FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 00641)

Annual Report 2005

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam *(Chairman)*
Mr. Wan Wai Yung *(Managing Director)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche
Mr. Tsui Wai Keung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Fong Sou Lam
Mr. Fong Kwok Chung, Bill

QUALIFIED ACCOUNTANT

Ms. Poon Hang Sim, Blanche

AUDIT COMMITTEE

Mr. Cheung Chiu Fan *(Committee Chairman)*
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

REMUNERATION COMMITTEE

Mr. Fong Sou Lam *(Committee Chairman)*
Mr. Wan Wai Yung
Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

SOLICITORS

Richards Butler
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
The Bank of East Asia Limited
DBS Bank (Hong Kong) Limited
Bank of Communications

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Hamilton,
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
26th Floor, Tesbury Centre,
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court,
22 Victoria Street,
Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor,
22-28 Cheung Tat Road,
Tsing Yi,
Hong Kong
Tel: (852) 2497 3300
Fax: (852) 2432 2552

WEBSITE ADDRESS

http://www.fongs.com

Chairman's Statement

Fong Sou Lam
Chairman

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

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

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

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

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

Chairman's Statement

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 currently evaluating opportunities to expand this business in the coming years.

As for internal improvements, efforts are being made to reduce production and sourcing costs. The Group has recently established a Central Sourcing Department with the aim to negotiate better prices with the key suppliers and service providers for all divisions of the Group. The Department will focus on the task of sourcing better quality raw materials and components with lower costs, and securing sufficient and stable supply for the Group's businesses and operations. In addition, the Group is scheduled to implement an improved enterprise resources planning (ERP) system to facilitate internal communications and to improve the resource deployment efficiency and management quality within 2006.

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

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

APPRECIATION

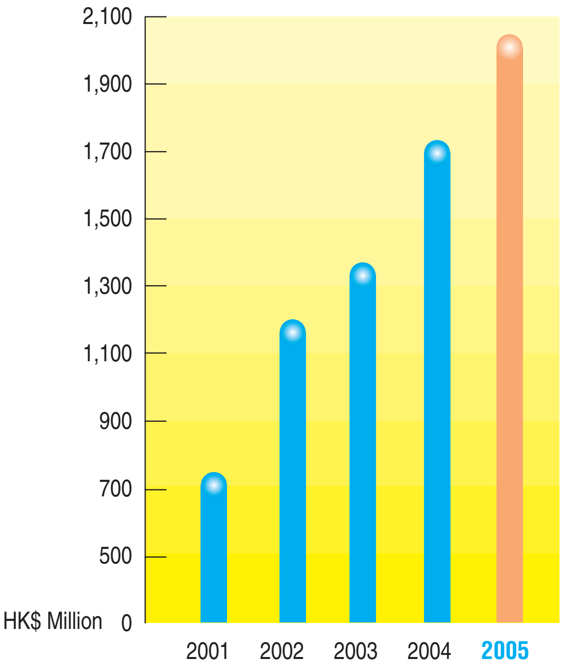
I would like to take this opportunity to express my heartfelt gratitude to our customers, suppliers, business partners, bankers and shareholders for all their continuous support and to all members of the Board and employees of Fong's whose dedication and support have helped the Group improve substantially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

Fong Sou Lam
Chairman

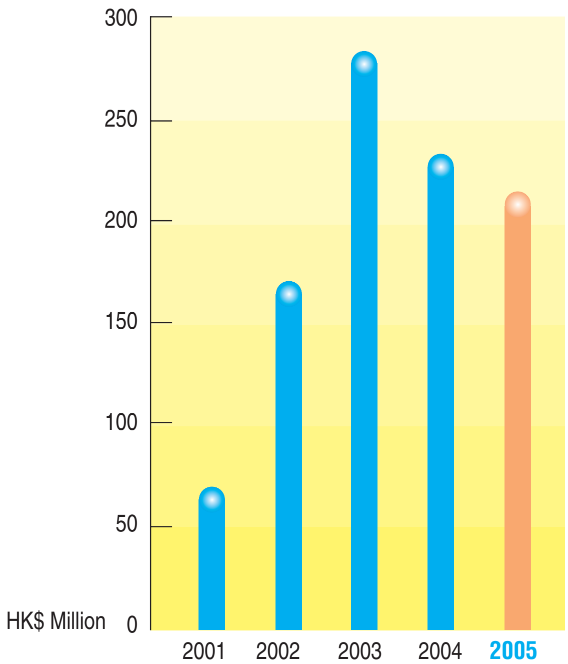
Hong Kong, April 13, 2006

Financial Highlights

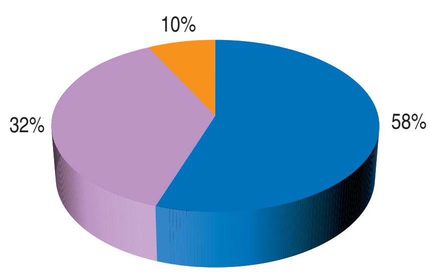
Revenue



Profit

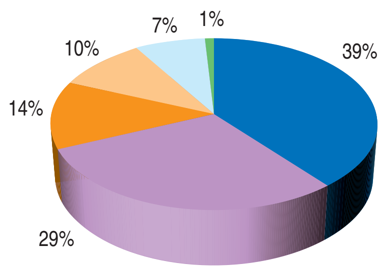


Analysis of Revenue for the year



By principal activity

- Manufacture and sale of dyeing and finishing machines
- Trading of stainless steel supplies
- Manufacture and sale of stainless steel casting products



By geographical region

- The People's Republic of China (the "PRC")
- Hong Kong
- Asia Pacific (other than the PRC and Hong Kong)
- Europe
- North and South America
- Others

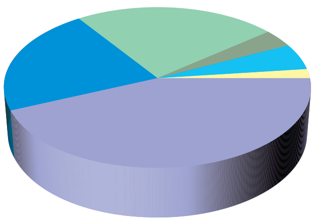
Financial Highlights

Revenue by Business Segment (HK$ Million)

Manufacturing and Sale of Dyeing and Finishing Machines

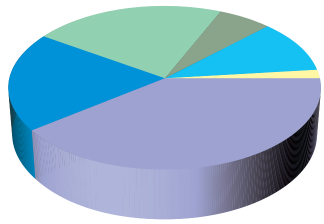
By geographical region

2004



PRC	420
Hong Kong	210
Asia Pacific	229
Europe	35
North and South America	51
Others	18

2005

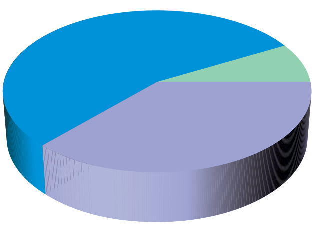


PRC	462
Hong Kong	228
Asia Pacific	258
Europe	72
North and South America	123
Others	20

Trading of Stainless Steel Supplies

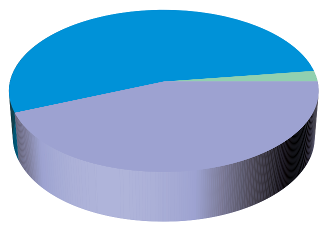
By geographical region

2004



PRC	242
Hong Kong	360
Asia Pacific	52

2005

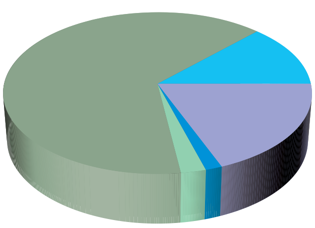


PRC	284
Hong Kong	349
Asia Pacific	14

Manufacture and Sale of Stainless Steel Casting Products

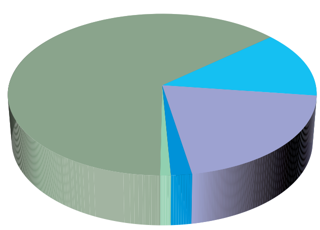
By geographical region

2004



PRC	24
Hong Kong	2
Asia Pacific	3
Europe	82
North and South America	16

2005



PRC	41
Hong Kong	4
Asia Pacific	2
Europe	129
North and South America	27

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam, aged 71, is the founder and Chairman of the Group. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has over 40 years of business experience in that industry. Mr. Fong is responsible for formulating and implementing of the overall corporate directions, corporate strategies and policies of the Group. Mr. Fong is also the Chairman of the Remuneration Committee of the Company. Mr. Fong is the father of Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill.

Mr. Wan Wai Yung, aged 55, is the Managing Director and a member of the Remuneration Committee of the Company. Mr. Wan is responsible for the overall supervision of the Group's operations and assisting the Chairman in strategic planning and business development. Mr. Wan first joined the Group in 1978 and has over 20 years of experience with excellent customer relationships in the textile and dyeing industry.

Mr. Fong Kwok Leung, Kevin, aged 44, is the eldest son of Mr. Fong Sou Lam and joined the Group in 1986. Mr. Kevin Fong has been involved in the business of stainless steel trading since 1988 and is currently responsible for overseeing the stainless steel trading and stainless steel casting businesses of the Group. Mr. Kevin Fong holds a Bachelor's Degree in Business Administration from the Simon Fraser University, Canada.

Mr. Fong Kwok Chung, Bill, aged 36, is the second son of Mr. Fong Sou Lam and joined the Group in 1994. Mr. Bill Fong is responsible for overseeing various business development projects. In addition, since October, 2005, Mr. Bill Fong has been responsible for the European operations of the overseas subsidiaries of the Group. Mr. Bill Fong studied at the Simon Fraser University, Canada with concentration in accounting and finance.

Dr. Tsui Tak Ming, William, aged 47, is a chartered engineer and is in charge of the technology and research & development teams of the Group. Dr. Tsui holds a doctorate degree in Aeronautical Engineering and is a corporate member of the British Royal Aeronautical Society, the British Institution of Mechanical Engineers, the Hong Kong Institution of Engineers and the Hong Kong Computer Society. Dr. Tsui joined the Group in 1989 and has over 20 years of experience in research and design on mechanical engineering.

Ms. Poon Hang Sim, Blanche is the Finance Director and Qualified Accountant of the Company. Ms. Poon is responsible for overseeing the overall corporate financial management of the Group. Ms. Poon holds a Bachelor's degree in Commerce from the University of New South Wales, Australia and is an associate member of the Hong Kong Institute of Certified Public Accountants and a CPA, Australia. Ms. Poon joined the Group in 1995.

Mr. Tsui Wai Keung, aged 48, is responsible for the operation management of the Group's production base in Shenzhen, the PRC. Mr. Tsui joined the Group in 1980 and has over 25 years of extensive experience in dyeing and finishing machinery manufacturing.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan, aged 52, has been appointed as an Independent Non-executive Director of the Company since August, 1996. Mr. Cheung is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Cheung is a professional accountant with extensive experience in public accounting and professional management. Mr. Cheung holds a Master degree in Business Administration from the Chinese University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries.

