FONG'S INDUSTRIES COMPANY LIMITED
立信工業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2008

The Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2008 together with the comparative figures for last year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
Revenue	2	**2,499,856**	3,029,189
Cost of sales		**(2,076,023)**	(2,249,775)
Gross profit		**423,833**	779,414
Interest income		**9,348**	14,188
Other income		**64,301**	91,420
Gain (loss) on fair value change of financial assets held for trading		**1,123**	(2,142)
(Loss) gain on fair value change of financial assets designated at fair value through profit and loss ("FVTPL")		**(53)**	2,363
Net (loss) gain on embedded derivatives and convertible loan notes		**(11,245)**	3,936
Selling and distribution costs		**(156,075)**	(162,973)
General and administrative expenses		**(351,638)**	(352,968)
Other expenses		**(67,088)**	(73,778)
Finance costs	3	**(81,083)**	(64,484)
Share of results of an associate		**(2,128)**	1,371
Share of results of jointly controlled entities		**30,309**	78,315
(Loss) profit before tax		**(140,396)**	314,662
Income tax expense	4	**(2,383)**	(40,257)
(Loss) profit for the year attributable to equity holders of the Company		**(142,779)**	274,405
(Loss) earnings per share	5		
Basic		**(25.8) HK cents**	49.2 HK cents
Diluted		**N/A**	47.9 HK cents

CONSOLIDATED BALANCE SHEET
At December 31, 2008

	2008 HK$'000	2007 HK$'000
Non-current assets		
Property, plant and equipment	**418,062**	378,940
Prepaid lease payments	**15,485**	13,099
Intellectual property rights	**16,355**	19,271
Interests in an associate	**34,131**	34,385
Interests in jointly controlled entities	**73,299**	89,275
Deposits for acquisition of property, plant and equipment	**4,067**	20,282
Deposits for acquisition of leasehold land	**66,744**	16,000
Deferred tax assets	**4,745**	7,844
	632,888	579,096
Current assets		
Inventories	**864,689**	951,869
Trade and other receivables	**357,748**	489,258
Prepaid lease payments	**460**	362
Amounts due from jointly controlled entities	**1,438**	7,275
Tax recoverable	**17,883**	2,419
Structured deposits	**–**	57,853
Bank balances, deposits and cash	**309,785**	583,060
	1,552,003	2,092,096
Current liabilities		
Trade and other payables	**336,464**	409,648
Amount due to a jointly controlled entity	**264**	–
Warranty provision	**12,684**	23,274
Derivative financial instruments	**408**	2,359
Tax liabilities	**1,433**	12,202
Bank borrowings – due within one year	**240,010**	143,000
Embedded derivative components of convertible loan notes	**–**	21,862
Convertible loan notes	**–**	813,725
	591,263	1,426,070
Net current assets	**960,740**	666,026
	1,593,628	1,245,122
Capital and reserves		
Share capital	**55,145**	55,542
Reserves	**844,959**	1,102,989
Equity attributable to equity holders of the Company	**900,104**	1,158,531
Minority interests	**–**	1,290
Total equity	**900,104**	1,159,821
Non-current liabilities		
Bank borrowings – due after one year	**656,662**	82,500
Derivative financial instrument	**36,862**	–
Deferred tax liabilities	**–**	2,801
	693,524	85,301
	1,593,628	1,245,122

NOTES TO THE FINANCIAL STATEMENTS

1. Application of new and revised Hong Kong Financial Reporting Standards (HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009
[2] Effective for annual periods beginning on or after January 1, 2009
[3] Effective for annual periods beginning on or after July 1, 2009
[4] Effective for annual periods ending on or after June 30, 2009
[5] Effective for annual periods beginning on or after July 1, 2008
[6] Effective for annual periods beginning on or after October 1, 2008
[7] Effective for transfers on or after July 1, 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. Revenue and Business Segments

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

Segment information about these divisions is presented below:

2008

	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*
REVENUE					
External sales	1,387,146	623,034	489,676	–	2,499,856
Inter-segment sales	87,986	400,741	28,217	(516,944)	–
Total	1,475,132	1,023,775	517,893	(516,944)	2,499,856
RESULTS					
Segment results	(104,008)	16,903	438	–	(86,667)
Interest income					9,348
Net loss on embedded derivatives and convertible loan notes					(11,245)
Gain on fair value change of financial assets held for trading					1,123
Loss on fair value change of financial assets designated at FVTPL					(53)
Finance costs					(81,083)
Share of results of an associate					(2,128)
Share of results of jointly controlled entities	30,309				30,309
Loss before tax					(140,396)
Income tax expense					(2,383)
Loss for the year					(142,779)

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

2007

	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*
REVENUE					
External sales	1,615,387	902,650	511,152	–	3,029,189
Inter-segment sales	94,875	549,011	36,004	(679,890)	–
Total	1,710,262	1,451,661	547,156	(679,890)	3,029,189
RESULTS					
Segment results	134,588	100,395	46,132	–	281,115
Interest income					14,188
Net gain on embedded derivatives and convertible loan notes					3,936
Loss on fair value change of financial assets held for trading					(2,142)
Gain on fair value change of financial assets designated at FVTPL					2,363
Finance costs					(64,484)
Share of results of an associate					1,371
Share of results of jointly controlled entities	78,315				78,315
Profit before tax					314,662
Income tax expense					(40,257)
Profit for the year					274,405

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

3. Finance Costs

	2008	2007
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**30,229**	10,570
Effective interest expense on convertible loan notes	**36,698**	46,678
Bank charges	**14,156**	7,236
	81,083	64,484

4. Income Tax Expense

	2008	2007
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	**2,636**	36,669
(Over)underprovision in prior years	**(327)**	686
PRC Enterprise Income Tax ("EIT"):		
Current year	**158**	6,191
Overprovision in prior years	**(410)**	(3,523)
Overseas income tax:		
Current year	**8**	942
Underprovision for prior years	**20**	–
	2,085	40,965
Deferred tax:		
Current year	**194**	(708)
Attributable to a change in tax rate	**104**	–
	2,383	40,257

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Income tax from regions/countries outside Hong Kong is calculated at rates prevailing in the respective jurisdictions.

On March 16, 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the EIT of the Group's subsidiaries in the PRC was increased from 15% to 25% progressively from January 1, 2008 onwards. The relevant tax rate for the Group's subsidiaries in the PRC for the year ended December 31, 2008 is 18% (2007: 10% to 15%).

In 2007, a subsidiary obtained approval from the PRC tax authority for granting a concessionary tax rate on taxable profits in 2005. The PRC EIT of approximately HK$3,500,000 paid in prior year was refunded in 2007.

5. (Loss) earnings per Share

The calculation of the basic and diluted (loss) earnings per share attributable to equity holders of the Company is based on the following data:

2007

	HK$'000
Earnings	
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	274,405
Effect of dilutive potential ordinary shares:	
Interest on convertible loan notes	46,678
Gain on fair value change on convertible loan notes	(3,936)
Earnings for the purposes of diluted earnings per share	317,147

	'000
Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	557,409
Effect of dilutive potential ordinary shares:	
Convertible loan notes	104,987
Weighted average number of ordinary shares for the purposes of diluted earnings per share	662,396

2008

	HK$'000
Loss for the year attributable to equity holders of the Company for the purposes of basic loss per share	**(142,779)**
Weighted average number of ordinary shares for the purposes of basic loss per share	**552,797**

Diluted loss per share for the year ended December 31, 2008 has not been presented as the convertible loan notes had an anti-dilutive effect on the basic loss per share for the year.

