FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

Interim Report 2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. He Fengxian *(Chairman)*
(appointed on June 9, 2011)
Mr. Fong Sou Lam *(Honourable Chairman)*
Mr. Ye Maoxin* *(Vice-chairman)*
(appointed on June 9, 2011)
Mr. Wan Wai Yung *(Chief Executive Officer)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
(resigned on July 1, 2011)
Mr. Zhao Chuancong
(appointed on May 19, 2011)
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche
Mr. Zhou Yucheng**
(appointed on June 9, 2011)
Mr. Cheung Chiu Fan**
Dr. Yuen Ming Fai**
Dr. Keung Wing Ching**

* *Non-executive Director*
** *Independent Non-executive Director*

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Fong Sou Lam
Mr. Zhao Chuancong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Ms. He Fengxian *(Committee Chairman)*
Mr. Wan Wai Yung
Mr. Zhou Yucheng
Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

SOLICITORS

Reed Smith Richards Butler
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS IN HONG KONG

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

PRINCIPAL BANKERS IN THE PRC

Bank of China Limited
Bank of Communications Co., Ltd.
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited

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
Tel: (852) 2980 1333
Fax: (852)2810 8185

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

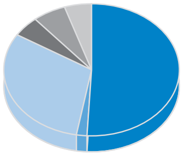
FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

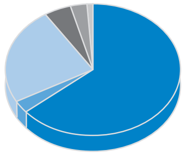
By geographical region

Interim 2011



The PRC	289	(51%)
Hong Kong	14	(2%)
Asia Pacific	179	(31%)
Europe	29	(5%)
North and South America	34	(6%)
Others	27	(5%)
Total :	572	(100%)

Interim 2010

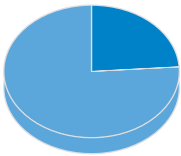


The PRC	522	(64%)
Hong Kong	24	(3%)
Asia Pacific	194	(24%)
Europe	44	(5%)
North and South America	27	(3%)
Others	8	(1%)
Total :	819	(100%)

Trading of Stainless Steel Supplies

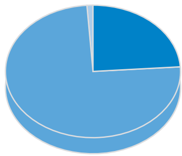
By geographical region

Interim 2011



The PRC	77	(24%)
Hong Kong	247	(76%)
Asia Pacific	-	
Total :	324	(100%)

Interim 2010

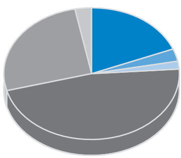


The PRC	81	(24%)
Hong Kong	250	(75%)
Asia Pacific	1	(1%)
Total :	332	(100%)

Manufacture and Sale of Stainless Steel Casting Products

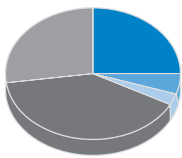
By geographical region

Interim 2011



The PRC	42	(19%)
Hong Kong	6	(3%)
Asia Pacific	5	(2%)
Europe	103	(47%)
North and South America	56	(25%)
Others	8	(4%)
Total :	220	(100%)

Interim 2010



The PRC	36	(25%)
Hong Kong	7	(5%)
Asia Pacific	5	(3%)
Europe	57	(40%)
North and South America	39	(27%)
Others	-	
Total :	144	(100%)

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, 2011 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2011

	Notes	For the six months ended June 30, 2011 (unaudited) *HK$'000*	2010 (unaudited) *HK$'000*
Revenue	*4*	**1,116,145**	1,294,905
Cost of sales		**(792,140)**	(892,089)
Gross Profit		**324,005**	402,816
Interest income		**906**	1,222
Other income		**22,144**	26,808
Other gains and losses	*6*	**(3,264)**	7,966
Selling and distribution costs		**(61,888)**	(73,481)
General and administrative expenses		**(191,336)**	(172,034)
Other expenses		**(35,376)**	(30,604)
Finance costs	*5*	**(17,635)**	(21,474)
Share of results of an associate		**283**	269
Share of results of jointly controlled entities		**29,554**	44,342
Profit before tax	*6*	**67,393**	185,830
Income tax expense	*7*	**(9,313)**	(34,200)
Profit for the period		**58,080**	151,630
Other comprehensive income (expense)			
Exchange difference arising on translation		**11,631**	(5,246)
Share of changes in translation reserve of jointly controlled entities		**3,321**	881
Gain on cash flow hedge		**6,317**	2,801
Other comprehensive income and expense for the period		**21,269**	(1,564)
Total comprehensive income for the period		**79,349**	150,066
		HK cents	*HK cents*
Earnings per share			
Basic	*8*	**10.53**	27.50