Mr. Lui Chi Lung, Louis, aged 52, has been appointed as an Independent Non-executive Director of the Company since September, 2000. Mr. Lui is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. Lui has over 20 years of experience in corporate and private banking industry and has worked as a senior marketing manager for a number of well-known international banks both in Hong Kong and in California, the USA. Mr. Lui holds a Master degree in Business Administration from State University of New York at Buffalo, the USA and graduated from the University of Wisconsin at Madison, the USA.

Dr. Yuen Ming Fai, aged 55, has been appointed as an Independent Non-executive Director of the Company since September, 2004. Dr. Yuen is also a member of the Audit Committee and Remuneration Committee of the Company. Dr. Yuen is currently the Director of Technology Transfer Center and a Professor in Mechanical Engineering at the Hong Kong University of Science and Technology. Dr. Yuen holds a doctorate degree in Mechanical Engineering from the University of Bristol, the United Kingdom and is a fellow member of the Institution of Mechanical Engineers (UK) and Hong Kong Institution of Engineers.

SENIOR MANAGEMENT

Mr. Wong Tak Man, Francis, aged 42, is a director of Fong's National Engineering Company, Limited and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine division of the Group in the China market. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Marine Engineering. Mr. Wong joined the Group in 1987.

Mr. Leung Sheung Wai, Walter, aged 39, is a director of Fong's National Engineering Company, Limited and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine division of the Group in the overseas markets. Mr. Leung graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Textile Chemistry. Mr. Leung joined the Group in 1997.

Mr. Tou Kit Vai, Ken, aged 43, is a director of Fong's National Engineering Company, Limited and Tycon Alloy Industries (Shenzhen) Co., Ltd. as well as the financial controller of Fong's National Engineering (Shenzhen) Co., Ltd.. Mr. Tou is in charge of the overall finance and internal audit relating to the Group's operations in the PRC. Mr. Tou is also responsible for overseeing the central sourcing function of the Group. Mr. Tou is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants Mr. Tou joined the Group in October, 2005.

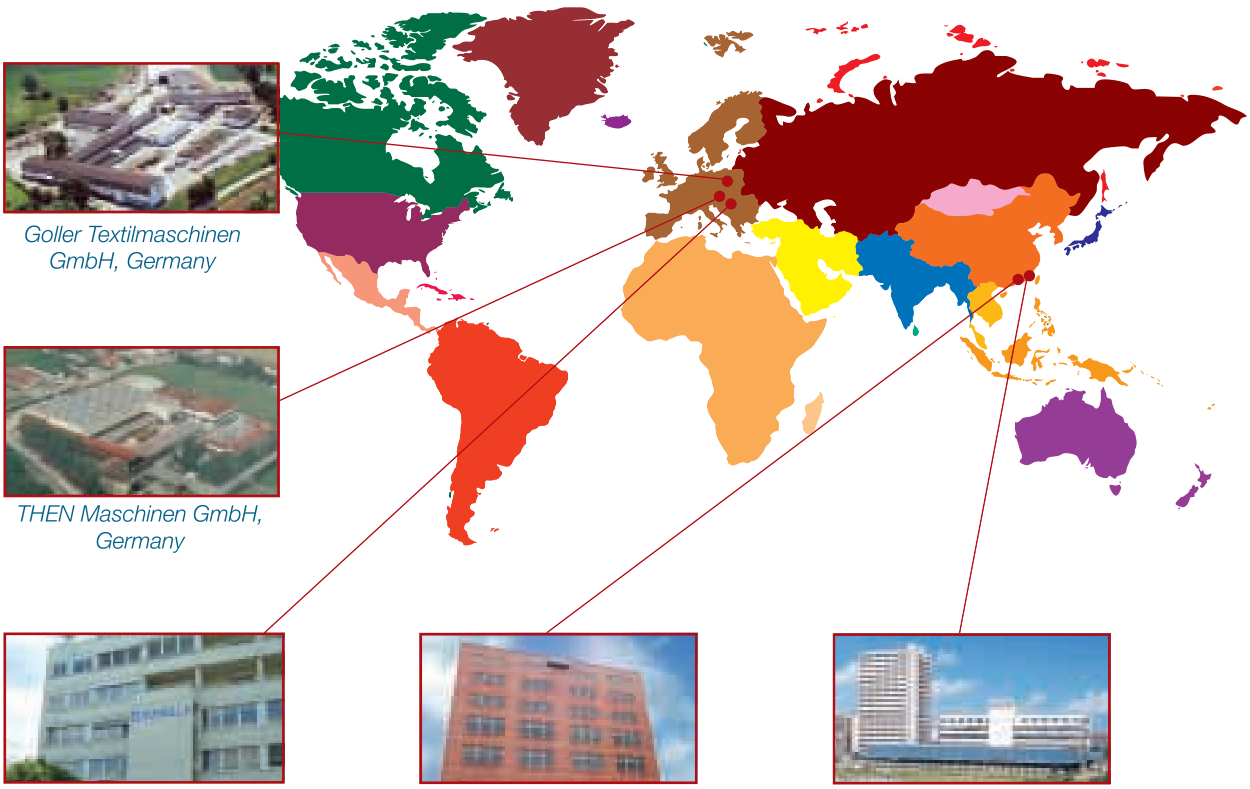
Directors and Senior Management Profile

Mr. Lee Che Keung, aged 45, is the Company Secretary of the Group. Mr. Lee graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration and is an associate member of the Hong Kong Institute of Chartered Secretaries. Mr. Lee is responsible for the overall corporate secretarial matters of the Group. Mr. Lee joined the Group in February, 1990.

Mr. Jürg Rupp, aged 55, is the Director – Corporate Relations and Communications responsible for the media relations and marketing communications of the Group. Mr. Rupp has over 30 years of extensive experience in the textile industry as well as in media communications, marketing and professional journalism. Mr. Rupp joined the Group in February, 2005.

Mr. Wu Wai Ip, Tony, aged 56, is the Assistant to Chairman – Organizational Development responsible for organizational re-engineering and development as well as human resources and administration functions of the Group. Mr. Wu graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Certificate in Personnel Management and holds a Master degree in Business Administration from University of East Asia, Macau. Mr. Wu is a member of the Hong Kong Institute of Human Resources Management and has over 30 years of extensive experience in human resources management. Mr. Wu joined the Group in May, 2005.

Management
Discussion and Analysis



Goller Textilmaschinen GmbH, Germany

THEN Maschinen GmbH, Germany

Xorella AG, Switzerland

Hong Kong Headquarters

China Headquarters

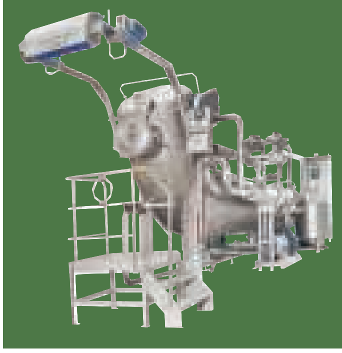
OPERATING RESULTS

For the year ended December 31, 2005, the consolidated turnover of the Group was approximately HK$2,012 million (2004: HK$1,744 million) representing an increase of 15% as compared with the previous year. The net profit for the year was approximately HK$219 million (2004: HK$235 million) representing a decrease of 7% as compared with last year. Basic earnings per share for the year amounted to 39.0 HK cents (2004: 41.9 HK cents).

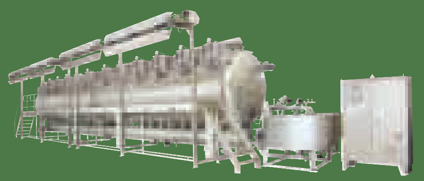
DYEING AND FINISHING MACHINE MANUFACTURING

Fong's National Engineering Company, Limited, Fong's National Engineering (Shenzhen) Co., Ltd., THEN Maschinen GmbH, THEN Maschinen (HK) Ltd, Xorella AG and Xorella Hong Kong Limited

Management
Discussion and Analysis



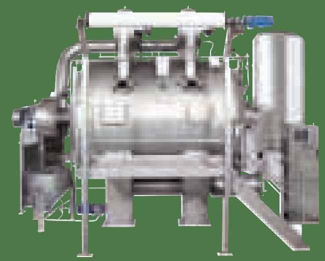
ECO-88D



ECO-6

ALLWIN

Bigstar



Airflow Synergy SYN 500

CONTEXXOR® Plus

CONTEXXOR® LTC-S

Washing Range Effecta

Plexxor Co., Limited

Management
Discussion and Analysis

ITMA Asia 2005

ShanghaiTex 2005

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 segment results 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, 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

Management Discussion and Analysis

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 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. 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.

FONG'S STEELS

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 segment results 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.

Management
Discussion and Analysis

Tycon Alloy Manufacturing Plant

Workshop of Tycon Alloy

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 segment results 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.

Management
Discussion and Analysis

Monforts Fong's Manufacturing Plant

Thermefix 338 Continuous Dyeing Range

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.

Management Discussion and Analysis

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 amounted to 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.

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Code") was introduced to Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force for accounting periods commencing on or after January 1, 2005.

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 of Directors of the Company (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 during the year ended December 31, 2005.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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 (the "Model Code") 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.

To comply with the code provision A. 5.4 of the Code, the Company has also adopted in December, 2005 a code of conduct regarding securities transactions by relevant employees on no less exacting terms than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance was noted by the Company in 2005.

Corporate Governance Report

BOARD OF DIRECTORS

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing the duties.

The Board is led by the Chairman and currently comprises seven Executive Directors and three Independent Non-executive Directors. The Directors of the Company during the year and up to the date of this Annual Report were:

Executive Directors

Mr. Fong Sou Lam *(Chairman)*	
Mr. Wan Wai Yung *(Managing Director)*	*(appointed on March 1, 2005)*
Mr. Fong Kwok Leung, Kevin	
Mr. Fong Kwok Chung, Bill	
Dr. Tsui Tak Ming, William	
Ms. Poon Hang Sim, Blanche	
Mr. Tsui Wai Keung	
Mr. Peter Rainer Philipp	*(appointed on April 11, 2005 and resigned on April 12, 2006)*
Mr. Cheuk Hon Kin, Kelvin	*(resigned on June 20, 2005)*
Mr. Mo Yiu Leung, Jerry	*(resigned on July 15, 2005)*
Mr. Lee Che Chiu	*(resigned on October 3, 2005)*

Independent Non-executive Directors

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

The biographical details of the existing Directors are listed in the section of "Directors and Senior Management Profile" in this Annual Report.

