



FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)



Interim
Report **2007**

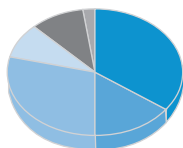
Financial Highlights

REVENUE BY BUSINESS SEGMENT (HK\$ MILLION)

Manufacture and Sale of Dyeing and Finishing Machines

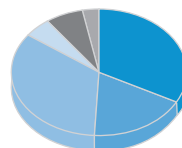
By geographical region

Interim
2007



● The PRC	258	(35%)
● Hong Kong	107	(15%)
● Asia Pacific	208	(29%)
● Europe	66	(9%)
● North and South America	75	(10%)
● Others	15	(2%)
Total :	729	(100%)

Interim
2006

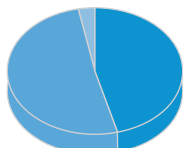


● The PRC	198	(33%)
● Hong Kong	108	(18%)
● Asia Pacific	203	(34%)
● Europe	31	(5%)
● North and South America	43	(7%)
● Others	16	(3%)
Total :	599	(100%)

Trading of Stainless Steel Supplies

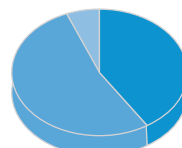
By geographical region

Interim
2007



● The PRC	231	(46%)
● Hong Kong	255	(51%)
● Asia Pacific	13	(3%)
Total :	499	(100%)

Interim
2006

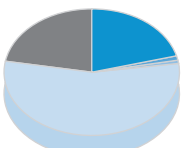


● The PRC	134	(41%)
● Hong Kong	174	(53%)
● Asia Pacific	19	(6%)
Total :	327	(100%)

Manufacture and Sale of Stainless Steel Casting Products

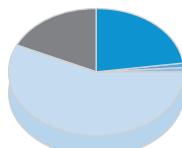
By geographical region

Interim
2007



● The PRC	50	(21%)
● Hong Kong	2	(1%)
● Asia Pacific	3	(1%)
● Europe	136	(55%)
● North and South America	55	(22%)
Total :	246	(100%)

Interim
2006



● The PRC	24	(23%)
● Hong Kong	1	(1%)
● Asia Pacific	1	(1%)
● Europe	58	(57%)
● North and South America	18	(18%)
Total :	102	(100%)

The board of directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2007 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2007 - unaudited

	Notes	2007 HK\$'000	2006 HK\$'000
Revenue	3	1,474,679	1,027,991
Cost of sales		(1,054,793)	(724,100)
Gross profit		419,886	303,891
Interest income		7,887	7,108
Other income		20,815	23,294
(Loss) gain on fair value change of the derivative component of convertible loan notes		(6,977)	13,981
Selling and distribution costs		(79,743)	(39,264)
General and administrative expenses		(177,950)	(127,922)
Other expenses		(32,941)	(26,500)
Loss on fair value change of financial instruments		(411)	-
Finance costs	5	(29,545)	(15,691)
Share of results of an associate		637	153
Share of results of jointly controlled entities		40,215	18,888
Profit before tax		161,873	157,938
Income tax expense	6	(21,397)	(23,132)
Profit for the period		140,476	134,806
Attributable to			
Equity holders of the parent		140,476	134,806
Earnings per share	7		
Basic		25.16 Cents	24.06 Cents
Dividends per share	8		
Interim		9 Cents	8 Cents
Special		3 Cents	3 Cents

