FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNUAL REPORT 2007

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
Mr. Tou Kit Vai
Mr. Tsui Wai Keung
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

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)*
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

REMUNERATION COMMITTEE

Mr. Fong Sou Lam *(Committee Chairman)*
Mr. Wan Wai Yung
Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

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

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

Tricor 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
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WEBSITE ADDRESS

http://www.fongs.com

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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2007.

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

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

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

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

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

CHAIRMAN'S STATEMENT

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

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

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

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

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

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

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, suppliers, bankers and business partners for their continuous support. I would also like to express my heartfelt thank to our management team and staff for their dedication and hard work over the past year; and to our shareholders for their confidence in the Group.

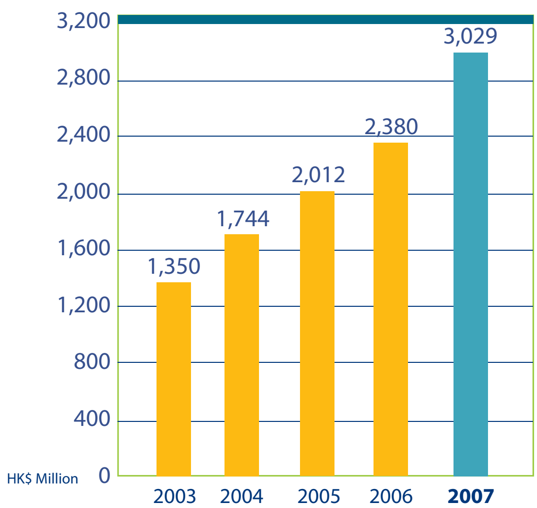
In 2008, the Group is entering the 45th Anniversary. Established in 1963, the Group has grown from a small family business to a publicly-listed enterprise with diversified businesses and becomes a world leader in the textile machinery industry. We hope to be able to celebrate this occasion with all of our various business partners at celebration events in the year and to sincerely show our appreciation for your support.

Fong Sou Lam
Chairman

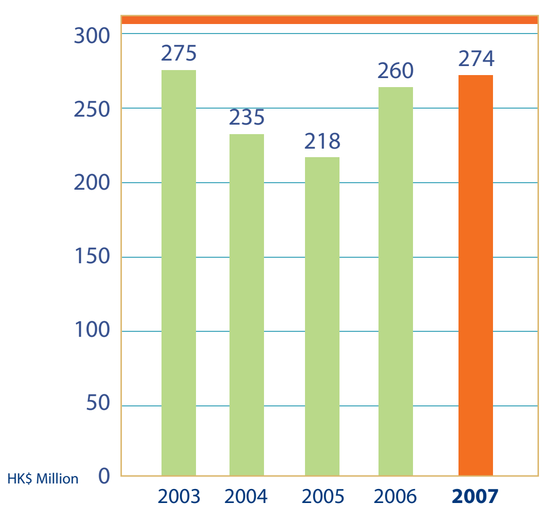
Hong Kong, April 14, 2008

FINANCIAL HIGHLIGHTS

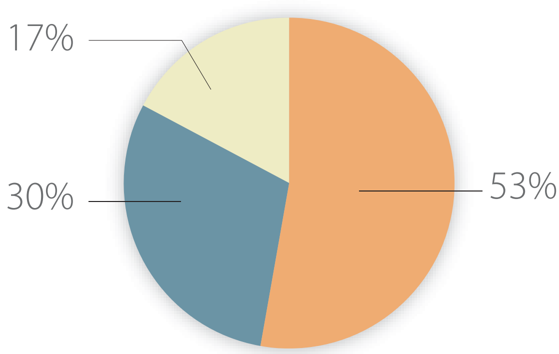
Revenue

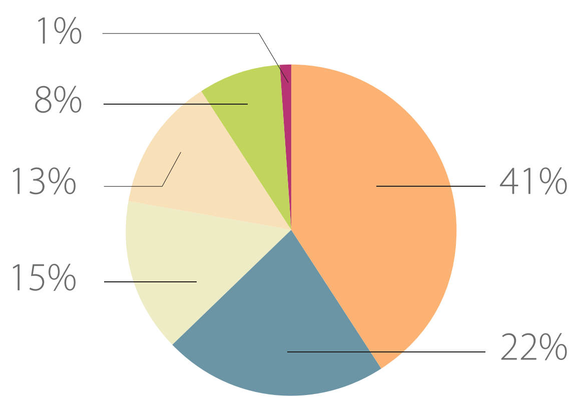


Profit



Analysis of Revenue for the year





By principal activity

- 53% Manufacture and sale of dyeing and finishing machines
- 30% Trading of stainless steel supplies
- 17% Manufacture and sale of stainless steel casting products

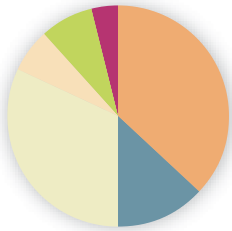
By geographical region

- (41%) The People's Republic of China (the "PRC")
- (22%) Hong Kong
- (15%) Asia Pacific (other than the PRC and Hong Kong)
- (13%) Europe
- (8%) North and South America
- (1%) Others

FINANCIAL HIGHLIGHTS

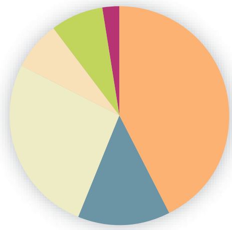
Manufacture and Sale of Dyeing and Finishing Machines

By geographical region



2006

486	PRC	81	Europe
173	Hong Kong	103	North and South America
420	Asia Pacific	50	Others

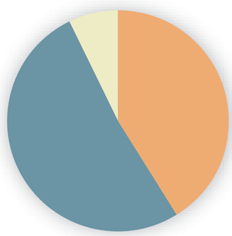


2007

690	PRC	116	Europe
219	Hong Kong	124	North and South America
427	Asia Pacific	39	Others

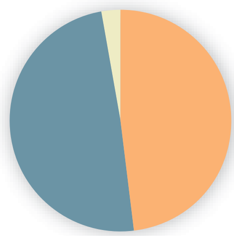
Trading of Stainless Steel Supplies

By geographical region



2006

333	PRC
418	Hong Kong
58	Asia Pacific

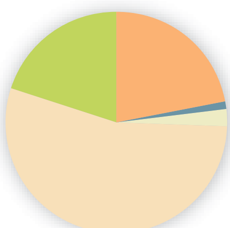


2007

436	PRC
443	Hong Kong
24	Asia Pacific

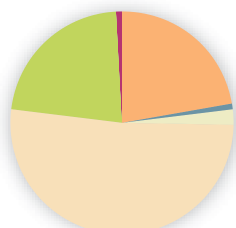
Manufacture and Sale of Stainless Steel Casting Products

By geographical region



2006

57	PRC	141	Europe
3	Hong Kong	51	North and South America
6	Asia Pacific		



2007

114	PRC	264	Europe
5	Hong Kong	113	North and South America
11	Asia Pacific	4	Others

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam, aged 73, 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 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 57, 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 46, 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 38, is the second son of Mr. Fong Sou Lam and joined the Group in 1994. Mr. Bill Fong is responsible for overseeing business development projects of the Group. 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 on Accounting and Finance.

Mr. Tou Kit Vai, aged 45, joined the Group in October, 2005 and was appointed an Executive Director of the Company with effect from 15 January, 2007. Mr. Tou is also directors of certain subsidiaries and an associate of the Group, he is responsible for the general financial management of the Group. Mr. Tou is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, he has extensive experiences in business operations, financial management, project management and internal audit.

Mr. Tsui Wai Keung, aged 50, 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.

Dr. Tsui Tak Ming, William, aged 49, is a chartered engineer and chartered I.T. professional, and he is in charge of the research & development team of the Group. Dr. Tsui holds a bachelor of science degree and a doctorate degree in Aeronautical Engineering and is a corporate member of the British Royal Aeronautical Society and a member of the Institution of Mechanical Engineers in the United Kingdom, the Hong Kong Institution of Engineers, the Hong Kong Computer Society and the British Computer Society. Dr. Tsui joined the Group in 1989 and has over 25 years of experience in research and development on mechanical engineering and information technology.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Ms. Poon Hang Sim, Blanche, aged 41, 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. Before joining the Group in 1995, Ms. Poon had been working for an international accounting firm for five years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan, aged 54, 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's 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.

Dr. Yuen Ming Fai, aged 57, as 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 a Professor of Mechanical Engineering and Head of Department of 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 both the Institution of Mechanical Engineers (UK) and Hong Kong Institution of Engineers.

Dr. Keung Wing Ching, aged 56, has been appointed as an Independent Non-executive Director, a member of the Audit Committee and Remuneration Committee of the Company by the Board with effect from 1 June, 2006. Dr. Keung holds a Ph.D. in Mechanical Engineering from the University of Birmingham (the United Kingdom). Dr. Keung is a fellow member of the Hong Kong Institution of Engineers and a professional member and chartered engineer of the institute of Materials, Minerals and Mining (United Kingdom). Dr. Keung has served and presently still serves on various public and community bodies including Permanent Honorary Chairman of the Hong Kong Diecasting Association, Permanent Honorary Chairman of the Hong Kong Foundry Association, Committee Member of the Hong Kong Q Mark Council and Member of Standing Provincial Committee of the Chinese People's Political Consultative Conference. Dr. Keung is currently the Vice Chairman and Chief Executive Officer of Ka Shui International Holdings Limited engaged in the manufacture of diecasting parts and has over 25 years of business experience in the field of metal forming, critical components manufacturing, new materials properties and related applications and maintains a close working relationship with the Hong Kong manufacturing industries.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. Thomas Archner, aged 50, is the Chief Executive Officer of THEN Maschinen GmbH. Mr. Archner graduated from the University of Hamburg with a Diploma in Economics. He has more than 20 years' senior and executive management experience in industrial companies, including in the textile machinery business. Mr. Archner joined the Group in January, 2008.

