FONG'S INDUSTRIES COMPANY LIMITED

立信工業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 00641)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2005

The Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "Fong's") for the year ended December 31, 2005 together with the comparative figures (as restated) for the corresponding year in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2005

	Notes	**2005** **HK$**	2004 *HK$* *(Restated)*
Revenue	*2*	**2,012,252,270**	1,743,872,784
Cost of sales		**(1,450,289,932)**	(1,205,301,079)
Gross profit		**561,962,338**	538,571,705
Interest income		**2,575,693**	977,571
Other income		**39,107,515**	32,335,415
Selling and distribution costs		**(90,120,739)**	(81,144,958)
General and administrative expenses		**(239,668,014)**	(198,078,327)
Other expenses		**(50,215,807)**	(46,956,530)
Finance costs	*3*	**(17,241,877)**	(10,955,139)
Share of results of associates		**2,053,934**	1,685,649
Share of results of a jointly controlled entity		**32,253,561**	31,286,197
Profit before tax		**240,706,604**	267,721,583
Income tax expense	*4*	**(22,510,441)**	(32,473,389)
Profit for the year		**218,196,163**	235,248,194
Attributable to:			
Equity holders of the parent		**218,653,354**	235,112,143
Minority interests		**(457,191)**	136,051
		218,196,163	235,248,194
Earnings per share	*5*	**39.0 HK cents**	41.9 HK cents

CONSOLIDATED BALANCE SHEET

At December 31, 2005

	2005 HK$	2004 HK$ (Restated)
Non-current assets		
Property, plant and equipment	**255,888,903**	258,572,595
Prepaid lease payments	**11,665,200**	24,231,006
Intellectual property rights	**24,825,964**	27,718,309
Interests in associates	**33,142,190**	31,800,764
Interest in a jointly controlled entity	**60,750,623**	57,486,349
Deferred tax assets	**4,268,408**	3,746,952
	390,541,288	403,555,975
Current assets		
Inventories	**367,972,766**	393,439,199
Trade and other receivables	**226,685,197**	193,155,579
Dividend receivable from a jointly controlled entity	**7,500,000**	–
Prepaid lease payments	**331,767**	372,256
Amount due from a jointly controlled entity	**8,703,558**	–
Tax recoverable	**7,724,953**	9,636,082
Bank balances, deposits and cash	**312,703,619**	254,175,933
	931,621,860	850,779,049
Current liabilities		
Trade and other payables	**221,164,489**	245,944,272
Amount due to a jointly controlled entity	**–**	2,419,850
Warranty provision	**12,298,582**	11,064,509
Tax liabilities	**6,012,283**	15,806,900
Obligations under finance leases – due within one year	**–**	1,518,217
Borrowings – due within one year	**87,015,544**	183,888,450
	326,490,898	460,642,198
Net current assets	**605,130,962**	390,136,851
	995,672,250	793,692,826
Capital and reserves		
Share capital	**56,037,829**	56,037,829
Reserves	**817,228,665**	734,860,428
Equity attributable to equity holders of the parent	**873,266,494**	790,898,257
Minority interests	**1,290,136**	1,747,327
Total equity	**874,556,630**	792,645,584
Non-current liabilities		
Borrowings – due after one year	**120,000,000**	–
Deferred tax liabilities	**1,115,620**	1,047,242
	121,115,620	1,047,242
	995,672,250	793,692,826

1. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of recognised income and expense. In particular, the presentation of minority interests and share of tax of associates and a jointly controlled entity have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effect resulting from the implementation of HKAS 39 is summarised below:

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from January 1, 2005 onwards. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to January 1, 2005 have not been restated. As at December 31, 2005, the Group has no significant bills receivables discounted with full recourse. Upon application of HKAS 39, the relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method. Previously, the difference between the carrying amount of the bill receivables and proceeds received was expensed immediately when incurred. This change in accounting policy has had no material effect on results for the current year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see below for the financial impact). This change in accounting policy has had no material effect on results for the current year.

The cumulative effects of the application of the new HKFRSs on December 31, 2004 are summarised below:

	As at December 31, 2004 (originally stated)	Adjustments	As at December 31, 2004 (restated)
	HK$	*HK$*	*HK$*
Balance sheet items			
Impact of HKAS 17:			
Property, plant and equipment	283,175,857	(24,603,262)	258,572,595
Prepaid lease payments	–	24,603,262	24,603,262
Total effects on assets and liabilities	283,175,857	–	283,175,857

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after January 1, 2007.
[2] Effective for annual periods beginning on or after January 1, 2006.
[3] Effective for annual periods beginning on or after December 1, 2005.
[4] Effective for annual periods beginning on or after March 1, 2006.

