FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

INTERIM REPORT 2012

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. He Fengxian *(Chairman)*
Mr. Fong Sou Lam *(Honourable Chairman)*
Mr. Ye Maoxin# *(Vice-Chairman)*
Mr. Wan Wai Yung *(Chief Executive Officer)*
Mr. Ji Xin
Mr. Fong Kwok Leung, Kevin
Mr. Zhao Chuancong
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Mr. Du Qianyi
Mr. Zhou Yucheng##
Mr. Ying Wei##
Dr. Yuen Ming Fai##
Dr. Keung Wing Ching##

Non-executive Director
Independent Non-executive Director

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Ms. He Fengxian
Mr. Zhao Chuancong

AUDIT COMMITTEE

Mr. Ying Wei *(Committee Chairman)*
Mr. Zhou Yucheng
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SOLICITORS

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

AUDITOR

Baker Tilly Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG

Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Citibank N.A.
Bank of China (Hong Kong) Limited

PRINCIPAL BANKERS IN THE PRC

Bank of China Limited
Ping An Bank Co., Ltd.
Bank of Communications Co., Ltd.
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

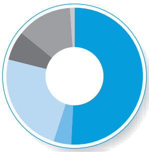
FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

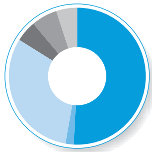
By geographical region

Interim 2012



The PRC	267	(51%)
Hong Kong	20	(4%)
Asia Pacific	126	(24%)
Europe	34	(7%)
North and South America	68	(13%)
Others	8	(1%)
Total :	523	(100%)

Interim 2011

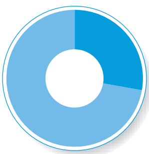


The PRC	289	(51%)
Hong Kong	14	(2%)
Asia Pacific	179	(31%)
Europe	29	(5%)
North and South America	34	(6%)
Others	27	(5%)
Total :	572	(100%)

Trading of Stainless Steel Supplies

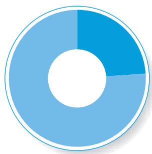
By geographical region

Interim 2012



The PRC	71	(29%)
Hong Kong	178	(71%)
Total :	249	(100%)

Interim 2011

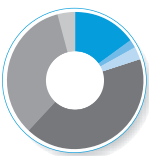


The PRC	77	(24%)
Hong Kong	247	(76%)
Total :	324	(100%)

Manufacture and Sale of Stainless Steel Casting Products

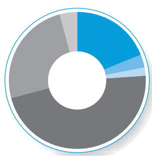
By geographical region

Interim 2012



The PRC	29	(15%)
Hong Kong	4	(2%)
Asia Pacific	5	(3%)
Europe	82	(42%)
North and South America	65	(34%)
Others	8	(4%)
Total :	193	(100%)

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%)

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 30 June, 2012 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June, 2012

		For the six months ended 30 June,	
		2012	2011
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**964,811**	1,116,145
Cost of sales		**(731,989)**	(792,140)
Gross Profit		**232,822**	324,005
Interest income		**1,762**	906
Other income		**16,300**	22,144
Other gains and losses	*6*	**799**	(3,264)
Selling and distribution costs		**(42,753)**	(61,888)
General and administrative expenses		**(170,693)**	(188,083)
Other expenses		**(35,120)**	(38,629)
Finance costs	*5*	**(21,066)**	(17,635)
Share of results of an associate		**(3,348)**	283
Share of results of jointly controlled entities		**2,464**	29,554
(Loss) profit before tax	*6*	**(18,833)**	67,393
Income tax expense	*7*	**(795)**	(9,313)
(Loss) profit for the period		**(19,628)**	58,080
Other comprehensive (expense) income			
Exchange difference arising on translation		**(7,923)**	11,631
Share of changes in translation reserve of jointly controlled entities		**(837)**	3,321
Gain on cash flow hedge		**1,890**	6,317
Other comprehensive income and expense for the period		**(6,870)**	21,269
Total comprehensive income and expense for the period		**(26,498)**	79,349
		HK cents	*HK cents*
(Loss) earnings per share			
Basic	*8*	**(3.56)**	10.53

