FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

Interim Report **2009**

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam *(Chairman)*
Mr. Wan Wai Yung
(Chief Executive Officer)
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Fong Sou Lam
Mr. Fong Kwok Chung, Bill

QUALIFIED ACCOUNTANT

Ms. Poon Hang Sim, Blanche

AUDIT COMMITTEE

Mr. Cheung Chiu Fan
(Committee Chairman)
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

REMUNERATION COMMITTEE

Mr. Fong Sou Lam
(Committee Chairman)
Mr. Wan Wai Yung
Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

SOLICITORS

Richards Butler
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
Bank of Communications
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia Limited
Agricultural Bank of China
Industrial and Commercial Bank of China

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Hamilton,
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Hong Kong

REGISTERED OFFICE

Canon's Court,
22 Victoria Street,
Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor,
22-28 Cheung Tat Road,
Tsing Yi,
Hong Kong
Tel: (852) 2497 3300
Fax: (852) 2432 2552

WEBSITE ADDRESS

http://www.fongs.com

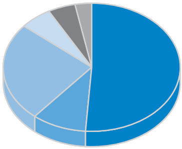
FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

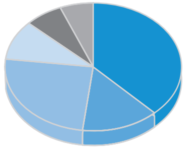
By geographical region

Interim 2009



The PRC	248	(51%)
Hong Kong	49	(10%)
Asia Pacific	124	(25%)
Europe	28	(6%)
North and South America	22	(5%)
Others	17	(3%)
Total :	488	(100%)

Interim 2008

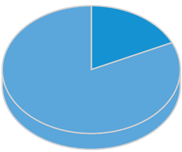


The PRC	277	(38%)
Hong Kong	99	(14%)
Asia Pacific	184	(25%)
Europe	76	(10%)
North and South America	47	(7%)
Others	42	(6%)
Total :	725	(100%)

Trading of Stainless Steel Supplies

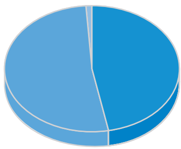
By geographical region

Interim 2009



The PRC	23	(17%)
Hong Kong	111	(83%)
Total :	134	(100%)

Interim 2008

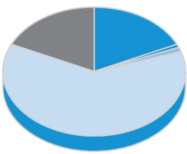


The PRC	159	(48%)
Hong Kong	170	(52%)
Asia Pacific	1	(0%)
Total :	330	(100%)

Manufacture and Sale of Stainless Steel Casting Products

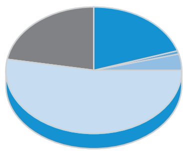
By geographical region

Interim 2009



The PRC	24	(18%)
Hong Kong	1	(1%)
Asia Pacific	2	(1%)
Europe	84	(62%)
North and South America	25	(18%)
Total :	136	(100%)

Interim 2008



The PRC	45	(20%)
Hong Kong	2	(1%)
Asia Pacific	9	(4%)
Europe	120	(53%)
North and South America	50	(22%)
Total :	226	(100%)

The board of directors (the "Board") of Fong's Industries Company Limited (the "Company") would like to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2009 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2009

		For the six months ended June 30,	
		2009	2008
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**757,767**	1,281,355
Cost of sales		**(675,434)**	(956,682)
Gross Profit		**82,333**	324,673
Interest income		**1,800**	4,326
Other income		**23,996**	30,351
Gain on fair value change of the derivative components of convertible loan notes		**-**	5,278
(Loss) gain on fair value change of financial assets held for trading		**(54)**	795
Selling and distribution costs		**(58,236)**	(76,082)
General and administrative expenses		**(164,984)**	(186,157)
Other expenses		**(29,984)**	(36,793)
Finance costs	*4*	**(25,143)**	(41,284)
Share of results of an associate		**(1,770)**	(686)
Share of results of jointly controlled entities		**16,066**	20,636
(Loss) profit before tax	*5*	**(155,976)**	45,057
Income tax	*6*	**4,407**	(14,273)
(Loss) profit for the period		**(151,569)**	30,784
Attributable to:			
Equity holders of the Company		**(151,569)**	30,784
Non-controlling interests		**-**	-
		(151,569)	30,784
		HK cents	HK cents
(Loss) earnings per share			
Basic	*7*	**(27.49)**	5.56
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2009