Save as Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill are the sons of Mr. Fong Sou Lam, there is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board and in particular, between the Chairman and the Managing Director. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations. Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company does not at present have any officer with the title of "chief executive officer" ("CEO") but instead the duties of a CEO are performed by the Managing Director. In order to have a clear division between the management of the Board and the day-to-day management of the business operation of the Company, the role of the Chairman is separate from that of the Managing Director. The Chairman focuses on overall corporate development and strategic direction of the Group and provides leadership for the Board and oversees the efficient functioning of the Board. The Managing Director is responsible for all day-to-day corporate management matters as well as assisting the Chairman in planning and developing the Group's strategy. Such division of responsibilities helps to reinforce their independence and to ensure a balance of power and authority.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(2) of the Listing Rules, Mr. Cheung Chiu Fan, one of the Independent Non-executive Directors, is a public auditor and has appropriate qualifications and accounting and related financial management expertise.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence. The Board considers that each Independent Non-executive Director is independent in character and judgement and that they all meet the specific independence criteria as required under Rule 3.13 of the Listing Rules. Moreover, all Independent Non-executive Directors are engaged on service contracts for a term of two years, subject to retirement by rotation and re-election in accordance with the provisions of the Bye-Laws of the Company.

The Independent Non-executive Directors are expressly identified in all of the Company's publications such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

BOARD MEETING

The Board conducts meetings on a regular basis and on an ad hoc basis, as required by business needs. The Bye-Laws of the Company allows board meetings to be conducted by way of telephone or videoconference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. The Board held a total of four regular Board Meetings during the year under review. The attendance record of each Director at the Board Meetings is disclosed below in this report.

In the said Board Meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the board meetings and at least three days before the regular board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Corporate Governance Report

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a Director, and approving and terminating the appointment of a Director. The Company has not set up a nomination committee for the time being.

The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional Director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a Director must be approved by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is empowered under the Company's Bye-Laws to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. A newly appointed Director must retire and be-elected at the first annual general meeting after his/her appointment. According to the Bye-Laws of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to one-third) should retire from office by rotation, provided that the Chairman and Managing Director of the Company should not be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year.

During the year of 2005, Board Meetings were held to approve the appointment of Mr. Wan Wai Yung as Managing Director and the appointment of Mr. Peter Rainer Philipp as an additional Director, such appointments were subsequently approved by the shareholders of the Company in the 2005 annual general meeting.

In the spirit of good corporate governance practices, Mr. Fong Sou Lam who is the Chairman of the Board of the Company and Mr. Wan Wai Yung who is the Managing Director of the Company, will voluntarily retire from their office by rotation at the relevant annual general meetings of the Company notwithstanding that they are not required by the Bye-Laws to do so.

Mr. Fong Sou Lam, Mr. Tsui Wai Keung and Mr. Lui Chi Lung, Louis will retire from office by rotation under the Bye-Laws of the Company at the forthcoming annual general meeting, but all of them will be offering themselves for re-election at the same meeting.

Corporate Governance Report

REMUNERATION COMMITTEE

In order to comply with the code provision B.1.1. of the Code, the Board has established a Remuneration Committee in December, 2005 with specific terms of reference which deal clearly with its authority and duties. The terms of reference have been posted on the Company's website (www.fongs.com).

The Remuneration Committee comprises the following five members, the majority of which are the Independent Non-executive Directors:

Mr. Fong Sou Lam *(Committee Chairman)*
Mr. Wan Wai Yung
Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

The Remuneration Committee's role is to make recommendations to the Board on the remuneration policy and structures for Directors of the Company and senior management of the Group and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of the shareholders. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain and motivate a high-calibre team which is essential to the success of the Company. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all Executive Directors and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. In particular, the Remuneration Committee is delegated with the specific task of ensuring that no Director is involved in deciding his own remuneration.

The Remuneration Committee shall meet as and when required to consider remuneration-related matters. As the Remuneration Committee was established in December, 2005, no meeting of the Remuneration Committee was held during the year under review.

Prior to the establishment of the Remuneration Committee, consistent with the principles applied in the past, the remunerations of the Directors and senior management were determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and the prevailing market conditions.

Corporate Governance Report

AUDIT COMMITTEE

The Company established its Audit Committee in December, 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the Code, the terms of reference of the Audit Committee were revised in December, 2005 in terms substantially the same as the provisions set out in the Code. The revised terms of reference of the Audit Committee are available on the Company's website (www.fongs.com).

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. The Audit Committee also reviews the Company's internal audit plan, and submits relevant reports and recommendations to the Board on a regular basis.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Chiu Fan (Chairman of the Audit Committee), Mr. Lui Chi Lung, Louis and Dr. Yuen Ming Fai. The Audit Committee meets formally at least three times a year. The external auditors and the Executive Directors and senior management are invited to attend the meetings whenever it is considered appropriate or necessary. The Audit Committee held three meetings in 2005 and the individual attendance of members are set out below in this report.

In discharging its responsibilities, the Audit Committee had performed the following works during the year of 2005:

(i) reviewed the interim and annual financial statements and the related results announcements;

(ii) reviewed the change in accounting standards and assessment on potential impacts on the Group's financial statements;

(iii) reviewed the continuing connected transactions and commented on the fairness and reasonableness of the transactions;

(iv) reviewed the Group's internal control system and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and

(v) made recommendation on the appointment or re-appointment on the external auditors and approved their terms of engagement.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Messrs. Deloitte Touche Tohmatsu be re-appointed as the Company's external auditors for 2006.

Corporate Governance Report

ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2005

	Number of meetings attended/held	
	Board Meeting	**Audit Committee Meeting**
Executive Directors		
Mr. Fong Sou Lam	4/4	
Mr. Wan Wai Yung	2/4	
Mr. Fong Kwok Leung, Kevin	3/4	
Mr. Fong Kwok Chung, Bill	2/4	
Dr. Tsui Tak Ming, William	2/4	
Ms. Poon Hang Sim, Blanche	3/4	
Mr. Tsui Wai Keung	0/4	
Independent Non-executive Directors		
Mr. Cheung Chiu Fan	4/4	3/3
Mr. Lui Chi Lung, Louis	3/4	2/3
Dr. Yuen Ming Fai	4/4	3/3

In each of the above meetings, certain Directors were unable to attend the meeting(s) due to business trip or other commitment.

AUDITORS' REMUNERATION

During the year, Messrs. Deloitte Touche Tohmatsu, auditors of the Company (which for the purpose includes any entity under common control, ownership or management with the auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and non-audit services to the Group:

Audit services
Non-audit service- agreed-upon procedures for continuing connected transactions and results announcements
Non-audit service- tax advisory services

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$106,000.

Corporate Governance Report

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended December 31, 2005 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditors about their reporting responsibilities is set out in the Auditors' Report of this Annual Report.

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures of the Group. The management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

There is currently no internal audit function within the Group that is separate and independent from the Group's finance team. The finance team assumes also responsibility for conducting regular review of internal control procedures, including accounting system and procedures. Although this arrangement can be improved, management is not concerned with the lack of segregation of duties having assumed the current organizational structure, lines of responsibility and authority of the management team and the risks associated with the operations of the Group.

INVESTOR RELATIONS

During the year under review, the Company has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and annual report as well as voluntary press releases. Through the timely distribution of press releases, the Company has also kept the public abreast of its latest developments. Regular meetings and plant visits have been organized to enhance the investors' understanding of the Group's businesses and production operations.

The Company has set up a corporate website (www.fongs.com) at which relevant information including the latest development of the Group will be announced. The website offers the latest information regarding various aspects of the Group to investors and the public. The Company will improve the website in the future, making it an interactive communication platform between the Company and its investors.

For and on behalf of the Board
Fong Sou Lam
Chairman

Hong Kong, April 13, 2006.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The subsidiaries of the Company are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products. The activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2005 are set out in the consolidated income statement on page 35.

An interim dividend of 8 HK cents per share plus an interim special dividend of 3 HK cents per share, amounting to approximately HK$62 million, were paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 5 HK cents per share plus a final special dividend of 7 HK cents per share to the shareholders on the register of members on May 25, 2006, amounting to approximately HK$67 million, and the retention of the remaining profit for the year of approximately HK$90 million.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2005, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 8% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 45% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier accounted for approximately 30% of the total purchases.

None of the Directors, their associates, or any shareholder, which to the knowledge of the Directors owns more than 5% of the Company's share capital, has any interest in the Group's five largest suppliers or customers.

Directors' Report

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Fong Sou Lam *(Chairman)*	
Mr. Wan Wai Yung *(Managing Director)*	*(appointed on March 1, 2005)*
Mr. Fong Kwok Leung, Kevin	
Mr. Fong Kwok Chung, Bill	
Dr. Tsui Tak Ming, William	
Ms. Poon Hang Sim, Blanche	
Mr. Tsui Wai Keung	
Mr. Peter Rainer Philipp	*(appointed on April 11, 2005 and resigned on April 12, 2006)*
Mr. Cheuk Hon Kin, Kelvin	*(resigned on June 20, 2005)*
Mr. Mo Yiu Leung, Jerry	*(resigned on July 15, 2005)*
Mr. Lee Che Chiu *(Joint Managing Director)*	*(resigned on October 3, 2005)*

Independent Non-Executive Directors:

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

Mr. Cheung Chiu Fan was appointed under a service contract for a term of 2 years commencing on January 1, 2005 and expiring on December 31, 2006.

Mr. Lui Chi Lung, Louis was appointed under a service contract for a term of 2 years commencing on September 9, 2004 and expiring on September 8, 2006.

Dr. Yuen Ming Fai was appointed under a service contract for a term of 2 years commencing on September 1, 2004 and expiry on August 31, 2006.

The Company has received confirmations of independence from the all Independent Non-executive Directors and considers them to be independent.

In accordance with Clause 99 of the Company's Bye-Laws, one third of the Directors, namely Mr. Fong Sou Lam, Mr. Tsui Wai Keung and Mr. Lui Chi Lung, Louis, shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Other than as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at December 31, 2005, the interests of the Directors and their associates in the shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to The Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, were as follows:

Long position in ordinary shares of HK$0.10 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Sou Lam	Beneficial owner	18,824,000	3.36%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.04%
	Held by discretionary trusts *(note)*	304,875,601	54.40%
		306,625,601	54.72%
Mr. Fong Kwok Chung, Bill	Beneficial owner	7,442,000	1.33%
	Held by discretionary trusts *(note)*	304,875,601	54.40%
		312,317,601	55.73%
Mr. Wan Wai Yung	Beneficial owner	1,743,500	0.31%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%

Note: The 304,875,601 shares are owned by two discretionary trusts, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members. These shares represented an interest duplicated amongst those two Directors.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2005.

