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, 2007

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") for the year ended December 31, 2007 together with the comparative figures for last year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2007

	Notes	**2007** **HK$'000**	2006 *HK$'000*
Revenue	2	**3,029,189**	2,380,036
Cost of sales		**(2,249,775)**	(1,697,437)
Gross profit		**779,414**	682,599
Interest income		**14,188**	18,489
Other income		**91,420**	52,291
Gain on fair value change of the derivative components of convertible loan notes		**3,936**	11,001
Loss on fair value change of financial assets held for trading		**(2,142)**	(217)
Gain (loss) on fair value change of financial assets designated at fair value through profit and loss ("FVTPL")		**2,363**	(2,310)
Selling and distribution costs		**(162,973)**	(92,871)
General and administrative expenses		**(352,968)**	(305,236)
Other expenses		**(73,778)**	(60,623)
Finance costs	3	**(64,484)**	(49,817)
Share of results of an associate		**1,371**	8,893
Share of results of jointly controlled entities		**78,315**	46,740
Profit before tax		**314,662**	308,939
Income tax expense	4	**(40,257)**	(48,906)
Profit for the year attributable to equity holders of the Company		**274,405**	260,033
Earnings per share	5		
Basic		**49.2 HK cents**	46.5 HK cents
Diluted		**47.9 HK cents**	44.8 HK cents

CONSOLIDATED BALANCE SHEET

At December 31, 2007

	2007 *HK$'000*	2006 *HK$'000*
Non-current assets		
Property, plant and equipment	**378,940**	288,002
Prepaid lease payments	**13,099**	11,639
Intellectual property rights	**19,271**	21,934
Interests in an associate	**34,385**	42,431
Interests in jointly controlled entities	**89,275**	81,312
Deposits for acquisition of property, plant and equipment	**20,282**	9,958
Deposits for acquisition of a leasehold land	**16,000**	–
Deferred tax assets	**7,844**	5,525
	579,096	460,801
Current assets		
Inventories	**951,869**	778,372
Trade and other receivables	**489,258**	404,475
Prepaid lease payments	**362**	341
Amount due from a jointly controlled entity	**7,275**	2,475
Derivative financial instrument	**–**	27
Tax recoverable	**2,419**	691
Structured deposits	**57,853**	127,890
Bank balances, deposits and cash	**583,060**	580,464
	2,092,096	1,894,735
Current liabilities		
Trade and other payables	**409,648**	329,464
Amount due to a jointly controlled entity	**–**	1,701
Warranty provision	**23,274**	13,264
Derivative financial instruments	**2,359**	244
Tax liabilities	**12,202**	23,339
Borrowings – due within one year	**143,000**	54,613
Embedded derivative components of convertible loan notes	**21,862**	–
Convertible loan notes	**813,725**	–
	1,426,070	422,625
Net current assets	**666,026**	1,472,110
	1,245,122	1,932,911
Capital and reserves		
Share capital	**55,542**	55,842
Reserves	**1,102,989**	959,244
Equity attributable to equity holders of the Company	**1,158,531**	1,015,086
Minority interests	**1,290**	1,290
Total equity	**1,159,821**	1,016,376
Non-current liabilities		
Borrowings – due after one year	**82,500**	122,500
Deferred tax liabilities	**2,801**	1,190
Embedded derivative components of convertible loan notes	**–**	25,798
Convertible loan notes	**–**	767,047
	85,301	916,535
	1,245,122	1,932,911

NOTES TO THE FINANCIAL STATEMENTS

1. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning January 1, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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 applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after January 1, 2009
[2] Effective for annual periods beginning on or after July 1, 2009
[3] Effective for annual periods beginning on or after March 1, 2007
[4] Effective for annual periods beginning on or after January 1, 2008
[5] Effective for annual periods beginning on or after July 1, 2008

The adoption 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 that do not result in a loss of control, which will be accounted for as equity transactions. The Directors of the Company anticipate that the application of other new and revised standards, amendment and 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 businesses is presented below:

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
Gain on fair value change of the derivative components of 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.

