FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNUAL REPORT 2009

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam *(Chairman)*
Mr. Wan Wai Yung *(Chief Executive Officer)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai
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 in association with Reed Smith LLP
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS IN HONG KONG

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

PRINCIPAL BANKERS IN THE PRC

Bank of China Limited
Bank of Communications Co., Ltd.
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (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
Tel: (852) 2497 3300
Fax: (852) 2432 2552

WEBSITE ADDRESS

http://www.fongs.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company"), I would like to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2009.

Still suffering from the effect of the worldwide financial crisis, the Group recorded a revenue of approximately HK$1,798 million for the year ended December 31, 2009, representing a decrease of 28% as compared to that of 2008 and the loss attributable to owners of the Company was narrowed to approximately HK$106 million as compared with a loss of approximately HK$143 million for 2008. In addition, I would like to point out that the final results have shown a significant improvement in the Group's performance in the second half of the year as compared to a loss of approximately HK$152 million in the first half of 2009 and which is further evidence that the worst of the crisis has passed.

As disclosed in the section "Business Outlook" of our Interim Report 2009, we currently continue to witness the following factors:

- The banking system which facilitates world trade appears to be back to normal and exports of textiles and clothing have resumed albeit at a reduced volume due to the ongoing recession in the North American and European markets where retailers continue to be cautious with their buying.

- In 2009, State Council of China released a detailed support plan to adjust and strengthen the textile and garment industry in the coming years which includes targets to (i) reducing energy consumption and water discharge; (ii) phasing out of obsolete equipment and facilities and thus capacity; and (iii) promoting domestic consumption so as to maintain a healthy growth in the industry. These targets have been backed up with the policy of generous lending to the textile industry.

- According to recent announcement by the China Textile Industry Association, the proportion of domestic sales of the output of the China textile industry has increased from 77% in 2008 to 80% in 2009. Furthermore, despite a brief dip in the first quarter of 2009, China's retail sales growth of clothing is back to 20% or more and in line with pre-crisis levels.

- Major retailers from Walmart to Addidas have launched green sourcing initiatives which will further drive investments in new and more efficient machinery and technology.

- Internally, by the end of 2009, the Group will have a much more competitive cost structure in terms of both variable and fixed costs as the previously higher cost stainless steel inventories are replaced by lower ones and that the Group's restructuring program is further realized. Therefore, as sales growth gradually recovers, the Group will be in an even more competitive position to capitalize its operational leverage and market position.

- Total sales of machinery in China have been recovering to pre-crisis levels and in particular with our new generation of **THEN AIRFLOW** models, with the benefits of significant water and energy reduction, showing growth of well over 50% despite the overall difficult market conditions.

Furthermore, since the end of the first quarter of 2010, we are also seeing a healthy recovery in the overseas markets and which have traditionally been a significant part of the Group's machinery business. Therefore, barring any unforeseeable circumstances, I am confident that the Group's machinery sales will recover to levels as seen prior to the global financial crisis.

Lastly, as disclosed in the previous announcement and Annual Report 2008, the Group, on May 16, 2007, entered into an agreement to acquire land use rights of a piece of land in phases with an aggregate area of approximately 1,250 mu (approximately 833,337.5 m^2) located at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the PRC at a consideration of approximately RMB320 million (i.e. RMB256,000 per mu or RMB384 per m^2) for the purpose of the expansion of the production facilities. In that regards, the Group acquired land use rights of two parcels of land ("Acquired Lands") with an aggregate area of approximately 178 mu (approximately 118,600 m^2) in May 2008, the aggregate land price of RMB45,561,000 together with the relevant transfer fees and tax levies in the sum of RMB1,366,830 were fully paid in cash and the relevant land use rights certificates were obtained on March 22, 2010.