CONDENSED CONSOLIDATED BALANCE SHEET*As at June 30, 2007 – unaudited*

	Notes	as at June 30, 2007 unaudited HK\$'000	as at December 31, 2006 audited HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	308,735	288,002
Prepaid lease payments		11,469	11,639
Intellectual property rights		20,488	21,934
Interests in an associate		43,068	42,431
Interests in jointly controlled entities	10	91,527	81,312
Deposits for acquisition of property, plant and equipment		21,649	9,958
Deposit for prepaid lease payments		16,000	–
Deferred tax assets		5,138	5,525
		<u>518,074</u>	<u>460,801</u>
Current assets			
Inventories		1,066,362	778,372
Trade and other receivables	11	498,244	404,475
Amount due from jointly controlled entities		15,526	2,475
Prepaid lease payments		341	341
Derivative financial instruments		–	27
Tax recoverable		322	691
Structured deposits		15,846	127,890
Bank balances, deposits and cash		434,872	580,464
		<u>2,031,513</u>	<u>1,894,735</u>
Current liabilities			
Trade and other payables	12	438,863	329,464
Amount due to a jointly controlled entity		–	1,701
Warranty provision		16,166	13,264
Derivative financial instruments		657	244
Tax liabilities		43,940	23,339
Borrowings – due within one year		55,741	54,613
		<u>555,367</u>	<u>422,625</u>
Net current assets		<u>1,476,146</u>	<u>1,472,110</u>
		<u>1,994,220</u>	<u>1,932,911</u>
Capital and reserves			
Share capital	13	55,793	55,842
Reserves	14	1,010,641	959,244
Equity attributable to equity holders of the parent		1,066,434	1,015,086
Minority interests		1,290	1,290
Total equity		<u>1,067,724</u>	<u>1,016,376</u>
Non-current liabilities			
Borrowings – due after one year		102,500	122,500
Deferred tax liabilities		1,492	1,190
Embedded derivative component of convertible loan notes		32,775	25,798
Convertible loan notes		789,729	767,047
		<u>926,496</u>	<u>916,535</u>
		<u>1,994,220</u>	<u>1,932,911</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the six months ended June 30, 2007 - unaudited

	2007	2006
	HK\$'000	HK\$'000
Net exchange difference arising on translation of overseas subsidiaries recognised directly in equity	(2,707)	(3,533)
Share of changes in exchange reserves of a jointly controlled entity	-	531
Profit for the period	140,476	134,806
	<u> </u>	<u> </u>
Total recognised income and expense for the period	<u>137,769</u>	<u>131,804</u>
	<u> </u>	<u> </u>
Attributable to		
Equity holders of the parent	<u>137,769</u>	<u>131,804</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended June 30, 2007 - unaudited*

	2007	2006
	HK\$'000	HK\$'000
Net cash used in operating activities	(110,291)	(154,566)
Net cash generated from investing activities	75,127	7,676
Net cash (used in) generated from financing activities	(107,100)	701,834
Net (decrease) increase in cash and cash equivalents	(142,264)	554,944
Cash and cash equivalents at beginning of the period	580,464	312,704
Effect of foreign exchange rate changes	(3,328)	(4,775)
Cash and cash equivalents at end of the period representing bank balances, deposits and cash	<u>434,872</u>	<u>862,873</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. 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 period.

2. **Basis of preparation and Accounting policies**

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These condensed consolidated financial statements should be read in conjunction with the Annual Report 2006.

The accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the Annual Report 2006.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to its operations and effective for accounting periods beginning on January 1, 2007. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. Business and Geographical segments

The analysis of the business segments (the primary reporting format) and geographical segments of the operations of the Group during the period under review are as follows:

Business Segments

	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	Eliminations HK\$'000	Consolidated HK\$'000
For the six months ended June 30, 2007 (unaudited)					
Revenue					
External sales	729,189	499,205	246,285	-	1,474,679
Inter-segment sales	33,454	211,708	18,093	(263,255)	-
Total	<u>762,643</u>	<u>710,913</u>	<u>264,378</u>	<u>(263,255)</u>	<u>1,474,679</u>
Results					
Segment results	<u>56,651</u>	<u>65,900</u>	<u>27,516</u>		150,067
Interest income					7,887
Loss on fair value change of the derivative component of convertible loan notes					(6,977)
Loss on fair value change of financial instruments					(411)
Finance costs					(29,545)
Share of results of an associate					637
Share of results of jointly controlled entities	40,215				<u>40,215</u>
Profit before tax					161,873
Income tax expense					(21,397)
Profit for the period					<u>140,476</u>
Other information					
Depreciation and amortisation	<u>16,361</u>	<u>521</u>	<u>1,813</u>		<u>18,695</u>