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June, 2012

	Notes	At 30 June, 2012 (unaudited) HK$'000	At 31 December, 2011 (audited) HK$'000
Non-current assets			
Property, plant and equipment	10	**335,465**	346,129
Prepaid lease payments	10	**89,974**	95,983
Intellectual property rights		**6,210**	7,672
Interest in an associate		**33,072**	36,420
Interests in jointly controlled entities	11	**121,328**	119,701
Deposits for acquisition of property, plant and equipment		**205**	3,068
Deposits for acquisition of leasehold land		**7,898**	7,953
Deferred tax assets		**12,029**	14,133
		606,181	631,059
Current assets			
Inventories		**665,145**	777,064
Trade and other receivables	12	**366,793**	416,576
Prepaid lease payments	10	**2,066**	2,168
Amounts due from jointly controlled entities		**13,265**	4,086
Tax recoverable		**4,842**	4,249
Bank balances and cash		**292,526**	278,164
		1,344,637	1,482,307
Current liabilities			
Trade and other payables	13	**247,221**	322,919
Warranty provision		**8,425**	12,108
Derivative financial instruments		**2,895**	2,882
Tax liabilities		**5,228**	12,730
Bank borrowings	14	**710,079**	756,410
		973,848	1,107,049
Net current assets		**370,789**	375,258
Total assets less current liabilities		**976,970**	1,006,317

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June, 2012

	Note	At 30 June, 2012 (unaudited) *HK$'000*	At 31 December, 2011 (audited) *HK$'000*
Non-current liabilities			
Derivative financial instruments		**2,351**	4,254
Deferred tax liabilities		**8,422**	9,368
		10,773	13,622
		966,197	992,695
Capital and reserves			
Share capital	*15*	**55,145**	55,145
Share premium and reserves		**911,052**	937,550
		966,197	992,695

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June, 2012 – unaudited

	Attributable to owners of the Company							
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Hedging reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January, 2012	**55,145**	**157,261**	**2,370**	**25,582**	**(7,136)**	**134,881**	**624,592**	**992,695**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(19,628)**	**(19,628)**
Other comprehensive income and expense for the period	**-**	**-**	**-**	**-**	**1,890**	**(8,760)**	**-**	**(6,870)**
Total comprehensive income and expense for the period	**-**	**-**	**-**	**-**	**1,890**	**(8,760)**	**(19,628)**	**(26,498)**
At 30 June, 2012	**55,145**	**157,261**	**2,370**	**25,582**	**(5,246)**	**126,121**	**604,964**	**966,197**
At 1 January, 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 30 June, 2011	55,145	157,261	2,370	25,582	(13,013)	111,812	651,187	990,344

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June, 2012

	For the six months ended 30 June,	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash generated from operating activities	**101,292**	7,734
Net cash used in investing activities	**(16,970)**	(72,917)
Net cash used in financing activities	**(64,965)**	(67,643)
Net increase (decrease) in cash and cash equivalents	**19,357**	(132,826)
Cash and cash equivalents at beginning of the period	**278,164**	394,829
Effect of foreign exchange rate changes	**(4,995)**	10,600
Cash and cash equivalents at end of the period, represented by bank balances and cash	**292,526**	272,603

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 30 June, 2012.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June, 2012 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 the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December, 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January, 2012. HKFRSs comprise HKFRS and HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE AND SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the performance of each group companies. 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 aggregation of operating segments based on types of goods or services delivered or provided, 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 30 June, 2012 (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	522,607	249,162	193,042	964,811
Inter-segment sales	2,475	74,193	15,664	92,332
Segment revenue	525,082	323,355	208,706	1,057,143
Elimination				(92,332)
Group revenue				964,811
Results				
Segment (loss) profit	(13,699)	1,287	13,767	1,355
Interest income				1,762
Finance costs				(21,066)
Share of results of an associate				(3,348)
Share of results of jointly controlled entities				2,464
Loss before tax				(18,833)