Mr. Friedrich Baur, aged 30, is the Assistant Managing Director of Xorella AG and is responsible for the overall operations of Xorella AG. Mr. Baur holds a Bachelor's degree in Business Administration and a master's degree in Service Management from the University of Buckingham, the United Kingdom. In 2004, Mr. Baur worked for the Service and Quality Management Department at Fong's National Engineering Company, Limited and in 2005 he conducted his thesis for the master's degree with THEN Maschinen GmbH. Mr. Baur officially joined the Group in May, 2006 upon the completion of his master's degree.

Mr. Lee Che Keung, aged 47, 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. Leung Sheung Wai, Walter, aged 41, 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 business 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. Hans-Eckhard Meiler, aged 57, joined the Group in April, 2006 and is the General Manager of Goller Textilmaschinen GmbH. Mr. Meiler graduated from Regensburg University with a Diploma in Business and has over 30 years of experience in the textile machine industry.

Mr. Peter Rainer Philipp, aged 59, is responsible for the business development projects of the Group in the Americas and in Europe. Mr. Philipp is holding executive posts in certain overseas subsidiaries of the Group, namely managing director of Xorella AG, and director of Plexxor Co., Limited. Mr. Philipp holds a Bachelor's degree in Textile Engineering from the University of Reutlingen, Germany and has over 30 years of extensive business experience in the textile machinery industry in the USA and Europe. Mr. Philipp joined the Group in April, 2005.

Mr. Heinz Scheungraber, aged 52, is the Chief Financial Officer of THEN Maschinen GmbH and Goller Textilmaschinen GmbH. Mr. Scheungraber graduated from the Academy of Business and Administration in Stuttgart, Germany with a Diploma in Business Administration and has over 20 years' experience in finance and controlling management of manufacturing and machinery building companies. Mr. Scheungraber joined the Group in April, 2006.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Wong Ching Chuen, Patrick, aged 46, 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 business of the Group in the woven market. Mr. Wong has been respectively educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for Mechanical Engineering and Griffith University in Australia for law. Mr. Wong has over 15 years' experience in China trade for industrial equipment supplies and engineering work. Mr. Wong joined the Group in July, 2000.

Mr. Wong Tak Man, Francis, aged 44, 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 business of the Group in the Knitting market in China. 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.

Ms. Zah Man Chu, aged 46, is the legal counsel of the Group and is responsible for the corporate and legal matters of the Group. Ms. Zah is a Hong Kong qualified lawyer, her practice focuses on corporate and commercial, mergers and acquisitions with a particular interest in the PRC commercial. Ms. Zah joined the Group in January, 2007.

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, 2007, the total revenue of the Group was approximately HK$3,029 million (2006: HK$2,380 million) representing an increase of 27% as compared with the previous year. The profit for the year attributable to the shareholders was approximately HK$274 million (2006: HK$260 million) representing an increase of approximately 5% as compared with last year. Basic earnings per share for the year amounted to 49.2 HK cents (2006: 46.5 HK cents).

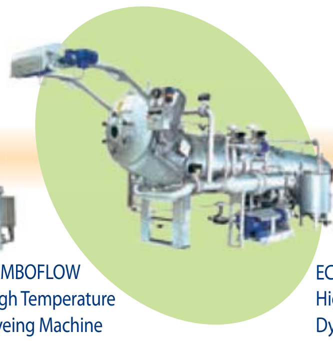
DYEING AND FINISHING MACHINE MANUFACTURING

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

MANAGEMENT DISCUSSION AND ANALYSIS

Goller Woven
Pre-treatment
Range

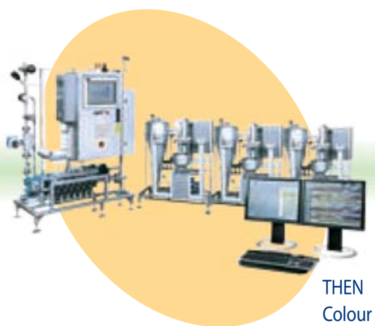
JUMBOFLOW
High Temperature
Dyeing Machine



ECO-88D
High Temperature
Dyeing Machine

ALLWIN
High Temperature
Package Dyeing
Machine

THEN-AIRFLOW®
Synergy



THEN
Colour Kitchen
Management System

XO-Select
Vacuum Conditioning
and Heat Setting Machine

XO-Smart
Vacuum Conditioning
and Heat Setting Machine

MANAGEMENT DISCUSSION AND ANALYSIS

For the year under review, this segment remained the major source of revenue for the Group. Revenue generated from this segment was approximately HK$1,615 million (2006: HK$1,313 million) representing an increase of 23% from the previous year and accounted for 53% of the Group's revenue. The segment results increased 41% to approximately HK$135 million (2006: HK$96 million).

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

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

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

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

The 4th Dhaka International Textile and Garment Machinery and Apparel Accessories Exhibition, Dhaka, Bangladesh


The 13th International Exhibition of Textile Industry, Shanghai, China

MANAGEMENT DISCUSSION AND ANALYSIS

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

Fong's booth - International Exhibition of Textile Machinery, Munich, Germany

Xorella's booth - International Exhibition of Textile Machinery, Munich, Germany

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

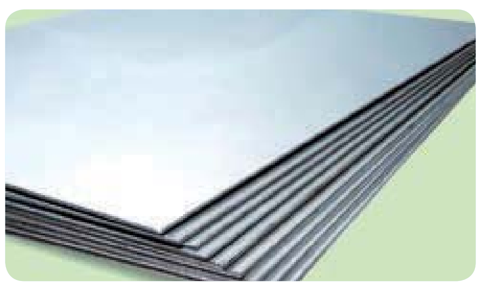
STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

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

FONG'S STEELS

Coil Centre



Stainless Steel Plates

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

STAINLESS STEEL CASTING

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

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

State-of-the-Art 5-Axis Machining Centre

New Sand Foundry established in 2007

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

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

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

JOINTLY CONTROLLED ENTITY

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

Monforts Fong's Manufacturing Plant, Shenzhen, China

Monfongs 328 TwinAir Stenter Frame Range

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

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

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

HUMAN RESOURCES

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

Employees are remunerated based on their performance, experience and prevailing industry practice. The Group's remuneration policies and packages were reviewed by the Remuneration Committee of the Company on a regular basis. Bonus and rewards may also be awarded to employees based on performance evaluation, with an aim to encourage and reward staff to achieve better performance. Other employee benefits available for eligible employees include medical insurance, retirement benefits scheme and share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

To equip with the workforces to face the challenges ahead, the Group will continue to offer training programmes to staff in different levels and positions on an ongoing basis. The aim of these programmes is to cultivate a dynamic corporate culture and develop effective communication and customer service skills among staff members. Moreover, system controls will also be reinforced to ensure high operational efficiency and performance.

LIQUIDITY AND CAPITAL RESOURCES

On May 10, 2006, the Company issued HK$800 million zero couple convertible bonds due 2011. The convertible bonds will carry rights to convert into new shares of the Company at the conversion price of HK$8.37 per share, subject to adjustment, (As at December 31, 2007, the adjusted conversion price is HK$7.62 per share). Pursuant to the terms and conditions of the convertible bonds, the holders of the convertible bonds will have the right, at such holder's option, to require the Company to redeem all or some only of the convertible bonds at 111.36% of their principal amount on November 10, 2008.

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

Following the issue of the convertible bonds, the financial position of the Group has further been strengthened and improved. As at December 31, 2007, there was a gearing ratio of 36% and the current ratio was 1.5.

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

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

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

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

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 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, 2007.

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 2007.

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.

CORPORATE GOVERNANCE REPORT

The Board is led by the Chairman and currently comprises eight 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)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai *(appointed on January 15, 2007)*
Mr. Tsui Wai Keung
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

Independent Non-executive Directors

Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

The biographical details of the 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 is adequate for its present operations. Executive Directors are in charge of different businesses or functional divisions in accordance with their respective areas of expertise.

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 strategies. 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 MEETINGS

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 six 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.

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.

CORPORATE GOVERNANCE REPORT

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.

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.

During the year of 2007, Mr. Tou Kit Vai was appointed as an Executive Director of the Company with effect from January 15, 2007.

Mr. Fong Kwok Chung, Bill, Ms. Poon Hang Sim, Blanche, Mr. Cheung Chiu Fan and Dr. Yuen Ming Fai 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.

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
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

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. In 2007, the Remuneration Committee convened three meetings. The attendance record of the members of the Remuneration Committee is disclosed below in this report.

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.

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), Dr. Yuen Ming Fai and Dr. Keung Wing Ching. 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 2007 and the individual attendance of members are set out below in this report.

CORPORATE GOVERNANCE REPORT

In discharging its responsibilities, the Audit Committee had performed the following works during the year of 2007:

(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 2008.

ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2007

	Number of meetings attended/held		
	Board Meeting	**Audit Committee Meeting**	**Remuneration Committee Meeting**
Executive Directors			
Mr. Fong Sou Lam	6/6		3/3
Mr. Wan Wai Yung	5/6		3/3
Mr. Fong Kwok Leung, Kevin	6/6		
Mr. Fong Kwok Chung, Bill	2/6		
Mr. Tou Kit Vai	5/6		
Mr. Tsui Wai Keung	5/6		
Dr. Tsui Tak Ming, William	6/6		
Ms. Poon Hang Sim, Blanche	6/6		
Independent Non-executive Directors			
Mr. Cheung Chiu Fan	6/6	3/3	3/3
Dr. Yuen Ming Fai	2/6	1/3	3/3
Dr. Keung Wing Ching	6/6	3/3	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, auditor of the Company (which for the purpose includes any entity under common control, ownership or management with the auditor 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:

(i) Audit services;
(ii) Non-audit service- agreed-upon procedures for continuing connected transactions and results announcements; and
(iii) Non-audit service- tax advisory services

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$202,852.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended December 31, 2007 have been reviewed by the Audit Committee and audited by the external auditor, 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 auditor about their reporting responsibilities is set out in the Independent Auditor's 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, the 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 14, 2008

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2007.

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, associate and jointly controlled entities are set out in notes 38, 15 and 16 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2007 are set out in the consolidated income statement on page 38.