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

3. Business and Geographical segments (Continued)

Business Segments (Continued)

	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	Eliminations HK\$'000	Consolidated HK\$'000
For the six months ended June 30, 2006 (unaudited)					
Revenue					
External sales	598,685	326,878	102,428	-	1,027,991
Inter-segment sales	29,720	184,220	15,196	(229,136)	-
Total	<u>628,405</u>	<u>511,098</u>	<u>117,624</u>	<u>(229,136)</u>	<u>1,027,991</u>
Results					
Segment results	<u>61,187</u>	<u>55,882</u>	<u>16,430</u>		133,499
Interest income					7,108
Gain on fair value change of the derivative component of convertible loan notes					13,981
Finance costs					(15,691)
Share of results of an associate					153
Share of results of jointly controlled entities	18,888				<u>18,888</u>
Profit before tax					157,938
Income tax expense					<u>(23,132)</u>
Profit for the period					<u>134,806</u>
Other information					
Depreciation and amortisation	<u>14,188</u>	<u>435</u>	<u>1,336</u>		<u>15,959</u>

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

3. Business and Geographical segments (Continued)

Geographical segments

	Revenue by geographical market for the six months ended June 30,	
	2007	2006
	unaudited HK\$'000	unaudited HK\$'000
The People's Republic of China (the "PRC")	540,588	355,514
Hong Kong	363,566	283,227
Asia Pacific (other than the PRC and Hong Kong)	223,927	223,579
Europe	201,716	88,748
North and South America	129,747	60,657
Others	15,135	16,266
	1,474,679	1,027,991

4. Depreciation and Amortisation

During the period under review, depreciation of approximately HK\$17,249,000 (2006: HK\$14,513,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$1,446,000 (2006: HK\$1,446,000) was charged in respect of the Group's intellectual property rights.

5. Finance costs

	For the six months ended June 30,	
	2007	2006
	unaudited HK\$'000	unaudited HK\$'000
Interest on bank borrowings wholly repayable within five years	3,125	5,593
Effective interest expense on convertible loan notes	22,682	5,192
Bank charges	3,576	3,198
Issue cost of convertible loan notes in respect of the embedded derivative components	-	1,217
Factoring charges	162	491
	29,545	15,691

6. Income tax expense

	For the six months ended June 30,	
	2007	2006
	unaudited	unaudited
	HK\$'000	HK\$'000
Hong Kong Profits Tax		
Current period	21,629	17,063
Overseas income tax		
Current period	2,356	6,087
(Over) under provision in prior years	(3,277)	360
Deferred tax	689	(378)
	<u>21,397</u>	<u>23,132</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the period. Overseas income tax is calculated at the rates prevailing in the respective jurisdictions.

7. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the parent for the period of approximately HK\$140,476,000 (2006: HK\$134,806,000) and the following data:

	For the six months ended June 30,	
	2007	2006
	unaudited	unaudited
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>558,323,279</u>	<u>560,346,285</u>

There is no diluted effect on earnings per share for the six months ended June 30, 2007 as assuming the conversion of the Company's outstanding convertible bonds would result in an increase in earnings per share for the period.

8. Dividends

	For the six months ended June 30,	
	2007	2006
	unaudited	unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the period:		
Final dividend of 8 cents (2006: 5 cents) per share	<u>44,665</u>	<u>28,019</u>
Final special dividend of 7 cents (2006: 7 cents) per share	<u>39,082</u>	<u>39,226</u>
Dividends payable attributable to the interim period:		
Interim dividend of 9 cents (2006: 8 cents) per share	<u>50,168</u>	<u>44,688</u>
Interim special dividend of 3 cents (2006: 3 cents) per share	<u>16,722</u>	<u>16,758</u>

