FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

Interim Report 2013

50th ANNIVERSARY

SINCE 1963 | FONG'S INDUSTRIES 立信工業

CONTENTS

CORPORATE INFORMATION

CHAIRMAN EMERITUS
Mr. Fong Sou Lam

BOARD OF DIRECTORS
Ms. He Fengxian *(Chairman)*
Mr. Ye Maoxin# *(Vice-chairman)*
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Wan Wai Yung
Mr. Fong Kwok Leung, Kevin
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. Lee Che Keung

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. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

NOMINATION COMMITTEE
Ms. He Fengxian *(Committee Chairman)*
Mr. Ji Xin
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
Hang Seng Bank Limited
China Construction Bank (Asia) Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Chinatrust Commercial Bank, Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Citibank N.A.

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
26 Burnaby Street,
Hamilton HM11, Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE
Tricor Secretaries Limited
26th Floor, Tesbury Centre,
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Tel: (852) 2980 1333
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REGISTERED OFFICE
Canon's Court,
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FINANCIAL HIGHLIGHTS

REVENUE BY BUSINESS SEGMENT (HK$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

By geographical region

The PRC	804	(65%)
Hong Kong	25	(2%)
Asia Pacific	230	(19%)
Europe	78	(6%)
North and South America	62	(5%)
Others	43	(3%)
Total :	1,242	(100%)

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%)

Trading of Stainless Steel Supplies

By geographical region

The PRC	66	(34%)
Hong Kong	126	(66%)
Total :	192	(100%)

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

Manufacture and Sale of Stainless Steel Casting Products

By geographical region

The PRC	29	(13%)
Hong Kong	12	(5%)
Asia Pacific	6	(3%)
Europe	109	(49%)
North and South America	58	(26%)
Others	9	(4%)
Total :	223	(100%)

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%)

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 2013 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		For the six months ended 30 June	
		2013	2012
		(unaudited)	(unaudited)
	Notes	**HK$'000**	HK$'000
Revenue	4	**1,657,544**	964,811
Cost of sales		**(1,173,443)**	(731,989)
Gross profit		**484,101**	232,822
Interest income		**1,517**	1,762
Other income		**11,043**	16,300
Other gains and losses	6	**301**	799
Selling and distribution costs		**(123,304)**	(42,753)
General and administrative expenses		**(242,590)**	(170,693)
Other expenses		**(60,279)**	(35,120)
Finance costs	5	**(28,776)**	(21,066)
Share of results of an associate		**(2,864)**	(3,348)
Share of results of jointly controlled entities		**–**	2,464
Profit (loss) before tax	6	**39,149**	(18,833)
Income tax expense	7	**(12,186)**	(795)
Profit (loss) for the period		**26,963**	(19,628)
Other comprehensive income (expense), net of nil tax			
Items that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation		**20,746**	(7,923)
Share of changes in translation reserve of jointly controlled entities		**–**	(837)
Gain on cash flow hedge		**784**	1,890
Other comprehensive income (expense) for the period		**21,530**	(6,870)
Total comprehensive income (expense) for the period		**48,493**	(26,498)
		HK cents	HK cents
Earnings (loss) per share			
Basic	8	**4.89**	(3.56)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	At 30 June 2013 (unaudited) HK$'000	At 31 December 2012 (audited) HK$'000
Non-current assets			
Property, plant and equipment	10	**612,078**	554,775
Prepaid lease payments	10	**277,252**	158,398
Goodwill		**533,515**	533,515
Intangible assets		**100,794**	102,617
Interest in an associate		**34,300**	37,164
Deposits for acquisition of property, plant and equipment		**1,915**	21,123
Deposits for acquisition of leasehold land		**8,196**	29,195
Deferred tax assets		**21,839**	20,222
		1,589,889	1,457,009
Current assets			
Inventories		**829,157**	760,437
Trade and other receivables	11	**464,319**	561,317
Prepaid lease payments	10	**6,044**	3,541
Tax recoverable		**2,076**	5,048
Cash and cash equivalents		**474,810**	412,870
		1,776,406	1,743,213
Current liabilities			
Trade and other payables	12	**787,401**	661,738
Warranty provision		**9,939**	13,328
Derivative financial instruments		**160**	944
Tax liabilities		**27,901**	17,378
Borrowings	13	**1,175,521**	1,185,845
		2,000,922	1,879,233
Net current liabilities		**(224,516)**	(136,020)
Total assets less current liabilities		**1,365,373**	1,320,989