2. Revenue and Business Segments

Revenue represents the net amounts received and receivable, less returns and allowances, for goods sold by the Group to outside customers.

For management purposes, the Group is currently organised into three principal activities – manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and manufacture and sale of stainless steel casting products. These principal activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2005

	Manufacture and sale of dyeing and finishing machines *HK$*	**Trading of stainless steel supplies** *HK$*	**Manufacture and sale of stainless steel casting products** *HK$*	**Eliminations** *HK$*	**Consolidated** *HK$*
REVENUE					
External sales	1,162,713,576	646,466,335	203,072,359	–	2,012,252,270
Inter-segment sales	64,297,294	265,978,140	22,826,377	(353,101,811)	–
Total	1,227,010,870	912,444,475	225,898,736	(353,101,811)	2,012,252,270
RESULTS					
Segment results	129,294,665	64,192,480	27,578,148	–	221,065,293
Interest income					2,575,693
Finance costs					(17,241,877)
Share of results of associates					2,053,934
Share of results of a jointly controlled entity	32,253,561				32,253,561
Profit before tax					240,706,604
Income tax expense					(22,510,441)
Profit for the year					218,196,163

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

2004 (restated)

	Manufacture and sale of dyeing and finishing machines *HK$*	Trading of stainless steel supplies *HK$*	Manufacture and sale of stainless steel casting products *HK$*	Eliminations *HK$*	Consolidated *HK$*
REVENUE					
External sales	963,219,414	653,912,085	126,741,285	–	1,743,872,784
Inter-segment sales	29,034,271	197,607,354	20,681,732	(247,323,357)	–
Total	992,253,685	851,519,439	147,423,017	(247,323,357)	1,743,872,784
RESULTS					
Segment results	145,966,597	81,370,377	17,390,331	–	244,727,305
Interest income					977,571
Finance costs					(10,955,139)
Share of results of associates					1,685,649
Share of results of a jointly controlled entity	31,286,197				31,286,197
Profit before tax					267,721,583
Income tax expense					(32,473,389)
Profit for the year					235,248,194

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

3. Finance Costs

	2005 *HK$*	2004 *HK$*
Interest on:		
Bank borrowings wholly repayable within five years	**11,929,773**	5,621,625
Obligations under finance leases	**28,866**	105,390
Bank charges	**4,051,166**	4,730,035
Factoring charges	**1,232,072**	498,089
	17,241,877	10,955,139

4. Income Tax Expense

	2005 *HK$*	2004 *HK$*
Hong Kong Profits Tax calculated at 17.5% (2004: 17.5%) on the estimated assessable profits:		
Current year	**21,620,923**	29,107,926
Overprovision in prior years	**(403,803)**	(939,212)
Overseas income tax:		
Current year	**10,283,049**	6,169,109
Overprovision in prior years	**(8,536,650)**	(8,035)
	22,963,519	34,329,788
Deferred tax	**(453,078)**	(1,856,399)
	22,510,441	32,473,389

Overseas income tax is calculated at rates prevailing in the respective jurisdictions.

The Group's subsidiaries operating in the PRC are eligible for certain tax concessions and part of the income tax was exempted from PRC income tax.

During the year, a subsidiary obtained approval from the PRC tax authority for granting a concessionary tax rate on taxable profits in 2002 and 2003. An overprovision of overseas income tax in prior years of approximately HK$8,500,000 was thus reversed in current year.

5. Earnings Per Share

The calculation of basic earnings per share attributable to equity holders of the parent is based on the profit for the year attributable to equity holders of the parent of HK$218,653,354 (2004: HK$235,112,143) and 560,378,285 ordinary shares (2004: weighted average number of 561,227,668 ordinary shares) in issue during the year.

No diluted earnings per share has been presented as there were no potential ordinary shares in issue in either year.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of 5 HK cents per share and a special dividend of 7 HK cents per share for the year ended December 31, 2005 (2004: final dividend of 7 HK cents and special dividend of 7 HK cents) to shareholders whose names appear on the register of members on May 25, 2006. Together with the interim dividend of 8 HK cents per share and special dividend of 3 HK cents per share (2004: interim dividend of 7 HK cents and special dividend of 3 HK cents) paid on October 12, 2005, the total dividend for the full year will be 23 HK cents per share (2004: 24 HK cents).

Subject to the approval of shareholders at the forthcoming annual general meeting, dividend warrants are expected to be despatched to shareholders on or before June 8, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 22, 2006 to May 25, 2006, both days inclusive in order to determine those shareholders entitled to the proposed final and special dividends.