9. Additions to property, plant and equipment

During the period, the total cost of additions to property, plant and equipment of the Group was approximately HK\$37,154,000 (2006: HK\$22,106,000)

10. Interests in jointly controlled entities

	as at June 30, 2007	as at December 31, 2006
	unaudited	audited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of unlisted investment in jointly controlled entities	10,779	10,779
Share of post-acquisition profits, net of dividends received	<u>80,748</u>	<u>70,533</u>
Share of net assets	<u>91,527</u>	<u>81,312</u>

11. Trade and other receivables

	as at June 30, 2007 unaudited HK\$'000	as at December 31, 2006 audited HK\$'000
Trade receivables (net of allowance for doubtful debts)	280,028	250,403
Bills receivables	106,649	100,050
	386,677	350,453
Other receivables	111,567	54,022
Total trade and other receivables	498,244	404,475

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

	as at June 30, 2007 unaudited HK\$'000	as at December 31, 2006 audited HK\$'000
Aged analysis of trade receivables (net of allowance for doubtful debts) and bills receivables at the balance sheet date:		
0-30 days	348,807	324,846
31-60 days	32,345	14,990
over 60 days	5,525	10,617
	386,677	350,453

12. Trade and other payables

The following is an aged analysis of trade payables:

	as at June 30, 2007 unaudited HK\$'000	as at December 31, 2006 audited HK\$'000
0-30 days	70,514	64,174
31-60 days	2,589	10,893
over 60 days	2,690	3,028
	75,793	78,095

13. Share capital

	as at June 30, 2007 unaudited HK\$'000	as at December 31, 2006 audited HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
At beginning of the year, 558,416,285 (2006: 560,378,285) ordinary shares of HK\$0.10 each	55,842	56,038
Repurchase of shares	<u>(49)</u>	<u>(196)</u>
At end of the period/year, 557,928,285 (2006: 558,416,285) ordinary shares of HK\$0.10 each	<u>55,793</u>	<u>55,842</u>

14. Movement of reserve

The Group

	Share Premium HK\$'000	Dividend reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Retained Profits HK\$'000	Contributed Surplus HK\$'000	Total HK\$'000
At January 1, 2007	<u>189,382</u>	<u>83,747</u>	<u>1,673</u>	<u>12,081</u>	<u>646,779</u>	<u>25,582</u>	<u>959,244</u>
Repurchase of shares	(2,625)	-	49	-	(49)	-	(2,625)
Exchange difference arising on translation of overseas subsidiaries	-	-	-	(2,707)	-	-	(2,707)
Profit for the period	-	-	-	-	140,476	-	140,476
Final dividend paid	-	(44,665)	-	-	-	-	(44,665)
Final special dividend paid	-	(39,082)	-	-	-	-	(39,082)
Interim dividend	-	50,168	-	-	(50,168)	-	-
Interim special dividend	-	16,722	-	-	(16,722)	-	-
At June 30, 2007	<u>186,757</u>	<u>66,890</u>	<u>1,722</u>	<u>9,374</u>	<u>720,316</u>	<u>25,582</u>	<u>1,010,641</u>

15. Capital commitments

	as at June 30, 2007 unaudited HK\$'000	as at December 31, 2006 audited HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
acquisition of property, plant and equipment	<u>20,070</u>	<u>35,301</u>
acquisition of prepaid lease payments	<u>304,000</u>	<u>-</u>

16. Related party transactions

	For the six months ended June 30,	
	2007 unaudited HK\$'000	2006 unaudited HK\$'000
During the period under review, the Group entered into the following transactions with related parties:		
Related parties in which directors have beneficial interests		
Sales of goods	289	130
Service fee paid	174	43
Purchase of materials	15	67
Commission and agency fee paid	3,623	3,046
Rental paid	<u>2,964</u>	<u>2,964</u>
Jointly controlled entities		
Sales of goods	14,466	5,663
Purchase of materials	7,418	10,139
Commission and management fee received	<u>15,897</u>	<u>12,574</u>
Compensation of key management personnel		
Short-term benefits	16,618	21,776
Post-employment benefits	<u>894</u>	<u>1,151</u>
	<u>17,512</u>	<u>22,927</u>

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 9 cents per share plus an interim special dividend of 3 cents per share (2006: an interim dividend of 8 cents per share plus an interim special dividend of 3 cents per share) to the shareholders of the Company whose names appear in the Register of Members of the Company on October 26, 2007.