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 30 June, 2011 (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	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.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the results of each segment excluding interest income, finance costs, share of results of an associate and share of results of jointly controlled entities. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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 30 June,	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
The PRC	**366,510**	407,995
Hong Kong	**202,756**	268,205
Asia Pacific (other than the PRC and Hong Kong)	**131,601**	183,551
Europe	**116,126**	132,512
North and South America	**133,303**	90,203
Others	**14,515**	33,679
	964,811	1,116,145

5. FINANCE COSTS

	For the six months ended 30 June,	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**18,634**	14,739
Bank charges	**2,432**	2,896
	21,066	17,635

6. (LOSS) PROFIT BEFORE TAX

	For the six months ended 30 June, 2012 (unaudited) *HK$'000*	2011 (unaudited) *HK$'000*
Other gains and losses:		
Loss (gain) on disposal of property, plant and equipment	**1,037**	(844)
Net foreign exchange (gain) loss	**(1,836)**	4,108
Total other gains and losses	**(799)**	3,264
Depreciation and amortisation:		
Amortisation of intellectual property rights	**1,462**	1,462
Amortisation of prepaid lease payments	**1,047**	903
Depreciation of property, plant and equipment	**32,409**	32,848
Total depreciation and amortisation	**34,918**	35,213

7. INCOME TAX EXPENSE

	For the six months ended 30 June, 2012 (unaudited) *HK$'000*	2011 (unaudited) *HK$'000*
Hong Kong Profits Tax:		
Current period	**1,816**	4,132
Overprovision in prior years	**(3,300)**	–
PRC Enterprise Income Tax:		
Current period	**23**	4,092
Underprovision in prior years	**987**	1,513
Overseas income tax:		
Current period	**111**	6
Underprovision in prior years	**–**	241
	(363)	9,984
Deferred tax	**1,158**	(671)
Income tax expense	**795**	9,313

8. (LOSS) EARNINGS PER SHARE

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

	For the six months ended 30 June,	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
(Loss) profit for the period attributable to owners of the Company for the purpose of basic (loss) earnings per share	**(19,628)**	58,080
	'000	*'000*
Number of ordinary shares for the purpose of basic (loss) earnings per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at 30 June, 2012 and 2011 and during the six-month period ended 30 June, 2012 and 2011.

9. DIVIDENDS

(i) Dividends recognised as distribution during the period:

	For the six months ended 30 June,	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
2010 special interim dividend paid – HK$0.2 per share	**-**	110,289

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

	For the six months ended 30 June,	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interim dividend declared – 5 HK cents per share	**-**	27,572

The above interim dividend was declared after the interim report date and had not been recognised as liabilities at the end of the reporting period.

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

During the six months ended 30 June, 2012, total cost of additions to property, plant and equipment and prepaid lease payments of the Group were approximately HK$38,362,000 (2011: HK$15,336,000) and nil (2011: 98,483,000) respectively.

11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	At 30 June, 2012 (unaudited) HK$'000	At 31 December, 2011 (audited) HK$'000
Cost of unlisted investments in jointly controlled entities	**9,249**	9,249
Share of post-acquisition profits and other comprehensive income, net of dividends received	**112,079**	110,452
	121,328	119,701

12. TRADE AND OTHER RECEIVABLES

	At 30 June, 2012 (unaudited) HK$'000	At 31 December, 2011 (audited) HK$'000
Trade receivables	**217,792**	237,820
Less: Allowance for doubtful debts	**(1,477)**	(1,504)
	216,315	236,316
Bills receivables	**66,619**	115,454
	282,934	351,770
Other receivables	**83,859**	64,806
Total trade and other receivables	**366,793**	416,576

The Group allows an average credit period of 60 days (2011: 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 30 June, 2012 (unaudited) *HK$'000*	At 31 December, 2011 (audited) *HK$'000*
0-60 days	**214,050**	280,759
61-90 days	**42,879**	50,596
Over 90 days	**26,005**	20,415
	282,934	351,770