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2011

	Notes	At June 30, 2011 (unaudited) HK$'000	At December 31, 2010 (audited) HK$'000
Non-current assets			
Property, plant and equipment	10	**352,558**	362,799
Prepaid lease payments	10	**111,475**	15,584
Intellectual property rights		**9,134**	10,595
Interests in an associate		**35,296**	35,013
Interests in jointly controlled entities	11	**119,640**	112,222
Deposits for acquisition of property, plant and equipment		**4,330**	2,368
Deposits for acquisition of leasehold land		**10,572**	24,072
Deferred tax assets		**13,600**	12,929
		656,605	575,582
Current assets			
Inventories		**856,416**	828,129
Trade and other receivables	12	**374,760**	332,832
Prepaid lease payments	10	**2,462**	484
Amounts due from jointly controlled entities		**9,736**	13,323
Tax recoverable		**626**	3,431
Bank balances and cash		**272,603**	394,829
		1,516,603	1,573,028
Current liabilities			
Trade and other payables	13	**425,985**	406,946
Warranty provision		**17,443**	18,632
Tax liabilities		**12,490**	25,869
Bank borrowings	14	**703,644**	646,259
		1,159,562	1,097,706
Net current assets		**357,041**	475,322
Total assets less current liabilities		**1,013,646**	1,050,904

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At June 30, 2011

	Note	**At June 30, 2011 (unaudited) *HK$'000***	At December 31, 2010 (audited) *HK$'000*
Non-current liabilities			
Derivative financial instruments		**13,013**	19,330
Deferred tax liabilities		**10,289**	10,290
		23,302	29,620
		990,344	1,021,284
Capital and reserves			
Share capital	*15*	**55,145**	55,145
Share premium and reserves		**935,199**	966,139
		990,344	1,021,284

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2011 – unaudited

	Attributable to owners of the Company								
	Share 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*	Total *HK$'000*
At January 1, 2011	55,145	157,261	2,370	25,582	-	(19,330)	96,860	703,396	1,021,284
Profit for the period	-	-	-	-	-	-	-	58,080	58,080
Other comprehensive income for the period	-	-	-	-	-	6,317	14,952	-	21,269
Total comprehensive income for the period	-	-	-	-	-	6,317	14,952	58,080	79,349
Special interim dividend for 2010 paid	-	-	-	-	-	-	-	(110,289)	(110,289)
At June 30, 2011	55,145	157,261	2,370	25,582	-	(13,013)	111,812	651,187	990,344
At January 1, 2010	55,145	157,261	2,370	25,582	27,572	(29,024)	73,958	483,148	796,012
Profit for the period	-	-	-	-	-	-	-	151,630	151,630
Other comprehensive income and expense for the period	-	-	-	-	-	2,801	(4,365)	-	(1,564)
Total comprehensive income and expense for the period	-	-	-	-	-	2,801	(4,365)	151,630	150,066
Final dividend for 2009 paid	-	-	-	-	(27,572)	-	-	-	(27,572)
Interim dividend for 2010	-	-	-	-	49,630	-	-	(49,630)	-
Interim special dividend for 2010	-	-	-	-	33,087	-	-	(33,087)	-
At June 30, 2010	55,145	157,261	2,370	25,582	82,717	(26,223)	69,593	552,061	918,506

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2011

	For the six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash generated from operating activities	**7,734**	14,222
Net cash (used in) generated from investing activities	**(72,917)**	75,017
Net cash used in financing activities	**(67,643)**	(940)
Net (decrease) increase in cash and cash equivalents	**(132,826)**	88,299
Cash and cash equivalents at beginning of the period	**394,829**	328,364
Effect of foreign exchange rate changes	**10,600**	(18,977)
Cash and cash equivalents at end of the period, represented by bank balances and cash	**272,603**	397,686

NOTES TO THE CONDENSED 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, 2011.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Report".