2006

	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	1,312,912	809,195	257,929	–	2,380,036
Inter-segment sales	58,116	383,171	31,792	(473,079)	–
Total	1,371,028	1,192,366	289,721	(473,079)	2,380,036
RESULTS					
Segment results	95,663	145,275	35,222	–	276,160
Interest income					18,489
Gain on fair value change of the derivative components of convertible loan notes					11,001
Loss on fair value change of financial assets held for trading					(217)
Loss on fair value change of financial assets designated at FVTPL					(2,310)
Finance costs					(49,817)
Share of results of an associate					8,893
Share of results of jointly controlled entities	46,740	–	–	–	46,740
Profit before tax					308,939
Income tax expense					(48,906)
Profit for the year					260,033

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

3. Finance Costs

	2007	2006
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**10,570**	12,178
Effective interest expense on convertible loan notes	**46,678**	29,089
Bank charges	**7,236**	6,640
Issue cost of convertible loan notes in respect of the embedded derivative components	**–**	1,217
Factoring charges	**–**	693
	64,484	49,817

4. Income Tax Expense

	2007	2006
	HK$'000	*HK$'000*
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profits:		
Current year	**36,669**	41,875
Underprovision in prior years	**686**	211
The People's Republic of China (the "PRC") Enterprise Income Tax:		
Current year	**6,191**	6,795
(Over)underprovision in prior years	**(3,523)**	375
Overseas income tax:		
Current year	**942**	832
	40,965	50,088
Deferred tax	**(708)**	(1,182)
	40,257	48,906

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

Certain subsidiaries of the Group operating in the PRC are eligible for certain tax concessions and part of the income tax was exempted from the 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 2005. The PRC Enterprise Income Tax of approximately HK$3,500,000 paid in prior year was refunded in current year.

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the Chairman of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% at progressive rates gradually for certain subsidiaries from January 1, 2008.

5. Earnings per Share

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

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to equity holders of the Company for the purpose of basic earnings per share	**274,405**	260,033
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**46,678**	29,089
Gain on fair value change on convertible loan notes	**(3,936)**	(11,001)
Earnings for the purposes of diluted earnings per share	**317,147**	278,121

	2007	2006
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**557,409**	559,525
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**104,987**	61,799
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**662,396**	621,324

6. Dividends/Special Dividend

	2007	2006
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Interim dividend of 9 HK cents (2006: 8 HK cents) per share	**49,988**	44,688
Final dividend of 8 HK cents (2006: 5 HK cents) per share	**44,665**	28,019
	94,653	72,707
Interim special dividend of 3 HK cents (2006: 3 HK cents) per share	**16,662**	16,758
Final special dividend of 7 HK cents (2006: 7 HK cents) per share	**39,082**	39,226
	55,744	55,984

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of 8 HK cents per share and a special dividend of 7 HK cents per share for the year ended December 31, 2007 amounting to approximately HK$83,313,000 (2006: final dividend of 8 HK cents and special dividend of 7 HK cents amounting to approximately HK$83,747,000) to shareholders whose names appear on the register of members on May 28, 2008. Together with the interim dividend of 9 HK cents per share and special dividend of 3 HK cents per share (2006: interim dividend of 8 HK cents and special dividend of 3 HK cents) paid on November 8, 2007, the total dividend for the full year will be 27 HK cents per share (2006: 26 HK cents).

Subject to the approval of shareholders at the forthcoming annual general meeting, dividend warrants are expected to be despatched to shareholders on June 5, 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 19, 2008 to May 28, 2008, both days inclusive in order to determine those shareholders entitled to the proposed final and special dividends.

In order to qualify for the final and special dividends, all share certificate 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 16, 2008.

CHAIRMAN'S STATEMENT

The year 2007 was a difficult year and the Group faced many challenges. In particular with regards to the Group's major raw material, the average stainless steel prices for 2007 continued to increase by approximately 45% compared to 2006. Secondly, with the implementation of stringent water pollution regulations in major markets such as China and India, it resulted in many textile investment projects having been cancelled or deferred. All the while, the Group needed to continue to carry out its turnarounds of its various European subsidiaries acquired in recent years.