In December, 2009, the Group was notified that due to changes of the development planning in relation to the usage of the area of which the Acquired Lands form part in accordance with the working direction laid down by 中山火炬高技術產業開發區管理委員會 (Management Committee of Zhongshan Torch Hi-tech Industrial Development Zone), the Acquired Lands need to be resumed by 中山市國土資源局 (Zhongshan Bureau of Land Resources), the land price and relevant transfer fees and tax levies paid shall be returned to the Group upon surrender of the relevant land use rights certificates to 中山市國土資源局 (Zhongshan Bureau of Land Resources). The Group will be allowed to acquire other parcels of land in close proximity to the Acquired Lands. Accordingly, the Group has surrendered the Acquired Lands to 中山市國土資源局 (Zhongshan Bureau of Land Resources) on March 29, 2010 and has planned to take up lands which it has contracted for in May, 2007, in four lots in sometimes starting from May, 2010 to June, 2011. As previously disclosed, the Group intends to use the land for the construction and setting up a manufacturing complex for its group companies, which will provide the Group with additional space for future operational expansion to further enhance the Group's manufacturing capability to cope with business development.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers, bankers, business partners, the management team and staff for their continuous support. Only with their continued support, we can manage to develop steadily through the recent difficult times. I would also like to thank particularly our shareholders for their continuous support to the Group. The Group is confident to achieve better results in the coming future.

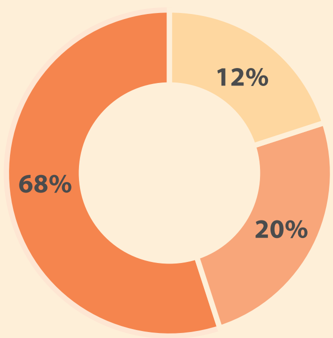
On behalf of the Board
Fong Sou Lam
Chairman
Hong Kong, April 12, 2010

REVENUE

RESULTS

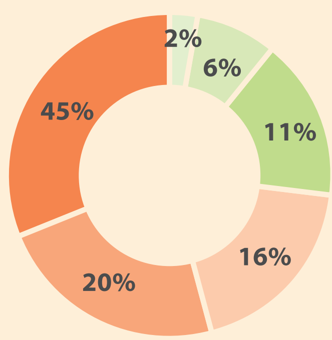
ANALYSIS OF REVENUE FOR THE YEAR

By principal activity



- 68% Manufacture and sale of dyeing and finishing machines
- 20% Trading of stainless steel supplies
- 12% Manufacture and sale of stainless steel casting products

By geographical region



- 45% The PRC
- 20% Hong Kong
- 16% Asia Pacific (other than the PRC and Hong Kong)
- 11% Europe
- 6% North and South America
- 2% Others

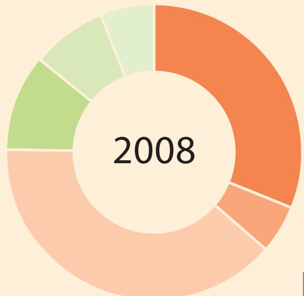
MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

BY GEOGRAPHICAL REGION

HK$ Million

716	The PRC
53	Hong Kong
291	Asia Pacific
84	Europe
48	North and South America
36	Others

1,228



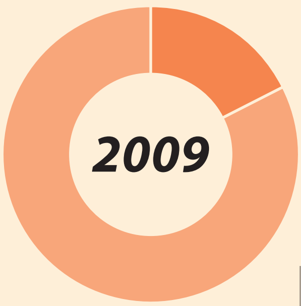
371	The PRC
261	Hong Kong
463	Asia Pacific
127	Europe
94	North and South America
71	Others