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010 except as described below.

Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by Hong Kong Institute of Certified Public Accountants.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issue
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised standards, amendments and interpretations in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Date for First-time Adopters[1]
HKFRS 7 (Amendment)	Disclosures–Transfer of Financial Assets[1]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[3]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[3]

[1] Effective for annual periods beginning on or after July 1, 2011

[2] Effective for annual periods beginning on or after January 1, 2012

[3] Effective for annual periods beginning on or after January 1, 2013

The Directors of the Company anticipate the application of these new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

4. REVENUE AND SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The CODM reviews operating results and financial information on a group company by company basis. Each company is identified as an operating segment in accordance with HKFRS 8. When the group company is operating in similar business model with similar target group of customers, the Group's operating segments are aggregated.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Manufacture and sale of dyeing and finishing machines
2. Trading of stainless steel supplies
3. Manufacture and sale of stainless steel casting products

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the six months ended June 30, 2011 (unaudited)

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	571,850	324,589	219,706	1,116,145
Inter-segment sales	2,639	134,162	14,479	151,280
Segment revenue	574,489	458,751	234,185	1,267,425
Elimination				(151,280)
Group revenue				1,116,145
Results				
Segment profit	821	24,346	29,118	54,285
Interest income				906
Finance costs				(17,635)
Share of results of an associate				283
Share of results of jointly controlled entities				29,554
Profit before tax				67,393

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

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the six months ended June 30, 2010 (unaudited)

	Manufacture and sale of dyeing and finishing machines *HK$'000*	Trading of stainless steel supplies *HK$'000*	Manufacture and sale of stainless steel casting products *HK$'000*	Total *HK$'000*
Revenue				
External sales	819,516	331,699	143,690	1,294,905
Inter-segment sales	4,704	156,364	21,182	182,250
Segment revenue	824,220	488,063	164,872	1,477,155
Elimination				(182,250)
Group revenue				1,294,905
Results				
Segment profit	120,279	29,056	11,926	161,261
Interest income				1,222
Gain on fair value change of financial assets held for trading				210
Finance costs				(21,474)
Share of results of an associate				269
Share of results of jointly controlled entities				44,342
Profit before tax				185,830

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

4. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located mainly in Hong Kong, the People's Republic of China (the "PRC"), Germany and Switzerland.

The Group's revenue from external customers by location of customers are detailed below:

	For the six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
The PRC	**407,995**	638,647
Hong Kong	**268,205**	279,718
Asia Pacific (other than the PRC and Hong Kong)	**183,551**	200,419
Europe	**132,512**	101,122
North and South America	**90,203**	66,845
Others	**33,679**	8,154
	1,116,145	1,294,905

5. FINANCE COSTS

	For the six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**14,739**	17,992
Bank charges	**2,896**	3,482
	17,635	21,474

6. PROFIT BEFORE TAX

	For the six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Other gains and losses:		
Gain on disposal of property, plant and equipment	**(844)**	(1)
Net foreign exchange loss (gain)	**4,108**	(7,755)
Gain on fair value change of financial assets held for trading	**-**	(210)
Total other gains and losses	**3,264**	(7,966)
Depreciation and amortisation:		
Amortisation of intellectual property rights (included in cost of sales)	**1,462**	1,460
Amortisation of prepaid lease payments	**903**	236
Depreciation of property, plant and equipment	**32,848**	32,430
Total depreciation and amortisation	**35,213**	34,126

7. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current period	**4,132**	3,862
Overprovision in prior years	**-**	(25)
PRC Enterprise Income Tax:		
Current period	**4,092**	25,328
Underprovision in prior years	**1,513**	341
Overseas income tax:		
Current period	**6**	157
Under(over)provision in prior years	**241**	(892)
	9,984	28,771
Deferred tax	**(671)**	5,429
Income tax expense	**9,313**	34,200

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	For the six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**58,080**	151,630
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at June 30, 2011 and 2010 and during the six-month period ended June 30, 2011 and 2010.