Despite the above mentioned difficulties and challenges, I am pleased to announce that the Group has delivered satisfactory results for the year ended December 31, 2007 by recording a 27% year-on-year increase in total revenue which amounted to approximately HK$3,029 million, of which HK$1,615 million was contributed from the Group's core business of dyeing and finishing machine manufacturing, HK$903 million from stainless steel trading and HK$511 million from stainless steel casting. The profit attributable to equity holders of the Company was HK$274 million representing a 5% growth compared to HK$260 million of the previous year.

Looking ahead, 2008 will be an even more challenging year as from a historical perspective, the textile industry in many regions including China faces the “Perfect Storm” as a result of the following factors:

- the depreciation of the US dollars versus the local currencies of the textile manufacturers;
- the anticipated decrease in textile and garment orders from the USA due the Credit Crisis led recession;
- the increase in cotton raw material prices; and
- the increase in other production costs such as labour, energy and environmental compliance.

Consequently, it is foreseen that the consolidation in the textile industry will accelerate where smaller scale, less well-managed and/or poorly equipped textile manufactures will be facing pressure in their operations.

Nevertheless, in spite of the gloomy prognosis of the Perfect Storm, we remain cautiously optimistic that sales will stabilize by the second half of 2008 as also on a historical perspective, the large domestic consumption growth of many developing regions has never been witnessed before. These regions not only cover China and Asia but all the way to Central and South America as well as the Africa, Russia and certain Middle East countries and which as a whole will help to mitigate the slow down in demand from the USA. In addition, it is anticipated that many customers will have to upgrade their machinery in order to remain competitive given the rising costs of energy and water resources.

Today, we believe that the Group offers the most water and energy efficient range of machinery available on the market for textile dyeing. Furthermore, we feel it is our obligation to provide solutions to minimize the environmental impact of the textile dyeing and finishing sector. Apart from continuing to introduce better and more environmentally friendly textile machinery to the industry, starting in 2008 we have taken another step further with the launch of “Fong’s Water Technology Company Limited” which will provide equipment and technology to recover and recycle water used in dye houses. We are very excited about the business prospect of this new division and expect that it will also bring synergetic growth to our textile machinery business in the future.

With this in mind, by introducing more and more environmentally friendly technology to the textile industry in the coming years, the Group’s ultimate goal is that our customers will be the most environmentally friendly dye houses in the world and given the high costs of energy and water resources, this will also translate into the most profitable dye houses in the world.

In order to achieve such goals, we will continue to invest internally in research and development ("R&D"). Moreover, to accelerate and to sow the seeds of the Group's R&D capabilities, the Group had already established the "Fong's Institute of Advanced Materials and Processing" at the Hong Kong University of Science and Technology via a HK $15 million donation in 2006. In 2007, we further established the "Fong's Research Centre for Advanced Mechanical Systems" at The University of Hong Kong with another donation of HK$7 million. We expect that with these collaborations, the Group will be able to provide innovative products with leading technology to our customers for many years to come.

With a confident long-term outlook, the Group has already planned to relocate to a new manufacturing complex in Zhongshan, the PRC in various phases over the coming years. As previously announced, on May 16, 2007, the Group entered into a land-use rights transfer contract for the acquisition of the land-use rights of an industrial site located at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the PRC with an area of approximately 1,250 mu (approximately 833,337.5m^2)(the "First Site"). Subsequent to the balance sheet date, on January 30, 2008, the Group also signed two letters of intent in respect of the acquisition of two additional pieces of land in the vicinity of the First Site with an aggregate area of approximately 138 mu (approximately 92,000 m^2) for use by its stainless steel trading business and water treatment business respectively.

At this moment, the project is somewhat behind schedule as recent changes in the PRC regulations regarding land sales have resulted in a more complicated and longer procedure in order to secure the land use rights of the said site and we expect that the delay will not have any significant impact on the financial performance of the Group in the coming year.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

For the year ended December 31, 2007, the total revenue of the Group was approximately HK$3,029 million (2006: HK$2,380 million) representing an increase of 27% as compared with the previous year. The profit for the year attributable to the shareholders was approximately HK$274 million (2006: HK$260 million) representing an increase of approximately 5% as compared with last year. Basic earnings per share for the year amounted to 49.2 cents (2006: 46.5 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$1,615 million (2006: HK$1,313 million) representing an increase of 23% from the previous year and accounted for 53% of the Group's revenue. The segment results increased 41% to approximately HK$135 million (2006: HK$96 million).