Directors' Report

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2005 were as follows:

	HK$
Contributed surplus	23,033,335
Retained profits	72,203,867
Dividend reserve	67,245,394
	162,482,596

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Directors' Report

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

Pursuant to the approval by the shareholders of the Company at a special general meeting held on May 26, 2003, a share option scheme was adopted in order to comply with the new requirements of Chapter 17 of the Listing Rules effective from September 1, 2001. The Board of Directors of the Company may, at their discretion, grant options to the eligible participants including any employees, directors or consultants of the Group.

No share option has been granted by the Company under the share option scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

Other than share options discussed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2005, the Group entered into the following transactions which are defined in Chapter 14A of the Listing Rules as "continuing connected transactions" and are exempted from the independent shareholders' approval requirements. These continuing connected transactions are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules:

(1) *The Group entered into an operating lease agreement with Sou Lam Company, Limited ("Sou Lam") in which Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests.*

On December 30, 2004, Fong's National Engineering Co., Ltd. ("FNECL"), a wholly-owned subsidiary of the Company, entered into an operating lease agreement with Sou Lam for the use of a portion of a factory building by the Group as general office as well as for industrial or godown purposes for a term of three years from January 1, 2005 to December 31, 2007. The total rentals paid by the Group to Sou Lam for the year amounted to HK$5,418,000. Details of the transaction were set out in the press announcement of the Company dated December 30, 2004.

Directors' Report

(2) *The Group, through its three subsidiaries, entered into five agreements with PSP Marketing Inc. ("PSP") in relation to agency and marketing activities for the sales of the products of these subsidiaries. PSP is beneficially owned as to 51% by Mr. Peter Rainer Philipp.*

Details of these transactions were set out in the press announcement of the Company dated April 20, 2005.

(i) On May 1, 2003, a regional sales coordination agreement was entered into between PSP and FNECL whereby PSP was appointed as the exclusive sales coordinator to carry out sales and marketing activities in respect the **FONG'S** branded products of the Group in Central and South America for an initial term of three years commencing from May 1, 2003.

(ii) On October 4, 2003, a sales agency agreement was entered into between PSP and FNECL whereby PSP was appointed as the exclusive sales agent for the sales of the **FONG'S** branded products of the Group in Canada and the United States of America (the "USA") with effect from October 4, 2003.

(iii) On May 14, 2003, a technical, sales and marketing support agreement was entered into between PSP and Xorella AG, a 80% subsidiary of the Group whereby PSP was engaged to provide technical, sales and marketing supports in respect of the products of Xorella AG in Central and South America with effect from May 2, 2003.

(iv) On July 22, 2003, a sales agency agreement was entered into between PSP and Xorella AG whereby PSP was appointed as the exclusive sales agent for the sales of the products of Xorella AG in Canada and the USA with effect from July 22, 2003.

(v) On November 4, 2004, a sales agency agreement was entered into between PSP and THEN Maschinen GmbH, a wholly-owned subsidiary of the Company, whereby PSP was appointed as the exclusive sales agent for the sales of the **THEN** branded products of the Group in the USA with effect from November 1, 2004.

By a subsequent mutual agreement between PSP and the Group, the parties have agreed that with effect from April 10, 2005, notwithstanding any provisions set out in the above-mentioned agreements and unless otherwise being earlier terminated by either party, each of the above-mentioned agreements shall not be renewable beyond December 31, 2007 and all the agreements shall expire on December 31, 2007.

The aggregate amount paid and payable to PSP under the above-mentioned agreements for the year was HK$4,770,510, which has not exceeded the cap amount under Rule 14A.34 of the Listing Rules.

Directors' Report

Pursuant to Rule 14A.38 of the Listing Rules on the Stock Exchange, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors. The Independent Non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

CONTRACTS OF SIGNIFICANCE

Other than the continuing connected transactions as disclosed above, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at December 31, 2005, the register maintained by the Company pursuant to section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued share capital in the Company
The Capital Group Companies Inc.	Beneficial owner	39,132,000	6.98%
Aberdeen Asset Management Plc.	Beneficial owner	33,626,000	6.00%

Save as disclosed above, as at December 31, 2005, the Company has not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$1,892,280.

Directors' Report

EMOLUMENT POLICY

The Group's emolument policy, including salaries and bonuses, is in line with the local practices where the Company and its subsidiaries operate. The emolument policy of the Group is reviewed by the Directors of the Company regularly, making reference to legal framework, market conditions and performance of the Group and individual employee.

The emolument packages of the Directors of the Company will be reviewed by the Board of the Company regularly. A share option scheme was established by the Company on May 26, 2003 to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Details of the share option scheme are set out in note 29 to the consolidated financial statements. No share option has been granted by the Company under the share option scheme since its adoption.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENT

Details of the significant event occurring after the balance sheet date are set out in note 35 to the consolidated financial statements.

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

At no time during the year was the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Fong Sou Lam
DIRECTOR
Hong Kong, April 13, 2006

Auditors' Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF FONG'S INDUSTRIES COMPANY LIMITED
立信工業有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Fong's Industries Company Limited (the "Company") and its subsidiaries (the "Group") on pages 35 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

April 13, 2006

Consolidated Income Statement

For the year ended December 31, 2005

	Notes	2005 HK$	2004 HK$ (Restated)
Revenue	6	**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	7	**(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	8	**240,706,604**	267,721,583
Income tax expense	10	**(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	12	**39.0 HK cents**	41.9 HK cents

Consolidated Balance Sheet

At December 31, 2005

	Notes	2005 HK$	2004 HK$ (Restated)
Non-current assets			
Property, plant and equipment	13	**255,888,903**	258,572,595
Prepaid lease payments	14	**11,665,200**	24,231,006
Intellectual property rights	15	**24,825,964**	27,718,309
Interests in associates	16	**33,142,190**	31,800,764
Interest in a jointly controlled entity	17	**60,750,623**	57,486,349
Deferred tax assets	26	**4,268,408**	3,746,952
		390,541,288	403,555,975
Current assets			
Inventories	18	**367,972,766**	393,439,199
Trade and other receivables	19	**226,685,197**	193,155,579
Dividend receivable from a jointly controlled entity		**7,500,000**	–
Prepaid lease payments	14	**331,767**	372,256
Amount due from a jointly controlled entity	20	**8,703,558**	–
Tax recoverable		**7,724,953**	9,636,082
Bank balances, deposits and cash	21	**312,703,619**	254,175,933
		931,621,860	850,779,049
Current liabilities			
Trade and other payables	22	**221,164,489**	245,944,272
Amount due to a jointly controlled entity	20	**–**	2,419,850
Warranty provision	23	**12,298,582**	11,064,509
Tax liabilities		**6,012,283**	15,806,900
Obligations under finance leases			
– due within one year	24	**–**	1,518,217
Borrowings – due within one year	25	**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

Consolidated Balance Sheet

At December 31, 2005

	Notes	2005 HK$	2004 HK$ (Restated)
Capital and reserves			
Share capital	27	**56,037,829**	56,037,829
Reserves	28	**817,228,665**	734,860,428
Equity attributable to equity holders of the parent		**873,266,494**	790,898,257
Minority interests	28	**1,290,136**	1,747,327
Total equity		**874,556,630**	792,645,584
Non-current liabilities			
Borrowings – due after one year	25	**120,000,000**	–
Deferred tax liabilities	26	**1,115,620**	1,047,242
		121,115,620	1,047,242
		995,672,250	793,692,826

The consolidated financial statements on pages 35 to 87 were approved and authorised for issue by the Board of Directors on April 13, 2006 and are signed on its behalf by:

Fong Kwok Chung, Bill	**Fong Sou Lam**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Recognised Income and Expense

For the year ended December 31, 2005

	2005 HK$	2004 HK$ (Restated)
Net exchange difference arising on translation of overseas subsidiaries recognised directly in equity	**35,306**	1,183,406
Share of changes in exchange reserves of associates and a jointly controlled entity	**1,910,713**	–
Net income recognised directly in equity	**1,946,019**	1,183,406
Translation reserve realised on disposal of a subsidiary	**1,863,435**	–
Profit for the year	**218,196,163**	235,248,194
Total recognised income and expense for the year	**222,005,617**	236,431,600
Attributable to:		
Equity holders of the parent	**222,462,808**	236,295,549
Minority interests	**(457,191)**	136,051
	222,005,617	236,431,600

Consolidated Cash Flow Statement

For the year ended December 31, 2005

	2005 HK$	2004 HK$ (Restated)
OPERATING ACTIVITIES		
Profit before tax	**240,706,604**	267,721,583
Adjustments for:		
Finance costs	**17,241,877**	10,955,139
Interest income	**(2,575,693)**	(977,571)
Share of results of associates	**(2,053,934)**	(1,685,649)
Share of result of a jointly controlled entity	**(32,253,561)**	(31,286,197)
Depreciation of property, plant and equipment	**28,998,764**	27,792,774
Amortisation of prepaid lease payments	**369,790**	372,256
Allowance (reversal of allowance) for inventories	**985,280**	(221,937)
Allowance for doubtful debts	**2,159,091**	5,174,651
Amortisation of intellectual property rights	**2,892,345**	1,205,144
Amortisation of goodwill	**–**	2,974,379
(Gain) loss on disposal of property, plant and equipment	**(67,231)**	85,082
Gain on disposal of prepaid lease payments	**(10,741,114)**	–
Loss on disposal of a subsidiary	**1,658,025**	–
Increase in warranty provision	**12,238,633**	11,637,296
Operating cash flows before movements in working capital	**259,558,876**	293,746,950
Decrease (increase) in inventories	**24,481,153**	(127,834,502)
Increase in trade and other receivables	**(35,688,709)**	(73,841,773)
(Increase) decrease in amount due from a jointly controlled entity	**(8,703,558)**	980,213
(Decrease) increase in trade and other payables	**(24,779,783)**	60,644,725
(Decrease) increase in amount due to a jointly controlled entity	**(2,419,850)**	2,419,850
Utilisation of warranty provision	**(11,004,560)**	(6,872,787)
Cash generated from operations	**201,443,569**	149,242,676
Hong Kong Profits Tax paid	**(27,212,700)**	(24,971,218)
Overseas income tax paid	**(12,175,375)**	(4,945,743)
Hong Kong Profits Tax refunded	**–**	120,337
Overseas income tax refunded	**8,489,138**	–
NET CASH GENERATED FROM OPERATING ACTIVITIES	**170,544,632**	119,446,052

