

Chairman's Statement



On behalf of the Board of Directors (the "Board"), I would like to present the results of Fong's Industries Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended December 31, 2004.

For the year under review, the Group's consolidated turnover rose by 29% to approximately HK\$1,744 million (2003: HK\$1,350 million), the increase in turnover was mainly attributable to the growth in sales volume of the stainless steel trading segment. However, the Group's net profit declined by 15% to approximately HK\$235 million (2003: HK\$277 million).

With regards to the market conditions during the year under review, it has been quite challenging with many unforeseen events taken place. In particular, our customers in the Hong Kong and China markets were affected firstly by the Mainland China's austerity measures against fixed asset investment growth and the uncertainty relating to these measures also further dampened the investment sentiments during the year. Secondly, also relating to these same customers was

the uncertainty regarding the elimination of textile quotas under the WTO Agreement. In particular, although all textile quotas have been eliminated as of January 1 2005, there are still various "Safeguard" measures that may be taken against China's export of textile and garments by the major importing regions such as the United States and the European Union. Up till now, there is a consensus in the industry that certain restraints against China's exports of textile and garments will eventually take place but what is uncertain is the severity of the restraints and the categories of the textile products that may or may not be affected. With this in mind, it has been difficult for the industry to make reasonable capital expenditure decisions and is affecting the buying behaviours of major retailers in the United States and the European Union. Some experts have even commented that the US is already achieving its target of restraining the export growth of China's textile and garments with this uncertainty despite the fact that all textile quotas have been eliminated and that no new restraints have yet been implemented. Nevertheless, we have seen market improvements since the end of the third quarter of 2004 and that major market regions outside of Hong Kong and China have continued to perform well as they are not affected by these mentioned factors and may in fact benefit there from.

With regards to stainless steel prices, since the significant rise from the end of 2003 till the middle of 2004, stainless steel prices have remained relatively stable but at these higher prices. During this time our core business of dyeing and finishing machine manufacturing has been able to hedge most of the cost increases by holding high level of lower cost inventories but even so the rise in stainless steel costs started to flow through towards the end of the year and as a result the profit margins of this business segment were affected somewhat in the very end of the second half year.

As a countermeasure and together with the improvements in the market conditions as mentioned, our dyeing and finishing machine manufacturing business implemented price increases in October and December, 2004. Consequently, it is expected that the pressure on the profit margins as experienced in the very end of 2004 will be mitigated by these price

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increases in the coming year. In addition, during such times of stainless steel price increase, our stainless steel trading segment has outperformed in one of its capacities of helping to hedge against the adverse effect of such price increases within the Group.

In August, 2004, the Group acquired from the insolvency administrators of Then Maschinen- und Apparatebau GmbH and Scholl-Then AG (collectively the "SCHOLL-THEN Group") certain production facilities and intellectual property rights including the technology and know-how relating to the manufacture of dyeing and finishing machines for a cash consideration of approximately HK\$55 million. The SCHOLL-THEN Group was a leading European dyeing machine manufacturer with its renowned "SCHOLL" and "THEN" branded products. Through this strategic acquisition, the Group will be able to further advance its strategy of providing customers with the widest range of products and to improve its leading position in the industry on a global basis.

Looking ahead, the Board believes the Group has encountered the worst as a result of the two major factors affecting the Hong Kong and China markets in relation to our dyeing and finishing machinery business. In particular, we have seen sales stabilize in the China market despite the ongoing austerity measures. Secondly, the uncertainty surrounding the potential new quota restraints should only improve and be clarified as we move into the coming new years. Furthermore, these potential new restraints will only be effective until the end of 2007 and where all remaining post-quota restraints are expected to be completely removed under the WTO Agreement.

As for major markets outside of Hong Kong and China, even though we have seen three consecutive years of healthy growth, we are still expecting sizable growth in the coming year. In general, from a macro perspective and from previous experience, we expect the recent final elimination of quotas under the WTO Agreement will bring about continued growth in the Asian region as a whole, which we consider our strongest markets.



Also moving forward, the Group will keep improving the quality of our products and services and to look for ways to introduce wider ranges of products to our customers to meet their needs. Given the strength of our leading position in the global market, comprehensive product portfolio, reputable brand names, strong customer base, the Group aims at consolidating its position as one of the largest and strongest dyeing and finishing machine manufacturers in the world.

We will continue to focus on strengthening our business foundation to ensure that we have a strong base on which we can rely to explore new business opportunities for the development of our core business, broaden our revenue base, increase the growth potential and thus enhance the shareholders' worth.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to our customers, suppliers, bankers, investors and business partners who have continuously supported us and to all members of the Board and staff for their dedication and contribution to the Group.

Fong Sou Lam
Chairman

Hong Kong, April 11, 2005