The growth in revenue has been mainly attributable to the increase in sales of our newly acquired brands of machinery of Goller, THEN and Xorella, in particular the sales of the THEN AIRFLOW branded Dyeing Machine which can reduce substantially the use of dyestuff and emission of waste water in the course of fabric processing as compared with the traditional fluid flow dyeing machines. The outlook for global demand of such environmentally friendly Air Flow Dyeing Machines in the years ahead remains strongly positive and the technology is quickly being adopted in our major markets of China and India.

For the year under review, the aggregate sales in respect of our newly acquired brands of machinery of Goller, THEN and Xorella increased by 78% to approximately HK$578 million (2006: HK$324 million) and accounted for 36% of the segment revenue but continued to have incurred a loss of approximately HK$55 million (2006: HK$75 million). Undoubtedly, the loss has been decreasing and it was also the first full year of turnaround operations for the Goller business division under the Group versus only approximately half a year in 2006.

In respect of the China market, it accounted for about 57% of the segment revenue. We have continued to devote efforts to further enhance our sales services by establishing regional sales offices at textile-enterprise concentrated cities including Shanghai, Wuhan, Qingdao, Changzhou, Shenyang, Fujian, Heshan and Shaoxing, hence rendering one-stop solutions (from consultation to after-sales support and maintenance) to an even larger number of customers in the surrounding areas more effectively and in a timely manner.

In respect of the overseas market, it accounted for about 43% of the segment revenue. Together with the addition of Goller, THEN and Xorella into this business segment, we have been able to achieve a much more geographically diversified revenue base as less than 35% of sales were attributable to markets outside of China prior to 2004.

In addition, the newly installed SAP ERP system has been successfully implemented and operating in our two major subsidiaries, namely Fong's National Engineering Co., Ltd. and Fong's National Engineering (Shenzhen) Co., Ltd. since March, 2008. The ERP system will facilitate the smoother grasp of management information, leading to a greater operational efficiency, enhanced production capacity and lower production costs. The Group also hopes to make use of the ERP system to place more emphasis on smoother production run and better quality control on every element in the procurement of raw materials, product design, production control, logistics run, delivery service and all the way to after-sale service. The newly installed ERP system will likely be implemented in all subsidiaries within this segment in the coming years.

Lastly, with a challenging external environment in the textile industry for 2008, this segment will have to focus intensively on various ways to reduce costs and to increase operational efficiency to ensure satisfactory performance for the year to come.

Stainless Steel Trading

Fong's Steels Supplies Company Limited

The sales of this trading segment remained stable at approximately HK$903 million (2006: HK$809 million), accounting for 30% (2006:34%) of the Group's total revenue but its operating profit was reduced by 31% to approximately HK$100 million (2006: HK$145 million) as compared with that of last year.

The decrease in profit margins was led by the fluctuating stainless steel price. However, we were still able to maintain the gross profit margin at a satisfactory level due to tight inventory control and stable market demand.

As the stainless steel price is still standing high, the Group will closely monitor price fluctuations and will continue to adopt a prudent approach to manage this trading business in a bid to perform a better result. It is anticipated that this segment will continue to be an important business unit to the Group.

Stainless Steel Casting

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

The segment performed well and had achieved double-digit growth for the past three consecutive years. During the year under review, the revenue amounted to approximately HK$511 million (2006: HK$258 million), representing an increase of 98% over last year. It accounted for 17% (2006: 11%) of the Group's total revenue. The segment results increased 31% to approximately HK$46 million (2006: HK$35 million).

Same as previous years, the competitive operating environment remained a major challenge to the casting business. Rising raw material costs (particularly stainless steel scraps), increasing electricity expenses and appreciating values of Renminbi were critical elements, which impacted on our overall performance to a certain extent. This undoubtedly reflected in the reduced gross profit margin and bottom-line growth despite of the improving revenue and operating profit. However, we will endeavor to maintain the growth momentum by aggressive cost control and productivity enhancement, including process optimization and reduction in wastage.

Furthermore, we will emphasize on providing more value-added services to our customers and to enlarge our business scopes in higher-margin products via providing valuable processes like machining, heat treatment and surface finishing.