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
(Loss) profit for the period	**(151,569)**	30,784
Other comprehensive income		
Exchange difference arising on translation of foreign operations	**(6,497)**	27,276
Share of changes in exchange reserve of a jointly controlled entity	**(303)**	6,882
Cash flow hedges	**6,103**	–
Other comprehensive income for the period	**(697)**	34,158
Total comprehensive income for the period	**(152,266)**	64,942
Total comprehensive income attributable to:		
Equity holders of the Company	**(152,266)**	64,942
Non-controlling interests	**–**	–
	(152,266)	64,942

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2009

	Notes	At June 30, 2009 (unaudited) HK$'000	At December 31, 2008 (audited) HK$'000
Non-current assets			
Property, plant and equipment	9	**407,593**	418,062
Prepaid lease payments	9	**14,886**	15,485
Intellectual property rights		**14,897**	16,355
Interests in an associate		**32,361**	34,131
Interests in jointly controlled entities	10	**89,669**	73,299
Deposits for acquisition of property, plant and equipment		**3,531**	4,067
Deposits for acquisition of leasehold lands		**66,744**	66,744
Deferred tax assets		**9,764**	4,745
		639,445	632,888
Current assets			
Inventories		**642,813**	864,689
Trade and other receivables	11	**230,322**	357,748
Prepaid lease payments	9	**448**	460
Amounts due from jointly controlled entities		**10,495**	1,438
Tax recoverable		**21,324**	17,883
Bank balances, deposits and cash		**426,775**	309,785
		1,332,177	1,552,003
Current liabilities			
Trade and other payables	12	**405,113**	336,464
Amount due to a jointly controlled entity		**-**	264
Warranty provision		**8,680**	12,684
Derivative financial instruments		**-**	408
Tax liabilities		**1,873**	1,433
Bank borrowings – due within one year		**183,199**	240,010
		598,865	591,263
Net current assets		**733,312**	960,740
Total assets less current liabilities		**1,372,757**	1,593,628

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At June 30, 2009

	Notes	**At June 30, 2009 (unaudited)** *HK$'000*	At December 31, 2008 (audited) *HK$'000*
Capital and reserves			
Share capital	*13*	**55,145**	55,145
Reserves		**692,693**	844,959
Equity attributable to equity holders of the Company		**747,838**	900,104
Minority interests		**–**	–
Total equity		**747,838**	900,104
Non-current liabilities			
Bank borrowings – due after one year		**594,160**	656,662
Derivative financial instrument		**30,759**	36,862
		624,919	693,524
		1,372,757	1,593,628

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2009 – unaudited

	Issued capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Dividend reserve HK$'000	Hedging reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At January 1, 2009	55,145	157,261	2,370	25,582	-	(36,862)	79,553	617,055	900,104	-	900,104
Exchange difference arising on translation of overseas subsidiaries and an associate	-	-	-	-	-	-	(6,497)	-	(6,497)	-	(6,497)
Share of changes in exchange reserve of a jointly controlled entity	-	-	-	-	-	-	(303)	-	(303)	-	(303)
Gain on cash flow hedge	-	-	-	-	-	6,103	-	-	6,103	-	6,103
Net loss recognised directly in equity	-	-	-	-	-	6,103	(6,800)	-	(697)	-	(697)
Loss for the period	-	-	-	-	-	-	-	(151,569)	(151,569)	-	(151,569)
Total recognised income and expenses for the period	-	-	-	-	-	6,103	(6,800)	(151,569)	(152,266)	-	(152,266)
At June 30, 2009	55,145	157,261	2,370	25,582	-	(30,759)	72,753	465,486	747,838	-	747,838
At January 1, 2008	55,542	173,805	1,973	25,582	83,313	-	47,395	770,921	1,158,531	1,290	1,159,821
Exchange difference arising on translation of overseas subsidiaries and an associate	-	-	-	-	-	-	27,276	-	27,276	-	27,276
Share of changes in exchange reserve of a jointly controlled entity	-	-	-	-	-	-	6,882	-	6,882	-	6,882
Net income recognised directly in equity	-	-	-	-	-	-	34,158	-	34,158	-	34,158
Profit for the period	-	-	-	-	-	-	-	30,784	30,784	-	30,784
Total recognised income and expenses for the period	-	-	-	-	-	-	34,158	30,784	64,942	-	64,942
Repurchase of shares	(397)	(16,544)	397	-	-	-	-	(397)	(16,941)	-	(16,941)
Final dividend paid	-	-	-	-	(44,434)	-	-	181	(44,253)	-	(44,253)
Final special dividend paid	-	-	-	-	(38,879)	-	-	158	(38,721)	-	(38,721)
Interim dividend	-	-	-	-	11,029	-	-	(11,029)	-	-	-
At June 30, 2008	55,145	157,261	2,370	25,582	11,029	-	81,553	790,618	1,123,558	1,290	1,124,848