6. **Dividends/Special Dividend**

	2008	2007
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2008 Interim dividend of 2 HK cents (2007: 9 HK cents) per share	**11,029**	49,988
2007 Final dividend of 8 HK cents (2006: 8 HK cents) per share	**44,253**	44,665
	55,282	94,653
2008 Interim special dividend of Nil (2007: 3 HK cents) per share	**–**	16,662
2007 Final special dividend of 7 HK cents (2006: 7 HK cents) per share	**38,721**	39,082
	38,721	55,744

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2008 (2007: a final dividend of 8 HK cents per share plus a final special dividend of 7 HK cents per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from May 18, 2009 to May 26, 2009, both days inclusive, during which period no transfers of shares of the Company will be effected for the purpose of determining the identity of members who are entitled to attend and vote at the Annual General Meeting of the Company.

In order to register the transfers, all share certificates accompanied by the duly completed transfer forms must be lodged with the Hong Kong Branch Registrars of the Company, Tricor Secretaries Limited of the 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, May 15, 2009.

CHAIRMAN'S STATEMENT

On behalf of the Board of the Company, I would like to present the annual results of the Company and its subsidiaries for the year ended December 31, 2008.

During the year, the Group recorded a revenue of approximately HK$2,500 million, representing a decrease of 17% as compared to that of 2007 and regrettably the loss attributable to equity holders was approximately HK$143 million when compared to a net profit of approximately HK$274 million for 2007. The significant loss for the year was the result of a combination of various factors, some of which were anticipated and others were not.

As per our last annual report, 2008 was already expected to be a difficult year in the textile industry worldwide with profits being squeezed by rising input costs and slowing sales. In addition, by the end of September 2008, the situation was further worsened by the full blown global financial crisis. Consequently, with such adverse economic environment, all of the Group's divisions were even more negatively affected in the second half of 2008.

In particular, having already been affected by rising input costs and high stainless steel prices, the loss in our textile machinery manufacturing segment was exacerbated by the losses from our European divisions due to the large reduction of orders and postponement of projects by the overseas customers during the last two quarters of 2008. In addition, lay-off expenses amounting to approximately HK$20 million were made for a combination of divisions in this segment.

As for our stainless steel trading segment, which has already been suffering from falling stainless steel prices during the year, a provision for impairment loss on inventory in the amount of approximately HK$46 million was further made for the year.

As reported in the Company's Interim Report 2008, during the year the Group acquired land use rights with an aggregate area of approximately 178 mu (approximately 118,600 m^2) located at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the PRC at the purchase price of approximately RMB46 million and that the Group was in negotiations to acquire further land at that location for future expansion. Now, in light of the global financial crisis, the Group has decided to put on hold expansion project temporarily and thus no further land acquisitions will be made in the foreseeable future.

To weather the global financial crisis, the Group has undertaken reorganization and cost reduction schemes. Expenses are being tightly controlled and cost cutting measures have been implemented to reduce overall operating costs.

Given the continued difficult market conditions and the financial loss for the full year, which call for the need for prudent allocation of resources, the Board does not recommend the payment of a final dividend for the year ended December 31, 2008. Thus, an interim dividend of 2 HK cents per share paid on 30 October, 2008 represented the total dividend paid for the year 2008.

PROSPECT

2009 will still be a challenging year for the Group and unfortunately a loss is anticipated due to extremely weak order intake during the last quarter of 2008 and the first quarter of 2009.

Nevertheless, given the various economic stimulus programs implemented by governments worldwide and particularly the Chinese government, we have observed that the markets are showing signs of stabilization and certain orders which had been postponed are now resumed. Furthermore, it appears that the consolidation in the textile industry has reached its peak denoting a further sign of stabilization.

Although it seems the worst has passed, we believe that a full recovery will be slow. Therefore, from an internal perspective, the Group will continue to scale back its operating costs to cope with the slower demand and the effect should start reflecting in the second half of 2009. Furthermore, stainless steel material costs for our textile machinery manufacturing and casting businesses will see a significant reduction by mid-2009 after the higher-cost inventories have been used up and are replaced by new lower-cost inventories following the sharp adjustments in stainless steel prices in the second half of 2008. Consequently, with orders stabilizing and the above internal strategies, the Group is confident that our loss will be stemmed by the second half of 2009.