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 30 June, 2012 (unaudited) *HK$'000*	At 31 December, 2011 (audited) *HK$'000*
0-90 days	**33,417**	23,851
91-120 days	**5,389**	13,081
Over 120 days	**1,235**	2,178
	40,041	39,110

The average credit period on purchase of goods is 90 days (2011: 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 30 June, 2012 (unaudited) *HK$'000*	At 31 December, 2011 (audited) *HK$'000*
Unsecured bank borrowings comprise the following:		
Bank borrowings	**593,146**	573,262
Trust receipts loans	**112,968**	161,206
Discounted bills with recourse	**3,965**	21,942
	710,079	756,410
Carrying amount repayable*:		
Within one year	**259,469**	302,256
Carrying amount of bank loans containing a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**349,210**	394,154
More than one year, but not exceeding two years	**60,840**	60,000
More than two years, but not exceeding five years	**40,560**	–
	450,610	454,154
	710,079	756,410
Less: Amounts due within one year shown under current liabilities	**(710,079)**	(756,410)
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 30 June, 2012 (unaudited) *HK$'000*	At 31 December, 2011 (audited) *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At 1 January, 2011, 31 December, 2011 and 30 June, 2012:		
551,446,285 ordinary shares of HK$0.10 each	**55,145**	55,145

16. CAPITAL COMMITMENTS

	At 30 June, 2012 (unaudited) *HK$'000*	At 31 December, 2011 (audited) *HK$'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	**220,531**	221,996

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 30 June, 2012 (unaudited) *HK$'000*	2011 (unaudited) *HK$'000*
Related parties in which Directors of the Company have beneficial interests		
Commission received	**9**	–
Management fee received	**139**	150
Rental paid	**4,337**	4,206
Jointly controlled entities		
Sale of goods	**6,104**	9,903
Purchase of materials	**3,177**	1,593
Commission and management fee received	**13,959**	19,673
Sub-contracting fee paid	**61**	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	**22,031**	19,600
Post-employment benefits	**774**	963
	22,805	20,563

18. CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under rule 13.21 of the Listing Rules, the Board reported below details of loan facilities, which exist at any time during the period and include conditions relating to specific performance of the controlling shareholder of the Company.

On 17 March, 2012, certain indirect wholly-owned subsidiaries of the Company accepted the renewal of the banking facilities letter offered by a bank in relation to various banking facilities being made available to the Group, such facilities include a new 4-year term fixed loan of US$40,000,000 (the "Term Fixed Loan"). The facilities are subject to periodic review by 31 May 2013.

The terms and conditions of the Term Fixed Loan include, inter alia, a condition to the effect that it will be an event of default if 中國恒天集團有限公司 (China Hi-Tech Group Corporation), a controlling shareholder of the Company who beneficially holds approximately 59% in the issued share capital of the Company, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the Term Fixed Loan.

INTERIM DIVIDEND

The Board resolved not to pay an interim dividend for the six months ended 30 June, 2012 (2011: 5 HK cents per share).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated revenue for the six months ended 30 June, 2012 amounted to approximately HK$965 million, representing a decrease of 14% as compared to approximately HK$1,116 million in the corresponding period last year. For the first half of 2012, the loss was approximately HK$20 million (corresponding period in 2011: a profit of approximately HK$58 million) and the basic loss per share was 3.56 HK cents (corresponding period in 2011: a basic earnings per share of 10.53 HK cents).

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

With the deteriorating sovereign debt crisis in Europe and the tightening credit, the global textile market in the first half of 2012 remained sluggish, the textile industry in China was significantly affected by the weak demand in both overseas and domestic markets. During the period, cotton prices in the domestic market remained at a low level while declining sharply in overseas markets, making overseas cotton much cheaper than domestic cotton, the cotton price gap led to greater competition pressure on the domestic textile industry. As a result, the whole industry saw a slowdown in production growth, greater downward pressure on exports and declining profitability. Therefore, certain customers slowed down their investment requirement in dyeing and finishing equipment or elected to postpone their projects until a later time leading to a slowdown in our sales of dyeing and finishing machines. Meanwhile, the Group also faced a competitive business environment coupled with the pressure from increasing operating costs and finally both sales volume and segment results recorded a decrease.