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2013

	Notes	**At 30 June 2013 (unaudited) HK$'000**	At 31 December 2012 (audited) HK$'000
Non-current liabilities			
Deferred tax liabilities		**14,075**	13,274
Borrowings	13	**164,445**	169,355
		178,520	182,629
		1,186,853	1,138,360
Capital and reserves			
Share capital	14	**55,145**	55,145
Share premium and reserves		**1,131,708**	1,083,215
		1,186,853	1,138,360

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 – 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 2013	**55,145**	**157,261**	**2,370**	**25,582**	**(944)**	**122,327**	**776,619**	**1,138,360**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**26,963**	**26,963**
Other comprehensive income for the period, net of tax	**–**	**–**	**–**	**–**	**784**	**20,746**	**–**	**21,530**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**784**	**20,746**	**26,963**	**48,493**
At 30 June 2013	**55,145**	**157,261**	**2,370**	**25,582**	**(160)**	**143,073**	**803,582**	**1,186,853**
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 (expense) for the period, net of tax	–	–	–	–	1,890	(8,760)	–	(6,870)
Total comprehensive income (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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash generated from operating activities	**262,375**	101,292
Net cash used in investing activities	**(175,473)**	(16,970)
Net cash used in financing activities	**(35,698)**	(64,965)
Net increase in cash and cash equivalents	**51,204**	19,357
Cash and cash equivalents at beginning of the period	**412,870**	278,164
Effect of foreign exchange rate changes	**10,736**	(4,995)
Cash and cash equivalents at end of the period, represented by bank balances and cash	**474,810**	292,526

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's parent company is China Hi-Tech Holding Company Limited, a company incorporated in Hong Kong and its ultimate holding company is China Hi-Tech Group Corporation (中國恒天集團有限公司), a company established in the People's Republic of China (the "PRC"). China Hi-Tech Group Corporation (中國恒天集團有限公司) is a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Committee of the State Council of the PRC.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

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.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2013 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 2012, 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 2013. 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 2013 (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	1,241,901	192,458	223,185	1,657,544
Inter-segment sales	5,735	155,733	23,809	185,277
Segment revenue	1,247,636	348,191	246,994	1,842,821
Elimination				(185,277)
Group revenue				1,657,544
Results				
Segment profit	45,566	3,036	20,670	69,272
Interest income				1,517
Finance costs				(28,776)
Share of results of an associate				(2,864)
Profit before tax				39,149

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 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.

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 PRC, Germany and Austria.

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

	For the six months ended 30 June	
	2013 **(unaudited)** **HK$'000**	2012 (unaudited) HK$'000
The PRC	**898,580**	366,510
Hong Kong	**164,362**	202,756
Asia Pacific (other than the PRC and Hong Kong)	**235,512**	131,601
Europe	**187,047**	116,126
North and South America	**119,948**	133,303
Others	**52,095**	14,515
	1,657,544	964,811

5. FINANCE COSTS

	For the six months ended 30 June	
	2013 **(unaudited)** **HK$'000**	2012 (unaudited) HK$'000
Interest on borrowings wholly repayable within five years	**21,267**	18,634
Bank charges	**7,509**	2,432
	28,776	21,066

6. PROFIT (LOSS) BEFORE TAX

	For the six months ended 30 June	
	2013 (unaudited) HK$'000	2012 (unaudited) HK$'000
Other gains and losses:		
(Gain) loss on disposal of property, plant and equipment	**(15)**	1,037
Net foreign exchange gain	**(286)**	(1,836)
Total other gains and losses	**(301)**	(799)
Depreciation and amortisation:		
Amortisation of intangible assets	**1,823**	1,462
Amortisation of prepaid lease payments	**2,667**	1,047
Depreciation of property, plant and equipment	**45,982**	32,409
Total depreciation and amortisation	**50,472**	34,918

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2013 (unaudited) HK$'000	2012 (unaudited) HK$'000
Hong Kong Profits Tax:		
Current period	**9,326**	1,816
Overprovision in prior years	**–**	(3,300)
PRC Corporate Income Tax:		
Current period	**3,239**	23
Underprovision in prior years	**233**	987
Overseas income tax:		
Current period	**204**	111
	13,002	(363)
Deferred tax	**(816)**	1,158
Income tax expense	**12,186**	795