In order to qualify for the final dividend/special dividend, all share certificates accompanied by the duly completed transfer forms must be lodged with the Hong Kong Branch Registrars of the Company, Secretaries Limited of the 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on May 19, 2006.

CHAIRMAN'S STATEMENT

For the year under review, the Group's consolidated turnover was approximately HK$2,012 million (2004: HK$1,744 million), of which approximately HK$1,163 million (58% of the Group's consolidated turnover) 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 turnover, 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, internal factors which had hindered the performances of the European divisions in 2005 have largely been resolved also. Consequently, barring any unforeseeable cirumstances, 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 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.

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 Plexxor 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 now 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 capabilities, Fong's will be able to capture business opportunities, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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, Xorella AG and Xorella Hong Kong Limited

The dyeing and finishing machine manufacturing remains the core business and principal profit earner of the Group. The turnover of this segment achieved an increase of 21% to approximately HK$1,163 million (2004:HK$963 million) for the year under review and accounted for 58% (2004: 55%) of the Group's consolidated turnover. However, the operating profit decreased 12% to approximately HK$129 million (2004: HK$146 million) which were mainly attributable to external factors and poor performance in our European subsidiaries during the year.

With regards to external factors, the well publicized trade and quota dispute between China and the USA as well as the EU dragged out through almost all of 2005 which greatly disrupted the textile export trade of China, the largest geographical market for this division, in the second half of 2005. Consequently, overall machine sales in the second half of 2005 actually decreased by approximately 17% compared to the first half of 2005.

Secondly, the sales of THEN dyeing machines amounted to approximately HK$203 million which accounted for 17% of the segment turnover but however resulted in a loss of approximately HK$29 million. Furthermore, the losses have been attributable to poor execution of the turnaround efforts of THEN Maschinen GmbH in addition to the external factors mentioned. In particular, during the year, delays were experienced in rebuilding the sales force and in implementing inter-company sourcing strategy to reduce production costs.

Nevertheless, barring any unforeseeable circumstances, we expect the turnaround efforts of THEN Maschinen GmbH to be back on track in the coming year and we will be expecting sales growth in the coming year and that the operations will become profitable within the year.

Thirdly, our 80% owned subsidiaries, Xorella Hong Kong Limited and Xorella AG both engaging in the business of yarn conditioning equipment, recorded a turnover of only approximately HK$46 million (2004: HK$65 million). The consolidated loss was approximately HK$4 million (2004: HK$2 million). Again, the poor performance has been attributable to both the external factors as mentioned and secondly strategic errors were made in the marketing management for the Asian markets. However, having identified the problems, corrective actions are already in place and, barring any unforeseeable circumstances, we expect a solid rebound in the performance of this division in the coming year.

Furthermore, apart from its continued efforts in consolidating relationships with the existing customers and securing new ones, the Group has also been placing great emphases on exploring new overseas markets in Latin America, Europe, the Middle East and South Asian countries including India, Bangladesh, Pakistan, Turkey and Thailand. The Group has also strengthened its sales strategies by maintaining close cooperation with sales agents who have a better understanding of the overseas markets.

For the year under review, the sales from the overseas markets accounted for 40% of the turnover (2004: 35%), it also represents 15% out of the 21% sales growth. Barring any unforeseeable circumstances, the encouraging double-digit growth trend is expected to continue in the coming years. The Group anticipates that the overseas markets will continue to show encouraging contributions to the Group's turnover and profit in the coming years.

The Group believes that the total global textile machinery demand will maintain steady growth in the coming years as the textile trade dispute is basically settled. Together with its continuous expansion of customer bases from China to overseas markets, the Group is optimistic about our business future.

Stainless Steel Trading
Fong's Steels Supplies Company Limited

For the year ended December 31, 2005, the turnover of stainless steel trading segment reached approximately HK$646 million (2004: HK$654 million) and accounted for 32% (2004: 38%) of the Group's consolidated turnover. The operating profit decreased 21% to approximately HK$64 million (2004: HK$81 million) as the stainless steel prices have become relatively stable during the second half of 2005 resulting in profit margins closer to the norms of stable price conditions.

In addition, during the year under review, the management lowered the level of inventory and shortened the account receivables recovery period, so as to reduce the risk exposures on the volatile stainless steel prices.

The management believes that the stainless steel prices are likely to stabilize at the present level after peaking in mid 2005. It is anticipated that this trading segment will experience a modest growth with gross profit margins at the present level in the coming year.

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

This segment had a satisfactory performance for the year under review. The turnover amounted to approximately HK$203 million (2004: HK$127 million), representing an increase of 60% over last year. It accounted for 10% (2004 7%) of the Group's consolidated turnover. The operating profit increased 65% to approximately HK$28 million (2004: HK$17 million).

