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FONG'S INDUSTRIES COMPANY LIMITED

立信工業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE, 2012

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)
	<i>Notes</i>	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		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

		For the six months ended 30 June,	
		2012	2011
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Note			
	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	<u>1,890</u>	<u>6,317</u>
	Other comprehensive income and expense for the period	<u>(6,870)</u>	<u>21,269</u>
	Total comprehensive income and expense for the period	<u>(26,498)</u>	<u>79,349</u>
		<i>HK cents</i>	<i>HK cents</i>
	(Loss) earnings per share		
	Basic	<u>(3.56)</u>	<u>10.53</u>
		8	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June, 2012

		At 30 June, 2012 (unaudited) HK\$'000	At 31 December, 2011 (audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		335,465	346,129
Prepaid lease payments		89,974	95,983
Intellectual property rights		6,210	7,672
Interest in an associate		33,072	36,420
Interests in jointly controlled entities		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
		<u>606,181</u>	<u>631,059</u>
Current assets			
Inventories		665,145	777,064
Trade and other receivables	9	366,793	416,576
Prepaid lease payments		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
		<u>1,344,637</u>	<u>1,482,307</u>
Current liabilities			
Trade and other payables	10	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		710,079	756,410
		<u>973,848</u>	<u>1,107,049</u>
Net current assets		<u>370,789</u>	<u>375,258</u>
Total assets less current liabilities		<u>976,970</u>	<u>1,006,317</u>

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

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 of 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 <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	522,607	249,162	193,042	964,811
Inter-segment sales	<u>2,475</u>	<u>74,193</u>	<u>15,664</u>	<u>92,332</u>
Segment revenue	<u>525,082</u>	<u>323,355</u>	<u>208,706</u>	1,057,143
Elimination				<u>(92,332)</u>
Group revenue				<u>964,811</u>
Results				
Segment (loss) profit	<u>(13,699)</u>	<u>1,287</u>	<u>13,767</u>	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				<u>2,464</u>
Loss before tax				<u>(18,833)</u>

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

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

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

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.

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	2011
	(unaudited)	(unaudited)
	HK\$'000	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
	<u> </u>	<u> </u>
Total other gains and losses	<u>(799)</u>	<u>3,264</u>
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
	<u> </u>	<u> </u>
Total depreciation and amortisation	<u>34,918</u>	<u>35,213</u>

7. INCOME TAX EXPENSE

	For the six months ended 30 June,	
	2012	2011
	(unaudited)	(unaudited)
	HK\$'000	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
	<u> </u>	<u> </u>
	(363)	9,984
Deferred tax	<u>1,158</u>	<u>(671)</u>
Income tax expense	<u>795</u>	<u>9,313</u>

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	<u>(19,628)</u>	<u>58,080</u>
	'000	'000
Number of ordinary shares for the purpose of basic (loss) earnings per share	<u>551,446</u>	<u>551,446</u>

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. TRADE AND OTHER RECEIVABLES

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

The Group allows an average credit period of 60 days (2011: 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, 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	<u>26,005</u>	<u>20,415</u>
	<u>282,934</u>	<u>351,770</u>

10. 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	<u>1,235</u>	<u>2,178</u>
	<u>40,041</u>	<u>39,110</u>

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.

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.

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 and 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 production. 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.

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.

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.

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 our 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.

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.

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.

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.

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.

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 of Hong Kong Limited 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.

DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited (“HKEX”) at www.hkexnews.hk and the Company’s website at www.fongs.com. The Interim Report of the Company for the six months ended 30 June, 2012 will be despatched to the shareholders and published on the website of the HKEX and the Company’s website in due course.

On behalf of the Board

He Fengxian

Chairman

Hong Kong, 28 August, 2012

As at the date of this announcement, 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.

* *For identification purpose only*