In the first half of 2012, this segment recorded a revenue of approximately HK$523 million, representing a decrease of 9% as compared to approximately HK$572 million in the corresponding period last year, and accounted for 54% of the Group's revenue. The segment loss in the first half of 2012 was approximately HK$14 million in contrast of a segment profit of approximately HK$1 million for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DYEING AND FINISHING MACHINE MANUFACTURING (CONTINUED)

It is expected that the annual sales amount and segment results in 2012 would not be so satisfactory. The Group will review its strategies and keep focusing on streamlining and improving its operations with a view to improve its business performance.

Facing the increasing operating costs in the PRC, certain textile buyers have shifted their orders to other cotton and garment producing countries in the Asia Pacific region in recent years. As a result, our overseas order intake showed a significant rebound during the period under review. Both **FONG'S** and **THEN** brands continued to see stable development and recorded an impressive performance in emerging markets such as Bangladesh, India, Indonesia and Turkey. Following the restructuring of our sales and marketing strategy in the previous year, we successfully re-establish key referential and impressive orders for the **GOLLER** brand in India, Thailand and Malaysia, highlighting customers' confidence in our products. Building on an established base with years of overseas market development experience, the Group will continue to enhance its competitive edge and capture the overseas market with its cost advantages. We have the confidence that the overseas market will continue to increase steadily.

Member companies engaging in this manufacturing segment have been restructured so that production bases in various locations and related products and brands can be centrally managed for maximizing resources and making room for expanding our machinery business.

Our core strategy remains creating value for our customers. We have undergone new model upgrade and optimization of design, including the areas of operating efficiency, level of automation, energy saving and environment protection. Such optimization is to enhance the performance of our dyeing and finishing machines, so as to help our customers to reduce their overall production cost. Our newly launched products, namely **TEC** series of hydraulic dyeing machines and **SYNERGY** series of airflow dyeing machines continued to be well received by the market and will gradually supersede the older models.

By leveraging our understanding of our customers' need in cash in their investment in new equipment, the Group has recently entered into an agreement with a leading financial service company specializing in equipment-based financial leasing, whereby it will provide our customers in the PRC with a commercial arrangement for financing their purchase of dyeing and finishing machines from the Group. The Group believes that through this arrangement, the machinery replacement momentum will pick up gradually and thus will sustain our market share within the industry.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DYEING AND FINISHING MACHINE MANUFACTURING (CONTINUED)

Looking forward to the year ahead, the momentum in global economic recovery will basically be secured. The recovered economic environment, the steadily improving customer demands and the less stringent bank credit and money supply in the PRC will facilitate another round of equipment investment by customers. We believe that our Group enjoys its significant advantages in brandname and comprehensive product portfolio. The Group remains cautiously optimistic about the market outlook and confident about the results performance of this manufacturing segment in the longer term.

STAINLESS STEEL TRADING

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

First half of 2012 was a difficult year for most of the business, almost every sector of the economy was struggling with the uncertainties surrounding the global economy. The stainless steel industry has also confronted with difficulties challenges in its operating environment and faced a downward trend pricing pressure during the reporting period.

Profit margin reduced significantly as a result of unfavourable market conditions for stainless steel trading since 2011. In order to minimize the credit risk, the management is of the opinion that the additional credit risks of the trading business could outweigh the income it produces. Accordingly, the management decided to lower the stainless steel trading volume during the period. In the first half of 2012, this trading segment recorded a revenue of approximately HK$249 million, representing a decrease of 23% as compared to approximately HK$324 million in the corresponding period last year, and accounted for 26% of the Group's revenue. The segment profit was approximately HK$1 million, representing a decrease of 96% as compared to HK$24 million in the corresponding period last year due to higher-price inventory purchased earlier when market prices were higher.