1,387

TRADING OF STAINLESS STEEL SUPPLIES

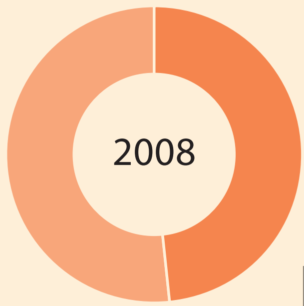
BY GEOGRAPHICAL REGION

HK$ Million



64	The PRC
300	Hong Kong

364



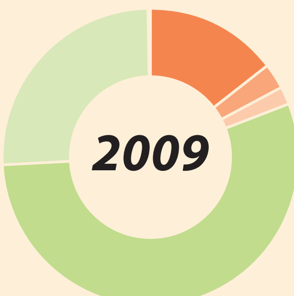
302	The PRC
321	Hong Kong

623

MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

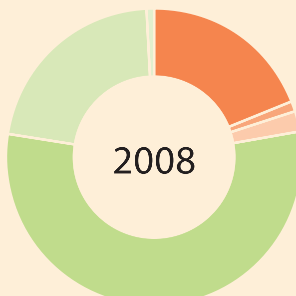
BY GEOGRAPHICAL REGION

HK$ Million



30	The PRC
6	Hong Kong
4	Asia Pacific
113	Europe
53	North and South America

206



93	The PRC
5	Hong Kong
11	Asia Pacific
271	Europe
106	North and South America
4	Others

490

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam, aged 75, 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. Fong is a director and the sole shareholder of GBOGH Assets Limited which, through its six wholly-owned subsidiaries, beneficially owns an aggregate of 287,397,360 shares, representing approximately 52.12% of the issued share capital of the Company.

Mr. Wan Wai Yung, aged 59, is the Chief Executive Officer 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 30 years of experience with excellent customer relationships in the textile and dyeing industry.

Mr. Fong Kwok Leung, Kevin, aged 48, is the eldest son of Mr. Fong Sou Lam and the elder brother of Mr. Fong Kwok Chung, Bill, he 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. Kevin Fong is a director of GBOGH Assets Limited which, through its six wholly-owned subsidiaries, beneficially owns an aggregate of 287,397,360 shares, representing approximately 52.12% of the issued share capital of the Company.

Mr. Fong Kwok Chung, Bill, aged 40, is the second son of Mr. Fong Sou Lam and the younger brother of Mr. Fong Kowk Leung, Kevin, he joined the Group in 1994. Mr. Bill Fong is responsible for overseeing business development projects of the Group. In addition, Mr. Bill Fong had held various operational positions within the Group including the general manager of Monforts Fong's Textile Machinery Co. Limited, a jointly controlled entity of the Group and was responsible for the European operations of the overseas subsidiaries of the Group from 2006-2008. Mr. Bill Fong studied at the Simon Fraser University, Canada with concentration on Accounting and Finance. Mr. Bill Fong is a director of GBOGH Assets Limited which, through its six wholly-owned subsidiaries, beneficially owns an aggregate of 287,397,360 shares, representing approximately 52.12% of the issued share capital of the Company.

Mr. Tou Kit Vai, aged 47, joined the Group in October, 2005 and is responsible for the internal audit, ERP system and taxation of the Group as well as financial reporting and material supply management of Fong's National engineering Company, Limited, a wholly-owned subsidiary 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.

Dr. Tsui Tak Ming, William, aged 51, 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.

Ms. Poon Hang Sim, Blanche, aged 43, is the Finance Director and Qualified Accountant of the Company. Ms. Poon is responsible for overseeing the Group's treasury, investor relation and taxation affairs. 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 56, 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 59, has been appointed as an Independent Non-executive Director of the Company since September 2004. Dr. Yuen is also a member of the Audit Committee and Remuneration Committee of the Company. Dr. Yuen is currently a Professor of Mechanical Engineering and Acting Vice-President for Research & Development 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 58, 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. degree 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 and Foundry Association, Committee Member of the Hong Kong Q Mark Council and Member of Shandong 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 precision metal 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.

SENIOR MANAGEMENT

Mr. Thomas Archner, aged 52, is a Joint Managing Director of THEN Maschinen GmbH, Goller Textilmaschinen GmbH and Xorella AG, all being wholly-owned subsidiaries of the Group. 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. Lee Che Keung, aged 49, 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 43, is a director of Fong's National Engineering Company, Limited being a wholly-owned subsidiary of the Group and is responsible for overseeing the sales and marketing activities of the FONG's branded 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 59, joined the Group in April 2006 and is a Joint Managing Director of Goller Textilmaschinen GmbH, a wholly-owned subsidiary of the Group. Mr. Meiler graduated from Regensburg University with a Diploma in Business and has over 30 years of experience in the textile machine industry.