An interim dividend of 9 HK cents per share plus a special dividend of 3 HK cents per share, amounting to a total of approximately HK$67 million, were paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 8 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 28, 2008, amounting to approximately HK$83 million, and the retention of the remaining profit for the year of approximately HK$124 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 June 5, 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2007, 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 was approximately 32% 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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2007 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	103,192
Dividend reserve	83,313
	209,538

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 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)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai (appointed on January 15, 2007)
Mr. Tsui Wai Keung
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

Independent Non-executive Directors:

Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

Mr. Cheung Chiu Fan was appointed under a contract for a term of 2 years commencing on January 1, 2007 and expiring on December 31, 2008.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on September 1, 2006 and expiring on August 31, 2008.

Dr. Keung Wing Ching was appointed under a contract for a term of 2 years commencing on June 1, 2006 and expiring on May 31, 2008.

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

In accordance with Clause 99 of the Company's Bye-Laws, the following Directors, namely Mr. Fong Kwok Chung, Bill, Ms. Poon Hang Sim, Blanche, Mr. Cheung Chiu Fan and Dr. Yuen Ming Fai, will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Other than as disclosed above, no Director 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' INTERESTS IN THE SHARES OF THE COMPANY

As at December 31, 2007, 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 for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in 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	39,050,000	7.03%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.04%
	Held by discretionary trusts (note 1)	304,875,601	54.89%
		306,625,601	55.21%
Mr. Fong Kwok Chung, Bill	Beneficial owner	2,998,000	0.54%
	Corporate interest (note 2)	4,444,000	0.8%
	Held by discretionary trusts (note 1)	304,875,601	54.89%
		312,317,601	56.23%
Mr. Wan Wai Yung	Beneficial owner	1,677,500	0.30%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%
Mr. Tou Kit Vai	Beneficial owner	30,000	0.01%

Notes:

1. 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.

2. Fong Kwok Chung, Bill is deemed to be interested in 4,444,000 shares held by Precision Private Capital Co., Ltd. as he wholly owns Precision Private Capital Co., Lid.

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, 2007.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 28 to the consolidated financial statements.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 32 to the consolidated financial statements.

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 the share option scheme disclosed above, at no time during the year was the Company or 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, 2007, 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.

DIRECTORS' REPORT

(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. On December 27, 2007, FNECL renewed the agreement with Sou Lam for a term of three years from January 1, 2008 to December 31, 2010. Details of the transactions were set out in the press announcements of the Company dated December 30, 2004 and December 27, 2007 respectively.

(2) The Group, through its five subsidiaries, entered into seven agreements with PSP Marketing Inc. ("PSP Marketing") and PSP International Inc. ("PSP International") in relation to agency and marketing activities for the sales of the products of these subsidiaries. PSP Marketing and PSP International are beneficially owned as to 51% and 30% by Mr. Peter Rainer Philipp respectively, who is currently a director of certain operating subsidiaries of the Group.

Details of these transactions were set out in the press announcements of the Company dated April 20, 2005, April 2, 2007 and December 3, 2007 respectively.

(i) On May 1, 2003, a regional sales coordination agreement (the "Original Agreement") was entered into between PSP Marketing and FNECL whereby PSP Marketing 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 renewable for successive one-year periods thereafter. The agreement was renewed on substantially the same terms on December 3, 2007 and with effect from January 1, 2008 for a term of three years.

(ii) On October 4, 2003, a sales agency agreement (the "Original Agreement") was entered into between PSP Marketing and FNECL whereby PSP Marketing 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. The agreement was renewed on substantially the same terms on December 3, 2007 and with effect from January 1, 2008 for a term of three years.

(iii) On May 14, 2003, a technical, sales and marketing support agreement (the "Original Agreement") entered into between PSP Marketing and Xorella AG, a wholly owned subsidiary of the Company whereby PSP Marketing 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 (the "Original Agreement") entered into between PSP Marketing and Xorella AG whereby PSP Marketing 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. The agreement was renewed on substantially the same terms on December 3, 2007 and with effect from January 1, 2008 for a term of three years.

(v) On November 4, 2004, a sales agency agreement (the "Original Agreement") was entered into between PSP Marketing and THEN Maschinen GmbH, a wholly-owned subsidiary of the Company, whereby PSP Marketing 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. The agreement was renewed on substantially the same terms on December 3, 2007 and with effect from January 1, 2008 for a term of three years.

(vi) On April 1, 2007, a sales agency agreement was entered into between PSP International and Tycon Alloy Industries (Hong Kong) Company, Limited, a wholly-owned subsidiary of the Company, whereby PSP International was appointed as the non-exclusive sales agent for the sales of the stainless steel casting products in the USA, Canada and Mexico with effect from April 1, 2007 for a term of three years.

(vii) On December 3, 2007, a sales agency agreement was entered into between PSP Marketing and Fong's National Dyeing and Finishing Machinery (Macao Commercial offshore) Co. Ltd., a wholly owned subsidiary of the Company whereby PSP Marketing was appointed as the exclusive sales agent for the sales of FONG's branded products of the Group in Canada and the USA with effect from January 1, 2008 for a term of three years.

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

The aggregate amount paid and payable to PSP Marketing under the above-mentioned agreements for the year was HK$7,979,000, which has not exceeded the cap amount under Rule 14A. 34 of the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported the 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 auditor 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 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, 2007, 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 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
Capital Research and Management Company	Investment Manager	36,590,000	6.59%
Aberdeen Asset Management Plc.	Investment Manager	33,626,000	6.05%
Mondrian Investment Partners Ltd	Investment Manager	30,228,000	5.44%

Save as disclosed above, as at December 31, 2007, the Company had 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$7,761,000.

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 Remuneration Committee 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 will be reviewed by the Remuneration Committee 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 32 to the consolidated financial statements. No 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.

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

During the year, the Company repurchased certain of its own shares through the Stock Exchange, details of which are set out in note 28 to the consolidated financial statements. The Directors considered that the repurchases would increase the net asset value per share and earnings per share of the Company.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended December 31, 2007, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

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

On behalf of the Board

Fong Sou Lam
DIRECTOR
Hong Kong, April 14, 2008

INDEPENDENT AUDITOR'S 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 (collectively referred to as the "Group") set out on pages 38 to 95, which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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 14, 2008

CONSOLIDATED INCOME STATEMENT

(For the year ended December 31, 2007)

	Notes	2007 HK$'000	2006 HK$'000
Revenue	5	**3,029,189**	2,380,036
Cost of sales		**(2,249,775)**	(1,697,437)
Gross profit		**779,414**	682,599
Interest income		**14,188**	18,489
Other income		**91,420**	52,291
Gain on fair value change of the derivative components of convertible loan notes		**3,936**	11,001
Loss on fair value change of financial assets held for trading		**(2,142)**	(217)
Gain (loss) on fair value change of financial assets designated at fair value through profit and loss ("FVTPL")		**2,363**	(2,310)
Selling and distribution costs		**(162,973)**	(92,871)
General and administrative expenses		**(352,968)**	(305,236)
Other expenses		**(73,778)**	(60,623)
Finance costs	6	**(64,484)**	(49,817)
Share of results of an associate		**1,371**	8,893
Share of results of jointly controlled entities		**78,315**	46,740
Profit before tax	7	**314,662**	308,939
Income tax expense	9	**(40,257)**	(48,906)
Profit for the year attributable to equity holders of the Company		**274,405**	260,033
Earnings per share	11		
Basic		**49.2 HK cents**	46.5 HK cents
Diluted		**47.9 HK cents**	44.8 HK cents

CONSOLIDATED BALANCE SHEET

(At December 31, 2007)

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	12	**378,940**	288,002
Prepaid lease payments	13	**13,099**	11,639
Intellectual property rights	14	**19,271**	21,934
Interests in an associate	15	**34,385**	42,431
Interests in jointly controlled entities	16	**89,275**	81,312
Deposits for acquisition of property, plant and equipment		**20,282**	9,958
Deposits for acquisition of a leasehold land		**16,000**	–
Deferred tax assets	27	**7,844**	5,525
		579,096	460,801
Current assets			
Inventories	17	**951,869**	778,372
Trade and other receivables	18	**489,258**	404,475
Prepaid lease payments	13	**362**	341
Amounts due from jointly controlled entities	19	**7,275**	2,475
Derivative financial instrument	20	**–**	27
Tax recoverable		**2,419**	691
Structured deposits	21	**57,853**	127,890
Bank balances, deposits and cash	22	**583,060**	580,464
		2,092,096	1,894,735
Current liabilities			
Trade and other payables	23	**409,648**	329,464
Amount due to a jointly controlled entity	19	**–**	1,701
Warranty provision	24	**23,274**	13,264
Derivative financial instrument	20	**2,359**	244
Tax liabilities		**12,202**	23,339
Borrowings – due within one year	26	**143,000**	54,613
Embedded derivative components of convertible loan notes	*25*	**21,862**	–
Convertible loan notes	*25*	**813,725**	–
		1,426,070	422,625
Net current assets		**666,026**	1,472,110
		1,245,122	1,932,911

CONSOLIDATED BALANCE SHEET

(At December 31, 2007)

	Notes	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	28	**55,542**	55,842
Reserves	29	**1,102,989**	959,244
Equity attributable to equity holders of the Company		**1,158,531**	1,015,086
Minority interests	29	**1,290**	1,290
Total equity		**1,159,821**	1,016,376
Non-current liabilities			
Borrowings – due after one year	26	**82,500**	122,500
Deferred tax liabilities	27	**2,801**	1,190
Embedded derivative components of convertible loan notes	25	**–**	25,798
Convertible loan notes	25	**–**	767,047
		85,301	916,535
		1,245,122	1,932,911

The financial statements on pages 38 to 95 were approved and authorised for issue by the Board of Directors on April 14, 2008 and are signed on its behalf by:

Fong Kwok Chung, Bill
DIRECTOR

Fong Sou Lam
DIRECTOR

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(For the year ended December 31, 2007)

	2007 HK$'000	2006 HK$'000
Net exchange difference arising on translation of overseas subsidiaries and an associate recognised directly in equity	**30,666**	16,294
Share of changes in translation reserve of an associate and jointly controlled entities	**4,648**	3,722
Net income recognised directly in equity	**35,314**	20,016
Profit for the year	**274,405**	260,033
Total recognised income and expense for the year attributable to equity holders of the Company	**309,719**	280,049