Consolidated Cash Flow Statement

For the year ended December 31, 2005

	Note	2005 HK$	2004 HK$ (Restated)
INVESTING ACTIVITIES			
Proceeds from disposal of prepaid lease payments		**23,371,316**	–
Dividend received from a jointly controlled entity		**22,500,000**	30,000,000
Interest received		**2,575,693**	977,571
Proceeds from disposal of a subsidiary	*30*	**1,817,918**	–
Proceeds from disposal of property, plant and equipment		**919,935**	593,853
Purchases of property, plant and equipment		**(23,799,802)**	(54,634,904)
Purchases of prepaid lease payments		**(393,697)**	–
Purchases of intellectual property rights		**–**	(28,923,453)
Dividends received from associates		**–**	1,227,020
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**26,991,363**	(50,759,913)
FINANCING ACTIVITIES			
Dividends paid		**(140,094,571)**	(145,716,914)
Net (decrease) increase in trust receipt loans		**(110,851,056)**	72,593,299
Repayment of bank loans		**(70,000,000)**	–
Interest paid on bank loans		**(11,929,773)**	(5,621,625)
Bank charges		**(4,051,166)**	(4,730,035)
Repayment of obligations under finance leases		**(1,518,217)**	(2,231,735)
Factoring charges		**(1,232,072)**	(498,089)
Interest paid on finance leases		**(28,866)**	(105,390)
New bank loan raised		**200,000,000**	70,000,000
Other borrowings raised		**3,978,150**	1,195,400
Repurchase of shares		**–**	(17,624,440)
NET CASH USED IN FINANCING ACTIVITIES		**(135,727,571)**	(32,739,529)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**61,808,424**	35,946,610
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**254,175,933**	217,209,182
Effect of foreign exchange rate changes		**(3,280,738)**	1,020,141
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances, deposits and cash		**312,703,619**	254,175,933

Notes to the
Consolidated Financial Statement

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company is disclosed in the section of "Corporate Information" in the Annual Report.

The consolidated financial statements are presented in Hong Kong dollar, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products.

2. 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:

Notes to the
Consolidated Financial Statement

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

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.

Notes to the
Consolidated Financial Statement

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Owner-occupied Leasehold Interest in Land *(Continued)*

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$	
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

Notes to the Consolidated Financial Statement

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

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.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with new HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associates, less any identified impairment loss.

When a group entity transacts with associates of the Group, unrealised profits or losses are eliminated to the extent of the Group's interests in associates, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Intellectual property rights

On initial recognition, intellectual property rights acquired separately are recognised at cost. After initial recognition, intellectual property rights with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intellectual property rights with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intellectual property rights with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policy in respect of impairment losses below).

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress and freehold land, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	Over the terms of the leases or 5%
Leasehold improvements	10%
Plant and machinery	10% – 20%
Furniture and equipment	20%
Motor vehicles	20%
Moulds and tools	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Freehold land and construction in progress are carried at cost less any identified impairment losses. Depreciation of construction in progress commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

As lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income statement.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income statement in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generally intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Loans and receivables

The Group's financial assets represent loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a jointly controlled entity, dividend receivable and bank balances, deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the
Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to a jointly controlled entity, obligations under finance leases and borrowings are subsequently measured at amortised cost, using the effective interest rate method after initial recognition.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Consolidated Financial Statement

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation

The Group's net book value of property, plant and equipment as at December 31, 2005 was HK$255,888,903. The Group depreciates property, plant and equipment on a straight-line basis over the estimated useful lives, after taking into account of their estimated residual value, commencing from the date the assets are available for intended use. The estimated useful lives that the Group places the property, plant and equipment into intended use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Provision for warranties

The policy for provision of warranties of the Group is based on the management's best estimate of the Group's liabilities under a 12-month warranty period granted on the sale of dyeing machines based on past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to income statement will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to income statement will result.

Notes to the
Consolidated Financial Statement

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Income taxes

As at December 31, 2005, the Group has deferred tax assets of HK$4,268,408, the realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the income statement for the period in which such a reversal takes place. On the other hand, no deferred tax assets have been recognised in respect of tax losses of approximately HK$63,000,000 due to the unpredictability of future profits streams. In cases where the actual future profits generated are more than expected, a material deferred tax asset may be recognised.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, dividend receivable, bank balances, deposits and cash, trade and other payables, amount due from (to) a jointly controlled entity and borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's fair value interest rate risk and cash flow interest rate risk relates to the Group's borrowings with fixed interest rates and floating interest rates, respectively. The Group is exposed to interest rate risk through the impact of rate changes on interest bearing borrowings. The interest rates and terms of repayment of borrowings of the Group are disclosed in note 25. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

Notes to the Consolidated Financial Statement

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Although the bank balances and deposits are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high crediting ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

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.

The unallocated corporate assets include mainly bank balances, deposits and cash and the unallocated corporate liabilities include mainly bank borrowings.

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

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.

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2005 *(Continued)*

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines HK$	Trading of stainless steel supplies HK$	Manufacture and sale of stainless steel casting products HK$	Consolidated HK$
ASSETS				
Segment assets	632,450,590	150,894,254	120,228,511	903,573,355
Interests in associates				33,142,190
Interest in a jointly controlled entity	60,750,623			60,750,623
Unallocated corporate assets				324,696,980
Consolidated total assets				1,322,163,148
LIABILITIES				
Segment liabilities	176,883,802	23,791,215	39,803,598	240,478,615
Unallocated corporate liabilities				207,127,903
Consolidated total liabilities				447,606,518

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines HK$	Trading of stainless steel supplies HK$	Manufacture and sale of stainless steel casting products HK$	Consolidated HK$
Capital additions	20,536,119	155,821	3,107,862	23,799,802
Increase in prepaid lease payments	393,697	–	–	393,697
Depreciation and amortisation	27,524,813	960,846	3,775,240	32,260,899
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	(10,835,856)	1,977	25,534	(10,808,345)
Allowance for inventories	–	–	985,280	985,280
(Reversal of) allowance for doubtful debts	(173,206)	(483,771)	2,816,068	2,159,091
Increase in warranty provision	12,238,633	–	–	12,238,633

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

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.

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2004 (restated) *(Continued)*

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines HK$	Trading of stainless steel supplies HK$	Manufacture and sale of stainless steel casting products HK$	Consolidated HK$
ASSETS				
Segment assets	556,275,360	245,705,965	84,133,691	886,115,016
Interests in associates				31,800,764
Interest in a jointly controlled entity	57,486,349			57,486,349
Unallocated corporate assets				278,932,895
Consolidated total assets				1,254,335,024
LIABILITIES				
Segment liabilities	209,813,857	29,113,042	23,539,126	262,466,025
Unallocated corporate liabilities				199,223,415
Consolidated total liabilities				461,689,440

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines HK$	Trading of stainless steel supplies HK$	Manufacture and sale of stainless steel casting products HK$	Consolidated HK$
Capital additions	79,284,476	1,209,229	3,064,652	83,558,357
Depreciation and amortisation	27,572,513	921,737	3,850,303	32,344,553
Loss (gain) on disposal of property, plant and equipment	178,130	–	(93,048)	85,082
Reversal of allowance for inventories	–	–	(221,937)	(221,937)
(Reversal of) allowance for doubtful debts	(1,762,080)	4,603,229	2,333,502	5,174,651
Increase in warranty provision	11,637,296	–	–	11,637,296

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's operations are located mainly in Hong Kong, the People's Republic of China (the "PRC"), Germany and Switzerland.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Revenue by geographical market	
	2005	2004
	HK$	HK$
The PRC	**780,339,934**	685,972,398
Hong Kong	**581,100,161**	571,565,506
Asia Pacific (other than the PRC and Hong Kong)	**273,608,519**	284,444,400
Europe	**207,147,808**	116,538,825
North and South America	**149,615,868**	67,100,890
Others	**20,439,980**	18,250,765
	2,012,252,270	1,743,872,784

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intellectual property rights, analysed by geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intellectual property rights	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
The PRC	**569,497,128**	584,252,308	**15,803,273**	21,003,237
Hong Kong	**602,746,117**	500,099,831	**4,301,395**	3,377,107
Europe	**145,651,495**	166,235,933	**3,695,134**	59,178,013
	1,317,894,740	1,250,588,072	**23,799,802**	83,558,357

Notes to the Consolidated Financial Statement

7. 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

8. PROFIT BEFORE TAX

	2005 HK$	2004 HK$
Profit before tax has been arrived at after charging (crediting):		
Amortisation of goodwill	**–**	2,974,379
Amortisation of intellectual property rights	**2,892,345**	1,205,144
Amortisation of prepaid lease payments	**369,790**	372,256
Depreciation of property, plant and equipment	**28,998,764**	27,792,774
Total depreciation and amortisation	**32,260,899**	32,344,553
Allowance for (reversal of allowance for) inventories	**985,280**	(221,937)
Allowance for doubtful debts	**2,159,091**	5,174,651
Auditors' remuneration	**1,416,776**	1,214,047
Cost of inventories recognised as an expense	**1,439,392,092**	1,195,300,181
(Gain) loss on disposal of property, plant and equipment	**(67,231)**	85,082
Gain on disposal of prepaid lease payments	**(10,741,114)**	–
Loss on disposal of a subsidiary	**1,658,025**	–
Net foreign exchange loss (gain)	**819,974**	(6,078,824)
Research and development costs	**1,329,617**	846,806
Staff costs, including directors' emoluments	**173,772,974**	143,708,131
Share of tax of associates (included in share of results of associates)	**339,120**	580,820
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	**4,943,893**	4,184,879

Notes to the Consolidated Financial Statement

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the fourteen (2004: twelve) Directors were as follows:

	Executive Directors											Independent Non-executive Directors			
	Wan Wai Yung	Lee Che Chiu	Fong Sou Lam	Fong Kwok Chung, Bill	Fong Kwok Leung, Kevin	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Tsui Wai Keung	Peter Rainer Philipp	Mo Yiu Leung, Jerry	Cheuk Hon Kin, Kelvin	Yuen Ming Fai	Cheung Chiu Fan	Lui Chi Lung, Louis	Total 2005
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
2005															
Fees	–	–	–	–	–	–	–	–	–	–	–	50,000	50,000	50,000	150,000
Other emoluments:															
Salaries and other benefits	3,340,000	2,613,600	3,250,000	2,103,400	1,775,082	1,298,361	1,010,000	1,298,361	1,345,500	1,659,039	1,198,361	–	–	–	20,891,704
Performance-related incentive payments	668,000	871,200	–	247,200	380,328	393,444	260,000	736,954	–	560,000	393,444	–	–	–	4,510,570
Retirement benefits scheme contributions	194,555	12,000	240,000	135,912	96,000	79,500	64,239	96,000	–	10,000	88,000	–	–	–	1,016,206
Total emoluments	4,202,555	3,496,800	3,490,000	2,486,512	2,251,410	1,771,305	1,334,239	2,131,315	1,345,500	2,229,039	1,679,805	50,000	50,000	50,000	26,568,480

	Executive Directors									Independent Non-executive Directors			
	Fong Sou Lam	Lee Che Chiu	Fong Kwok Leung, Kevin	Fong Kwok Chung, Bill	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Tsui Wai Keung	Mo Yiu Leung, Jerry	Cheuk Hon Kin, Kelvin	Yuen Ming Fai	Cheung Chiu Fan	Lui Chi Lung, Louis	Total 2004
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
2004													
Fees	–	–	–	–	–	–	–	–	–	16,667	50,000	50,000	116,667
Other emoluments:													
Salaries and other benefits	3,250,000	2,489,052	1,690,000	2,103,400	1,270,000	845,000	400,000	1,744,355	1,270,000	–	–	–	15,061,807
Performance-related incentive payments	1,250,000	990,000	350,000	309,000	450,000	325,000	–	321,775	450,000	–	–	–	4,445,775
Retirement benefits scheme contributions	240,000	12,000	91,200	131,063	75,250	51,026	32,000	12,000	92,950	–	–	–	737,489
Total emoluments	4,740,000	3,491,052	2,131,200	2,543,463	1,795,250	1,221,026	432,000	2,078,130	1,812,950	16,667	50,000	50,000	20,361,738

Note: The performance-related incentive payments are determined as a percentage of the profit of the Group for the years ended December 31, 2005 and 2004.