Mr. Heinz Scheungraber, aged 54, is the Chief Financial Officer of THEN Maschinen GmbH, Goller Textilmaschinen GmbH and Xorella AG, all being wholly-owned subsidiaries of the Group. 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.

Mr. Tsui Wai Keung, aged 52, joined the Group in 1980 and has over 30 years of extensive experience in dyeing and finishing machinery manufacturing. Mr. Tsui resigned as an executive director of the Company with effect from April 1, 2009 but are still holding directorships in certain operating subsidiaries of the Group including Fong's National Engineering Company, Limited and Tycon Alloy Industries (Hong Kong) Company Limited.

Mr. Wong Ching Chuen, Patrick, aged 48, is a director of Fong's National Engineering Company, Limited being a wholly-owned subsidiary of the Group and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the woven market in China. Mr. Wong has been 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 respectively. 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 45, is a director of Fong's National Engineering Company, Limited being a wholly-owned subsidiary of the Group 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.

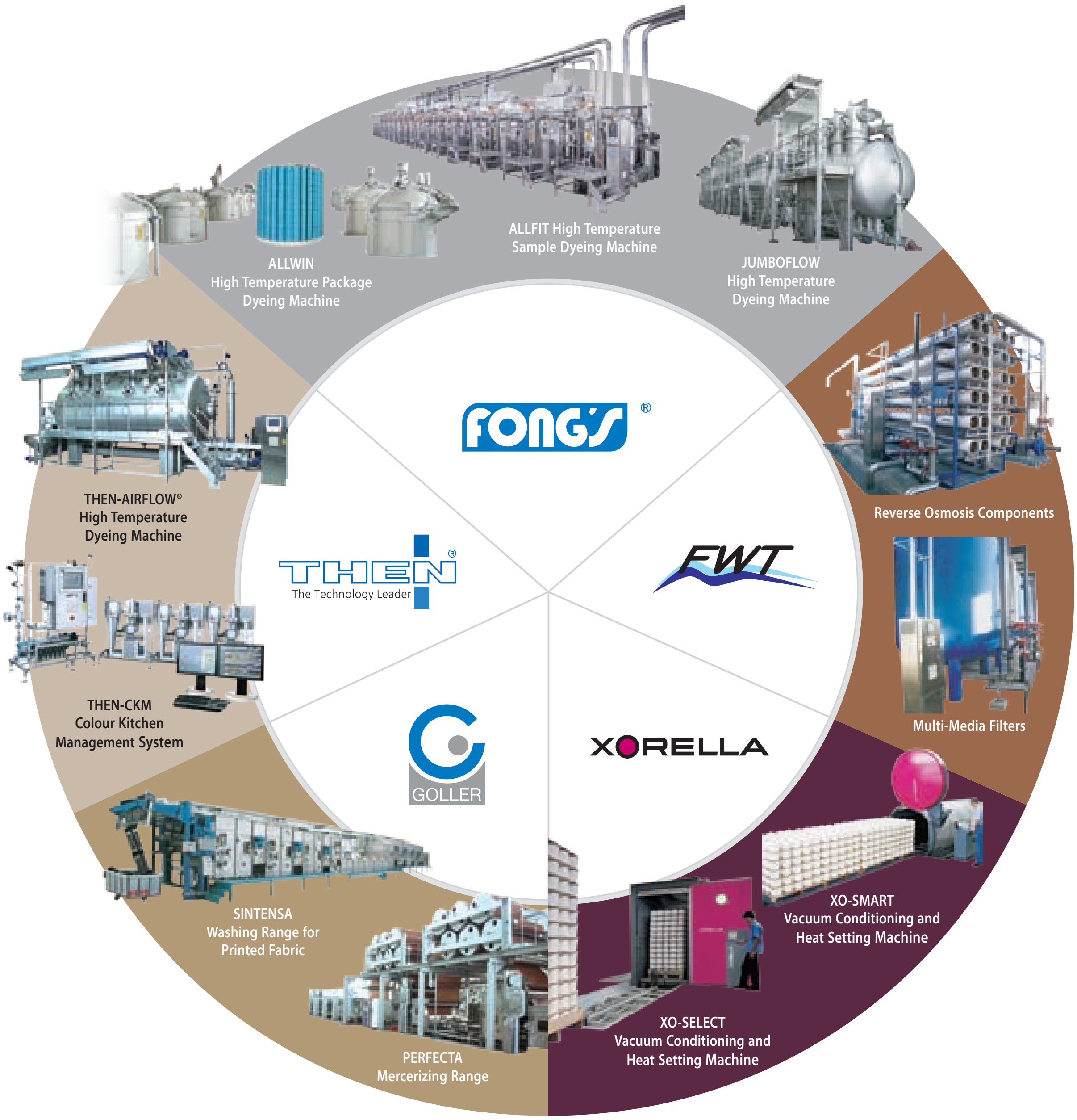
MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended December 31, 2009, the total revenue of the Group was approximately HK$1,798 million (2008: HK$2,500 million) representing a decrease of 28% as compared with the previous year. Loss attributable to owners of the Company was approximately HK$106 million (2008: loss of HK$143 million) and basic loss per share was 19.3 HK cents for the year under review (2008: basic loss per share was 25.8 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) Limited, Goller Textilmaschinen GmbH, Goller (HK) Limited, Goller Textile Machinery (Shenzhen) Co., Ltd., Xorella AG and Xorella Hong Kong Limited



