

Chairman's Statement



Fong Sou Lam
Chairman

I am pleased to present the annual consolidated results of Fong's Industries Company Limited (the "Company") and its subsidiaries (together "Fong's" or the "Group") for the year ended December 31, 2005.

For the year under review, the Group's consolidated revenue was approximately HK\$2,012 million (2004: HK\$1,744 million), of which approximately HK\$1,163 million (58% of the Group's consolidated revenue) was attributable to the Group's core business of textile dyeing and finishing machine manufacturing, representing a growth of 21% as compared with approximately HK\$963 million in last year. Also, approximately HK\$646 million (2004: HK\$654 million) was attributable to the stainless steel trading business, maintaining a similar level of the previous year. In addition, approximately HK\$203 million (2004: HK\$127 million) was attributable to the stainless steel casting business, representing a growth of 60% as compared with last year.

However, despite the overall growth in revenue, the operating performance of the textile dyeing and finishing machine manufacturing division in particular did not perform well due to a combination of both external and internal factors leading to a decrease in profit. Nevertheless, looking into 2006, the external factor namely the textile trade dispute which existed for most of 2005 has been resolved. Secondly, the internal factors which had hindered the performances of our European divisions in 2005 have largely been resolved also. Consequently, barring any unforeseeable circumstances, we expect the textile dyeing and finishing machine manufacturing division to produce better performance in the coming year.

In relation to new business developments, I am also pleased to announce the following:

On March 16, 2006, Fong's entered into a memorandum of understanding (the "MOU") with Stork Prints B.V., a leading name in the textile printing industry in Netherlands. Under the MOU, both parties have expressed interest in business cooperation in respect of the manufacture, sale and service of rotary textile printing systems and auxiliaries. The proposed strategic alliance will be beneficial to both parties by capitalizing on the combined strength and expertise of both parties. The terms of the proposed joint venture are still under negotiation, it is anticipated that the negotiation is likely to be completed by end of May or early June, 2006. Meanwhile, as no binding agreement has yet been signed by the parties, the proposed joint venture still may or may not proceed.

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On April 3, 2006, Xorella Hong Kong Limited launched a 51%/49% joint venture with Plexus Cotton Limited of the UK. The new joint venture company Plexor Co. Limited will be engaged in the marketing and sale of a new patented vacuum bale steaming system.

On April 10, Fong's has expanded its group of textile machinery to include "Goller" by acquiring the fixed assets, inventory and all intellectual property rights of former GTM Goller Textilmaschinen GmbH, Schwarzenbach/Saale (DE). This will be Fong's third European subsidiary and the goal will be to further strengthen Goller's position as a leader in the supply of continuous wet finishing ranges for the textile industry under the new company of Goller Textilmaschinen GmbH.

With the above-mentioned foundations and barring any unforeseeable circumstances, we are now in the position to target a significant growth in the Group's core business of textile dyeing and finishing machinery manufacturing in two years' time. Furthermore, the global landscape in the world of textile dyeing and finishing machinery manufacturing looks to be in the advanced phases of consolidation and we plan to place ourselves in a competitive position to take advantages of opportunities that may arise in the coming years.

As for our second largest division of stainless steel trading, despite relatively robust market we will adhere with discipline to control our risks. Consequently, the growth of this division will be relatively limited in the foreseeable future.

As for our stainless steel casting division, having demonstrated consistent growth and returns, the Group is currently evaluating opportunities to expand this business in the coming years.

As for internal improvements, efforts are being made to reduce production and sourcing costs. The Group has recently established a Central Sourcing Department with the aim to negotiate better prices with the key suppliers and service providers for all divisions

of the Group. The Department will focus on the task of sourcing better quality raw materials and components with lower costs, and securing sufficient and stable supply for the Group's businesses and operations. In addition, the Group is scheduled to implement an improved enterprise resources planning (ERP) system to facilitate internal communications and to improve the resource deployment efficiency and management quality within 2006.

In view of an increasingly competitive environment and being conscious of the fact that the success of Fong's depends not only on attractive product pricing but also on quality products to its customers to meet their needs, Fong's will continue to gear up its research and development capability to keep abreast of technological innovation, heighten its productivity and increase its marketing activities in order to further expand the market coverage in both China and overseas markets.

The Board believes that by virtue of its advantages in terms of its scale in technology research, sales network and production capability, Fong's will be able to capture business opportunity, provide a wide variety of high quality machines for customers and to continue to generate satisfactory returns to the shareholders as it has in the past.

APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to our customers, suppliers, business partners, bankers and shareholders for all their continuous support and to all members of the Board and employees of Fong's whose dedication and support have helped the Group improve substantially over the past few years. We shall continue to work hard in order to overcome challenges and to deliver improved results.

Fong Sou Lam
Chairman

Hong Kong, April 13, 2006