It is expected that dividend warrants will be dispatched to the shareholders of the Company on or before November 8, 2007.

The Register of Members of the Company will be closed from October 22, 2007 to October 26, 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and interim special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Tricor Secretaries Limited, at the 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Thursday, October 18, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF RESULTS

For the six months ended June 30, 2007, the Group achieved satisfactory results with growing revenue and profit. The Group recorded total revenue of approximately HK\$1,475 million, representing an increase of 43% as compared with the same period last year. Gross profit increased to approximately HK\$420 million, an increase of 38% against the same period last year. Profit attributable to shareholders increased to approximately HK\$140 million, representing an increase of 4%. Earnings per share were 25.16 cents.

DYEING AND FINISHING MACHINE MANUFACTURING

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

For the period under review, this core segment revenue increased by 22% to approximately HK\$729 million (2006: HK\$599 million), accounting for approximately 49% of the Group's total revenue. The increase in revenue was mainly attributable to the sales growth in our overseas markets and from the European operations

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DYEING AND FINISHING MACHINE MANUFACTURING (CONTINUED)

(**THEN, Goller and Xorella**) driven by the Group's efforts in opening up new overseas markets and the increase in product range. Of the total, revenue derived from the European operations increased by 49% to approximately HK\$215 million (2006: HK\$144 million) accounting for 29% of the segment revenue. However, the segment results decreased 7% to approximately HK\$57 million (2006: HK\$61 million).

During the period under review, the management has implemented various measures to control operating costs and improve production efficiency. Nevertheless, the effect is partially offset by the operating losses of the European operations incurred during their initial stages of the turnaround to an aggregate amount of approximately HK\$44 million (2006: HK\$27 million). On a comparative level, losses have appeared to widen as a result of the addition of the Goller product range and operations starting only in April 2006. Consequently, as a whole, the segment results decreased by approximately HK\$4 million to approximately HK\$57 million for the period under review despite the growth in revenue.

It is believed that with the implementation of the various improvement measures as stated in the Annual Report 2006 and via continued growth in sales, turnaround in the performance of the European operations is expected to be realized in the coming year. We continue to believe that the European operations will bring significant synergy benefits to the Group in the long run.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the period under review, this segment revenue increased by 53% to approximately HK\$499 million (2006: HK\$327 million), accounting for approximately 34% of the Group's total revenue. The segment results increased 18% to approximately HK\$66 million (2006: HK\$56 million).

Due to the decrease in the price of nickel, being a major base metal for producing stainless steels, there has been a moderate downward slide in the stainless steel price during the period under review. Nevertheless, it is expected that the stainless steel price will still stay at relatively high levels as compared with the prices in the past years. The Group will continue to make efforts to strengthen customer credit management and fasten the recovery of trade receivables with a view to controlling the credit risk.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

STAINLESS STEEL CASTING

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

With increasing number of customers, sales volume substantially increased 140% to approximately HK\$246 million (2006: HK\$102 million), accounting for approximately 17% of the Group's total revenue, the segment results increased 67% to approximately HK\$28 million (2006: HK\$16 million).

To cater for increasing orders from its growing clientele, the Group has actively enhanced and expanded the production capacity of the foundry plant during the period under review. At present, the annual production capacity for stainless steel casting products reaches 6,000 tonnes. Going ahead, the Group will actively upgrade production technology, improve production equipment, produce more value-added machined casting products which offer higher profit margins and strive for economies of scales to increase profit.

JOINTLY CONTROLLED ENTITY

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

During the first half of 2007, Monforts Fong's maintained its market leading position and continued to be the largest manufacturer of stenters in the PRC.