No Director waived any emoluments in the years ended December 31, 2005 and 2004.

Notes to the Consolidated Financial Statement

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid individuals included five (2004: four) Directors, details of whose emoluments are set out above. The emoluments of the five highest paid individuals for the year were as follows:

	2005	2004
	HK$	HK$
Salaries and other benefits	**13,750,082**	13,540,452
Performance-related incentive payments	**2,166,728**	4,569,000
Retirement benefits scheme contributions	**716,877**	697,208
	16,633,687	18,806,660

The emoluments of the five highest paid individuals were within the following bands:

	Number	
	2005	2004
HK$2,000,001 – HK$2,500,000	**2**	1
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**2**	1
HK$4,500,001 – HK$5,000,000	**1**	1
HK$5,500,001 – HK$6,000,000	**–**	1

Notes to the Consolidated Financial Statement

10. 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 *(note 26)*	**(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.

Notes to the Consolidated Financial Statement

10. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit per the Consolidated Income Statement as follows:

	2005 HK$	2004 HK$
Profit before tax	**240,706,604**	267,721,583
Tax at the Hong Kong Profits Tax of 17.5%	**42,123,656**	46,851,277
Tax effect of:		
– expenses that are not deductible for tax purpose	**935,118**	432,025
– income that are not taxable for tax purpose	**(5,741,183)**	(2,543,542)
– tax losses not recognised	**6,398,928**	1,680,619
– share of results of associates	**(359,438)**	(294,989)
– share of results of a jointly controlled entity	**(5,644,373)**	(5,475,084)
Income tax on concessionary rate	**(2,491,765)**	(5,577,862)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,711,095)**	(1,859,287)
Overprovision in prior years	**(8,940,453)**	(947,247)
Others	**(58,954)**	207,479
Income tax expense	**22,510,441**	32,473,389

Notes to the Consolidated Financial Statement

11. DIVIDENDS/SPECIAL DIVIDENDS

	2005	2004
	HK$	HK$
Interim dividend of 8 HK cents (2004: 7 HK cents) per share	**44,830,263**	39,226,480
Proposed final dividend of 5 HK cents (2004: 7 HK cents) per share	**28,018,914**	39,226,480
Overprovision of final dividends *(Note)*	**–**	(225,181)
	72,849,177	78,227,779
Interim special dividend of 3 HK cents (2004: 3 HK cents) per share	**16,811,349**	16,811,349
Proposed final special dividend of 7 HK cents (2004: 7 HK cents) per share	**39,226,480**	39,226,480
Overprovision of special dividends *(Note)*	**–**	(175,140)
	56,037,829	55,862,689

Note: The amounts represented final and special dividends for the shares repurchased during the year before payment of dividends.

The final dividend and final special dividend of 5 HK cents and 7 HK cents respectively, per share have been proposed by the Directors and are subject to approval by the shareholders at the forthcoming annual general meeting.

12. 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.

Notes to the Consolidated Financial Statement

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Moulds and tools	Construction in progress	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
COST									
At January 1, 2004	–	181,455,861	4,661,150	121,494,809	45,001,569	16,617,973	5,877,001	17,537,970	392,646,333
Currency realignment	–	–	–	35,663	100,965	44,266	–	–	180,894
Reclassifications	–	8,011,571	–	1,270,998	(241,830)	–	–	(9,040,739)	–
Additions	9,563,000	10,776,627	378,988	13,407,398	8,472,528	1,059,572	174,594	10,802,197	54,634,904
Disposals	–	–	–	(2,277,886)	(407,369)	(614,453)	–	–	(3,299,708)
At December 31, 2004 and January 1, 2005	9,563,000	200,244,059	5,040,138	133,930,982	52,925,863	17,107,358	6,051,595	19,299,428	444,162,423
Currency realignment	–	3,650,060	55,811	2,079,360	(380,745)	10,913	75,232	371,141	5,861,772
Additions	–	809,008	1,761,140	10,923,514	6,671,434	1,841,788	381,033	1,411,885	23,799,802
Disposals	–	(412,656)	–	(205,764)	(537,422)	(1,580,107)	–	–	(2,735,949)
At December 31, 2005	**9,563,000**	**204,290,471**	**6,857,089**	**146,728,092**	**58,679,130**	**17,379,952**	**6,507,860**	**21,082,454**	**471,088,048**
DEPRECIATION AND AMORTISATION									
At January 1, 2004	–	63,792,892	1,277,584	49,558,777	31,906,526	9,704,484	4,159,935	–	160,400,198
Currency realignment	–	–	–	8,679	8,950	–	–	–	17,629
Provided for the year	–	9,129,854	725,013	10,160,650	5,044,322	2,346,994	385,941	–	27,792,774
Eliminated on disposals	–	–	–	(1,667,437)	(338,883)	(614,453)	–	–	(2,620,773)
At December 31, 2004 and January 1, 2005	–	72,922,746	2,002,597	58,060,669	36,620,915	11,437,025	4,545,876	–	185,589,828
Currency realignment	–	1,397,571	12,092	1,041,149	87,707	36,472	76,594	–	2,651,585
Provided for the year	–	9,155,290	734,264	11,279,262	5,294,574	2,277,783	257,591	–	28,998,764
Eliminated on disposals	–	(91,472)	–	(178,903)	(468,960)	(1,301,697)	–	–	(2,041,032)
At December 31, 2005	**–**	**83,384,135**	**2,748,953**	**70,202,177**	**41,534,236**	**12,449,583**	**4,880,061**	**–**	**215,199,145**
NET BOOK VALUES									
At December 31, 2005	**9,563,000**	**120,906,336**	**4,108,136**	**76,525,915**	**17,144,894**	**4,930,369**	**1,627,799**	**21,082,454**	**255,888,903**
At December 31, 2004	9,563,000	127,321,313	3,037,541	75,870,313	16,304,948	5,670,333	1,505,719	19,299,428	258,572,595

Notes to the Consolidated Financial Statement

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

An analysis of the Group's freehold land and buildings is as follows:

	2005 HK$	2004 HK$
Buildings on long leases located in the PRC	**90,964**	–
Buildings on medium-term leases located in the PRC	**109,294,878**	115,770,342
Buildings on medium-term leases located in Hong Kong	**68,768**	398,066
Freehold land and buildings in Europe	**21,014,726**	20,715,905
	130,469,336	136,884,313

At December 31, 2004, the net book values of the Group's plant and machinery and motor vehicles included an amount of HK$4,766,668 (2005: Nil) and HK$346,000 (2005: Nil), respectively, in respect of assets held under finance leases.

At December 31, 2005 and 2004, the Group pledged the buildings on medium-term leases located in Hong Kong to secure banking facilities granted to the Group.

14. PREPAID LEASE PAYMENTS

	2005 HK$	2004 HK$
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term leases	**422,437**	13,260,265
Leasehold land in the PRC:		
Long leases	**387,792**	–
Medium-term leases	**11,186,738**	11,342,997
	11,996,967	24,603,262
Analysed for reporting purposes as:		
Current asset	**331,767**	372,256
Non-current asset	**11,665,200**	24,231,006
	11,996,967	24,603,262

At December 31, 2005 and 2004, the Group pledged the prepaid lease payments relating to the medium-term leasehold land in Hong Kong to secure banking facilities granted to the Group.

Notes to the Consolidated Financial Statement

15. INTELLECTUAL PROPERTY RIGHTS

	HK$
COST	
Additions during the year ended December 31, 2004 and at December 31, 2004 and December 31, 2005	**28,923,453**
AMORTISATION	
Provided for the year ended December 31, 2004 and at December 31, 2004	1,205,144
Provided for the year	2,892,345
At December 31, 2005	**4,097,489**
CARRYING AMOUNT	
At December 31, 2005	**24,825,964**
At December 31, 2004	27,718,309

Intellectual property rights represent technical know-how skills for manufacturing of machines and are amortised on a straight-line basis over ten years.

16. INTERESTS IN ASSOCIATES

	2005	2004
	HK$	HK$
Cost of unlisted investment in associates	**46,469,124**	46,469,124
Share of post-acquisition profits, net of dividends received	**(13,326,934)**	(14,668,360)
Share of net assets	**33,142,190**	31,800,764

At the balance sheet date, the principal associate of the Group represented a 30% interest in Foshan East Asia Company Limited ("Foshan East Asia"), a company registered and operated in the PRC. It acts as a holding company and its subsidiaries are engaged in the manufacture of colour woven fabrics.