9. DIVIDENDS

(a) Dividends recognised as distribution during the period:

	For the six months ended 30 June,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
2010 special interim dividend paid – HK$0.2 per share	**110,289**	–
2009 final dividend paid – 5 HK cents per share	**–**	27,572
	110,289	27,572

(b) Dividends declared after end of the reporting period:

	For the six months ended 30 June,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interim dividend declared – 5 HK cents per share (2010: HK$0.35 per share)	**27,572**	193,006

The above interim dividends were declared after the interim report dates and have not been recognised as liabilities at the end of the respective reporting period.

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

During the six months ended June 30, 2011, total cost of additions to property, plant and equipment and prepaid lease payments of the Group were approximately HK$15,336,000 (2010: HK$5,660,000) and HK$98,483,000 (2010: Nil) respectively.

11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	At June 30, 2011 (unaudited) *HK$'000*	At December 31, 2010 (audited) *HK$'000*
Cost of unlisted investments in jointly controlled entities	**10,779**	10,779
Share of post-acquisition profits and other comprehensive income, net of dividends received	**108,861**	101,443
	119,640	112,222

12. TRADE AND OTHER RECEIVABLES

	At June 30, 2011 (unaudited) *HK$'000*	At December 31, 2010 (audited) *HK$'000*
Trade receivables	**227,486**	216,083
Less: Allowance for doubtful debts	**(6,832)**	(5,048)
	220,654	211,035
Bills receivables	**61,592**	65,246
	282,246	276,281
Other receivables	**92,514**	56,551
Total trade and other receivables	**374,760**	332,832

The Group allows an average credit period of 60 days (2010: 60 days) to its trade customers.

12. TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade receivables net of allowance for doubtful debts and bills receivables presented based on the invoice date at the end of the reporting period:

	At June 30, 2011 (unaudited) ***HK$'000***	At December 31, 2010 (audited) *HK$'000*
0-60 days	**215,467**	194,526
61-90 days	**50,011**	63,641
Over 90 days	**16,768**	18,114
	282,246	276,281

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	At June 30, 2011 (unaudited) ***HK$'000***	At December 31, 2010 (audited) *HK$'000*
0-90 days	**36,044**	30,788
91-120 days	**4,345**	5,661
Over 120 days	**2,062**	7,761
	42,451	44,210

The average credit period on purchase of goods is 90 days (2010: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

14. BANK BORROWINGS

	At June 30, 2011 (unaudited) *HK$'000*	At December 31, 2010 (audited) *HK$'000*
Unsecured bank borrowings comprise the following:		
Bank borrowings	**486,656**	499,158
Trust receipts loans	**213,925**	136,501
Discounted bills with recourse	**3,063**	10,600
	703,644	646,259
Carrying amount repayable*:		
Within one year	**266,988**	177,101
Carrying amount of bank loans containing a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**275,004**	205,004
More than one year, but not exceeding two years	**141,652**	204,154
More than two years, but not exceeding five years	**20,000**	60,000
	436,656	469,158
	703,644	646,259
Less: Amounts due within one year shown under current liabilities	**(703,644)**	(646,259)
Amounts shown under non-current liabilities	**-**	-

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

15. SHARE CAPITAL

	At June 30, 2011 (unaudited) *HK$'000*	At December 31, 2010 (audited) *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At January 1, 2010, December 31, 2010 and June 30, 2011:		
551,446,285 ordinary shares of HK$0.10 each	**55,145**	55,145

16. CAPITAL COMMITMENTS

	At June 30, 2011 (unaudited) *HK$'000*	At December 31, 2010 (audited) *HK$'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 land	**217,601**	294,002

17. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the condensed consolidated statement of financial position on page 5, the Group has also entered into the following transactions with related parties during the period:

	For the six months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Related parties in which a Director of certain operating subsidiaries of the Group has beneficial interests		
Sale of goods	**–**	637
Commission and agency fee paid	**–**	1,376
Related parties in which Directors of the Company have beneficial interests		
Purchase of goods	**–**	10
Management fee received	**150**	128
Rental paid	**4,206**	4,067
Jointly controlled entities		
Sale of goods	**9,903**	8,502
Purchase of materials	**1,593**	7,284
Commission and management fee received	**19,673**	23,709
Sub-contracting fee paid	**1,276**	–
Compensation of key management personnel		
The remuneration of directors and other members of key management during the period was as follows:		
Short-term benefits	**19,600**	19,169
Post-employment benefits	**963**	998
	20,563	20,167

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 5 HK cents per share (2010: an interim dividend of 9 HK cents per share plus an interim special dividend of 26 HK cents per share) to the shareholders of the Company whose names appear in the Register of Members of the Company on October 21, 2011, amounting to approximately HK$28 million (2010: HK$193 million).