During the period under review, Monforts Fong's achieved outstanding performance with a sales growth of 78% to approximately HK\$346 million (2006: HK\$195 million). Together with the effective cost control, the Group's share of profit after tax increased to approximately HK\$40 million (2006: HK\$19 million), representing an increase of 112% as compared with the corresponding period of 2006.

Driven by the continued growth of the textile industry in the PRC, the management expect to see the continued healthy and stable demands for stenters in the coming years and are optimistic about the business prospect of Monforts Fong's. Riding on its leadership in the China, Monforts Fong's will continue to capture and expand its market share this market.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

ASSOCIATES

Foshan East Asia Company Limited (a 30% owned associate)

During the period under review, the sales revenue of woven color fabrics conducted by Foshan East Asia Company Limited increased 5% to approximately HK\$112 million (2006: HK\$106 million) and the Group's share of profit after tax amounted to approximately HK\$637,000 as compared to approximately HK\$153,000 for the corresponding period in 2006.

The Directors believe that the investment in this associate helps to enlarge the Group's network of potential customers in dyeing and finishing industry and create synergy on our dyeing and finishing machine manufacturing business and is expected to bring long-term benefits to the Group.

OUTLOOK

Despite some short term uncertainties in the China market as a result of the enforcement of environmental regulations, the Directors are optimistic about the Group's business outlook on the basis that both the exports of textiles from Asia are still growing and coupled with a strong domestic consumption scenario. Consequently, as the Group's production facilities are already operating at relatively high utilization rates, to cater for the anticipated business growth, the Group has planned to expand its production capacity.

The Company announced on May 16, 2007 that the Group has acquired the land use rights of an industrial site in Zhongshan, the PRC with an area of approximately 1,250 mu (approximately 833,337.5 m²) at a purchase price of approximately RMB320 million with a view to construct a new manufacturing complex. Details of this acquisition were set out in the circular of the Company dated June 6, 2007.

Looking ahead, the Group will build on its sophisticated production and technical capabilities and the expertise of its management team to achieve growth. To maintain industry leadership, the Group will continue to allocate significant resources on research and development of environmentally friendly dyeing and finishing machines as well as on innovation of new application technology, with internally-developed intellectual property rights, for textile dyeing and finishing. The Group is committed to continue to enhance the product quality, improve the production efficiency and strengthen the cost control, in order to meet the increasing demands from our customers, thereby to further increase the market share and the competitiveness of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

HUMAN RESOURCES

As at June 30, 2007, the Group had a total of approximately 5,000 employees (December 31, 2006: 4,500) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey and Central-South America.

Employees are remunerated based on their performances, experience and prevailing industry practice. 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 retirement benefits scheme and share option scheme.

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 various 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 principal sources of liquidity and capital resources have been cash flow from operations and proceeds from financing including bank borrowings. In addition, the Group obtained cash from issuance of convertible bonds. The principal uses of cash were operational costs, acquisition of fixed assets and increase in inventory.

On May 10, 2006, the Company issued HK\$800 million zero couple convertible bonds due 2011. The convertible bonds will carry rights to convert into new shares of the Company at the conversion price of HK\$8.37 per share, subject to adjustment (As from May 25, 2007, the adjusted conversion price is HK\$7.81 per share). As at the date of this report, none of the convertible bonds have been redeemed or converted into any shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at June 30, 2007, there was a gearing ratio of 51% and the current ratio was 3.7.

As at June 30, 2007, bank and other borrowings amounted to approximately HK\$158 million. Most bank and other borrowings were sourced from Hong Kong, of which 90% were denominated in Hong Kong dollars, 9% were denominated in Euro and the remaining 1% was denominated in Japanese Yen. The bank and other borrowings of the Group are predominantly subject to floating interest rates.

At as June 30, 2007, the bank balances, deposits and cash amounted to approximately HK\$435 of which 36% were denominated in US dollars, 27% in Hong Kong, 24% in Renminbi, 8% in Euro, 3% in Japanese Yen, 1% in Swiss France and and the remaining 1% in various foreign currencies.