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2009

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash generated from operating activities	**280,833**	48,366
Net cash used in investing activities	**(15,603)**	(1,563)
Net cash (used in) generated from financing activities	**(141,466)**	162,788
Net increase in cash and cash equivalents	**123,764**	209,591
Cash and cash equivalents at beginning of the period	**309,785**	583,060
Effect of foreign exchange rate changes	**(6,774)**	5,156
Cash and cash equivalents at end of the period representing bank balances, deposits and cash	**426,775**	797,807

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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 six months ended June 30, 2009.

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 (the "HKICPA") 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 2008. The accounting policies adopted in preparing the unaudited interim financial statements for the six months ended June 30, 2009 are consistent with those in the preparation of the Group's annual financial statements for the year ended December 31, 2008, except for the impact of the adoption of the Standards and Interpretations described below.

HKAS 1 (revised) "Presentation of Financial Statements"

The revised Standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.

HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's reporting format was business and geographical segments. The application of HKFRS8 has not resulted in a redesignation of the Group's reporting segements and has had no impact on the reported results or financial position of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

The following amendments and interpretations issued by the HKICPA, which are or have become effective, did not have any material impact on the accounting policies of the Group.

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the new and revised HKFRSs had no material effect on how the results and financial poistions for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from January 1, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's executive directors in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment results.

(a) Primary reporting by business segment

The Group's three reportable segments are classified according to the nature of the business:

Dyeing and finishing machines	– manufacture and sale of dyeing and finishing machines
Stainless steel supplies	– trading of stainless steel supplies
Stainless steel casting products	– manufacture and sale of stainless steel casting products

3. SEGMENT INFORMATION (Continued)

(a) Primary reporting by business segment (Continued)

For the six months ended June 30, 2009 (unaudited)

	Dyeing and finishing machines HK$'000	Stainelss steel supplies HK$'000	Stainelss steel casting products HK$'000	Eliminations HK$'000	Consolidated HK$'000
Revenue					
External sales	487,915	133,772	136,080	-	757,767
Inter-segment sales	7,155	49,315	7,761	(64,231)	-
Total	495,070	183,087	143,841	(64,231)	757,767
Results					
Segment results	(107,072)	(10,893)	(28,910)		(146,875)
Interest income					1,800
Loss on fair value change of financial assets held for trading					(54)
Finance costs					(25,143)
Share of results of an associate					(1,770)
Share of results of jointly controlled entities	16,066				16,066
Loss before tax					(155,976)

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

3. SEGMENT INFORMATION (Continued)

(a) Primary reporting by business segment (Continued)

For the six months ended June 30, 2008 (unaudited)