For the year under review, this segment remained the major source of revenue for the Group. Revenue generated from this segment was approximately HK$1,228 million (2008: HK$1,387 million) representing a decrease of 11% as compared to the previous year and accounting for 68% of the Group's revenue. This segment recorded an operating loss of approximately HK$61 million as compared to an operating loss of approximately HK$104 million for 2008 and an operating loss of approximately HK$107 million for the first half of 2009. The decrease in loss was mainly due to (i) the increase in the gross profit margin of the products primarily attributable to decrease in price of raw materials (in particular stainless steels); and (ii) the decrease in operating costs as a result of stringent cost controls and improvement on production efficiency.

The business environment had remained very challenging in year 2009. In the first half of 2009, the global financial crisis that broke out in the fourth quarter of 2008 has hit different industries including the textile manufacturing industry leading to a drop in market sentiment and capital expenditure, the customers were placing orders in conservative approach. The situation only improved in the second half of 2009 when governments' economic stimulus policies started having results.

Looking ahead, we remain cautiously optimistic on the performance and growth of this segment for the reasons as mentioned in the Chairman's Statement. In addition, apart from textile machinery demand driven by capacity expansion as a result of healthy domestic retail sales of textiles in China and the rest of Asia, we expect a significant portion of the demand in the near future to come from replacement requirements so that our customers can meet environmental standards as requested by the various governments worldwide and as well as the consumers and retailers.

Fong's Open Day for customers

The 14th International Exhibition on Textile Industry – Shanghai, China

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the year ended December 31, 2009, the sales of this trading segment amounted to approximately HK$364 million (2008: HK$623 million), representing a decrease of 42% as compared to the previous year and accounted for 20% of the Group's total revenue. Its operating profit was approximately HK$7 million as compared to approximately HK$17 million last year. This trading segment has continually yielded positive contribution.

Due to the ongoing worldwide financial crisis in the first half of 2009, this trading segment suffered an operating loss of approximately HK$11 million mainly attributable to decreases in both sales volume and selling prices. Nevertheless, the stainless steel prices reversed the decline in the second quarter of 2009 and the prices are anticipated to be on a moderate upward trend. As the sales volume and profit margin were boosted by the increasing demand and stainless steel prices, this trading segment returned to profit in the second half of 2009.