It is expected that dividend warrants will be despatched to the shareholders of the Company on October 27, 2011.

The Register of Members of the Company will be closed from October 17, 2011 to October 21, 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Tricor 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 October 14, 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended June 30, 2011, the Group's consolidated revenue amounted to approximately HK$1,116 million, a decrease of 14% as compared to the consolidated revenue of approximately HK$1,295 million for the corresponding period last year. The decline in revenue was mainly attributable to the tightened credit environment and fluctuation of cotton prices during the period, resulting in a significant slowdown in orders in our dyeing and finishing machinery segment. Profit for the first half of 2011 was approximately HK$58 million (2010: HK$152 million), representing a drop of 62% over the same period of last year. The basic earnings per share for the six months ended June 30, 2011 was 10.53 HK cents (2010: 27.50 HK cents).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DYEING AND FINISHING MACHINE MANUFACTURING

Fong's National Engineering Company, Limited, Fong's National Engineering (Shenzhen) Co., Ltd., FONG'S EUROPE GMBH, THEN Maschinen (HK) Limited, Goller (HK) Limited, Goller Textile Machinery (Shenzhen) Co., Ltd., Xorella AG and Xorella Hong Kong Limited

Due to the tightened credit environment particularly in Bangladesh and the PRC in 2011 and the market has made substantial investment in equipment in 2010, the demand began to weaken in 2011. In the first half of 2011, this segment recorded a revenue of approximately HK$572 million (2010: HK$819 million), representing a decrease of 30% as compared to the corresponding period last year, and accounted for 51% of the Group's revenue. The segment profit in the first half of 2011, however, declined to approximately HK$1 million from that of approximately HK$120 million for the corresponding period last year.

The decrease in revenue during the period under review was mainly attributable to (i) the slack recovery of economy and volatility of cotton prices had made many export-oriented textile manufacturers reluctant to receive orders for their textile products, which in turn slowed down their investment requirement in dyeing and finishing equipment; and (ii) the PRC government has initiated control measures such as raising both the reserve requirement ratio and borrowing interest rates several times in order to combat inflation, it would be difficult for small and medium-sized enterprises to obtain credit facilities and to invest in new equipment.

This business segment is facing increasing challenges. The textile industry gradually recovers since the second half of 2009, but still has a distance to reach to the climax happened before, especially for the overseas textile markets. There are signs that our markets may remain slow in the second half of 2011 and the PRC government will continue to tighten monetary conditions to combat inflation. The volatility in raw material costs and inflationary pressures in the PRC had a direct impact on the operating performance of the Group. In addition, the continuing appreciation of Renminbi further intensified the impact. The weakening US dollar against Japanese Yen and Euro also had a negative impact on our costs for materials imported from Japan and Europe, thereby affecting our profitability.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DYEING AND FINISHING MACHINE MANUFACTURING (CONTINUED)

To tackle these challenges, the Group will continue to implement lean management, standardization, automation as well as enhancement and optimization of operating procedures coupled with stringent control on its costs and capital expenditures across all levels in order to improve further its overall competitiveness in the global market and strengthen its leading position in the dyeing and finishing machinery industry.

On the other hand, due to increasing operating costs and stringent environmental control requirements, manufacturers are promoted to use more automatic and environmentally friendly equipment, which will promote continuous growth of our **THEN-AIRFLOW** dyeing machines and waste water treatment and reuse equipment.

In respect of our products, we will strive to upgrade our models and optimize our designs in order to enhance the performance of our machines in the areas of operating efficiency, automation, control, energy saving and environment protection, so as to help our customers to reduce their overall production costs.

Meanwhile, it is expected that China's 12th Five-Year Plan will continue to support equipment manufacturing industry as one of the core industries, so as to provide growth potentials for the equipment manufacturers, including the Group. The Group believes that the operating environment of the PRC textile exports will improve and the market will start to recover in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited and Leefull Metal (Shenzhen) Co., Ltd.