	Dyeing and finishing machines	Stainelss steel supplies	Stainelss steel casting products	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	724,825	330,230	226,300	-	1,281,355
Inter-segment sales	36,420	232,206	16,093	(284,719)	-
Total	761,245	562,436	242,393	(284,719)	1,281,355
Results					
Segment results	4,156	35,126	16,710		55,992
Interest income					4,326
Gain on fair value change of the derivative components of convertible loan notes					5,278
Gain on fair value change of financial assets held for trading					795
Finance costs					(41,284)
Share of results of an associate					(686)
Share of results of jointly controlled entities	20,636				20,636
Profit before tax					45,057

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

3. SEGMENT INFORMATION (Continued)

(b) **Secondary reporting by geographical segment**

The Group's operations are located mainly in Hong Kong, the People's Republic of China (the "PRC" or "China"), Germany and Switzerland. The following table provides an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods:

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Revenue by geographical markets		
The PRC	**295,351**	481,211
Hong Kong	**160,416**	271,424
Asia Pacific (other than the PRC and Hong Kong)	**125,863**	193,758
Europe	**111,354**	197,028
North and South America	**47,552**	96,160
Others	**17,231**	41,774
	757,767	1,281,355

4. FINANCE COSTS

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**22,153**	6,736
Effective interest expense on convertible loan notes	**-**	29,391
Bank charges	**2,990**	5,157
	25,143	41,284

5. (LOSS) PROFIT BEFORE TAX

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Amortisation of intellectual property rights (included in cost of sales)	**1,458**	1,458
Amortisation of prepaid lease payments	**224**	207
Depreciation of property, plant and equipment	**30,002**	24,957
Total depreciation and amortisation	**31,684**	26,622
Profit on sale of properties	**2,375**	–

6. INCOME TAX

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current period	**116**	9,572
Overprovision in prior years	**(87)**	–
PRC Enterprise Income Tax:		
Current period	**-**	2,493
Overprovision in prior years	**-**	(363)
Overseas income tax:		
Current period	**590**	577
Overprovision in prior years	**(8)**	–
	611	12,279
Deferred tax	**(5,018)**	1,994
Income tax (credit) expenses	**(4,407)**	14,273

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to equity holders of the Company is based on the following data:

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
(Loss) profit for the period attributable to equity holders of the Company for the purposes of basic (loss) earnings per share	**(151,569)**	30,784
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**551,446**	554,163

8. DIVIDEND

The Board resolved not to pay an interim dividend for the six months ended June 30, 2009 (2008: an interim dividend of 2 HK cents per share).

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the six months ended June 30, 2009, the total cost of additions to property, plant and equipment and prepaid lease payments of the Group were approximately HK$20,818,000 (2008: HK$40,071,000) and nil (2008: HK$53,784,000) respectively.

10. INTERERSTS IN JOINTLY CONTROLLED ENTITIES

	At June 30, 2009 (unaudited) HK$'000	At December 31, 2008 (audited) HK$'000
Cost of unlisted investments in jointly controlled entities	**10,779**	10,779
Share of post-acquisition profits, net of dividends received	**78,890**	62,520
Share of net assets	**89,669**	73,299

11. TRADE AND OTHER RECEIVABLES

	At June 30, 2009 (unaudited) HK$'000	At December 31, 2008 (audited) HK$'000
Trade receivables	**152,286**	225,999
Less: Allowance for doubtful debts	**(7,492)**	(6,677)
	144,794	219,322
Bills receivables	**24,005**	60,141
	168,799	279,463
Other receivables	**61,523**	78,285
Total trade and other receivables	**230,322**	357,748

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

11. TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade receivables net of allowance for doubtful debts and bills receivables based on their due dates at the balance sheet date:

	At June 30, 2009 (unaudited)	At December 31, 2008 (audited)
	HK$'000	*HK$'000*
0-30 days	**149,194**	258,303
31-60 days	**11,040**	19,093
Over 60 days	**8,565**	2,067
	168,799	279,463

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables based on their due dates at the balance sheet date:

	At June 30, 2009 (unaudited)	At December 31, 2008 (audited)
	HK$'000	*HK$'000*
0-30 days	**41,885**	60,202
31-60 days	**1,658**	10,529
Over 60 days	**17,429**	939
	60,972	71,670