In the opinion of the Directors, Foshan East Asia and its subsidiaries are the only associates which principally affect the results or assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statement

16. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	HK$	HK$
Revenue	**192,143,516**	211,726,146
Profit for the year	**6,846,446**	5,725,360
Profit attributable to the Group	**2,053,934**	1,685,649
Financial position:		
Total non-current assets	**116,088,113**	130,761,529
Total current assets	**206,657,136**	191,228,966
Total non-current liabilities	**(89,827,796)**	(93,853,381)
Total current liabilities	**(116,024,841)**	(115,585,563)
Minority interests	**(6,418,645)**	(5,473,998)
	110,473,967	107,077,553
Shareholders' funds attributable to the Group	**33,142,190**	31,800,764

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005	2004
	HK$	HK$
Cost of unlisted investment in a jointly controlled entity	**9,200,000**	9,200,000
Share of post-acquisition profits, net of dividends received	**51,550,623**	48,286,349
Share of net assets	**60,750,623**	57,486,349

Notes to the
Consolidated Financial Statement

17. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

At the balance sheet date, the Group held 50% interest in Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's"), a company incorporated in Hong Kong. It acts as a holding company and is engaged in the manufacture and trading of textile machinery in the PRC. The following details are extracted from the audited consolidated financial statements of Monforts Fong's:

	2005	2004
	HK$	HK$
Revenue	**434,355,404**	299,863,323
Profit for the year	**64,507,122**	62,572,394
Profit attributable to the Group	**32,253,561**	31,286,197
Financial position:		
Total non-current assets	**42,472,220**	37,562,290
Total current assets	**175,490,546**	141,907,976
Total non-current liabilities	**(72,256)**	(134,709)
Total current liabilities	**(96,389,264)**	(64,362,859)
	121,501,246	114,972,698
Shareholders' funds attributable to the Group	**60,750,623**	57,486,349

18. INVENTORIES

	2005	2004
	HK$	HK$
Raw materials	**207,951,152**	257,100,689
Work in progress	**85,920,662**	63,760,060
Finished goods	**74,100,952**	72,578,450
	367,972,766	393,439,199

Notes to the Consolidated Financial Statement

19. TRADE AND OTHER RECEIVABLES

	2005 HK$	2004 HK$
Trade receivables	**159,064,096**	149,464,782
Less: Allowance for doubtful debts	**(19,058,387)**	(16,590,705)
	140,005,709	132,874,077
Other receivables	**86,679,488**	60,281,502
Total trade and other receivables	**226,685,197**	193,155,579

The Group allows an average credit period of 60 days (2004: 60 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2005 HK$	2004 HK$
0-30 days	**131,842,692**	108,620,294
31-60 days	**4,974,648**	16,653,252
Over 60 days	**3,188,369**	7,600,531
	140,005,709	132,874,077

The Directors of the Company consider the fair value of trade and other receivables at December 31, 2005 approximates to the corresponding carrying amount.

At December 31, 2005 and 2004, the Group pledged trade receivables at a carrying value of HK$10,205,849 (2004: HK$5,954,147) to secure credit facilities granted to the Group.

20. AMOUNT DUE FROM (TO) A JOINTLY CONTROLLED ENTITY

The amount, which is aged within 60 days, is unsecured, interest-free and repayable on demand.

The Directors of the Company consider the fair value of amount due from a jointly controlled entity at December 31, 2005 approximates to the corresponding carrying amount.

Notes to the Consolidated Financial Statement

21. BANK BALANCES, DEPOSITS AND CASH

The amount includes short-term fixed deposits which carry fixed interest rate ranging from 0.25% to 3.90% per annum. The fair value of bank deposits at December 31, 2005 approximates to the corresponding carrying amount.

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2005	2004
	HK$	HK$
0-30 days	**53,924,969**	70,178,817
31-60 days	**5,106,863**	9,053,202
over 60 days	**2,968,872**	3,891,133
	62,000,704	83,123,152

The Directors of the Company consider the fair value of trade and other payables at December 31, 2005 approximates to the corresponding carrying amount.

23. WARRANTY PROVISION

	HK$
At January 1, 2005	11,064,509
Additional provision in the year	12,238,633
Utilisation of provision	(11,004,560)
At December 31, 2005	**12,298,582**

The warranty provision represents management's best estimate of the Group's liability under a 12-month warranty period granted on the sale of dyeing and finishing machines based on past experience.

Notes to the Consolidated Financial Statement

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Amount payable under finance leases:				
Within one year	–	1,543,788	–	1,518,217
Less: Future finance charges	–	(25,571)	–	N/A
Present value of lease obligations	–	1,518,217	–	1,518,217
Less: Amount due within one year shown under current liabilities			–	(1,518,217)
Amount due after one year			–	–

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The lease terms range from 1 to 3 years. For the year ended December 31, 2004, the effective borrowing rates ranged from 3.3% to 5%. Interest rates were fixed at the contract dates. All leases were fully repaid in current year.

The Group's obligations under finance leases were secured by the lessors' charge over the leased assets.

Notes to the Consolidated Financial Statement

25. BORROWINGS

	2005	2004
	HK$	HK$
Borrowings comprise the following:		
Trust receipt loans	–	110,851,056
Bank loans	200,000,000	70,000,000
	200,000,000	180,851,056
Other borrowings	7,015,544	3,037,394
	207,015,544	183,888,450
Secured	157,015,544	72,292,367
Unsecured	50,000,000	111,596,083
	207,015,544	183,888,450

The above amounts are repayable as follows:

	2005	2004
	HK$	HK$
Within one year	87,015,544	183,888,450
In the second year	30,000,000	–
In the third to fifth years inclusive	90,000,000	–
	207,015,544	183,888,450
Less: Amount due within one year shown under current liabilities	(87,015,544)	(183,888,450)
Amount due after one year	120,000,000	–

Notes to the Consolidated Financial Statement

25. BORROWINGS *(Continued)*

The Group has two borrowings amounting to HK$50,000,000 in aggregate which are repayable within one year and carry fixed interest rate ranging from 3.825% to 3.900% per annum and two borrowings amounting to HK$157,015,544 in aggregate which carry floating interest rates of HIBOR plus 0.75% and LIBOR plus 2.725% to 2.325% per annum respectively.

	HK$
The Group's borrowings denominated in currencies other than the functional currencies of the relevant group entities are set out below:	
As at December 31, 2005	50,000,000
As at December 31, 2004	70,000,000

The Directors of the Company consider the fair value of borrowings approximates to their corresponding carrying amount.

26. DEFERRED TAX

The major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years are as follows:

	Accelerated tax depreciation	Allowance for doubtful debts	Allowance for inventories	Others	Total
	HK$	HK$	HK$	HK$	HK$
At January 1, 2004	2,101,802	(1,802,275)	(589,013)	(553,825)	(843,311)
(Credit) charge to the consolidated income statement for the year	(1,193,498)	(905,564)	38,839	203,824	(1,856,399)
At December 31, 2004 and January 1, 2005	908,304	(2,707,839)	(550,174)	(350,001)	(2,699,710)
Charge (credit) to the consolidated income statement for the year	97,188	(377,842)	(522,425)	350,001	(453,078)
At December 31, 2005	1,005,492	(3,085,681)	(1,072,599)	–	(3,152,788)

Notes to the Consolidated Financial Statement

26. DEFERRED TAX *(Continued)*

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax (assets) liabilities for financial reporting purposes:

	2005	2004
	HK$	HK$
Deferred tax assets	**(4,268,408)**	(3,746,952)
Deferred tax liabilities	**1,115,620**	1,047,242
	(3,152,788)	(2,699,710)

At the balance sheet date, the Group has unused tax losses of approximately HK$63,000,000 (2004: HK$26,000,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$9,600,000 (2004: HK$9,600,000), HK$2,900,000 (2004: HK$2,900,000) and HK$5,400,000 (2004: Nil) that will expire in 2010, 2011 and 2012 respectively. Other losses may be carried forward indefinitely.

27. SHARE CAPITAL OF THE COMPANY

	2005	2004
	HK$	HK$
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000,000**	100,000,000
Issued and fully paid:		
At January 1, 2005: 560,378,285 (January 1, 2004: 562,996,285) ordinary shares of HK$0.10 each	**56,037,829**	56,299,629
Repurchase of shares	**–**	(261,800)
At December 31 2004 and December 31 2005: 560,378,285 ordinary shares of HK$0.10 each	**56,037,829**	56,037,829

Notes to the Consolidated Financial Statement

27. SHARE CAPITAL OF THE COMPANY *(Continued)*

During the year ended December 31, 2004, the Company repurchased its own shares through 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$
April	2,502,000	6.85	6.60	16,853,300
May	116,000	6.85	6.75	789,700
	2,618,000			17,643,000

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 HK$17,362,640 (net of dividend entitlement of HK$18,560) was charged against share premium. An amount of HK$261,800 equivalents to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

Notes to the Consolidated Financial Statement

28. RESERVES AND MINORITY INTERESTS

	Attributable to equity holders of the parent							
	Share premium HK$	Dividend reserve HK$	Capital redemption reserve HK$	Translation reserve HK$	Retained profits HK$	Contributed surplus HK$	Total reserves HK$	Minority interests HK$
At January 1, 2004	216,087,846	90,079,406	1,215,200	(12,928,424)	341,608,228	25,582,177	661,644,433	1,611,276
Exchange difference arising on translation of overseas subsidiaries and net income recognised directly in equity	–	–	–	1,183,406	–	–	1,183,406	–
Profit for the year	–	–	–	–	235,112,143	–	235,112,143	136,051
Total recognised income and expense for the year	–	–	–	1,183,406	235,112,143	–	236,295,549	136,051
Repurchases of shares	(17,362,640)	–	261,800	–	(261,800)	–	(17,362,640)	–
Final dividend for 2003 paid	–	(50,669,666)	–	–	–	–	(50,669,666)	–
Final special dividend for 2003 paid	–	(39,409,740)	–	–	–	–	(39,409,740)	–
Interim dividend for 2004 paid	–	–	–	–	(39,001,299)	–	(39,001,299)	–
Interim special dividend for 2004 paid	–	–	–	–	(16,636,209)	–	(16,636,209)	–
Proposed final dividend for 2004	–	39,226,480	–	–	(39,226,480)	–	–	–
Proposed final special dividend for 2004	–	39,226,480	–	–	(39,226,480)	–	–	–
At December 31, 2004 and January 1, 2005	198,725,206	78,452,960	1,477,000	(11,745,018)	442,368,103	25,582,177	734,860,428	1,747,327
Exchange difference arising on translation of overseas subsidiaries recognised directly in equity	–	–	–	35,306	–	–	35,306	–
Share of changes in equity of associates and a jointly controlled entity	–	–	–	1,910,713	–	–	1,910,713	–
Net income recognised directly in equity	–	–	–	1,946,019	–	–	1,946,019	–
Realised on disposal of a subsidiary	–	–	–	1,863,435	–	–	1,863,435	–
Profit (loss) for the year	–	–	–	–	218,653,354	–	218,653,354	(457,191)
Total recognised income and expense for the year	–	–	–	3,809,454	218,653,354	–	222,462,808	(457,191)
Final dividend for 2004 paid	–	(39,226,480)	–	–	–	–	(39,226,480)	–
Final special dividend for 2004 paid	–	(39,226,480)	–	–	–	–	(39,226,480)	–
Interim dividend for 2005 paid	–	–	–	–	(44,830,263)	–	(44,830,263)	–
Interim special dividend for 2005 paid	–	–	–	–	(16,811,348)	–	(16,811,348)	–
Proposed final dividend for 2005	–	28,018,914	–	–	(28,018,914)	–	–	–
Proposed final special dividend for 2005	–	39,226,480	–	–	(39,226,480)	–	–	–
At December 31, 2005	198,725,206	67,245,394	1,477,000	(7,935,564)	532,134,452	25,582,177	817,228,665	1,290,136

Notes to the Consolidated Financial Statement

28. RESERVES AND MINORITY INTERESTS *(Continued)*

The contributed surplus of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the entire issued share capital of Fong's Manufacturers Company Limited, the then holding company, acquired pursuant to a corporate reorganisation on September 13, 1990.