8. EARNINGS (LOSS) PER SHARE

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

	For the six months ended 30 June	
	2013 (unaudited) HK$'000	2012 (unaudited) HK$'000
Profit (loss) for the period attributable to owners of the Company for the purpose of basic earnings (loss) per share	**26,963**	(19,628)
	'000	'000
Number of ordinary shares for the purpose of basic earnings (loss) per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at 30 June 2013 and 2012 and during the six-month period ended 30 June 2013 and 2012.

9. DIVIDENDS

Dividends declared after end of the reporting period:

	For the six months ended 30 June	
	2013 (unaudited) HK$'000	2012 (unaudited) HK$'000
Interim dividend declared – 2 HK cents per share	**11,029**	–

The above interim dividend was declared after the period ended 30 June 2013 and therefore had not been included as a liability in the condensed consolidated statement of financial position.

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

During the six months ended 30 June 2013, total cost of additions to property, plant and equipment and prepaid lease payments of the Group were approximately HK$99,597,000 (2012: HK$38,362,000) and HK$121,615,000 (2012: Nil) respectively.

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2013 (unaudited) HK$'000	At 31 December 2012 (audited) HK$'000
Trade receivables	**255,219**	289,833
Less: Allowance for doubtful debts	**(2,947)**	(2,933)
	252,272	286,900
Bills receivables	**72,233**	112,090
	324,505	398,990
Other receivables	**139,814**	162,327
Total trade and other receivables	**464,319**	561,317

The Group allows an average credit period of 60 days (2012: 60 days) to its trade customers.

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 2013 (unaudited) HK$'000	At 31 December 2012 (audited) HK$'000
0-60 days	**241,855**	322,816
61-90 days	**53,756**	49,555
Over 90 days	**28,894**	26,619
	324,505	398,990

12. 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 2013 (unaudited) HK$'000	At 31 December 2012 (audited) HK$'000
0-90 days	**121,266**	82,381
91-120 days	**16,100**	18,367
Over 120 days	**8,405**	18,956
	145,771	119,704

The average credit period on purchase of goods is 90 days (2012: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

13. BORROWINGS

	At 30 June 2013 (unaudited) HK$'000	At 31 December 2012 (audited) HK$'000
Unsecured bank borrowings comprise the following:		
Bank borrowings	**960,309**	1,067,172
Trust receipts loans	**189,836**	97,405
	1,150,145	1,164,577
Other borrowings	**189,821**	190,623
	1,339,966	1,355,200
Carrying amount repayable*:		
Within one year	**322,828**	312,845
More than one year, but not exceeding two years	**40,189**	40,332
More than two years, but not exceeding five years	**124,256**	129,023
	487,273	482,200
Carrying amount of bank borrowings containing a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**395,043**	282,507
More than one year, but not exceeding two years	**118,620**	139,110
More than two years, but not exceeding five years	**339,030**	451,383
	852,693	873,000
	1,339,966	1,355,200
Less: Amounts due within one year shown under current liabilities	**(1,175,521)**	(1,185,845)
Amounts shown under non-current liabilities	**164,445**	169,355

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

14. SHARE CAPITAL

	At 30 June 2013 (unaudited) HK$'000	At 31 December 2012 (audited) HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At 1 January 2012, 31 December 2012 and 30 June 2013: 551,446,285 ordinary shares of HK$0.10 each	**55,145**	55,145

15. CAPITAL COMMITMENTS

	At 30 June 2013 (unaudited) HK$'000	At 31 December 2012 (audited) HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**55,345**	48,607
Leasehold land	**120,490**	202,473
	175,835	251,080

16. RELATED PARTY DISCLOSURES

The Group has entered into the following transactions with related parties during the period:

	For the six months ended 30 June	
	2013 (unaudited) HK$'000	2012 (unaudited) HK$'000
Related parties in which a Director of certain operating subsidiaries of the Group has significant influence		
Other expenses paid	**14**	–
Related parties in which a substantial shareholder of the Company has beneficial interests		
Management fee received	**36**	–
Rental paid	**4,440**	–
Related parties in which a Director of the Company has beneficial interests		
Commission received	**–**	9
Management fee received	**–**	139
Rental paid	**–**	4,337
Jointly controlled entities		
Sale of goods	**–**	6,104
Purchase of materials	**–**	3,177
Commission and management fee received	**–**	13,959
Sub-contracting fee paid	**–**	61
Fellow subsidiary		
Purchase of materials	**159**	–
Controlling shareholder of the Company		
Interest expenses paid	**1,208**	–
Compensation of key management personnel		
The remuneration of Directors and other members of key management during the period was as follows:		
Short-term benefits	**27,168**	22,031
Post-employment benefits	**816**	774
	27,984	22,805

17. 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 six months ended 30 June 2013 and include conditions relating to specific performance of the controlling shareholder of the Company.

(i) 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 million. 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, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

(ii) On 5 November 2012, Fong's National Engineering Company, Limited (as borrower), an indirect wholly-owned subsidiary of the Company, the Company (as guarantor) and a bank (as lender) entered into a 3-year term loan facility agreement of up to a principal amount of HK$75 million. The term fixed loan will be used for capital expenditures and general corporate funding requirements of the Group. The terms and conditions of the term fixed loan include, inter alia, a condition that 中國恒天集團有限公司 (China Hi-Tech Group Corporation), a controlling shareholder of the Company, undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

(iii) On 19 November 2012, Fong's National Engineering Company, Limited (as borrower), an indirect wholly-owned subsidiary of the Company, accepted the banking facilities offered by a bank (as lender) in relation to a new 3-year term loan facility of up to a principal amount of HK$300 million. The term fixed loan is to be repaid by one lump sum on the maturity date. The term fixed loan is utilised by the Group for the acquisition of the Monforts Group (as defined in the Company's announcement dated 8 June 2012) The terms and conditions of the term fixed loan include, inter alia, a condition that 中國恒天集團有限公司 (China Hi-Tech Group Corporation), a controlling shareholder of the Company, shall at all times provide and maintain a standby letter of credit for an amount of HK$310 million (or its equivalence in Renminbi) in favour of the bank to secure the term fixed loan throughout the life of the term fixed loan. On 21 November 2012, the Company was informed by the bank that the standby letter of credit was issued and received by the bank.

Save as disclosed above, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 30 June 2013.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to pay an interim dividend of approximately HK$11 million representing 2 HK cents per share (2012: Nil) for the six months ended 30 June 2013 to the shareholders of the Company whose names appear on the Register of Members of the Company on 27 September 2013.

It is expected that dividend warrants will be despatched to the shareholders of the Company on 10 October 2013.

The Register of Members of the Company will be closed from 23 September 2013 to 27 September 2013, 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 Hong Kong branch share registrars, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 19 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

For the six months ended 30 June 2013 (the "Period"), the Group's revenue amounted to approximately HK$1,658 million (2012: HK$965 million), an increase of HK$693 million or 72% as compared to the corresponding period last year. Upon completion of the acquisition of the German Monforts Group on 30 November 2012, Monforts Fong's Textile Machinery Co. Limited and its subsidiaries (collectively "Monforts Fong's), the former jointly controlled entities of the Group, became subsidiaries of the Group. As the results of German Monforts Group and Monforts Fong's had been consolidated in the results of the Group during the Period, the Group's revenue during the Period cannot be compared directly with that of the corresponding period last year.

The Group's profit for the Period was approximately HK$27 million while the corresponding period last year recorded a loss of approximately HK$20 million. Basic earnings per share was HK4.89 cents for the Period as compared to the loss per share of HK3.56 cents for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Dyeing and Finishing Machine Manufacturing

Despite the insignificant improvement of the global economy in recent years, the Group, with the great efforts of its management team, has adopted a strategy to actively expand its market so as to strengthen the competitiveness of its sales team, grasping the demand for energy saving and environmentally friendly machines as well as capturing its customers' demand for upgrading the existing dyeing and finishing machines. These have enabled the Group's sales of dyeing and finishing machines to pick up gradually from the fourth quarter of 2012. In addition, the Group adjusted its management team to achieve more efficient management, it also retuned certain management and operating systems, with the aim of improving the efficiency of the Group's operating management at the business and management aspects. From the first quarter of 2013, the operating performance of this business segment improved significantly while the gross profit margin also witnessed an increase, due to increasing orders and the proper cost control brought about by the optimised technological process. Even so, the Group will continue to conduct its business cautiously, implement stringent cost control measures and improve its cash flow. Moreover, the Group will also invest resources in areas such as product research and development, technology, design and marketing, so as to strengthen brand building, optimise human resources as well as further improve the quality of products and technical services. Meanwhile, the Group is reviewing its existing corporate structure aiming at further streamlining it. The Group believes that the combination of solid financial foundation, excellent team together with quality products will make it truly competitive.