As the world market leader in the textile dyeing and finishing machinery with over 45 years of experience, we are confident that the Group has the management expertise and resources to overcome the current unprecedented global financial crisis and the resulting global recession and to take this as an opportunity to further consolidate our position in the industry.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, suppliers, bankers and business partners for their continuous support. I would also like to take this opportunity to express my heartfelt thank to our management team and staff members for their hard work and valuable contributions to the Group in the past year. Lastly, I would also like to thank our shareholders for their continuous support to the Group. The Group is confident to achieve better results in the coming future.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The global financial meltdown triggered by the US sub-prime mortgage crisis has hit different industries. For the year ended December 31, 2008, the total revenue of the Group was approximately HK$2,500 million (2007: HK$3,029 million) representing a decrease of 17% as compared with the previous year. Loss attributable to equity holders was approximately HK$143 million (2007: profit of HK$274 million) and basic loss per share was 25.8 HK cents for the year under review (2007: basic earnings per share was 49.2 HK 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 year under review, this segment remained the major source of revenue for the Group. Revenue generated from this segment was approximately HK$1,387 million (2007: HK$1,615 million) representing a decrease of 14% as compared to the previous year and accounted for 55% of the Group's revenue. This segment recorded an operating loss of approximately HK$104 million while the operating profit was approximately HK$135 million for 2007.

The poor results were mainly due to the abrupt drop in the purchase orders in the second half of 2008 due to the global financial tsunami, which in turn attributed to the fall of production level below the economies of scale. Under the shadow of the global economic turmoil during the year, the textile industry faced an enormous challenges and the crisis has adversely affected market sentiment in which customers placed their orders cautiously in light of the difficult operating environment. The average selling price of dyeing and finishing machines has lowered about 10%.

During the year, our manufacturing operations in China continued to be under pressure, as the currency (Renminbi) rising significantly during the first half of 2008, and labour costs increasing after the PRC government tightened the labour laws and regulations. Moreover, major raw material prices remained fluctuating, making it a difficult job to control our costs. In addition, the streamlining process of our Eurporean operations (**THEN, Goller and Xorella**) was unable to make a turnaround yet. During the year, our European operations recorded an aggregate revenue of approximately HK$571 million (2007: HK$578 million) and accounted for 41% of the segment revenue but continued to have incurred operating loss of approximately HK$136 million, inclusive of lay-off expenses, (2007: HK$55 million) which had offset the operating profit of our **FONG'S** branded dyeing machine manufacturing operations. In the year ahead, the Group will continue to carry out its rationalization program and strategy to the full.

In the face of the difficult operating environment, the Group will strive to improve further its overall efficiency and competitiveness by implementing stringent cost control initiatives and optimizing its production and operation activities. To this end, the Group will primarily focus on the following aspects:

- Further reduce both production and human resources costs;
- Optimize the human resources structure.
- Improve the efficiency of capital utilization by effectively controlling materials procurement and inventory with the aid of its newly implemented ERP system.

Looking forward to 2009, global operating environment will likely continue to be difficult. To combat the current slowdown, the Chinese government has recently announced a series of stimulus packages and favourable policies to entice the textile industry. These policies have already shown positive impacts on the domestic sales. In order to boost sales and improve our performance, the Group will continue to introduce new and environmentally friendly dyeing and finishing machines such as AirFlow Dyeing Machines in an effort to enrich our product portfolio and gear up sales volume.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

The sales of this trading segment amounted to approximately HK$623 million (2007: HK$903 million), accounting for 25% of the Group's total revenue but its operating profit was reduced to approximately HK$17 million as compared to approximately HK$100 million last year.

