000 (2005: HK\$87,967,000), representing an increase of 16% as compared with the corresponding period in 2005. It accounted for 10% of the Group's consolidated revenue. The segment results grew 30% to approximately HK\$16,430,000 (2005: HK\$12,628,000). Larger sales volume has led to higher plant utilization and improvement in gross margins in addition to more orders for high value added services in machined parts have been received from customers.

With the extended production capacity, the external customers' orders have been increased. The management has successfully diversified its customer base and widened the variety of casting products, therefore in addition to the Group's consumption and supplementing the dyeing and finishing machine manufacturing process, the enlarged range of casting products could better meet external customer demands and satisfaction as well.

As the management believes the demand from external customers will be increasing, complemented by the Group's internal demand, this segment will continue to have a positive contribution to the Group.

JOINTLY CONTROLLED ENTITY

Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's")

For the six months ended June 30, 2006, the revenue of Monforts Fong's was approximately HK\$195 million (2005: HK\$196 million) while the Group's share of profit after tax amounted to approximately HK\$18,888,000 (2005: HK\$15,629,000) representing an increase of 21% as compared with the same period last year. Enhancements of production capability, including further horizontal integration, and improvements in manufacturing efficiency have contributed to the growth in profit margins.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

ASSOCIATES

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

For the six months ended June 30, 2006, the sales revenue of woven color fabrics conducted by this associate amounted to approximately HK\$106 million (2005: HK\$89 million) and the Group's share of profit after tax was approximately HK\$153,000 (2005: HK\$648,000). The woven color fabric market continued to face intense competition and pricing pressure during the period under review. Despite an increase of 19% in sales volume, the competitive environment caused a decline of 76% in profit.

PROSPECTS

Barring any unforeseeable circumstances, the Group expects that sales will be relatively stable for the remainder of the year. Looking ahead, the Group will continue to implement effective cost-saving measures and to further implement its synergy strategy at its European operations so as to further improve the overall efficiency, and thereby enhancing the competitiveness of its dyeing and finishing machine manufacturing business. Moreover, synergy effects from the acquisitions of the three **THEN, GOLLER** and **XORELLA** businesses are expected to be gradually materialized. These European subsidiaries are targeted to turnaround and become profitable after completion of their re-structuring of operations and launches of new product ranges in the coming years.

Though the operating environments are challenging, the Group is dedicated to strive for the best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will continue to strengthen its core business, streamline its existing operations and tighten cost control measures and inventory measures. The Group is confident all these efforts can sustain and enhance its business growth.

LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operations through internally generated funds and banking facilities provided by its principal bankers and other financial institutions. The Group successfully maintained a strong and healthy liquidity and financial position during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

On 10 May, 2006, the Company issued HK\$800 million zero coupon convertible bonds due 2011, the convertible bonds will carry rights to convert into new shares of the Company at the conversion price of, subject to adjustment, HK\$8.18 per share (as adjusted). The net proceeds after deducting the relevant expenses amounted to approximately HK\$773 million. The Group will utilize the above said proceeds for the establishment of new production facilities within the nearby Guangdong region, possible future acquisitions of business or potential joint ventures relating to its core business and to fund the Group's general working capital. As at June 30, 2006, the proceeds have been placed in banks as short-term deposits. The directors may review and vary the purpose for which the proceeds are used in light of what they consider to be the optimal use of proceeds from time to time.

As at June 30, 2006, there was a gearing ratio of 12% and the current ratio was 4.4.

As at June 30, 2006, bank and other borrowings amounted to approximately HK\$214 million. Most bank and other borrowings were sourced from Hong Kong, of which 85% were denominated in Hong Kong dollars, 14% were denominated in US dollars and the remaining were denominated in Euro. The bank and other borrowings of the Group are predominantly subject to floating interest rates.

As at June 30, 2006, the cash and bank balance amounted to approximately HK\$863 million of which 66% were denominated in Hong Kong dollars, 14% in US dollars, 11% in Renminbi, 5% in Euro, 3% in Swiss Franc and 1% in Japanese yen.

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign exchange risks. Certain trade receivable and trade payables of the Group are denominated in foreign currencies. The exposure to foreign exchange risks of the Group during the period 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 arise.

HUMAN RESOURCES

As at June 30, 2006, the Group had a total of approximately 3,800 (December 31, 2005: 3,300) employees spreading among China, Hong Kong, Germany, Switzerland and Thailand.

Employees are remunerated based on their performance, experience and the prevailing industry practice. The Group's remuneration policies and packages are being reviewed by its management on a periodic 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. Up to the date of this report, no share option had been granted under the existing share option scheme adopted by the Company.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at June 30, 2006, the interests of the directors and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long position in ordinary shares of HK\$0.10 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr Fong Sou Lam	Beneficial owner	<u>22,032,000</u>	<u>3.93%</u>
Mr Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.03%
	Held by discretionary trusts ⁽¹⁾	<u>304,875,601</u>	<u>54.44%</u>
		<u>306,625,601</u>	<u>54.75%</u>
Mr Fong Kwok Chung, Bill	Beneficial owner	2,998,000	0.54%
	Corporate Interest ⁽²⁾	4,444,000	0.79%
	Held by discretionary trusts ⁽¹⁾	<u>304,875,601</u>	<u>54.44%</u>
		<u>312,317,601</u>	<u>55.77%</u>
Mr. Wan Wai Yung	Beneficial owner	<u>1,743,500</u>	<u>0.31%</u>
Ms. Poon Hang Sim, Blanche	Beneficial owner	<u>120,000</u>	<u>0.02%</u>

Notes:

- (1) The 304,875,601 shares are owned by two discretionary trusts, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members. These shares represented an interest duplicated amongst those two directors.
- (2) Fong Kwok Chung, Bill, is deemed to be interested in 4,444,000 shares held by Precision Private Capital Co., Ltd. as he wholly owns Precision Private Capital Co., Ltd.

Directors' interests in the shares of the Company (Continued)

Save as disclosed above and other than certain nominee shares in subsidiaries held by the directors in trust for the Company or its subsidiaries, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation as at June 30, 2006.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at June 30, 2006, the register maintained by the Company pursuant to section 336 of the SFO shows that, other than the interests disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

Long position in ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued share capital of the Company
Capital Research and Management Company	Beneficial owner	36,590,000	6.53%
Aberdeen Asset Management plc.	Beneficial owner	33,626,000	6.00%

Save as disclosed above, as at June 30, 2006, the Company has not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

During the six months ended June 30, 2006, 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		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
June, 2006	362,000	4.85	4.85	1,755,700

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\$1,719,500 was charged against share premium. An amount of HK\$36,200 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, 2006.

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, 2006.

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, 2006.

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 (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, 2006 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 report, the Board consists of ten directors, of which seven 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, Dr. Tsui Tak Ming William, Ms. Poon Hang Sim, Blanche and Mr. Tsui Wai Keung and three independent non-executive directors, namely 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 18, 2006.