During the Period, this business segment's revenue recorded an increase of 138% to approximately HK$1,242 million (2012: HK$523 million), accounting for 75% of the Group's total revenue, while the operating profit of this segment was approximately HK$46 million, as compared to the operating loss of approximately HK$14 million in the corresponding period last year. As aforementioned, the revenue and operating results of this business segment during the Period cannot be compared with those of the corresponding period last year due to the consolidation of the results of German Monforts Group and Monforts Fong's into the Group's results. In the first half of 2013, the consolidated revenue and operating profit of German Monforts Group and Monforts Fong's were approximately HK$586 million and HK$51 million respectively. Netting off the consolidated revenue attributable to German Monforts Group and Monforts Fong's, the segment's revenue increased 25% to approximately HK$656 million (2012: HK$523 million). The operating loss had a significant decrease of 64% to approximately HK$5 million (2012: HK$14 million), of which loss attributable to operations in Europe was HK$15 million. The Group's management believes that operations in Europe will have a turnaround in the second half as its operating integration has almost finished.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Dyeing and Finishing Machine Manufacturing (Continued)

The new phase I production plant in Zhongshan, which is in excellent condition, commenced full production in September 2012. The production and operation of Monforts Fong's is on track and its overall productivity is gradually increasing. It is expected that the business will achieve further improvement. The Group believes that the acquisition of German Monforts Group will make its industrial chain on the dyeing and finishing areas more complete and the synergy generated from the acquisition is going to emerge gradually.

Meanwhile, the Group has commenced the construction of phase II of the Zhongshan plant, which is expected to be completed by 2015, upon which all production facilities of the Group will be relocated to Zhongshan from Shenzhen. As a result, the Group's production capacity will double as compared to its current level so as to better cater to the needs of its future development. In addition, the Group will further centralise its management while better integrating resources, saving costs and leveraging on synergy, which in turn will enable the Group to better achieve its goals with respect to European technologies, domestic production and global sales, as well as provide satisfactory one-stop production solutions and technical services with higher standards to its customers. Moreover, the Group will continue to adhere to its operation philosophy which is "Integrity-based, Technology-focused and Customer-oriented". Based on the principle of creating value for its customers, the Group devotes great efforts on the research, development and innovation of its dyeing and finishing products to provide the technologically advanced, environmentally friendly, energy-saving and most cost-efficient dyeing and finishing machines for domestic and overseas enterprises. The initial estimated construction and capital expenses for the Group's new production plant is approximately HK$800 million, which is expected to be financed by its internal resources and proceeds from bank borrowings.

As the global community has placed greater emphasis on environmental protection, many old and new customers plan to upgrade their existing dyeing and finishing machines, and set up additional sewage treatment facilities in the near future in order to improve their product quality and capacity standards, as well as to be prepared for compliance with new emission standards that are more demanding. This provides enormous business opportunities for the Group. In 2007, the Group already took the initiative to successfully develop a wastewater reuse system and equipment mainly designed for dyeing factories through its own R&D team, which is now entering the harvest stage now. The Group will actively seek projects to make it become a new profit growth point of the Group in the near future.

Currently, the global economy is undergoing a slow recovery while the manufacturing industry is still full of challenges. This, together with the appreciation of the Renminbi, increasing labour and raw material costs and intensive competition in the industry, brings about challenges to the business of this segment. Looking into the second half of 2013, although the global macroeconomic condition remains uncertain, the Group's management believes that the Group is in a good condition and is well prepared for the upcoming recovery and challenges. Therefore, management is cautiously optimistic about the results of this business segment and is confident that its business performance will maintain its growth momentum in the first half of 2013, generating decent returns for its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Stainless Steel Trading

In recent years, the stainless steel price has been dropping due to excessive production and intense competition. Also, global economy has seen slowing down since the fourth quarter of 2011, which resulted in decreasing demand for stainless steels from certain customers of the Group. For the six months ended 30 June 2013, the Group's sales of stainless steels amounted to approximately HK$192 million (2012: HK$249 million), representing a decrease of 23% as compared to the corresponding period last year, and accounting for 12% of the total revenue of the Group. Although sales declined during the Period, the Group increased its gross profit in sales by strengthening management of procurement and inventory and recorded an operating profit of approximately HK$3 million, as compared to approximately HK$1.3 million in the corresponding period last year.

