

CHAIRMAN'S STATEMENT



On behalf of Fong's Industries Company Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the Group's annual results for the year ended December 31, 2006.

For the year under review, the Group achieved a 18% growth in consolidated revenue to approximately HK\$2,380 million (2005: HK\$2,012 million) and a 19% increase in profit attributable to shareholders to approximately HK\$260 million (2005: HK\$219 million) despite the delays in the turnaround of the European divisions and the addition of Goller Textilmaschinen GmbH for the textile machinery division during the year. In particular, the Group's overall results were aided by the strong performances in its other divisions of stainless steel trading, stainless steel casting and the Joint Venture of Monforts Fong's Textile Machinery Co. Limited.

Looking ahead, firstly, it is clear stringent laws and regulations as well as awareness of environmental protection in most countries worldwide, including such major markets as China and India, will be enforced onto the textile industry. Although this has caused some volatility in machinery sales during the year under review, we nevertheless expect that the demand for the latest and more technologically environmentally friendly dyeing and finishing machines will increase to support the sales growth of our core business.

Secondly, it appears that the global textile price deflation over the recent years as a result of unraveling of the quota system has run its course and that global textile prices have now stabilized and there are even signs of increase in certain regions. Consequently, the textile industry worldwide, and in particularly Asia, is expected to be much healthier and profitable which should help induce continued investments of textile machinery in the foreseeable future.

Thirdly, during the past years, the gradual consolidation in the dyeing and finishing machinery industry has been taking place due to the inability of smaller players to match the ever-increasing demand for product quality, technology, price and scale. In contrast, the Group has seized market opportunities that arose by capitalizing on its strong balance sheet and thus making acquisitions and to further invest in research and development ("R & D"). And to further ensure the medium to long-term R & D capabilities of the Group, during the year the Group donated HK\$15 million to the Hong Kong University of Science and Technology to support the University as well as to further strengthen our mutual research projects by establishing the "Fong's Institute of Advanced Materials and Processing". The donation will be matched 2 to 1 by the Government under the Third Matching Grant Scheme.

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In addition, the Group will further leverage on its resources and strategy for offering a one-stop-shop business model which covers R & D and manufacturing and sales of a wide spectrum of textile machinery ranging from yarn treatment to dyeing and finishing. Our strong and well established brands of "FONG'S", "THEN", "GOLLER" and "XORELLA" coupled with an extensive client base and sales and service network have enabled us to maintain and to further expand our market leadership position in the textile machinery industry over the years.

And given that the Group anticipates the continued growth of our businesses, the Board has decided that a new production plant located within Guangdong Province will be actively planned and constructed once an appropriate site can be secured. Consequently, as part of this planning, on 10 May 2006 the Company successfully issued HK\$800 million zero coupon convertible bonds due 2011.

The directors are confident of the Group's future development and growth. We are committed to seizing the opportunities in the industry to solidify our leadership and to achieving new business heights through continuous innovation and bringing added value to both customers and shareholders.

APPRECIATION

Finally, I would like to take this opportunity to express my sincere gratitude to all members of the Group for their invaluable contribution, diligence and loyalty over the past year. A final word of thanks goes to our customers, suppliers, business partners, bankers and shareholders for all their ongoing trust and support.

Fong Sou Lam
Chairman

Hong Kong, April 16, 2007