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended December 31, 2007)

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**314,662**	308,939
Adjustments for:		
Interest expense	**57,248**	43,177
Interest income	**(14,188)**	(18,489)
Share of results of an associate	**(1,371)**	(8,893)
Share of results of jointly controlled entities	**(78,315)**	(46,740)
Depreciation and amortisation	**42,868**	34,525
Allowance for (reversal of) doubtful debts	**10,780**	(870)
Allowance for inventories	**4,501**	1,654
(Gain) loss on fair value change of financial assets designated at FVTPL	**(2,363)**	2,310
Loss on fair value change of financial assets held for trading	**2,142**	217
Gain on fair value change of derivative components of convertible loan notes	**(3,936)**	(11,001)
Loss on disposal of property, plant and equipment	**258**	1,044
Increase in warranty provision	**21,418**	13,200
Operating cash flows before movements in working capital	**353,704**	319,073
Increase in inventories	**(177,998)**	(396,781)
Increase in trade and other receivables	**(81,708)**	(179,768)
(Increase) decrease in amount due from a jointly controlled entity	**(4,800)**	6,335
Increase in trade and other payables	**60,921**	101,155
(Decrease) increase in amount due to a jointly controlled entity	**(1,701)**	1,701
Utilisation of warranty provision	**(11,408)**	(12,235)
Cash generated from (used in) operations	**137,010**	(160,520)
Hong Kong Profits Tax paid	**(53,362)**	(20,036)
Overseas income tax and the People's Republic of China (the "PRC") Enterprise Income Tax paid	**(5,484)**	(6,642)
Hong Kong Profits Tax refunded	**1,077**	1
Overseas income tax and the PRC Enterprise Income Tax refunded	**3,523**	–
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**82,764**	(187,197)

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended December 31, 2007)

	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(100,311)**	(53,652)
Deposits paid for acquisition of property, plant and equipment and a leasehod land	**(36,282)**	(9,958)
Prepaid lease payments made	**(1,223)**	–
Purchase of intellectual property rights	**(233)**	–
Dividend received from jointly controlled entities	**75,000**	37,500
Decrease (increase) in structured deposits	**72,400**	(130,200)
Interest received	**14,188**	18,489
Dividend received from an associate	**12,374**	1,084
Proceeds from disposal of property, plant and equipment	**1,569**	287
Investment in jointly controlled entities	**–**	(1,579)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**37,482**	(138,029)
FINANCING ACTIVITIES		
Dividends paid	**(150,397)**	(128,691)
Repayment of bank loans	**(54,613)**	(96,515)
Repurchase of shares	**(15,877)**	(9,539)
Interest paid on bank loans	**(10,570)**	(12,178)
New bank loan raised	**103,000**	59,558
Proceed on issue of convertible loan notes	**–**	800,000
Other borrowings raised	**–**	5,055
Issue cost of convertible loan notes	**–**	(26,460)
Factoring charges	**–**	(693)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(128,457)**	590,537
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(8,211)**	265,311
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**580,464**	312,704
Effect of foreign exchange rate changes	**10,807**	2,449
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances, deposits and cash	**583,060**	580,464

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

1. GENERAL

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

The consolidated financial statements are presented in Hong Kong dollars, 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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

[1] Effective for annual periods beginning on or after January 1, 2009

[2] Effective for annual periods beginning on or after July 1, 2009

[3] Effective for annual periods beginning on or after March 1, 2007

[4] Effective for annual periods beginning on or after January 1, 2008

[5] Effective for annual periods beginning on or after July 1, 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors of the Company anticipate that the application of other new and revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Interests in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, 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.

Interests in jointly controlled entities

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 net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discount and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Service income, commission income and management fee income are recognised when services are provided.

Interest income from a financial asset including financial assets at fair value through profit or loss 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 including buildings held for use in the production or supply of goods or services or for administrative purposes, other than construction in progress and freehold land, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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.

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).

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 consolidated income statement in the year in which the item is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment losses on tangible and intangible assets

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.

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.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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 the respective 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 recognized in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-mondary items carried at fair value are included in the consolidated income statement for the year.

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 Company (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 consolidated income statement in the period in which the foreign operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year 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 consolidated 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 recognised 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, 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 year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

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

Retirement benefits costs

Payments to defined contribution retirement benefits plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Research and development expenditure

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 the consolidated income statement.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial assets (Continued)

Effective interest method *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables 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 and bank balances and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method *(Continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent 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.

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 Group's financial liabilities are generally classified into financial liabilities held for trading and other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities hold for trading
A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a jointly controlled entity and borrowings are subsequently measured at amortised cost, using the effective interest rate method after initial recognition.

Convertible loan notes contains liability component, conversion option derivative and early redemption option derivatives

Convertible loan notes issued by the Company that contain liability, conversion option derivative and early redemption option derivative components are classified separately into respective items on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the liability, conversion option derivative and early redemption option derivative components are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative and the early redemption option derivative are measured at fair value with change in fair values recognised in the consolidated income statement.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability, conversion option derivative and early redemption option derivative components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative and early redemption option derivative are charged to the consolidated income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

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

Derivative financial instruments

Derivatives of the Group do not qualify for hedge accounting thus they are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in the consolidated income statement.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised 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 and payable is recognised in the consolidated income statement.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are 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 discussed below.

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$200,503,000 (2006: HK$156,000,000) due to the unpredictability of future profit streams. 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 more than expected, a material deferred tax asset may be recognised.

Valuation of the embedded derivatives in convertible loan notes

The fair values for the embedded derivatives in convertible loan notes are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the area that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the embedded derivatives in convertible loan notes. As at December 31, 2007, the carrying amount of embedded derivatives is HK$21,862,000 (2006: HK$25,798,000). Details of the terms of the convertible loan notes are disclosed in note 25.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

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

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. If the market conditions were to deteriorate and more obsolete and slow-moving inventory items being identified, additional allowances may be required. As at December 31, 2007, the carrying amount of inventories is HK$951,869,000 (2006: HK$778,372,000) (net of allowance for obsolete items of HK$4,501,000 (2006: HK$1,654,000)).

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2007, the carrying amount of trade receivable is HK$260,816,000 (2006: HK250,403,000) (net of allowance for doubtful debts of HK$27,253,000 (2006: HK$17,339,000)

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 and finishing 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 the management's estimation, a future change to the consolidated income statement will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to the consolidated income statement will result. As at December 31, 2007, the carrying amount of warranty provision is HK$23,274,000 (2006: HK$13,264,000). The movement of the warranty provision for the year are set out in note 24.

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments *(Continued)*

Segment information about these businesses is presented below:

2007

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,615,387	902,650	511,152	–	3,029,189
Inter-segment sales	94,875	549,011	36,004	(679,890)	–
Total	1,710,262	1,451,661	547,156	(679,890)	3,029,189
RESULTS					
Segment results	134,588	100,395	46,132	–	281,115
Interest income					14,188
Gain on fair value change of the derivative components of convertible loan notes					3,936
Loss on fair value change of financial assets held for trading					(2,142)
Gain on fair value change of financial assets designated at FVTPL					2,363
Finance costs					(64,484)
Share of results of an associate					1,371
Share of results of jointly controlled entities	78,315	–	–	–	78,315
Profit before tax					314,662
Income tax expense					(40,257)
Profit for the year					274,405

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

(CONTINUED)

Business segments *(Continued)*

2007 *(Continued)*

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	1,190,608	325,299	380,449	1,896,356
Interests in an associate				34,385
Interests in jointly controlled entities	89,275	–	–	89,275
Unallocated corporate assets				651,176
Consolidated total assets				2,671,192
LIABILITIES				
Segment liabilities	333,305	35,283	64,334	432,922
Unallocated corporate liabilities				1,078,449
Consolidated total liabilities				1,511,371

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
Capital additions	87,176	489	22,837	110,502
Depreciation and amortisation	37,186	1,011	4,671	42,868
(Gain) loss on disposal of property, plant and equipment	(15)	7	266	258
Allowance for inventories	4,501	–	–	4,501
Allowance for doubtful debts	358	9,897	525	10,780
Increase in warranty provision	21,418	–	–	21,418

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

(CONTINUED)

2006

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,312,912	809,195	257,929	–	2,380,036
Inter-segment sales	58,116	383,171	31,792	(473,079)	–
Total	1,371,028	1,192,366	289,721	(473,079)	2,380,036
RESULTS					
Segment results	95,663	145,275	35,222	–	276,160
Interest income					18,489
Gain on fair value change of the derivative components of convertible loan notes					11,001
Loss on fair value change of financial assets held for trading					(217)
Loss on fair value change of financial assets designated at FVTPL					(2,310)
Finance costs					(49,817)
Share of results of an associate					8,893
Share of results of jointly controlled entities	46,740	–	–	–	46,740
Profit before tax					308,939
Income tax expense					(48,906)
Profit for the year					260,033

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

(CONTINUED)

2006 *(Continued)*

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	879,556	372,363	265,277	1,517,196
Interests in an associate				42,431
Interests in jointly controlled entities	81,312	–	–	81,312
Unallocated corporate assets				714,597
Consolidated total assets				2,355,536
LIABILITIES				
Segment liabilities	261,252	22,973	60,204	344,429
Unallocated corporate liabilities				994,731
Consolidated total liabilities				1,339,160

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
Capital additions	39,518	1,901	12,233	53,652
Depreciation and amortisation	30,666	879	2,980	34,525
(Gain) loss on disposal of property, plant and equipment	(36)	–	1,080	1,044
(Reversal of) allowance for inventories	(452)	–	2,106	1,654
Allowance for (reversal of) doubtful debts	523	(74)	(1,319)	(870)
Increase in warranty provision	13,200	–	–	13,200

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

(CONTINUED)