Since 2012, the Group has been engaged in the business of slitting and processing of stainless steel materials. Its technical staff have already obtained the slitting and processing technics and technologies acknowledged by the market. This business is complementary to the stainless steel trading business, which can enhance the Group's competitiveness and bargaining power in the market and bring in additional sales orders from existing and new customers, allowing the Group to acquire bigger market shares.

Due to the prevailing global macroeconomic 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 minimise the risk on price fluctuations. At the same time, the Group will strengthen the management of accounts receivables in order to lower the risk of bad debt and to improve its cash flow condition.

Following the approval of a large number of infrastructure projects from the National Development and Reform Commission of the PRC, which is responsible for domestic government planning, and coupled with the gradual recovery of the overall economy and market condition, a comparatively favorable operating environment for stainless steel business will be created. Therefore, the Group expects a significant upward market demand for stainless steels in the mid to long term and remains optimistic about the prospect of its stainless steel trading segment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Stainless Steel Casting

In the first half of 2013, the Group secured stable orders from customers through its stable supply capacity and good product quality. During the Period, the Group has continuously put great efforts to optimise cost management, refine certain products' workshops and processing procedures and increase automatic production equipment, which effectively reduced the scrappage rate and improved product quality, therefore driving up the overall gross profit margin as well as the profit of this segment. For the six months ended 30 June 2013, the Group recorded satisfactory increase in revenue and operating profit of this segment. The revenue was approximately HK$223 million (2012: HK$193 million), representing an increase of 16% as compared to the corresponded period last year, and accounting for 13% of the Group's total revenue. Operating profit for the Period increased 50% to approximately HK$21 million from approximately HK$14 million for the corresponding period last year.

The management believes that the market demand for high-quality stainless steel castings will continue to grow. In order to further increase its market share, the Group is required to have a solid foundation. Therefore, the Group will (1) increase its production capacity and reduce the scrappage rate of its products by means of further automation and reduction on its reliance on manpower; (2) purchase advanced computerised design system and mold manufacturing equipment to further improve its molding capabilities to reduce development time for customers, and to better control the quality of metal molds manufactured by the Group; and (3) purchase equipment for the computerised digital-control machine center, and enhance machining and surface treatment service capability, thus providing customers with higher value-added services.

The management remains cautiously optimistic about the revenue and profit growth of this business segment in the second half of this year. In the consideration of aforementioned measures of the Group and the recovery of overall economy and market conditions, the management is confident that this business segment will maintain a steady growth in revenue in the mid to long term and contribute decent profit to the Group.

Human resources

To maintain and strengthen 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 rationalisation of its production procedures.

As at 30 June 2013, the Group had a total of approximately 4,880 employees (31 December 2012: 4,620 employees) working in the PRC, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central-South America. In the first half of 2013, staff costs, including directors' remuneration, were approximately HK$187 million (2012: HK$123 million). The Group will monitor the market situation constantly and adjust the labour force and structure in order to enhance the operation efficiency with better staff mix.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Human resources (Continued)

The Group believes the success of its business hinges on employee commitment, thus it strives to provide 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 are reviewed by its management on a regular basis. Bonus and rewards may also be awarded to employees based on performance evaluation, with an aim of encouraging and rewarding staff to achieve better performance. Other employee benefits available for eligible employees include medical insurance, retirement benefits scheme and share option scheme.

The Group recognises the importance of having a high calibre and competent staff. Hence, in order to make the workforces capable of meeting 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 meets its funding requirements in its ordinary and usual course of business by cash flows generated from operations and existing banking facilities. The Board is of the opinion that the Group is in a healthy financial position and has sufficient resources in support of its working capital requirements.