The decline in sales was mainly attributable to the deteriorating global economy, which led to a downturn in demand for stainless steels, particularly in the construction and watch manufacturing sectors as well as lower stainless steel selling prices. The decrease in operating profit was due to the decline in sales as well as the average selling prices. During the year, impairment loss of the inventory of approximately HK$46 million further contributed to offset the operating profit.

Following the drastic decline of stainless steel prices in the second half of 2008, the prices appear to have bottomed and will remain in this lower range for the remainder of the year due to slow global demand as a result of the global recession. The Group will continue to closely monitor price fluctuations and adopt a prudent approach to manage this trading business in a bid to perform a better result.

STAINLESS STEEL CASTING

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

During the year under review, the revenue of this segment amounted to approximately HK$490 million (2007: HK$511 million), representing a decrease of 4% over last year. It accounted for 20% of the Group's total revenue. The operating profit was approximately HK$0.4 million (2007: HK$46 million). Rising raw material costs (particularly stainless steel scraps), increasing electricity expenses and appreciating values of Renminbi were critical factors, which impacted on our overall performance to a certain extent. As a result, the operating profit of this segment was squeezed during the year.

Despite the difficult operating conditions, by leveraging on its solid foundation and reputation for producing high quality products, this segment continued to have good order intake from existing customers. As a result, the utilization rate of our foundry plant was maintained at a relatively high level. The Group has been planning an expansion and upgrade of production capacity for some time. However, in light of the current depressed market condition, the management is moving ahead cautiously. Further more, the management has implemented various measures to cope with the market challenges, mainly emphasizing on cost-control and streamlining the production process including the use of automation processing equipment.

There is no doubt that the stainless steel casting market is large and growing but not without competition. Since our inception in 1995, Tycon has established a strong reputation as a quality and reliable supplier of castings. It is expected that this segment will continue to make long-term steady contribution to the Group.

JOINTLY CONTROLLED ENTITY

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

Despite a difficult operating environment, Monforts Fong's continued to maintain its market leading position in respect of its flag-ship "TwinAir" branded Stenter in China in 2008. Its revenue decreased 13% to approximately HK$599 million (2007: HK$691 million) and the Group's share of profit after tax amounted to approximately HK$32 million (2007: HK$78 million), representing a decrease of 59%. The decrease in profit was mainly attributable to the drop in revenue as well as the increases in raw materials costs and overall operating expenses due to the new labour regulations in China and the appreciation of Reminbi during the year.

In 2009, Monforts Fong's sales in China are expected to keep its momentum as fueled by the numerous stimulus packages and favourable policies to entice the textile industry being implemented by the Chinese government. In addition, with the agreement and support of our joint venture partner, Monforts Fong's will also expand into certain selected overseas markets in the Asian region. The management believes that such strategies will further increase and strengthen the revenue bases of Monforts Fong's. With the quality products and services, the management endeavours to make Monforts Fong's an international brand symbolizing top quality textile finishing products and solutions.

With its established track record and strong brand recognition, Monforts Fong's continues to be a relatively stable profit contributor to the Group.

HUMAN RESOURCES

To maintain its competitiveness, the Group has been implementing tight control on operating expenses and cash flow through reduction of headcounts and consolidation of operation structures.

The Group has launched a structuring programme to downsize workforce since the second half of 2008. As at December 31, 2008, the Group had a total of approximately 4,700 employees (2007: 5,300) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. Staff costs, including directors' remuneration were approximately HK$260 million (2007: HK$238 million). The headcounts were further reduced to approximately 4,300 as at March 31, 2009. Together with voluntary salary reduction by our senior management in January, 2009, we are targeting to reduce our payroll costs by 20% in 2009.

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 medical insurance, retirement benefits scheme, and share option scheme.