The improvement in profitability has mainly been attributed to the increased sales volume as well as our effective cost saving measures adopted and sharing of raw material costs increases with customers.

In the coming year, we will deploy necessary resources to expand the scale of the current production and to increase operational efficiency and reduce costs. Our objective for this is to manufacture quality products to meet the customers' requirements while at the same time making use of our competitive price and products to enlarge our market share gradually.

It is anticipated that this segment will continue to achieve healthy growth in the coming year and maintain its profit contribution to the Group.

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

The management continued fostering business growth through a host of expansion initiatives in 2004 and 2005. Such accomplishments included launched new products, extended production capacity to complement growth in production volume and enhanced brand awareness. Such proactive strategies yielded remarkable business progress in turnover.

For the year under review, the turnover of Monforts Fong's was approximately HK$434 million (2004: HK$300 million), representing an increase of 45% over that of last year. However, the Group's share of profit after tax increased slightly to approximately HK$32 million (2004: HK$31 million) mainly due to lower selling prices and higher raw material costs.

The management will continue to increase the overall productivity and enhance the quality of products and services. The management remains prudently optimistic of the future business growth.

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

During the year under review, the sales revenue of woven color fabrics conducted by Foshan East Asia Company Limited declined 8% to approximately HK$192 million (2004: HK$208 million) and the Group's share of profit after tax was approximately HK$2.1 million (2004: HK$1.5 million).

The sales and profit remained stable during the year under review. The Group believes that Foshan East Asia Company Limited will continue to contribute positively to the Group's overall results.

Human Resources
As at December 31, 2005, the Group had a total of approximately 3,300 employees spreading among China, Hong Kong, Germany, Switzerland and Thailand. For the year under review, staff costs, including directors' remuneration were approximately HK$174 million (2004: HK$144 million).

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.

Liquidity and Capital Resources
Traditionally, the Group generally finances its operations through internally generated funds and banking facilities provided by its principal bankers and other financial institutions. The Group successfully maintained a strong and healthy liquidity and financial position during the year under review.

As at December 31, 2005, net of borrowings, the Group's net cash and bank balance was approximately HK$106 million. In 2005, there was no gearing ratio shown as the Group had a net cash and bank balance. The current ratio was 2.85 reflecting a satisfactory and healthy liquidity level.

As at December 31, 2005, bank and other borrowings amounted to approximately HK$207 million of which approximately 76% were secured by certain assets of the Group. 76% of the bank borrowings were sourced from Hong Kong and the remaining were sourced from PRC. 97% of the borrowings were denominated in Hong Kong dollars and the remaining was denominated in US dollars. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at December 31, 2005, the cash and bank balance amounted to approximately HK$313 million of which approximately 41% were denominated in Hong Kong dollars, 32% in Renminbi, 13% in US dollars, 10% in Swiss France, 2% in Euro and 2% in Japanese Yen.

The Group conducts most of its business transactions in currencies of US dollars, Hong Kong dollars and Renminbi. As these currencies remained relatively stable during the year under review, the Group has limited exposure to foreign exchange rates fluctuations.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
At no time during the year ended December 31, 2005 had the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES
The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the year ended December 31, 2005.

DIRECTORS' SECURITIES TRANSACTIONS
The Company has adopted in December, 2005 a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the year ended December 31, 2005.

AUDIT COMMITTEE
The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended December 31, 2005.

PUBLICATION ON THE STOCK EXCHANGE'S WEBSITE
The results announcement is published on the Stock Exchange's website (http://www.hkex.com.hk). The Annual Report 2005 will be dispatched to the shareholders and available on websites of the Company (http://www.fongs.com) and Stock Exchange in due course.

NOTICE OF ANNUAL GENERAL MEETING
The 2006 Annual General Meeting of the Company will be held on May 25, 2006. Notice convening the meeting will be issued in due course.

On behalf of the Board
Fong Sou Lam
Chairman

As at the date of this announcement, the Board comprises seven Executive Directors, namely Mr. Fong Sou Lam, Mr. Wan Wai Yung, Mr. Fong Kwok Leung Kevin, Mr. Fong Kwok Chung Bill, Dr. Tsui Tak Ming William, Ms. Poon Hang Sim Blanche and Mr. Tsui Wai Keung and three Independent Non-executive Directors, namely Mr. Cheung Chiu Fan, Mr. Lui Chi Lung Louis and Dr. Yuen Ming Fai.

Hong Kong, April 13, 2006

* *For identification purpose only*

Please also refer to the published version of this announcement in SCMP-Business.