In the first half of 2011, the trading segment remained stable and recorded a revenue of approximately HK$324 million (2010: HK$332 million), representing a slight decrease of 2% as compared to the corresponding period last year, and accounted for 29% of the Group's revenue. The segment profit was approximately HK$24 million (2010: HK$29 million), representing a decrease of 17% as compared to the corresponding period last year. The decrease in segment profit was mainly attributable to the modest reduction in the average selling price of our stainless steels during the period under review.

Due to the prevailing global macro economic environment that is mixed and difficult to predict, the outlook for stainless steel prices is still uncertain. The Group will continue to adopt a prudent approach and take appropriate actions in relation to market risk control via timely and appropriate adjustments to prices and inventory based on market analysis and judgement in order is accelerate the turnover ratio of the inventory and to minimum the risk on price fluctuation.

STAINLESS STEEL CASTING

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

The segment continued to achieve satisfactory performance within the Group's expectations and capitalize on its core competence and accumulated experience as well as effective strategies of controlling costs and raising productivity. As a result, higher revenue and profit margins were recorded with satisfactory sales growth achieved from our overseas markets.

For the six months ended June 30, 2011, this business segment recorded a revenue of approximately HK$220 million (2010: HK$144 million), representing an increase of 53% over the corresponding period last year, and accounted for 20% of the Group's revenue. The segment profit soared by 142% to approximately HK$29 million as compared to approximately HK$12 million for the corresponding period in 2010. The increase in production capacity and production cost efficiency was the main reason for the outstanding performance.

The Group expects the business of this segment to continue to grow in a steady manner and will make healthy contributions to the Group in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JOINTLY CONTROLLED ENTITY

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

In the first half of 2011, Monforts Fong's recorded a revenue of approximately HK$370 million (2010: HK$442 million), representing a decrease of 16%, while the Group's share of profit after tax amounted to approximately HK$30 million (2010: HK$44 million), representing a decrease of 32% as compared to the corresponding period last year.

The decrease in revenue was mainly due to (i) last year's operating environment was unusually favourable, the market has made substantial investment in equipment and Monforts Fong's achieved a record high revenue of approximately HK$952 million during 2010, this setting a high benchmark for comparison; and (ii) the tight credit environment and volatility in the cotton prices caused customers to place orders in conservative approach leading to decreases in customer orders or project delays.

Despite rising labour and operating costs in the PRC along with the appreciation of Renminbi, Monforts Fong's was able to maintain its profitability through enhanced operational efficiency and sustained efforts in exploring new markets.

Looking forward to the second half of 2011 as well as the medium-term business prospects, the management continues to be positive and the outlook is optimistic. Monforts Fong's expects the market will recover in 2012 on the back of the PRC's expanding domestic markets.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FUTURE PLANS AND PROSPECTS

As disclosed in the joint announcement dated June 3, 2011 issued by the Company and 中國恒天集團有限公司 (transliterated as China Hi-Tech Group Corporation or China Hengtian Group Co., Ltd.) ("China Hengtian"), a PRC state-owned enterprise, in relation to the unconditional mandatory cash offer (the "Offer") to acquire all the issued shares in the share capital of the Company (other than those shares already owned or agreed to be acquired by China Hengtian or parties acting in concert with it (other than Mr. Fong Sou Lam)), upon the close of the Offer on June 3, 2011, China Hengtian was interested in 336,704,070 shares, representing approximately 61% of the issued share capital of the Company as at the date of the close of the Offer.

China Hengtian is a leading enterprise in the textile machinery industry in the PRC and even around the world and the acquisition follows the current trend of the consolidation in the textile machinery industry. Through the acquisition, China Hengtian and the Group will establish a strategic alliance to enable both parties to utilize respective potential to the fullest extent and the strategic alliance is expected to create a lot of synergies in the future. The parities will adopt flexible approaches in their future cooperation in various aspects including, marketing, service networks and material procurement channels. It is believed such cooperation will be a successful model to help the Group to further strengthen its competitiveness under the keen competition in the global market.