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign exchange risks. Certain trade receivables and trade payables of the Group are denominated in foreign currencies. The exposure to foreign exchange risks of the Group during the year under review was not significant. Currently, the Group does not have a foreign currency hedging policy. However, the directors will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposure should the need arises.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at June 30, 2007, the interests of the directors and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY (CONTINUED)**Long position in ordinary shares of HK\$0.10 each of the Company**

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr Fong Sou Lam	Beneficial owner	<u>25,592,000</u>	<u>4.59%</u>
Mr Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.04%
	Held by discretionary trusts ⁽¹⁾	<u>304,875,601</u>	<u>54.64%</u>
		<u>306,625,601</u>	<u>54.96%</u>
Mr Fong Kwok Chung, Bill	Beneficial owner	2,998,000	0.54%
	Corporate Interest ⁽²⁾	4,444,000	0.80%
	Held by discretionary trusts ⁽¹⁾	<u>304,875,601</u>	<u>54.64%</u>
		<u>312,317,601</u>	<u>55.98%</u>
Mr. Wan Wai Yung	Beneficial owner	<u>1,677,500</u>	<u>0.30%</u>
Ms. Poon Hang Sim, Blanche	Beneficial owner	<u>120,000</u>	<u>0.02%</u>
Mr. Tou Kit Vai	Beneficial owner	<u>30,000</u>	<u>0.005%</u>

Notes:

- (1) The 304,875,601 shares are owned by two discretionary trusts, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members. These shares represented an interest duplicated amongst those two directors.
- (2) Fong Kwok Chung, Bill, is deemed to be interested in 4,444,000 shares held by Precision Private Capital Co., Ltd. as he wholly owns Precision Private Capital Co., Ltd.

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

Save as disclosed above and other than certain nominee shares in subsidiaries held by the directors in trust for the Company or its subsidiaries, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at June 30, 2007.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at June 30, 2007, the register maintained by the Company pursuant to section 336 of the SFO shows that, other than the interests disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

Long position in ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued share capital of the Company
Capital Research and Management Company	Investment Manager	36,590,000	6.56%
Aberdeen Asset Management plc.	Investment Manager	33,626,000	6.03%

Save as disclosed above, as at June 30, 2007, the Company has not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended June 30, 2007, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
January, 2007	100,000	5.20	5.20	520,000
June, 2007	388,000	5.55	5.55	2,153,400
	<u>488,000</u>			<u>2,673,400</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to HK\$2,624,600 was charged against share premium. An amount of HK\$48,800 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code for securities transactions. Having made specific enquiry with all directors, the Company confirmed that all directors have complied with the required standards set out in the Model Code during the six months ended June 30, 2007.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("GC Code") as set out in Appendix 14 of the Listing Rules, which came into effect on January 1, 2005, as its own code of corporate governance.

The directors consider that the Company was in full compliance with the code provisions set out in the GC Code during the six months ended June 30, 2007.

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference based upon the provisions of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. At present, members of the Audit Committee comprise Mr. Cheung Chiu Fan (committee chairman), Dr. Yuen Ming Fai and Dr. Keung Wing Ching, being the three independent non-executive directors of the Company.

The Group's unaudited condensed consolidated financial statements for the six months ended June 30, 2007 have been reviewed by the Audit Committee, who is of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

MEMBERS OF THE BOARD

As at the date of this Report, the Board consists of eleven directors, of which eight are executive directors, namely Mr. Fong Sou Lam (Chairman), Mr. Wan Wai Yung (Managing Director), Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill, Mr. Tsui Wai Keung, Dr. Tsui Tak Ming William, Ms. Poon Hang Sim, Blanche and Mr. Tou Kit Vai and three independent non-executive directors are Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.

On behalf of the Board

Fong Sou Lam
Chairman

Hong Kong, September 24, 2007.