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

13. SHARE CAPITAL

	At June 30, 2009 (unaudited) *HK$'000*	At December 31, 2008 (audited) *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At January 1, 2009: 551,446,285 (January 1, 2008: 555,420,285) ordinary shares of HK$0.10 each	**55,145**	55,542
Repurchase of shares	**-**	(397)
At June 30, 2009: 551,446,285 (December 31, 2008: 551,446,285) ordinary shares of HK$0.10 each	**55,145**	55,145

14. CAPITAL COMMITMENTS

	At June 30, 2009 (unaudited) *HK$'000*	At December 31, 2008 (audited) *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment and leasehold lands	**312,667**	312,649

15. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related parties disclosed in the Condensed Consolidated Statement of Financial Position on page 6, the Group has also entered into the following transactions with related parties during the period:

	For the six months ended June 30,	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Related parties in which a director of certain operating subsidiaries of the Group has beneficial interests		
Sales of goods	**465**	2,993
Service fee paid	**337**	242
Purchase of materials	**–**	788
Commission and agency fee paid	**3,017**	2,519
Related parties in which Directors of the Company have beneficial interests		
Management fee received	**113**	52
Rental paid	**4,139**	3,794
Jointly controlled entities		
Sales of goods	**4,927**	9,179
Purchase of materials	**2,162**	5,541
Other income		
– Commission and management fee received	**10,249**	10,812
– Rental received	**2,706**	2,560

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

Short-term benefits	**17,929**	18,380
Post-employment benefits	**864**	1,022
	18,793	19,402

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

During the period, the worldwide financial crisis, which started in 2008 causing credit to freeze up and resulting in a virtual standstill in the foreign trade of textiles and clothing, had continued to have a significant impact on the Group's financial results for the first half of 2009. Consequently, the Group's revenue for the six months ended June 30, 2009 was approximately HK$758 million (2008: HK$1,281 million), representing a 41% decrease as compared to the same period last year. The loss attributable to shareholders of the Company was approximately HK$152 million as compared to a profit of approximately HK$31 million in the corresponding period of the previous year. The basic loss per share was 27.49 HK cents for the period under review (For the six months ended June 30, 2008: basic earnings per share of 5.56 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

Fong's National Engineering Co., Ltd., Fong's National Engineering (Shenzhen) Co., Ltd., THEN Maschinen GmbH, THEN Maschinen (HK) Ltd., Goller Textilmaschinen GmbH, Goller (HK) Ltd., Xorella AG and Xorella Hong Kong Limited

The market conditions during the first half of 2009 were just as difficult if not more challenging than the second half of 2008. As a result of the adverse effects of the global financial crisis and the freezing of credit for global trade, many customers have scaled down their production or postponed their investment projects in the wake of the sudden drop in their customers' orders. In turn, our performance has been significantly impacted. Accordingly, in the first half of 2009, this core manufacturing division recorded a revenue of approximately HK$488 million (2008: HK$725 million) accounting for approximately 64% of the Group's revenue and incurred an operating loss of approximately HK$107 million (2008: profit of HK$4 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DYEING AND FINISHING MACHINE MANUFACTURING (CONTINUED)

The losses were mainly attributable to several factors including the large drop in sales, more aggressive pricing due to difficult market conditions and the high cost of pre-crisis raw materials in our inventory carried over, thus resulting in both poor gross margins as well as operating margins during the period. The Group has continued to implement an array of expense control and belt tightening measures, including reduction of surplus manpower and voluntary salary reduction of our senior management, to curtail our production costs and overhead expenses. In addition, the Group has also continued to closely monitor its inventory levels. Our inventory in this division was reduced to approximately HK$410 million at June 30, 2009 as compared to approximately HK$670 million as at June 30, 2008 and HK$550 million as at December 31, 2008.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

The revenue of this division decreased by 59% to approximately HK$134 million (2008: HK$330 million) and accounted for 18% of the Group's revenue for the six months ended June 30, 2009. This trading division suffered an operating loss of approximately HK$11 million (2008: profit of HK$35 million). The loss was mainly attributable to the decrease in sales volume and selling price.