Presently, it is the intention of China Hengtian that it does not intend to introduce any major changes to the existing operations and the businesses of the Group and the Group will continue its existing principal businesses. However, China Hengtian will conduct a more detailed review on the operations of the Group with a view to formulating a comprehensive business strategy for the Group in order to enhance the sustainable growth of the Group.

Look forward to the second half of the year, market conditions are still vulnerable. The macroeconomic environment will be filled with mixed trends and challenges. To cope with these macroeconomic trends, the Group will continue to enhance its competitive position by driving productivity and quality improvements and accelerating research and development. The Board believes that the Group enjoys its significant advantage in brandname and comprehensive product portfolio together with strong customer base, as such the Group will be capable to encounter those challenges ahead.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

HUMAN RESOURCES

To maintain and boost its competitiveness in the long run, the Group has been implementing tight control on operating expenses and cash flow through reduction of headcount and rationalization of its production facilities.

As at June 30, 2011, the Group had a total of approximately 3,870 employees (December 31, 2010: 3,920 employees) spreading among the PRC, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. In the first half of 2011, staff costs, including directors' remuneration, were approximately HK$132 million (2010: HK$102 million). The increase in staff costs was mainly attributable to the appreciation of Renminbi and other foreign currencies where the Group operated, the increases in minimum wages in the PRC which led to increase in general wages level of the employees of the Group, the implementation of additional social security benefits and performance-related incentive payments. The continuing appreciation of Renminbi further intensified the impact of the rise of minimum wages and other operating costs for the Group's production in the PRC. To alleviate the above unfavourable operating environment, the Group will monitor the market situation constantly and to adjust the labour force and labour structure in enhancing the operation efficiency with better staff mix.

The Group believes the success of its business hinges on employee commitment, thus it strives for providing a harmonious working environment to employees to encourage dedication to work. Employees are remunerated according to remuneration benchmarks in the industry as well as prevailing market conditions and their experience and performance. The Group's remuneration policies and packages were reviewed by its management on a regular 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 medical insurance, retirement benefits scheme, and share option scheme.

The Group recognizes the importance of having a high caliber and competent staff; hence, in order to equip with the workforces to face the challenges ahead, the Group will continue to offer training programs to staff in different levels and positions on an ongoing basis. The aim of these programs is to cultivate a dynamic corporate culture and develop effective communication and customer service skills among staff members. Moreover, system controls will also be reinforced to ensure high operational efficiency and performance.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES

The Group met its funding requirements in its usual course of business by cash flows from operations and existing banking facilities. The Board is in the opinion that the Group is in a healthy financial position and has sufficient resources in support of its working capital requirements.

During the six months ended June 30, 2011, the net cash inflow generated from operating activities was approximately HK$8 million. At June 30, 2011, the Group's inventory level was increased to approximately HK$856 million as compared to approximately HK$828 million at December 31, 2010.

At June 30, 2011, bank borrowings amounted to approximately HK$704 million. Most bank borrowings were sourced from Hong Kong of which 70% were denominated in Hong Kong dollars and 30% were denominated in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates. The Group adopted interest rate swaps for the interest payables on the aggregate principal amount of HK$360 million to hedge interest rate fluctuation.

At June 30, 2011, the bank balances and cash amounted to approximately HK$273 million of which 45% were denominated in United States dollars, 38% in Renminbi, 11% in Hong Kong dollars, 5% in Euro and 1% in Indian Rupees.

At June 30, 2011, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was increased to 44% (December 31, 2010: 25%) and the current ratio was 1.3 (December 31, 2010: 1.4). The Board considers these ratios were still at healthy and adequate levels. The Group continued to maintain prudent financial management policies during the period under review.

As the Group's sales were principally denominated in Renminbi or United States dollars while purchases were transacted mainly in United States dollars, Renminbi and Hong Kong dollars, the Group does not foresee significant exposure to exchange rate risk and does not have a fixed and regular foreign currency hedging policy. However, the Board will 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, 2011, the interests of the Directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 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	38,900,000	7.05%
	Corporate interests *(Note 1)*	82,052,110	14.88%
		120,952,110	21.93%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	100,000	0.02%
	Held by a discretionary trust *(Note 2)*	5,000,000	0.91%
		6,650,000	1.21%
Mr. Fong Kwok Chung, Bill	Beneficial owner	1,838,000	0.33%
	Held by a discretionary trust *(Note 2)*	5,000,000	0.91%
		6,838,000	1.24%