There is no doubt that the stainless steel casting market is large and growing but not without keen competition. Since our inception in 1995, the Group has established a strong reputation as a quality and reliable supplier of castings. It is expected that the business will continue to grow in the foreseeable future.

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

Monforts Fong's achieved remarkable growth for the year ended December 31, 2007. This has been the result of increasing demand of quality finishing machines from the textile industry as the pace of quality upgrading for the textile industry in Mainland China has accelerated since 2007. Its revenue increased 47% to approximately HK$691 million (2006: HK$469 million) and the Group's share of profit after tax increased to approximately HK$78 million (2006: HK$47 million), representing an increase of 66%.

The substantial increase in profitability compared to the revenue has mainly been attributed to the extra contribution derived from the increased sales volume and the continued effective cost control on both manufacturing and overhead costs as well as a more profitable product mix.

Its flag-ship product, "TwinAir" branded Stenter, continues to receive high acceptance by the Chinese customers for the reasons of its outstanding features in respect of energy saving and price-performance and is the first choice quality finishing machine in the China textile industry. It is expected that the sales will have stable growth in the foreseeable future and to eventually capture up to 50% market share in China after several more years.

Human Resources
As at December 31, 2007, the Group had a total of approximately 5,300 employees (2006: 4,500) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. For the year under review, staff costs, including directors' remuneration were approximately HK$238 million (2006: HK$197 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 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 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 at December 31, 2007, the adjusted conversion price is HK$7.62 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.

The net proceeds after deducting the relevant expenses amounted to approximately HK$773 million. The Group will utilize the above said proceeds for the establishment of the new manufacturing complex in Zhongshan, the PRC, possible future acquisitions of business or potential joint ventures relating to its core business and to finance the Group's general working capital. As at December 31, 2007, the balances of the proceeds, which have not yet been utilized, were being placed in banks as short-term deposits. The directors may review and vary the purpose for which the proceeds are used in light of what they consider to be the optimal use of the proceeds from time to time.

Following the issue of the convertible bonds, the financial position of the Group has further been strengthened and improved. As at December 31, 2007, there was a gearing ratio of 41% and the current ratio was 1.5.

As at December 31, 2007, bank and other borrowings amounted to approximately HK$226 million. Most bank and other borrowings were sourced from Hong Kong, of which 90% were denominated in Hong Kong dollars and 10% were denominated in Euro. The bank and other borrowings of the Group are predominantly subject to floating interest rates.

At as December 31, 2007, the bank balances, deposits and cash amounted to approximately HK$583 million of which 61% were denominated in US dollars, 19% in Hong Kong dollars, 11% in Euro, 8% in Renminbi and 1% in Swiss France.

The Group's sales were principally denominated in US dollars or Euro while purchases were also transacted mainly in US dollars, Renminbi and Hong Kong dollars. The appreciation of Renminbi in 2007 did not materially affect the cost and operation of the Group in the year and the Group does not foresee significant risk in exchange rate fluctuation. Currently, the Group does not have a fixed and regular foreign currency hedging policy. However, the directors will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposure should the need arises.

The Group focused on core businesses and pursued long-term stable growth. Therefore, we adopted conservative principles in financial operation. Working capital can fully meet the demand of capital expenditures. The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

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

During the year ended December 31, 2007, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
January	100,000	5.20	5.20	520
June	388,000	5.55	5.55	2,153
July	112,000	5.55	5.55	622
August	396,000	5.50	5.30	2,146
September	2,000,000	5.26	5.18	10,436
	2,996,000			15,877

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$15,577,000 was charged against share premium. An amount of approximately HK$300,000 equivalents to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

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, 2007.

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, 2007.

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, 2007.

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, 2007.

ANNUAL REPORT

The Annual Report for the year ended December 31, 2007 will be despatched to shareholders and will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) as well as the website of the Company (www.fongs.com) in due course.

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting will be held on Wednesday, May 28, 2008. Notice of Annual General Meeting will be published on the website of The Stock Exchange of Hong Kong Limited as well as the website of the Company, and despatched to shareholders in due course.

On behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, April 14, 2008

* *For identification purpose only*

As at the date of this announcement, the Board comprises eight 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, Mr. Tsui Wai Keung, 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.