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 in running this business and take appropriate actions in relation to market risk control via timely and appropriate adjustments to prices and inventory based on market analysis and judgment in order to accelerate the turnover ratio of the inventory and to minimize the risk on price fluctuation.

In addition, the major infrastructure projects that will come in the next few years coupled with the gradual recovery of the global economy lead us to expect an upward demand for stainless steels. Therefore, businesses for this stainless steel trading segment will continue to be promising and deliver a healthy growth in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

STAINLESS STEEL CASTING

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

The global financial crisis which has lasted for several years, as well as the impact from the European sovereign debt crisis, led to the slow down of the economic growth. At the same time, certain customers adopted a de-stocking policy to reduce the high stocking pressure since 2012. All of these factors led to the reduction in demand for our casting products in the short term.

For the six months ended 30 June, 2012, this business segment recorded a revenue of approximately HK$193 million, representing a decrease of 12% as compared to approximately HK$220 million in the corresponding period last year, and accounted for 20% of the Group's revenue. The segment profit for the first half of 2012 was approximately HK$14 million, representing a decrease of 52% as compared to approximately HK$29 million for the corresponding period in 2011.

The management is fully aware that sound foundations are needed to underpin growth. Hence, ongoing enhancement of operations, including further automation in casting engineering and less reliance on human labour will be pursued. The management is optimistic about this business segment to maintain a steady growth in revenue in the mid to long term.

JOINTLY CONTROLLED ENTITY

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

In the first half of 2012, Monforts Fong's recorded a revenue of approximately HK$200 million (corresponding period in 2011: HK$370 million), representing a decrease of 46%, while the Group's share of profit after tax amounted to approximately HK$2 million, representing a decrease of 93% as compared to approximately HK$30 million in 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 implemented tight monetary control measures and raised borrowing interest rates in an affordable level 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JOINTLY CONTROLLED ENTITY (CONTINUED)

Looking forward, we still face same challenges as other manufacturers in the PRC– the fluctuation of the price of raw materials, the increase of the labour cost and the uncertainty economic environment. Despite such challenges, we will endeavour to develop our distribution network and to improve our operational efficiency by optimizing our production process with an aim to better control our operating costs. Following recent reserve requirement ratio and interest rate cuts, it is expected that more favorable policies to stabilize the economy will be issued in the second half of 2012, which would support the steady development of the textile industry in China. It is anticipated that the market can maintain to be stabilized. Monforts Fong's will continue to operate in accordance with a strategy for steady growth that focuses on the domestic market as complemented by the overseas market.

The relocation of the new production plant in Zhongshan, the PRC is approaching its final stage. We expect that the new production plant will be ready to commence full production during the third quarter of this year. It is believed that Monforts Fong's can sustain a pleasant growth with the sales volume and profit margins resume its levels in the past in the coming years. The Group is optimistic about its results performance in the longer term.

FUTURE PLANS AND PROSPECTS

We expect the operating environment for the textile industry in the second half of 2012 will remain challenging, but we are confident the Group will be able to counteract market volatility and maintain its position as the first-choice supplier of textile dyeing and finishing machines, domestically and globally.

To keep a steady pace of development, the Group will continuously deploy its resources on:

(i) improving the manufacturing technique, and enhancing its production and operation efficiencies constantly;

(ii) conducting research and development to keep up with the latest technological trends in relation to product specifications;

(iii) accelerating the launch of new products to capture extra market share and expand the market coverage; and

(iv) strengthening the quality control systems to retain customer loyalty and reinforce the Group's reputation in the textile machinery industry.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FUTURE PLANS AND PROSPECTS (CONTINUED)

As disclosed in the Company's announcement dated 8 June, 2012 (the "Announcement"), the Group entered into, among others, a conditional agreement with L. Possehl & Co. mbH (the "JV Partner") to acquire the equity interests of the Monforts Group (as defined in the Announcement) at a consideration of approximately EUR 50 million (the "Acquisition"). The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and therefore is subject to shareholders' approval. The Acquisition was approved by the shareholders at the special general meeting of the Company held on 6 August, 2012. Upon completion of the Acquisition, the Monforts Group would be owned by the Group as to 90.1% and by the JV Partner as to 9.9%. The Board believes that the Acquisition will provide a good opportunity for the Group to complement and enrich its existing product portfolio, technical know-how and new market access in the dyeing and finishing machine business. Completion of the Acquisition is expected to take place latest by 30 November, 2012, subject to the fulfillment of the other conditions precedent. Details of the Acquisition were disclosed in the Company's circular dated 30 June, 2012.