In the first half of 2009, the average price of basic stainless steel has decreased by over 50% as compared to the same period of 2008. Nevertheless, since the second quarter of 2009, the stainless steel price appears to have recovered moderately from its low. The management will follow closely the changes of the market situation and to adjust our marketing and inventory strategies accordingly.

The management will also continue to monitor closely the inventory and keep the inventory at reasonable levels. During the period, the inventory for this division has been reduced to approximately HK$110 million at June 30, 2009 as compared to approximately HK$270 million as at June 30, 2008 and approximately HK$140 million as at December 31, 2008.

In addition, the management has continued to make efforts in collecting account receivables from our customers to avoid bad debts. More frequent review on customers' credit term was performed to prevent further credit sales to customers with bad repayment history and to proactively recover the long outstanding receivables in time.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

STAINLESS STEEL CASTING

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

Under the shadow of the global financial crisis, most industries faced enormous challenges during the period under review. Our major export markets in the United States and Europe continue to be hard hit by the global recession and the difficult operating environment, customers are more conservative in placing orders. As a result, the revenue of this division for the six months ended June 30, 2009 decreased by 40% to approximately HK$136 million (2008: HK$226 million) and accounted for 18% of the Group's revenue for the period under review. This division suffered a loss of approximately HK$29 million as compared to an operating profit of approximately HK$17 million in the corresponding period of the previous year.

The loss was primarily due to lower sales and higher proportion of low margin sales during the period under review. The reduction in production volume made an undesirable effect on the economies of scale previously attained by this division. With the less than optimal operating level resulted in a loss due to unabsorbed fixed costs. The cost of the major raw material, particularly stainless steel scraps, remained high during the period under review and with difficult economic environment worldwide, costs could not be passed on to our customers. Under these circumstances, we had to bear higher production costs and the limited scope of price increases due to economic slowdown in our major markets. Consequently, the gross margin was squeezed.

The inventory for this division was reduced to approximately HK$120 million as at June 30, 2009 as compared to approximately HK$190 million as at June 30, 2008 and approximately HK$170 million as at December 31, 2008.

The management will continue to update production technology, improve production equipment and facilities, produce more high value-added products, improve internal management and control production costs stringently, so as to improve production efficiency and cost-effectiveness.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JOINTLY CONTROLLED ENTITY

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

For the six months ended June 30, 2009, Monforts Fong's recorded a revenue of approximately HK$199 million (2008: HK$233 million), representing a decrease of 15% as compared to the same period last year and the Group's share of profit after tax amounted to approximately HK$16 million (2008: HK$21 million), representing a 24% decrease as compared with the corresponding period last year. The decrease in operating profit was largely attributable to substantial lower level of capacity utilization resulting from deteriorated market conditions, which were partially offset by cost reduction during the period under review.

In the first half of 2009, although the Chinese economy has shown impressive resilience relative to other parts of the world, the poor market sentiment and liquidity crunch have led to a substantial slowdown in our sales in the first quarter of 2009. Despite such difficult operating environment, TwinAir branded Stenters continued to have been well received since its first launch in 2000 and has maintained its market leading position during the period under review.

With the strategic foresight and support of our joint venture partner, A. Monforts Textilmaschinen GmbH & Co. KG, Monfort Fong's has recently been given access to sell its machinery in 14 additional designated countries in Asia whereas it's sales were solely limited to the China market in the past. In addition, Monforts Fong's will become the exclusive OEM supplier for the machinery of A. Monforts Textilmaschinen GmbH & Co. KG worldwide. This will be a significant development for Monforts Fong's and will pave the way for continued robust growth in the coming years.