Geographical segments

The Group's operations are located mainly in Hong Kong, 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	
	2007	2006
	HK$'000	HK$'000
The PRC	**1,239,662**	875,647
Hong Kong	**666,943**	590,674
Asia Pacific (other than the PRC and Hong Kong)	**461,198**	484,353
Europe	**380,900**	222,063
North and South America	**237,263**	154,350
Others	**43,223**	52,949
	3,029,189	2,380,036

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		Capital additions	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**955,753**	651,456	**92,622**	42,445
Hong Kong	**719,350**	619,096	**13,830**	6,646
Europe	**220,678**	241,257	**3,963**	4,340
Asia Pacific (other than the PRC and Hong Kong)	**575**	5,387	**87**	221
	1,896,356	1,517,196	**110,502**	53,652

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

6. FINANCE COSTS

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

7. PROFIT BEFORE TAX

	2007 HK$'000	2006 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intellectual property rights	**2,896**	2,892
Amortisation of prepaid lease payments	**362**	341
Depreciation of property, plant and equipment	**39,610**	31,292
Total depreciation and amortisation	**42,868**	34,525
Staff costs, including directors' emoluments, salaries, wages and other benefits	**217,468**	180,094
Retirement benefits scheme contributions	**20,321**	16,840
Total Staff costs	**237,789**	196,934
Allowance for inventories	**4,501**	1,654
Allowance for (reversal of) doubtful debts	**10,780**	(870)
Auditor's remuneration	**2,397**	2,437
Cost of inventories recognised as an expense	**2,245,274**	1,695,783
Loss on disposal of property, plant and equipment	**258**	1,044
Net foreign exchange gain	**(53,618)**	(23,214)
Research and development costs	**1,089**	687

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2006: twelve) Directors were as follows:

	Executive directors								**Independent non-executive directors**			
	Wan Wai Yung	**Fong Sou Lam**	**Fong Kwok Chung, Bill**	**Fong Kwok Leung, Kevin**	**Tsui Wai Keung**	**Tsui Tak Ming, William**	**Poon Hang Sim, Blanche**	**Tou Kit Vai**	**Yuen Ming Fai**	**Cheung Chiu Fan**	**Keung Wing Ching**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007												
Fees	**–**	**–**	**–**	**–**	**360**	**–**	**–**	**–**	**75**	**75**	**75**	**585**
Other emoluments:												
Salaries and other benefits	**4,008**	**3,900**	**2,103**	**1,910**	**1,320**	**1,430**	**999**	**1,560**	**–**	**–**	**–**	**17,230**
Performance related incentive payments	**1,000**	**–**	**400**	**1,000**	**250**	**500**	**360**	**560**	**–**	**–**	**–**	**4,070**
Retirement benefits scheme contributions	**253**	**288**	**146**	**106**	**106**	**94**	**86**	**12**	**–**	**–**	**–**	**1,091**
Total emoluments	**5,261**	**4,188**	**2,649**	**3,016**	**2,036**	**2,024**	**1,445**	**2,132**	**75**	**75**	**75**	**22,976**

	Executive directors								Independent non-executive directors				
	Wan Wai Yung	Fong Sou Lam	Fong Kwok Chung, Bill	Fong Kwok Leung, Kevin	Tsui Wai Keung	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Peter Rainer Philipp	Yuen Ming Fai	Cheung Chiu Fan	Lui Chi Lung, Louis	Keung Wing Ching	Total
	HK$'000	HK$'000	HK$'000	HK$'00	HK$'0000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006													
Fees	–	–	–	–	–	–	–	–	64	64	42	44	214
Other emoluments:													
Salaries and other benefits	4,008	3,250	2,103	1,780	1,300	1,300	1,068	562	–	–	–	–	15,371
Performance related incentive payments	–	–	700	400	700	400	315	–	–	–	–	–	2,515
Retirement benefits scheme contributions	243	240	141	96	96	83	76	–	–	–	–	–	975
Total emoluments	4,251	3,490	2,944	2,276	2,096	1,783	1,459	562	64	64	42	44	19,075

Note: The performance related incentive payments are determined as a percentage of the profit of the Group for the years ended December 31, 2007 and 2006.

No Director waived any emoluments in the years ended December 31, 2007 and 2006.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2007 and 2006 were all Directors of the Company and details of their emoluments are included above.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

9. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profits:		
Current year	**36,669**	41,875
Underprovision in prior years	**686**	211
PRC Enterprise Income Tax:		
Current year	**6,191**	6,795
(Over)underprovision in prior years	**(3,523)**	375
Overseas income tax:		
Current year	**942**	832
	40,965	50,088
Deferred tax *(note 27)*	**(708)**	(1,182)
	40,257	48,906

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

Certain subsidiaries of the Group operating in the PRC are eligible for certain tax concessions and part of the income tax was exempted from the PRC Enterprise Income Tax.

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

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

The income tax expense for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
Profit before tax	**314,662**	308,939
Tax at the Hong Kong Profits Tax rate of 17.5%	**55,066**	54,064
Tax effect of:		
– expenses that are not deductible for tax purpose	**8,272**	7,779
– income that are not taxable for tax purpose	**(11,283)**	(14,151)
– tax losses not recognised	**7,788**	16,300
– share of results of an associate	**(240)**	(1,556)
– share of results of jointly controlled entities	**(13,705)**	(8,180)
Income tax on concessionary rate	**(2,180)**	(1,917)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,020)**	(3,910)
(Over)underprovision in prior years	**(2,837)**	586
Others	**396**	(109)
Income tax expense for the year	**40,257**	48,906

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(For the year ended December 31, 2007)

10. DIVIDENDS/SPECIAL DIVIDEND

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

The final dividend and final special divided of 8 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.

11. EARNINGS PER SHARE

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

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

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(For the year ended December 31, 2007)

11. EARNINGS PER SHARE *(CONTINUED)*

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

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At January 1, 2006	9,563	204,291	6,857	146,728	58,679	17,380	6,508	21,082	471,088
Currency realignment	–	9,271	119	6,425	1,685	227	190	844	18,761
Transfer		24,588	–	574	–	–	–	(25,162)	–
Additions	–	–	1,807	26,888	10,321	3,451	151	11,034	53,652
Disposals	–	–	–	(9,819)	(6,440)	(880)	–	–	(17,139)
At December 31, 2006 and January 1, 2007	9,563	238,150	8,783	170,796	64,245	20,178	6,849	7,798	526,362
Currency realignment	–	19,788	232	13,446	3,217	599	378	587	38,247
Reclassification	–	7,608	–	3,799	–	–	–	(11,407)	–
Additions	–	822	1,967	72,883	19,713	3,214	295	11,375	110,269
Disposals	–	–	(51)	(5,734)	(1,903)	(336)	(98)	–	(8,122)
At December 31, 2007	9,563	266,368	10,931	255,190	85,272	23,655	7,424	8,353	666,756
DEPRECIATION AND AMORTISATION									
At January 1, 2006	–	83,384	2,749	70,202	41,534	12,450	4,880	–	215,199
Currency realignment	–	3,347	49	2,987	969	154	171	–	7,677
Provided for the year	–	10,165	962	11,258	6,742	1,911	254	–	31,292
Eliminated on disposals	–	–	–	(8,818)	(6,303)	(687)	–	–	(15,808)

12. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Total HK$'000
At December 31, 2006 and January 1, 2007	–	96,896	3,760	75,629	42,942	13,828	5,305	–	238,360
Currency realignment	–	7,354	143	6,001	1,968	324	351	–	16,141
Provided for the year	–	11,284	1,247	16,425	8,034	2,335	285	–	39,610
Eliminated on disposals	–	–	(41)	(3,322)	(1,817)	(1,017)	(98)	–	(6,295)
At December 31, 2007	–	115,534	5,109	94,733	51,127	15,470	5,843	–	287,816
NET BOOK VALUES									
At December 31, 2007	9,563	150,834	5,822	160,457	34,145	8,185	1,581	8,353	378,940
At December 31, 2006	9,563	141,254	5,023	95,167	21,303	6,350	1,544	7,798	288,002

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the terms of the leases or 5%, whichever is shorter
Leasehold impronents	10%
Plant and machinery	10% - 20%
Furnitve and equipment	20%
Motor vehicles	20%
Moulds and tools	20%

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

	2007 HK$'000	2006 HK$'000
Buildings on land under long leases located in the PRC	**88**	90
Buildings on land under medium-term leases located in the PRC	**135,882**	128,685
Buildings on land under medium-term leases located in Hong Kong	**65**	67
Freehold land and buildings in Europe	**24,362**	21,975
	160,397	150,817

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(For the year ended December 31, 2007)

13. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term leases	**399**	410
Leasehold land in the PRC:		
Long leases	**375**	381
Medium-term leases	**12,687**	11,189
	13,461	11,980
Analysed for reporting purposes as:		
Current asset	**362**	341
Non-current asset	**13,099**	11,639
	13,461	11,980

14. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At January 1, 2006, December 31, 2006, and January 1, 2007	28,923
Additions	233
At December 31, 2007	29,156
AMORTISATION	
At January 1, 2006	4,097
Provided for the year	2,892
At December 31, 2006 and January 1, 2007	6,989
Provided for the year	2,896
At December 31, 2007	9,885
CARRYING AMOUNT	
At December 31, 2007	19,271
At December 31, 2006	21,934

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

15. INTERESTS IN AN ASSOCIATE

	2007 HK$'000	2006 HK$'000
Cost of unlisted investments in an associate	34,385	42,431
Share of post-acquisition results, net of dividends received	–	–
Share of net assets	34,385	42,431

At the balance sheet dates, the principal associate of the Group represented a 30% interest in Foshan East Asia Company Limited, a sino-foreign equity enterprise registered and operated in the PRC. It acts as a holding company and its subsidiaries are engaged in the manufacture of colour woven fabrics.