For the six months ended 30 June 2013, the Group's net cash inflow generated from operating activities was approximately HK$262 million. As at 30 June 2013, the Group's inventory level increased to approximately HK$829 million as compared to approximately HK$760 million as at 31 December 2012.

As at 30 June 2013, the Group's bank borrowings were approximately HK$1,150 million. Most bank borrowings were sourced from Hong Kong of which 48% were denominated in Hong Kong dollars, 51% were denominated in United States dollars, and 1% 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$20 million to hedge interest rate fluctuation.

As at 30 June 2013, the Group's bank balances and cash amounted to approximately HK$475 million, of which 44% were denominated in Renminbi, 21% in United States dollars, 18% in Hong Kong dollars, 16% in Euro, and 1% in other currencies.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity and capital resources (Continued)

The Group continued to maintain prudent financial management policies during the Period. As at 30 June 2013, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary and usual course of business) over total equity, decreased to 57% (31 December 2012: 66%) and the current ratio was 0.89 (31 December 2012: 0.93). The Board believes that these ratios were still at healthy and adequate levels.

As the Group's sales were principally denominated in Renminbi, United States dollars or Euro while purchases were transacted mainly in United States dollars, Renminbi, Euro or Hong Kong dollars, the Group does not foresee significant exposure to exchange rate risk in these aspects. The Board will continue to monitor the Group's overall foreign exchange exposure and consider hedging significant foreign currency exposure should the need arises.

50th Anniversary of Fong's Industries Group

2013 marks the Golden Jubilee Year of Fong's Industries Group to celebrate its 50th anniversary. On behalf of the Board, I would like to express my sincere gratitude to our staff, business partners and shareholders for their unwavering support to the Group. Leveraging on the diligent commitment of its team of devoted staff as well as the close collaboration with its business partners, the Group has been able to move on and overcome every difficulty over half a century. At the same time, the strong support from our shareholders has provided a powerful driving force to the Group to strive for continuous advancement. Looking ahead, the Group will, based on its long well-established business foundation, further consolidate its market position, improve its profitability and maximise benefits for its shareholders.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 30 June 2013, the interests of the Directors and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules 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 Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	100,000	0.02%
		1,650,000	0.30%
Mr. Wan Wai Yung	Beneficial owner	2,018,000	0.36%
	Corporate interest *(Note 1)*	1,313,500	0.24%
		3,331,500	0.60%

Note 1: 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 2013.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2013, 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)*	307,704,070	55.80%
Mr. Fong Sou Lam	Beneficial owner	29,400,000	5.33%
	Held by spouse	5,000,000	0.91%
	Corporate interests *(Note B)*	63,052,110	11.43%
		97,452,110	17.67%

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 307,704,070 shares held by its two wholly-owned subsidiaries as follows:

(i) Newish Trading Limited – 128,808,820 shares
(ii) China Hi-Tech Holding Company Limited – 178,895,250 shares

Note B: Mr. Fong Sou Lam is deemed to be interested in 63,052,110 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 60,502,110 shares as follows:

(i) Bristol Investments Limited – 8,000,000 shares
(ii) Polar Bear Holdings Limited – 39,000,000 shares
(iii) Sheffield Holdings Company Limited – 13,502,110 shares

Save as disclosed above, as at 30 June 2013, 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 2013.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the six months ended 30 June 2013.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2013, the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, save and except for the deviations from code provision A.6.7.

Code provision A.6.7 of the CG Code stipulates that Independent Non-executive Directors and other Non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, Mr. Zhou Yucheng (an Independent Non-executive Director), was unable to attend the annual general meeting of the Company held on 15 May 2013 due to his another unavoidable business engagement.

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 2013 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.

SHARE OPTION SCHEME

A share option scheme of the Company was adopted by the then shareholders of the Company at a special general meeting held on 26 May 2003. No share option had been granted by the Company under the share option scheme since its adoption. The share option scheme had a term of 10 years and expired on 25 May 2013. As at 30 June 2013, the Company has not adopted another share option scheme.

MEMBERS OF THE BOARD

As at the date of this Report, our Chairman and Executive Director is Ms. He Fengxian, our Vice-Chairman and Non-executive Director is Mr. Ye Maoxin, our other Executive Directors are Mr. Ji Xin (Chief Executive Officer), Mr. Wan Wai Yung and Mr. Fong Kwok Leung, Kevin; 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 2013