BUSINESS OUTLOOK

As a result of the global financial crisis and experiencing a crisis in the textile industry of a proportion and magnitude which has never been seen before in the Group's 46 years of history, we remain cautiously optimistic with our outlook in view of the following factors:

- The banking system which facilitates the world trade appears to be back to normal and exports of textiles and clothing have resumed albeit at a reduced volume due to the ongoing recession in the North American and European markets and where retailers continue to be cautious with their buying.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS OUTLOOK (CONTINUED)

- At the very end of April 2009, the State Council of China released a detailed support plan to adjust and strengthen the textile and garment industry in the coming years which includes targets to reduce energy consumption and water discharge; to phase out obsolete equipment and facilities and thus capacity; and to promote domestic consumption so as to maintain a healthy growth in the industry. These targets have been backed up with the policy of generous money lending to the textile industry.

- According to a recent announcement by the China Textile Industry Association, the proportion of domestic sales of the output of the China textile industry has increased from 77% in 2008 to 80% in 2009. Furthermore, despite a brief dip in the first quarter of 2009, China's retail sales growth of clothing is back to 20% or more and in line with pre-crisis levels.

- In the last 12-24 months, major retailers from Walmart to Addidas have launched Green sourcing initiatives which will further drive investments in new and more efficient machinery and technology.

- Internally, by the end of 2009, the Group will have a much more competitive cost structure in terms of both variable and fixed costs as the previously higher cost stainless steel inventories are replaced by lower ones and that the Group's restructuring program is further realized. Therefore, as sales growth gradually recovers, the Group will be in an ever more competitive position to capitalize on its operational leverage and market position.

With the above mentioned factors, we are now seeing total sales of machinery in China recovering to pre-crisis levels and in particular our new generation of **THEN AIRFLOW** model of dyeing machines, with the benefits of significant water and energy reduction, is showing growth of well over 50% despite the overall difficult market conditions.

Nevertheless, we wish to caution that overseas sales are still at low levels which have traditionally been a significant part of the Group's machinery business. In addition, the pace of the recovery of the overseas markets will be much harder to predict due to many various factors and as a result the Group's recovery to pre-crisis profit levels may take some time. Therefore, the Directors view that it is of paramount importance that the Group should exercise stringent control of its financial resources at hand and to minimize its capital expenditures until the overall business recovery is more apparent.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS OUTLOOK (CONTINUED)

In the meantime, the Group has continued to invest with research and development to align our future products to provide the necessary tools, equipment, and technology for the textile industry to produce its products in a much more energy efficient and less polluting manner. With regards to the water treatment and recycling division which was launched in 2008, the process of production pilot run with its first installation will be completed at the end of this year and it is expected to gradually become a new source of business growth for the Group in the years to come.

Barring any unforeseeable circumstances, losses experienced in the last 12 months are not expected to repeat again given the efforts of the Group and its management and the stabilization of the various businesses. Furthermore, we expect the Group to break even and show marginal profitability in the second half of 2009 despite still incurring some restructuring and redundancy costs in various divisions. We hope that the second half of 2009 will be the last of our Group's overall restructuring program as a result of the global financial crisis and that any further changes in human resources will be due to the normal course of business.

Lastly, the land use rights certificates for two parcels of land in Zhongshan with an aggregate site area of approximately 178 mu (approximately 118,600 m^2) earmarked for our dyeing machine and water treatment businesses respectively are expected to be granted and issued in the next few months.

HUMAN RESOURCES

As mentioned in our Annual Report 2008, the Group had launched a restructuring programme to downsize its workforce since the second half of 2008. As at June 30, 2009, the Group had approximately 4,000 employees, a further decrease of 15% from approximately 4,700 employees as at December 31, 2008 and as compared to approximately 5,400 employees as at June 30, 2008. In the first half of 2009, staff costs, including directors' remuneration and redundancy payments were approximately HK$116 million as compared to HK$260 million for the full year of 2008.

Employees are remunerated based on their performances, experience and prevailing industry practice. The Group's remuneration policies and packages are reviewed by its Remuneration Committee on a regular base. 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 to eligible employees include medical insurance, retirement benefits scheme and share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2009, the Group's total assets amounted to approximately HK$1,972 million, representing a decrease of approximately HK$213 million compared with HK$2,185 million at December 31, 2008. The Group met its funding requirements in its usual course of operation by cash flows from operations, as well as long-term and short-term bank borrowings.