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

	2007 HK$'000	2006 HK$'000
Revenue	231,600	226,474
Profit for the year	4,570	29,643
Profit attributable to the Group	1,371	8,893
Financial position:		
Total non-current assets	103,121	105,294
Total current assets	204,044	222,260
Total non-current liabilities	(52,636)	(65,952)
Total current liabilities	(139,912)	(120,166)
	114,617	141,436
Share of net assets attributable to the Group	34,385	42,431

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007	2006
	HK$'000	HK$'000
Cost of unlisted investments in jointly controlled entities	**10,779**	10,779
Share of post-acquisition profits, net of dividends received	**78,496**	70,533
Share of net assets	**89,275**	81,312

At the balance sheet date, the Group had interests in the following significantly jointly controlled entities:

Name of entity	**Place of incorporation or registration/ operations**	**Nominal value of issued capital/ registered capital**	**Proportion of share capital/ registered capital/ attributable to the Group**	**Principal activities**
Monforts Fong's Textile Machinery Co. Limited	Hong Kong/ The PRC	HK$18,400,000	50%	Manufacture and trading of textile machinery
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	50%	Trading of textile machinery
Plexxor Co. Limited	Hong Kong	HK$3,000,000	51%	Trading of textile machinery

The Group holds 51% of the share capital of Plexxor Co., Limited and controls 51% of the voting power at general meetings. However, Plexxor Co., Limited is jointly controlled by the Group and the other significant shareholder pursuant to a shareholders' agreement. Therefore, Plexxor Co., Limited is classified as a jointly controlled entity of the Group.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(CONTINUED)*

The summarised financial information in respect of the Group's interests in jointly controlled entities which are accounted for using the equity method is set out below:

	2007	2006
	HK$'000	HK$'000
Income	**493,301**	314,350
Expense	**414,986**	267,610
Profit attributable to the Group	**78,315**	46,740
Financial position:		
Total non-current assets	**28,953**	26,783
Total current assets	**131,319**	114,081
Total non-current liabilities	**(18)**	(32)
Total current liabilities	**(70,979)**	(59,520)
	89,275	81,312

17. INVENTORIES

	2007	2006
	HK$'000	HK$'000
Raw materials	**565,954**	519,055
Work in progress	**241,348**	158,562
Finished goods	**144,567**	100,755
	951,869	778,372

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

18. TRADE AND OTHER RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade receivables	**288,069**	267,742
Less: Allowance for doubtful debts	**(27,253)**	(17,339)
	260,816	250,403
Bills receivables	**135,644**	100,050
	396,460	350,453
Other receivables	**92,798**	54,022
Total trade and other receivables	**489,258**	404,475

The Group allows an average credit period of 60 days (2006: 60 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts and bills receivables based on their due dates at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0-30 days	**366,356**	324,846
31-60 days	**24,432**	14,990
Over 60 days	**5,672**	10,617
	396,460	350,453

Before accepting any new customer, the Group has assessed the credit quality of each potential customer and defined credit rating and limit for each customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$235,693,000 (2006: HK$158,612,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 80 days (2006: 83 days).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

18. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	HK$'000
1 – 30 days	**205,499**	133,005
31 – 60 days	**24,432**	14,990
Over 60 days	**5,762**	10,617
Total	**235,693**	158,612

The Group has provided fully for all receivables aged over 180 days because historical experience is such that receivables that are past due beyond 180 days are generally difficult to recover.

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**17,339**	19,058
Impairment losses recognised on receivables	**13,434**	1,231
Amounts written off as uncollectible	**(866)**	(849)
Amounts recovered during the year	**(2,654)**	(2,101)
Balance at end of the year	**27,253**	17,339

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$27,253,000 (2006: HK$17,339,000). The Group does not hold any collateral over these balances.

19. AMOUNT DUE FROM AND TO JOINTLY CONTROLLED ENTITIES

The amount is unsecured and interest-free. The average credit period is 60 days. All the outstanding balances are within the credit period at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2007		2006	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Foreign currency forward contracts	**–**	**2,359**	27	244

At the balance sheet dates, the Group had the following foreign currency forward contracts dominated in United States dollers ("USD") and Euro ("EUR"), the major terms of these contracts are as follows:

Notional amount	**Maturity**	**Exchange rate**
2007		
Sell EUR500,000 (if market rate for the contracted period is above USD1 to EUR1.27 and below USD1 to EUR1.359 at the date of settlement) or sell EUR1,000,000 (if market rate for the contracted period is above USD1 to EUR1.27 and equal or above USD1 to EUR1.359 at the date of settlement)	March 17, 2008	USD1 to EUR1.27 or USD1 to EUR1.359
2006		
Buy USD500,000 (if market rate at the date of settlement is above USD1 to HK$7.738) or buy USD1,000,000 (if market rate at the date of settlement is equal to or below USD1 to HK$7.738)	February 9, 2007	USD1 to HK$7.738
Sell EUR1,000,000 (if market rate at the date of settlement is greater than USD1 to EUR1.157 and equal to or less than USD1 to EUR1.247) or sell EUR2,000,000 (if market rate is greater than USD1 to EUR1.247)	March 15, 2007	USD1 to EUR1.247

The fair values of the foreign currency forward contracts are measured based on a valuation technique which uses the prevailing forward exchange rates as an input. All fair value changes are recognised in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

21. STRUCTURED DEPOSITS

Structured deposits are stated at fair value and represent two deposits placed in a bank. For the structured deposits in 2007, the deposit with balance of US$1,000,000 bears interest of 6.25% per annum in the first 3 months of the contract period and 10 times of London Interbank Offered Rate ("LIBOR") minus 4.93% (the "Rate") in the subsequent contracted period. No interest will be received if the Rate becomes negative. Another deposit with balance of HK$50,000,000 bears interest of 5.1% per annum if the LIBOR is ranging from 5.1% to 5.4% per annum in the first 3 months of the contracted period and 4.8% to 5.4% per annum in the subsequent contract period. No interest will be received if the interest rate falls outside the range. Both of the structured deposits will mature in 2008.

The structured deposits in 2006 bear interest rates ranging from 7% to 8.5% per annum when the LIBOR fixing with a designated maturity of 12 months minus LIBOR fixing with a designated maturity of 3 months (the "Rate 1") is greater than or equals to 0.15% or 0.18%. No interest will be received if the Rate 1 is lower than 0.15% or 0.18%. The structured deposits were matured in 2007.

The Company designated the structured deposits as at FVTPL. The fair value of the structured deposits has been determined based on the present value of estimated future cash flows discounted at the effective interest rate of 4.8% to 5.0% per annum (2006: 3.5% per annum) provided by the bank at the balance sheet date.

22. BANK BALANCES, DEPOSITS AND CASH

The amount includes short-term fixed deposits which carry fixed interest rate ranging from 1.8% to 3.5% per annum (2006: 2% to 4.85% per annum).

23. TRADE AND OTHER PAYABLES

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

	2007 **HK$'000**	2006 HK$'000
0-30 days	**160,263**	64,174
31-60 days	**9,882**	10,893
Over 60 days	**5,559**	3,028
	175,704	78,095

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

24. WARRANTY PROVISION

	2007 **HK$'000**	2006 HK$'000
At January 1	**13,264**	12,299
Additional provision in the year	**21,418**	13,200
Utilisation of provision	**(11,408)**	(12,235)
At December 31	**23,274**	13,264

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.

25. CONVERTIBLE LOAN NOTES

The Company issued zero coupon convertible loan notes (the "Notes") in the aggregate principal amount of HK$800,000,000 at a par value of HK$10,000 each on May 10, 2006. Details of the Notes are set out in the Company's circular dated May 8, 2006. The features of the Notes are as follows:

(i) Conversion option:

– The Notes are denominated in Hong Kong dollars. The Notes entitle the holders to convert them into ordinary shares of the Company (the "Share") at any time from and including May 25, 2006 to April 25, 2011 at an initial conversion price of HK$8.37 per Share. The conversion price was adjusted to HK$8.18 per Share, HK$8.02 per Share, HK$7.81 per Share and HK$7.62 per Share on May 25, 2006, October 20, 2006, May 25, 2007 and October 26, 2007 respectively.

If the arithmetic average of the closing price of the Share on the Stock Exchange for each day during the 15 consecutive trading days ending 60 days before each anniversary of the issue date of the Notes is less than the conversion price then in effect, the conversion price may be adjusted downwards at the discretion and option of the Company, such that the adjusted conversion price in no event shall be less than 80% of the initial conversion price pursuant to the terms and conditions of the Notes. If the Notes have not been converted, they will be redeemed at 124.01% of the principal amount on May 10, 2011 (the "maturity date").

(ii) Holder early redemption option:

– All or some of the Notes may be redeemed at the option of the holders at 111.36% of the principal amount on November 10, 2008.

(iii) Issuer early redemption option:

– On or at any time after November 10, 2008, the Company may redeem all, but not some only, of the Notes at any time prior to the maturity date, at a pre-determined amount (the "Early Redemption Amount") if (i) the closing price of the Share for each of the 30 consecutive trading days, the last which falls within five trading days prior to the date upon which notice of such redemption is given was at least 130% of the applicable Early Redemption Amount in effect on such trading day divided by the conversion ratio or (ii) at least 90% in principal amount of the Notes has already been converted, redeemed or purchased and cancelled.

25. CONVERTIBLE LOAN NOTES *(CONTINUED)*

(iii) Issuer early redemption option: *(Continued)*

– The Early Redemption Amount of the Notes, for each HK$10,000 principal amount of the Notes, is determined so that it represents a gross yield of 4.35% per annum for the holder, calculated on a semi-annual basis.

The Notes contain liability component, conversion option derivative and two early redemption option derivatives. The conversion option derivative is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of Share in settlement of a fixed amount of the liability component. The issuer early redemption option derivative is not closely related to the host contract as the early redemption amount is not closed to the amortised cost of the liability on the redemption date. Both the conversion option derivative and issuer early redemption option derivative are measured at fair value with change in fair value recognised in profit or loss. The holder early redemption option derivative is not separately recognised from the liability component as the early redemption amount approximates the amortised cost of the liability on the redemption date and it is considered as closely related to the economic characteristics and risks of the host contract.