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. Wan Wai Yung	Beneficial owner	2,018,000	0.36%
	Corporate interest *(Note 3)*	1,313,500	0.24%
		3,331,500	0.60%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%

Note 1: Mr. Fong Sou Lam is deemed to be interested in 82,052,110 shares by virtue of him being beneficially interested in (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 2,550,000 shares and (ii) 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 79,502,110 shares as follows:

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

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

(iii) Sheffield Holdings Company Limited – 13,502,110 shares

Note 2: The 5,000,000 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.

Note 3: 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, chief executive 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, 2011.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at June 30, 2011, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

LONG POSITION IN SHARES OF HK$0.10 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
China Hengtian Group Co., Ltd.	Corporate interests *(Note A)*	335,704,070	60.88%
GBOGH Assets Limited	Corporate interests *(Note B)*	79,502,110	14.42%

Note A: By virtue of the SFO, China Hengtian Group Co., Ltd. is deemed to be interested in 335,704,070 shares held by its two wholly-owned subsidiaries as follows:

(i) Newish Trading Limited – 128,808,820 shares

(ii) China Hi-Tech Holding Co., Ltd. – 206,895,250 shares

Note B: Mr. Fong Sou Lam is the sole shareholder 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 79,502,110 shares as follows:

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

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

(iii) Sheffield Holdings Company Limited – 13,502,110 shares

SHORT POSITION IN 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
China Hengtian Group Co., Ltd.	Corporate interests	27,505,483	4.99%

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO (CONTINUED)

Pursuant to an irrevocable undertaking dated January 7, 2011 whereby in the event the shares of the Company held by the public following the close of the unconditional mandatory cash offer (the "Offer") to acquire all the issued shares in the share capital of the Company (other than those shares already owned or agreed to be acquired by 中國恒天集團有限公司 (China Hengtian Group Co., Ltd.) ("China Hengtian") or parties acting in concert with it (other than Mr. Fong Sou Lam)) is less than minimum public float requirement under the Listing Rules, both Mr. Fong Sou Lam and China Hengtian shall dispose of the same number of shares owned by them for the restoration of the public float of the Company as soon as practicable. The short position indicated the outstanding number of shares China Hengtian intends to dispose of pursuant to the above-mentioned irrevocable undertaking.

Save as disclosed above, as at June 30, 2011, the Company had 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 purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2011.

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, 2011.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended June 30, 2011 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 system and internal control procedures of the Group. At present, members of the Audit Committee comprise Mr. Cheung Chiu Fan (committee chairman), Mr. Zhou Yucheng, Dr. Yuen Ming Fai and Dr. Keung Wing Ching, being the four Independent Non-executive Directors of the Company.

The Group's unaudited condensed consolidated financial statements for the six months ended June 30, 2011 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.

PUBLIC FLOAT

Based on the information after close of the Offer on June 3, 2011, 80,850,605 shares representing approximately 14.66% of the issued share capital of the Company, were in the hands of the public. Accordingly, the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules was not satisfied. The Company has applied, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.08 of the Listing Rules for the period from June 3, 2011 to October 31, 2011. The Company will take appropriate steps to restore the minimum public float as required under Rule 8.08(1)(a) of the Listing Rules as soon as practicable. Trading of the shares in the Company was suspended on June 7, 2011 pending the restoration of the public float of the Company.

MEMBERS OF THE BOARD

As at the date of this Report, our Chairman and Executive Director is Ms. He Fengxian, our Honourable Chairman and Executive Director is Mr. Fong Sou Lam, our Vice-Chairman and Non-executive Director is Mr. Ye Maoxin, our other Executive Directors are Mr. Wan Wai Yung (Chief Executive Officer), Mr. Fong Kwok Leung, Kevin, Mr. Zhao Chuancong, Mr. Tou Kit Vai, Dr. Tsui Tak Ming, William and Ms. Poon Hang Sim, Blanche; and our four Independent Non-executive Directors are Mr. Zhou Yucheng, Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.

On behalf of the Board
He Fengxian
Chairman

Hong Kong, August 23, 2011