Net cash inflow in the amount of approximately HK$281 million was generated from operating activities primarily due to decreases in inventories and account receivables. As at June 30, 2009, the Group's inventory level was further reduced to approximately HK$643 million as compared to approximately HK$775 million as at February 28, 2009 and approximately HK$865 million as at December 31, 2008.

As at June 30, 2009, bank borrowings amounted to approximately HK$777 million. Most bank borrowings were sourced from Hong Kong, of which 93% were denominated in Hong Kong dollars and 7% were denominated in Renminbi. The bank borrowings of the Group are predominantly subject to floating interest rates. The Group adopted interest rate swaps for the interest payable on the aggregate principal amount of HK$640 million to hedge interest rate fluctuation.

As at June 30, 2009, the bank balances, deposits and cash amounted to approximately HK$427 million of which 38% were denominated in Hong Kong dollars, 29% in Renminbi, 20% in US dollars and 13% in Euro.

As at June 30, 2009, the Company's current ratio was 2.2 when compared to 2.6 as at December 31, 2008 and the gearing ratio was 47%. These ratios were at reasonable and adequate levels as at June 30, 2009.

In the opinion of the Directors, in light of the various measures together with the expected results of other measures, the Group will have sufficient working capital for its current requirements and financial requirements in the near future.

The Group's sales are principally denominated in US dollars or Euro while purchases are transacted in US dollars, Renminbi and Hong Kong dollars. Currently, the Group does not have a fixed and regular foreign currency hedging policy. However, the Board will constantly monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposures should the need arises.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at June 30, 2009, 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 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	42,450,000	7.70%
	Interests of controlled corporations(1)	287,397,360	52.12%
		329,847,360	59.82%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.04%
	Held by a discretionary trust(2)	17,478,241	3.17%
		19,228,241	3.49%

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY (CONTINUED)

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Kwok Chung, Bill	Beneficial owner	2,998,000	0.54%
	Interests of a controlled corporation(3)	4,444,000	0.81%
	Held by a discretionary trust(2)	17,478,241	3.17%
		24,920,241	4.52%
Mr. Wan Wai Yung	Beneficial owner	586,000	0.10%
	Interests of a controlled corporation(4)	1,313,500	0.24%
		1,899,500	0.34%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%
Mr. Tou Kit Vai	Beneficial owner	94,000	0.017%

Notes:

(1) Mr. Fong Sou Lam is deemed to be interested in 287,397,360 shares by virtue of him being beneficially interested in the entire issued share capital of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 287,397,360 shares as follows:-

(a) Bristol Investments Limited – 18,000,000 shares

(b) Derby Holdings Company Limited – 48,000,000 shares

(c) Polar Bear Holdings Limited – 48,000,000 shares

(d) Reeds Limited – 57,600,000 shares

(e) Runaway Holdings Limited – 57,600,000 shares

(f) Sheffield Holdings Company Limited – 58,197,360 shares

(2) The 17,478,241 shares are owned by a discretionary trust, 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.

(3) Mr. 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.

(4) Mr. Wan Wai Yung is deemed to be interested in 1,313,500 shares held by Campbell and Company Limited as he wholly owns Campbell and Company Limited.

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 corporations as at June 30, 2009.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at June 30, 2009, 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 shareholder 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
Mondrian Investment Partners Ltd	Investment Manager	44,172,000	8.01%

Save as disclosed above, as at June 30, 2009, 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2009.

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, 2009.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended June 30, 2009 with all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

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, 2009 have been reviewed by the Audit Committee, who is of the opinion that such statements complied with the applicable accounting standards, Listing Rules and legal requirements, and that adequate disclosures have been made.

MEMBERS OF THE BOARD

As at the date of this Report, the Board comprises ten directors, of which seven are Executive Directors, namely Mr. Fong Sou Lam (Chairman), Mr. Wan Wai Yung (Chief Executive Officer), Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill, Mr. Tou Kit Vai, Dr. Tsui Tak Ming, William and Ms. Poon Hang Sim, Blanche and three are 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 28, 2009.