The fair value of the Notes with embedded derivatives were determined by the Directors with reference to a valuation report carried out by Vigers Appraisal & Consulting Limited, independent and recognised international business valuers, on May 10, 2006 at HK$774,757,000, comprising the liability component of the Notes and derivative components of the Notes amounting to HK$737,958,000 and HK$36,799,000 respectively. At December 31, 2007, the liability component of the Notes is HK$813,725,000 (2006: HK$767,047,000) which is stated at amortised cost using the effective interest method and the fair value of the derivative components of the Notes is HK$21,862,000 (2006: HK$25,798,000). The effective interest expense of the Notes and gain arising on change in fair value of the embedded derivatives amounting to HK$46,678,000 (2006: HK$29,089,000) and HK$3,936,000 (2006: HK$11,001,000), respectively, have been recognised in the consolidated income statements for the year ended December 31, 2007.

The methods and assumptions applied for the valuation of the Notes are as follows:

(1) Valuation of liability component

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is 6.1%.

(2) Valuation of conversion option derivative

Bionomial model is used for valuation of conversion option derivative. The inputs into the model were as follows:

	May 10, 2006	December 31, 2006	**December 31, 2007**
Stock price	HK$6.2	HK$5.25	**HK$4.74**
Exercise price	HK$8.37	HK$8.02	**HK$7.62**
Volatility	35%	35%	**30%**
Dividend yield	4%	4%	**1.3%**
Option life	5 years	4.36 years	**3.36 years**
Risk free rate	4.54%	3.69%	**2.84%**

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(For the year ended December 31, 2007)

25. CONVERTIBLE LOAN NOTES *(CONTINUED)*

(3) Valuation of issuer early redemption option derivative

Bionomial model is used for valuation of issuer early redemption option derivative. The inputs into the model were as follows:

	May 10, 2006	December 31, 2006	**December 31, 2007**
Stock price	HK$6.2	HK$5.25	**HK$4.74**
Exercise price	HK$10.881	HK$10.426	**HK$9,906**
Volatility	35%	35%	**30%**
Dividend yield	4%	4%	**1.3%**
Option life	5 years	4.36 years	**3.36 years**
Risk free rate	4.54%	3.69%	**2.84%**

The movement of the liability component, and the derivative component (including conversion option derivative and issuer redemption option derivative) of the Notes is set out as follows:

	Liability component HK$'000	**Derivative component** HK$'000
Carrying amount at May 10, 2006	737,958	36,799
Changes in fair value	–	(11,001)
Effective interest expenses	29,089	–
Carrying amount at December 31, 2006	767,047	25,798
Changes in fair value	–	(3,936)
Effective interest expenses	46,678	–
Carrying amount at December 31, 2007	813,725	21,862

As at December 31, 2007, the fair value of derivative component comprises of conversion option derivative of HK$40,180,000 (2006: HK$65,347,000) and issuer early redemption option derivative of HK$18,318,000 (2006: HK$39,549,000), which are presented on a net basis as their terms are inter-related.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

26. BORROWINGS

	2007 **HK$'000**	2006 HK$'000
Borrowings comprise the following:		
Unsecured bank loans	**225,500**	172,058
Unsecured other borrowings	**–**	5,055
	225,500	177,113

The above amounts are repayable as follows:

	2007 **HK$'000**	2006 HK$'000
Within one year	**143,000**	54,613
In the second year	**40,000**	40,000
In the third to fifth years inclusive	**42,500**	82,500
	225,500	177,113
Less: Amount due within one year shown under current liabilities	**(143,000)**	(54,613)
Amount due after one year	**82,500**	122,500

In 2007, the Group has three bank borrowings amounting to HK$103,000,000 which is repayable within one year and carries fixed interest rates ranging from 4.64% to 5.35% per annum. The remaining bank borrowings amounting to HK$122,500,000 which carry floating interest rate of Hong Kong Inter-bank Offered Rate ("HIBOR") plus 0.75% per annum, including borrowings of HK$40,000,000 being repayable within one year.

In 2006, the Group had a bank borrowing amounting to HK$9,558,000 which was repayable within one year and carried fixed interest rate of 6.75% per annum. The remaining bank borrowings amounting to HK$167,555,000 which carried floating interest rate of HIBOR plus 0.75% per annum and LIBOR plus 1% per annum, respectively, including borrowings of HK$45,055,000 being repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

27. 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 HK$'000	Allowance for doubtful debts HK$'000	Unrealised profit for inventories HK$'000	Total HK$'000
At January 1, 2006	1,005	(3,086)	(1,072)	(3,153)
Charge (credit) to the consolidated income statement for the year	102	152	(1,436)	(1,182)
At December 31, 2006	1,107	(2,934)	(2,508)	(4,335)
Charge (credit) to the consolidated income statement for the year	1,694	(1,703)	(699)	(708)
At December 31, 2007	2,801	(4,637)	(3,207)	(5,043)

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:

	2007 HK$'000	2006 HK$'000
Deferred tax assets	**(7,844)**	(5,525)
Deferred tax liabilities	**2,801**	1,190
	(5,043)	(4,335)

At the balance sheet date, the Group had unused tax losses of approximately HK$200,503,000 (2006: HK$156,000,000) 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 (2006: HK$9,600,000), HK$2,900,000 (2006: HK$2,900,000), HK$5,400,000 (2006: HK$5,400,000), HK$6,700,000 (2006: HK$6,700,000) and HK$6,997,000 (2006: Nil) that will expire in 2010, 2011, 2012, 2013 and 2014, respectively. Other losses may be carried forward indefinitely.

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(For the year ended December 31, 2007)

28. SHARE CAPITAL OF THE COMPANY

	2007	2006
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At January 1, 2007: 558,416,285 (January 1, 2006: 560,378,285)		
ordinary shares of HK$0.10 each	**55,842**	56,038
Repurchase of 2,996,000 shares (2006: 1,962,000 shares)	**(300)**	(196)
At December 31, 2007: 555,420,285		
(December 31, 2006: 558,416,285)		
ordinary shares of HK$0.10 each	**55,542**	55,842

During the year ended December 31, 2007, the Company repurchased its own shares through the Stock Exchange as follows:

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

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to approximately HK$15,577,000 was charged against share premium. An amount of approximately HK$300,000 equivalents to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

29. RESERVES AND MINORITY INTERESTS

	Attributable to equity holders of the Company							
	Share premium HK$'000	Dividend reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000	Total reserves HK$'000	Minority interests HK$'000
At January 1, 2006	198,725	67,245	1,477	(7,935)	532,135	25,582	817,229	1,290
Exchange difference arising on translation of overseas subsidiaries recognised directly in equity	–	–	–	16,294	–	–	16,294	–
Share of changes in translation reserve of an associate and jointly controlled entities	–	–	–	3,722	–	–	3,722	–
Net income recognised directly in equity	–	–	–	20,016	–	–	20,016	–
Profit for the year	–	–	–	–	260,033	–	260,033	–
Total recognised income and expense for the year	–	–	–	20,016	260,033	–	280,049	–
Repurchases of shares	(9,343)	–	196	–	(196)	–	(9,343)	–
Final dividend for 2005 paid	–	(28,019)	–	–	–	–	(28,019)	–
Final special dividend for 2005 paid	–	(39,226)	–	–	–	–	(39,226)	–
Interim dividend for 2006 paid	–	–	–	–	(44,688)	–	(44,688)	–
Interim special dividend for 2006 paid	–	–	–	–	(16,758)	–	(16,758)	–
Proposed final dividend for 2006	–	44,665	–	–	(44,665)	–	–	–
Proposed special dividend for 2006	–	39,082	–	–	(39,082)	–	–	–
At December 31, 2006	189,382	83,747	1,673	12,081	646,779	25,582	959,244	1,290
Exchange difference arising on translation of overseas subsidiaries and an associate recognised directly in equity	–	–	–	30,666	–	–	30,666	–
Share of changes in translation reserve of jointly controlled entities	–	–	–	4,648	–	–	4,648	–
Net income recognised directly in equity	–	–	–	35,314	–	–	35,314	–
Profit for the year	–	–	–	–	274,405	–	274,405	–
Total recognised income and expense for the year	–	–	–	35,314	274,405	–	309,719	–
Repurchases of shares	(15,577)	–	300	–	(300)	–	(15,577)	–
Final dividend for 2006 paid	–	(44,665)	–	–	–	–	(44,665)	–
Final special dividend for 2006 paid	–	(39,082)	–	–	–	–	(39,082)	–
Interim dividend for 2007 paid	–	–	–	–	(49,988)	–	(49,988)	–
Interim special dividend for 2007 paid	–	–	–	–	(16,662)	–	(16,662)	–
Proposed final dividend for 2007	–	44,434	–	–	(44,434)	–	–	–
Proposed special dividend for 2007	–	38,879	–	–	(38,879)	–	–	–
At December 31, 2007	173,805	83,313	1,973	47,395	770,921	25,582	1,102,989	1,290

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.

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue to operate as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the convertible loan notes and the borrowings disclosed in notes 25 and 26 respectively, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The Directors of the Company review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

31. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007	2006
	HK$'000	HK$'000
Financial assets		
Financial assets held for trading	**–**	27
Financial assets designed at FVTPL	**57,853**	127,890
Loans and receivables (including cash and cash equivalents)	**1,066,462**	973,718
Financial liabilities		
Financial liabilities held for trading	**24,221**	26,042
Amortised cost	**1,338,498**	1,189,954

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, structured deposits, bank balances and deposits, trade and other payables, amount due from and to jointly controlled entities, convertible loan notes 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 in USD and EUR, which expose the Group to foreign currency risk. Approximately 78% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 80% of costs are denominated in the group entity's functional currency. The Group also has bank balances denominated in foreign currency. The Group currently does not have a fixed and regular foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

31. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**18,905**	6,597	**564,486**	410,581
EUR	**7,743**	3,219	**99,368**	69,867

The Group is mainly exposed to the currency of USD and EUR.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used which represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit where Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit for the year.

	USD		EUR	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Decrease in profit for the year	**25,980**	19,237(i)	**4,363**	3,174(ii)

(i) This is mainly attributable to the exposure outstanding on USD receivables and payables and bank balances at year end.

(ii) This is mainly attributable to the exposure outstanding on EUR receivables and payables and bank balances at year end.

31. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Interest rate risk

The Group's fair value interest rate risk relates to the Group's zero coupon convertible loan notes and borrowings with fixed interest rates. The Group's cash flow interest rate risk relates to the bank balances, deposits and the borrowings with floating interest rates. The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank balances, deposits, borrowings and convertible loan notes. The interest rates and terms of repayment of convertible loan notes and borrowings of the Group are disclosed in notes 25 and 26, respectively.

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.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's HKD borrowings and the market interest rate on the bank balances and deposits.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, bank balances and deposits, the analysis is prepared assuming the amounts of liability and assets outstanding at the balance sheet date were outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended December 31, 2007 would decrease/increase by HK$2,300,000 (2006: decrease/increase by HK$2,000,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances, deposits and bank borrowings.

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, 2007 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 credit 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.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

31. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Price risk

The Group is required to estimate the fair value of the conversion option and redemption option of the convertible loan notes at each balance sheet date which therefore exposed the Group to equity price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting dates.

If the share price and volatility of share estimated issued price inputed to the valuation model had been 10% higher while all other variables were held constant, the profit for the year ended December 31, 2006 and December 31, 2007 would decrease by approximately HK$12,131,000 and HK$12,977,000 respectively for the Group, principally as a result of the changes in fair value of the convertible option and redemption option of the convertible loan notes.

If the share price and volatility of share estimated issued price inputed to the valuation model had been 10% lower while all other variables were held constant, the profit for the year ended December 31, 2006 and December 31, 2007 would increase by approximately HK$12,136,000 and HK$16,342,000 respectively for the Group, principally as a result of the changes in fair value of the convertible option and rederption option of the convertible loan notes.

Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

31. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

For derivative instruments settle on a net basis, undiscounted net cash (inflows)/outflows are presented. Whereas they require gross settlement, the undiscounted gross (inflows) outflows on these derivatives are shown in the table.

Liquidity risk table

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 12.31.2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	–	162,967	129,561	6,745	–	299,273	299,273
Bank loans							
– fixed rate	4.64-5.35	23,103	–	81,256	–	104,359	103,000
– variable rate	4.33	–	–	44,222	85,991	130,213	122,500
		186,070	129,561	132,223	85,991	533,845	524,773
Derivatives – net settlement							
Foreign exchange forward contracts		900	1,800	–	–	2,700	2,359
Convertible loan notes (Note)		–	–	890,868	–	890,868	835,587

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

31. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity risk table *(Continued)*

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 12.31.2006 HK$'000
2006							
Non-derivative financial liabilities							
Trade and other payables	–	164,082	77,922	2,089	–	244,093	244,093
Bank loans							
– fixed rate	6.75	–	–	10,203	–	10,203	9,558
– variable rate	5.5	5,082	–	46,394	134,125	185,601	167,555
Amount due to a jointly controlled entity	–	–	1,701	–	–	1,701	1,701
		169,164	79,623	58,686	134,125	441,598	422,907
Derivatives – net settlement							
Foreign exchange forward contracts		–	267	–	–	267	244
Convertible loan notes (Note)		–	–	–	890,868	890,868	792,845

Note: It assumed that the earliest date on which the Group can be required to pay for the convertible loan notes is on November 10, 2008 due to the early redemption option exercised by the holders

c. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transaction and

- the fair value of a non-option derivative is estimated using quoted forward exchange rates. For an option-based derivative, the fair value is estimated using option pricing models (for example, the binomial model).

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

32. 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 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 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 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 ordinary share capital. 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.

An option is deemed to have been granted and accepted by the grantee upon his or her signing a duplicate letter comprising acceptance of the option and paying HK$1 by way of consideration for the grant thereof on or before the relevant acceptance date being a date within 28 days after the date on which the option is offered.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period after the option has been granted by the Board of Directors. An option period is a period to be determined by the Board of Directors in its absolute discretion and notified by the Board of Directors to each grantee as being the period during which an option may be exercised, such period shall commence from the date of acceptance of the offer for the grant of the option and shall end not later than 10 years from the date on which the offer for grant of the option is made.

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.

33. CAPITAL COMMITMENTS

	2007 **HK$'000**	2006 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**8,467**	35,301

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

34. OPERATING LEASE ARRANGEMENTS

As lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK$7,579,000 (2006: HK$6,442,000).

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

	2007 **HK$'000**	2006 HK$'000
Within one year	**8,052**	6,048
In the second to fifth year inclusive	**14,021**	462
	22,073	6,510

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

35. RETIREMENT BENEFITS SCHEME

Schemes in Hong Kong

The Group has a defined contribution provident fund scheme for its Hong Kong employees. The scheme assets were previously 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. With effect from February 1, 2007, the scheme assets have been transferred to a pooling fund under the AIA Retirement Fund Scheme (the "Scheme") with AIA Pension and Trustee Co., Ltd. as the trustee of the Scheme.

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.

With effect from December 1, 2000, the Group 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 Mandatory Provident Fund Schemes Ordinance) on a monthly basis.

The employees entitled to participate in the Group's 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.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

35. RETIREMENT BENEFITS SCHEME *(CONTINUED)*

Schemes in Hong Kong *(Continued)*

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

	2007	2006
	HK$'000	HK$'000
Gross employers' contributions	**4,950**	4,486
Less: Forfeited contributions utilised to offset employers' contributions for the year	**–**	(71)
Net employers' contributions charged to the consolidated income statement	**4,950**	4,415

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

Scheme in the PRC

The employees of the Company'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 approximately HK$5,630,000 (2006: HK$3,692,000).

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 benefit scheme is to make the specified contribution.

The total cost charged to the consolidated income statement for the scheme in Germany amounted to approximately HK$8,825,000 (2006: HK$7,488,000).

Scheme in Switzerland

In Switzerland, the Group is obligated to contribute to a basic pension plan on a monthly basis at 5.05% of the employee's gross income plus administrative charges.

Besides, the Group also has to a mandatory occupational benefit plan ("the Plan") for all the employee as regulated under federal law. The Group is obligated to make contributions to the Plan, calculated at 4% to 11.25% of the employees' basic annual salary above CHF 22,257, depending on employees' age plus an individual risk surcharge of about 2%.

The total cost charged to the consolidated income statement for the schemes in Switzerland amounted to HK$916,000 (2006: HK$1,245,000).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

36. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated balance sheet on page 39 and note 19, the Group has also entered into the following transactions with related parties during the year:

	2007	2006
	HK$'000	HK$'000
Related parties in which a director of certain operating subsidiaries of the Group has beneficial interests		
Sale of goods	**3,136**	299
Service fee paid	**143**	320
Purchase of materials	**227**	562
Commission and agency fee paid	**7,979**	7,546
Management fee paid	**–**	312
Related parties in which Directors of the Company have beneficial interests		
Management fee received	**254**	–
Rental paid	**5,928**	5,928
Jointly controlled entities		
Sale of goods	**25,641**	20,450
Purchase of materials	**20,501**	19,038
Commission and management fee received	**36,963**	20,544
Royalty fee received	**75**	72
Engineering fee received	**125**	121
Rental paid	**264**	–

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases with a related party in which Directors of the Company have beneficial interests which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**6,388**	5,928
In the second to fifth year inclusive	**12,776**	–
	19,164	5,928

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

36. RELATED PARTY DISCLOSURES *(CONTINUED)*

Compensation of key management personnel

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

	2007 HK$'000	2006 HK$'000
Short-term benefits	**50,691**	37,707
Post-employment benefits	**1,856**	1,523
	52,547	39,230

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

37. SUMMARISED BALANCE SHEET OF THE COMPANY

	2007 HK$'000	2006 HK$'000
Assets		
Amounts due from subsidiaries	**1,243,083**	1,056,043
Bank balances	**393**	101,134
Investments in subsidiaries	**36,585**	36,585
Other receivables	**228**	264
Total assets	**1,280,289**	1,194,026
Liabilities		
Convertible loan notes	**813,725**	767,047
Embedded derivative components of convertible loan notes	**21,862**	25,798
Tax liabilities	**2,919**	2,215
Other payables	**926**	597
Total liabilities	**839,432**	795,657
Net assets	**440,857**	398,369
Capital and reserves		
Share capital	**55,542**	55,842
Reserves	**385,315**	342,527
Total capital and reserves	**440,857**	398,369

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

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 at December 31 2006 and 2007	Principal activities
Falmer Investments Ltd.	British Virgin Islands/ Hong Kong	US$1	100%	Research and development
Fong's Engineering Services Company Limited	Hong Kong	HK$10,000	100%	Trading in stainless steel products 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
Goller (HK) Limited	Hong Kong	HK$1	100%	Trading in textile machinery
Goller Textilmaschinen GmbH	Germany *	EUR25,000	100%	Trading and manufacture of textile machinery
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$8,550,000	100%	Manufacture of stainless steel casting products

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2007)

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 at December 31 2006 and 2007	Principal activities
THEN Maschinen (HK) Limited	Hong Kong	HK$1	100%	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	100%	Trading in textile machinery and technical parts
Xorella AG	Switzerland *	CHF350,000	100%	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,				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	1,350,380	1,743,873	2,012,252	2,380,036	**3,029,189**
Profit before tax	314,685	267,721	240,706	308,939	**314,662**
Income tax expense	(39,718)	(32,473)	(22,510)	(48,906)	**(40,257)**
Profit for the year	274,967	235,248	218,196	260,033	**274,405**
Attributable to:					
Equity holders of the Company	276,910	235,112	218,653	260,033	**274,405**
Minority interests	(1,943)	136	(457)	–	**–**
	274,967	235,248	218,196	260,033	**274,405**

ASSETS AND LIABILITIES

	As at December 31,				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	963,333	1,254,335	1,322,163	2,355,536	**2,671,192**
Total liabilities	(243,778)	(461,689)	(447,606)	(1,339,160)	**(1,511,371)**
	719,555	792,646	874,557	1,016,376	**1,159,821**
Equity attributable to equity holders of the Company	717,944	790,899	873,267	1,015,086	**1,158,531**
Minority interests	1,611	1,747	1,290	1,290	**1,290**
	719,555	792,646	874,557	1,016,376	**1,159,821**