Going forward, with a view to achieving better return and enhancing the expansion of the Group, the Group will continue to seek potential investment opportunities to grow shareholder value during this time.

HUMAN RESOURCES

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

As at 30 June, 2012, the Group had a total of approximately 3,620 employees (31 December, 2011: 3,760 employees) spreading among the PRC, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey and Central-South America. In the first half of 2012, staff costs, including directors' remuneration, were approximately HK$123 million (2011: HK$132 million). 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

HUMAN RESOURCES (CONTINUED)

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.

LIQUIDITY AND CAPITAL RESOURCES

The Group met its funding requirements in its usual course of business by cash flows generated 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 30 June, 2012, the net cash inflow generated from operating activities was approximately HK$101 million. As at 30 June, 2012, the Group's inventory level was decreased to approximately HK$665 million as compared to approximately HK$777 million as at 31 December, 2011.

As at 30 June, 2012, bank borrowings amounted to approximately HK$710 million. Most bank borrowings were sourced from Hong Kong of which 54% were denominated in Hong Kong dollars, 30% were denominated in United States dollars, 14% were denominated in Renminbi and 2% were denominated in Euro. 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$160 million to hedge interest rate fluctuation.

As at 30 June, 2012, the bank balances and cash amounted to approximately HK$293 million of which 42% were denominated in United States dollars, 29% in Renminbi, 15% in Hong Kong dollars, 12% in Euro, 1% in Indian rupees and 1% in other currencies.

As at 30 June, 2012, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was decreased to 43% (31 December, 2011: 48%) and the current ratio was 1.4 (31 December, 2011: 1.3). 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

As the Group's sales were principally denominated in Renminbi or United States dollars while purchases were transacted mainly in United States dollars, Renminbi or Hong Kong dollars, the Group does not foresee significant exposure to exchange rate risk in these respects. The Group is mainly exposed to foreign exchange risks arising from the acquisition of the Monforts Group as mentioned above and the Group has entered into foreign currency forward contracts in the amount of approximately EUR13 million to manage such exposure. The Board will continue to 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 30 June, 2012, 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%

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%

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 and other Fong's family members.

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 30 June, 2012.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June, 2012, 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
中國恒天集團有限公司 (China Hengtian Group Co., Ltd.*)	Corporate interests *(Note A)*	329,304,070	59.72%
GBOGH Assets Limited	Corporate interests *(Note B)*	79,502,110	14.42%

Note A: By virtue of the SFO, 中國恒天集團有限公司 (China Hengtian Group Co., Ltd.*) is deemed to be interested in 329,304,070 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. – 200,495,250 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

* For identification purpose only

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

SHORT 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
中國恒天集團有限公司 (China Hengtian Group Co., Ltd.*)	Corporate interests	21,105,483	3.85%

Pursuant to an irrevocable undertaking dated 7 January, 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 30 June, 2012, 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 30 June, 2012.

* For identification purpose only

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 to 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 30 June, 2012.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 June, 2012 with all the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 to 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. Ying Wei (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 30 June, 2012 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 3 June, 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 3 June, 2011 to 30 September, 2012. 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 7 June, 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. Ji Xin, Mr. Fong Kwok Leung, Kevin, Mr. Zhao Chuancong, Mr. Tou Kit Vai, Dr. Tsui Tak Ming, William and Mr. Du Qianyi; and our four Independent Non-executive Directors are Mr. Zhou Yucheng, Mr. Ying Wei, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.

On behalf of the Board
He Fengxian
Chairman

Hong Kong, 28 August, 2012