29. SHARE OPTION SCHEME

A share option scheme (the "Scheme") of the Company was approved and adopted on May 26, 2003 for the purpose of providing a flexible means of giving incentive to, rewarding, remunerating, compensating and providing benefits to eligible participants, including the Executive Directors of the Company as determined by the Board of the Directors of the Company.

The Board of Directors of the Company may, at their discretion, grant share options to the eligible participants including any employees, directors or consultants of the Group. The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the share options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. Any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

Share options granted must be taken up within 28 days of the date of grant. Each of the grantees is required to pay HK$1 as cash consideration for the grant of the share options in accordance with the Scheme. The total number of shares in respect of which share options may be granted shall not exceed 10% of the issued share capital of the Company. The exercise price is determined by the Directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the share.

The Scheme is valid for a period of 10 years commencing on May 26, 2003 and will expire on May 25, 2013.

No share option has been granted by the Company under the Scheme since its adoption.

Notes to the
Consolidated Financial Statement

30. DISPOSAL OF A SUBSIDIARY

On December 20, 2005, the Group disposed of a subsidiary, Front Standard Limited. The net assets of Front Standard Limited at the date of disposal were as follows:

	HK$
NET ASSETS DISPOSED OF	
Interest in an associate	1,612,508
Exchange losses realised	1,863,435
	3,475,943
Loss on disposal	1,658,025
Total consideration	1,817,918
Satisfied by:	
Cash, which represents the cash inflow from disposal of a subsidiary	1,817,918

The impact of Front Standard Limited on the Group's results and cash flows in the current and prior years is insignificant.

31. CONTINGENT LIABILITIES

At December 31, 2004, the Group had export bills discounted with recourse of HK$24,707,137. There are no significant export bills discounted with recourse at December 31, 2005.

32. CAPITAL COMMITMENTS

	2005	2004
	HK$	HK$
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**3,226,483**	1,772,641

Notes to the Consolidated Financial Statement

33. OPERATING LEASE ARRANGEMENTS

As lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK$6,619,778 (2004: HK$6,012,756).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005 HK$	2004 HK$
Within one year	**6,380,419**	5,700,471
In the second to fifth year inclusive	**5,871,692**	10,852,981
	12,252,111	16,553,452

Operating lease payments represent rentals payable by the Group for certain of its office premises and residential units for its employees. Leases are negotiated and rentals are fixed for an average term of two years.

34. RETIREMENT BENEFITS SCHEME

Schemes in Hong Kong

The Group has a defined contribution provident fund scheme for its Hong Kong employees. The scheme assets are being held under a provident fund operated by AXA Rosenberg Investment Management Asia Pacific Limited with Messrs. Fong Sou Lam and Fong Kwok Chung, Bill as trustees and Hastings Service & Company Limited as an additional trustee.

The Group is required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The Group's contribution will start with 5% and further increase proportionally to a maximum of 8% of each employee's basic salary after completion of three years of service to the Group. The employees are entitled to 100% of the employers' contribution and the accrued interest after 10 years' of completed service, or at a reduced scale of between 30% to 100% after completion of 3 to 10 years' service. The forfeited contributions and related accrued interest are to be used to reduce the employers' contribution.

In 2000, the principal deed and the rules of the provident fund scheme were amended to comply with the rules of the Mandatory Provident Fund Schemes Ordinance ("MPF Ordinance").

Notes to the Consolidated Financial Statement

34. RETIREMENT BENEFITS SCHEME *(Continued)*

Schemes in Hong Kong *(Continued)*

With effect from December 1, 2000, the Group has also participated in Mandatory Provident Fund Scheme ("MPF Scheme"). The MPF scheme assets are held under a mandatory provident fund operated by AXA Rosenberg Investment Management Asia Pacific Limited. Under the MPF Scheme, the Group is required to make contributions to the scheme calculated at lower of 5% of the employees' relevant income or HK$1,000 (as defined in the MPF Ordinance) on a monthly basis.

The employees entitled to participate in the provident fund scheme before December 1, 2000 were given an option to join the MPF Scheme or to continue making contributions to the provident fund scheme. All other existing or newly employed employees are required to join the MPF Scheme. The Group is required to make contributions to either of the two schemes in accordance with the option selected by the employees.

The aggregate employers' contributions, net of forfeited contributions, which have been dealt with in the consolidated income statement of the Group amounted to:

	2005	2004
	HK$	HK$
Gross employers' contributions	**2,815,570**	2,718,077
Less: Forfeited contributions utilised to offset employers' contributions for the year	**(63,136)**	(4,730)
Net employers' contributions charged to the consolidated income statement	**2,752,434**	2,713,347

At the balance sheet date, there were no significant forfeited contributions available to offset future employers' contributions to the provident fund scheme.

Scheme in the PRC

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to the consolidated income statement for the scheme in the PRC amounted to HK$3,721,144 (2004: HK$2,976,361).

Notes to the Consolidated Financial Statement

34. RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in Germany

In Germany, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 9.75% of the employees' gross income. The only obligation of the Group with respect to this retirement benefits scheme is to make the specified contribution.

The total cost charged to the consolidated income statement for the scheme in Germany amounted to HK$5,393,886 (2004: HK$2,772,369).

35. POST BALANCE SHEET EVENT

Subsequent to December 31, 2005, the Group acquired the assets and intellectual property rights of a textile machinery manufacturer in Europe at an aggregate consideration of approximately HK$15 million.

Notes to the Consolidated Financial Statement

36. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2005 HK$	2004 HK$
Related parties in which Directors have beneficial interests		
Sale of goods	**694,773**	–
Purchase of materials	**283,217**	–
Commission and agency fee received	**4,770,510**	–
Management fee received	**306,000**	313,213
Rental paid	**5,928,000**	5,638,412
A jointly controlled entity		
Sale of goods	**14,108,049**	1,543,246
Purchase of materials	**16,261,876**	11,564,892
Commission and management fee received	**26,702,739**	20,055,036

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2005 HK$	2004 HK$
Short-term benefits	**45,709,569**	44,203,673
Post-employment benefits	**2,622,926**	1,909,172
	48,332,495	46,112,845

The remuneration of Directors and key executives is determined by the Directors of the Company having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statement

37. BALANCE SHEET OF THE COMPANY

	2005 HK$	2004 HK$
Non-current asset		
Investments in subsidiaries	**36,584,983**	36,584,983
Current assets		
Other receivables	**224,522**	225,741
Amounts due from subsidiaries	**381,884,792**	372,070,092
Tax recoverable	**47,183**	–
Bank balances	**331,621**	198,546
	382,488,118	372,494,379
Current liabilities		
Other payables	**350,471**	312,473
Tax liabilities	**–**	32,187
	350,471	344,660
Net current assets	**382,137,647**	372,149,719
	418,722,630	408,734,702
Capital and reserves		
Share capital	**56,037,829**	56,037,829
Reserves	**362,684,801**	352,696,873
	418,722,630	408,734,702

Notes to the Consolidated Financial Statement

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company indirectly held	Principal activities
Falmer Investments Ltd.	British Virgin Islands/ The PRC	US$1	100%	Research and development
Fong's Engineering Services Company Limited	Hong Kong	HK$10,000	100%	Trading in steel and provision of management services to group companies
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK$100 Deferred – HK$8,000,000 *(Note)*	100% –	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Company Limited	The PRC *	US$22,500,000	100%	Manufacture of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK$10,000	100%	Trading in stainless steel supplies
Sunshine Glory Limited	British Virgin Islands/ The PRC	US$10	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Company Limited	Hong Kong	HK$10,000	100%	Trading in stainless steel casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd.	The PRC *	US$4,350,000	100%	Manufacture of stainless steel casting products

Notes to the Consolidated Financial Statement

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company indirectly held	Principal activities
THEN Maschinen (HK) Limited	Hong Kong	HK$1	100%	Investment holding and trading in textile machinery and technical parts
THEN Maschinen GmbH	Germany	EUR1,900,000	100%	Trading and manufacture of textile machinery and technical parts
Xorella Hong Kong Limited	Hong Kong	US$3,500,000	80%	Trading in textile machinery and technical parts
Xorella AG	Switzerland	CHF350,000	80%	Trading and manufacture of textile machinery and technical parts

* *A wholly-owned foreign enterprise*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Note: The deferred shares entitle the holders to dividends from one half of the remaining net profit after the first HK$10,000,000,000 has been distributed to holders of ordinary shares of HK$1 each of the company. The deferred shares also entitle the holders to participate in distribution of one half of the surplus assets on winding up after the first HK$20,000,000,000 has been distributed to holders of ordinary shares of HK$1 each of the company.

Financial Summary

RESULTS

	Year ended December 31,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(Restated)	(Restated)	(Restated)	(Restated)	
Revenue	758,336	1,142,419	1,350,380	1,743,873	**2,012,252**
Profit before tax	69,198	203,747	314,685	267,721	**240,706**
Income tax expense	(5,669)	(32,187)	(39,718)	(32,473)	**(22,510)**
Profit for the year	63,529	171,560	274,967	235,248	**218,196**
Attributable to:					
Equity holders of the parent	63,529	172,525	276,910	235,112	**218,653**
Minority interests	–	(965)	(1,943)	136	**(457)**
	63,529	171,560	274,967	235,248	**218,196**

ASSETS AND LIABILITIES

	As at December 31,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	701,919	861,423	963,333	1,254,335	**1,322,163**
Total liabilities	(214,935)	(277,643)	(243,778)	(461,689)	**(447,606)**
	486,984	583,780	719,555	792,646	**874,557**
Equity attributable to equity holders of the parent	485,694	580,226	717,944	790,899	**873,267**
Minority interests	1,290	3,554	1,611	1,747	**1,290**
	486,984	583,780	719,555	792,646	**874,557**

Note: Prior periods have been adjusted to reflect the change in the presentation of the consolidated income statement as described in note 2 to the consolidated financial statements.