To equip with the workforces to face the challenges ahead, the Group will continue to offer training programmes to staff in different levels and positions on an ongoing basis. The aim of these programmes 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

On May 10, 2006, the Company issued HK$800 million zero couple convertible bonds due 2011 (the "Convertible Bonds"). 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 28 May, 2008, the adjusted conversion price is HK$7.34 per share). Pursuant to the terms and conditions of the Convertible Bonds, the holders of the Convertible Bonds will have the right, at such holder's option, to require the Company to redeem all or some only of the Convertible Bonds at 111.36% of their principal amount on November 10, 2008

During the year, the Company repurchased Convertible Bonds with an aggregate principal amount of HK$165.5 million by batches at the consideration of approximately HK$176.5 million. On 10 November 2008, the holders of the Convertible Bonds exercised their right to require the Company to redeem all of the outstanding HK$634.5 million principal amount of the Convertible Bonds. The aggregate redemption amount was approximately HK$706.6 million being financed by newly raised bank loans and the general working capital of the Group.

As the financial impact of redemption of the Convertible Bonds was balanced by the newly raised bank loans, there was no significant impact on the financial position of the Group. As at December 31, 2008, there was a gearing ratio of 65% and the current ratio was 2.6.

As at December 31, 2008, bank borrowings amounted to approximately HK$897 million. Most bank borrowings were sourced from Hong Kong, of which 88% were denominated in Hong Kong dollars and 12% were denominated in USD. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at December 31, 2008, the bank balances, deposits and cash amounted to approximately HK$310 million of which 47% were denominated in US dollars, 22% in Hong Kong dollars, 21% in Renminbi, 9% in Euro, and 1% in Swiss France.

As at December 31, 2008, the Group's inventory level amounted to approximately HK$865 million and has been further reduced to approximately HK$775 million as of February 28, 2009.

The Group's sales were principally denominated in US dollars or Euro while purchases were transacted mainly in US dollars, Renminbi and Hong Kong dollars. Currently, the Group does not have a fixed and regular foreign currency hedging policy. However, the Board will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposures should the need arises.

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

During the year ended December 31, 2008, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
April	2,264,000	4.31	4.28	9,735
May	1,710,000	4.28	4.12	7,206
	3,974,000			16,941

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 approximately HK$16,544,000 was charged against share premium. An amount of approximately HK$397,000 equivalents to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

During the year ended December 31, 2008, the Company repurchased and redeemed its zero coupon convertible loan notes (the "Notes") as follows:

Month of repurchase	Principal amount of the Notes	Amount paid for each HK$1 principal amount of the Notes		Consideration paid
		Highest	Lowest	
	HK$'000	*HK$*	*HK$*	*HK$'000*
May	80,000	1.065	1.060	85,087
June	30,000	1.065	1.065	31,950
July	47,950	1.070	1.070	51,307
August	7,500	1.085	1.085	8,138
	165,450			176,482

In addition to the amount of approximately HK$176,482,000 paid for the repurchase of the Notes, transaction costs of approximately HK$413,000 were paid upon repurchases.

On November 10, 2008, the Company, at the option of the bondholders, early redeemed the then outstanding Notes with principal amount of HK$634,550,000 at aggregate consideration of approximately HK$706,635,000 equivalent to 111.36% of the principal amount of such Notes.

The above Notes were cancelled upon repurchase or redemption. As at December 31, 2008, the Company has no outstanding Notes.

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 year ended December 31, 2008.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year ended December 31, 2008.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted 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, 2008.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Company for the year ended December 31, 2008.

ANNUAL REPORT

The Annual Report for the year ended December 31, 2008 will be despatched to shareholders and will be published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.fongs.com) in due course.

ANNUAL GENERAL MEETING

The 2009 Annual General Meeting will be held on Tuesday, May 26, 2009. Notice of the Annual General Meeting will be published on the website of the Stock Exchange as well as the website of the Company, and despatched to shareholders on or about April 30, 2009.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, April 22, 2009

* *For identification purpose only*

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, Mr. Tou Kit Vai, Dr. Tsui Tak Ming William and Ms. Poon Hang Sim Blanche and three Independent Non-executive Directors, namely Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.