The Group will continue to be responsive to the stainless steel market via timely and appropriate adjustments to prices and inventory based on market analysis and judgment in order to accelerate the turnover ratio of the inventory and to minimize the risk on price fluctuation.

Coil Centre

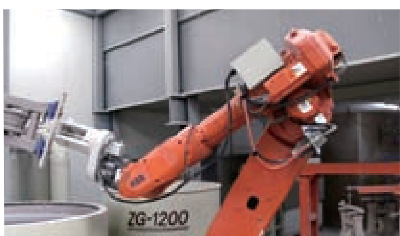
Stainless steel pipes and tubes

STAINLESS STEEL CASTING

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

For the year under review, this business segment recorded a revenue of approximately HK$206 million (2008: HK$490 million), representing a decrease of 58% over last year and accounting for 12% of the Group's total revenue and an operating loss of approximately HK$50 million as compared to an operating profit of approximately HK$0.4 million for 2008. The setback in performance was a result of (i) slack in demand from the United States of America and Europe, which are our major markets, leading to receipt of fewer sales orders and the decrease in sales volume in turn translated into increased unit operating costs; and (ii) the high cost of pre-crisis raw materials in our inventory carried over, thus resulting in poor gross margins. To prevail in this difficult environment, expenses are being tightly controlled and cost cutting measures have been implemented to reduce overall operating costs.

With the gradual recovery of the global economy and the tremendous efforts contributed in the past years to the improvement in production efficiency and cost cutting, it is anticipated that this business segment will show an increase in sales volume and a turnaround in profit in the coming year as we have already seen improvements in orders since the fourth quarter of 2009.



Automatic Production Line – ABB Robot

Sand Casting Workshop

JOINTLY CONTROLLED ENTITY

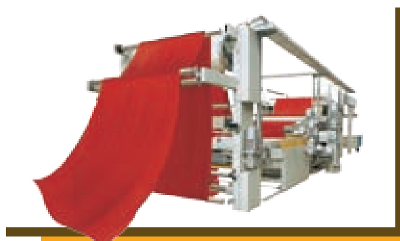
Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's")

Riding on the economy growth of the Mainland, the demands for Monforts Fong's flag-ship "TwinAir" branded Stenters are continuously strong. For the year ended December 31, 2009, the revenue of Monforts Fong's increased 16% to approximately HK$494 million (2008: HK$425 million) and the Group's share of profit after tax amounted to approximately HK$45 million (2008: HK$32 million), representing an increase of 41%. The increase in profitability was mainly due to increase in sales volume as well as stringent cost controls and improvement on production efficiency.

Furthermore and as mentioned in our Interim Report 2009, with the strategic foresight and support of our joint venture partner, A. Monforts Textilmaschinen GmbH & Co. KG, Monforts Fong's has been given access to sell its machinery in 14 additional designated countries in Asia whereas previously the sales had been limited to the China market solely. In addition, Monforts Fong's will become the new OEM for the machinery supplier of A. Monforts Textilmaschinen GmbH & Co. KG worldwide. This will be a significant development for Monforts Fong's and will pave the way for continued robust growth in the coming years.

To cope with the anticipated business growth, Monforts Fong's is scheduled to relocate its manufacturing operation to Zhongshan, the PRC in the next 12 months in order to continue to meet the requirements of its expanding delivery schedule.

Montex 6500 Stenter



Monfongtex 868 Shrinking Range

HUMAN RESOURCES

To maintain and boost its competitiveness in the long run, the Group has been implementing tight control on operating expenses and cash flow through reduction of headcount and rationalization of its production facilities.

The Group has launched a structuring programme to downsize workforce since the second half of 2008. As at December 31, 2009, the Group had a total of approximately 3,800 employees (December 31, 2008: 4,700) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. Staff costs, including directors' remuneration were approximately HK$225 million (2008: HK$260 million).

The Group believes the success of its business hinges on employee commitment, thus it spares no effort in providing a harmonious working environment to employees to encourage dedication to work. Employees are remunerated according to remuneration benchmarks in the industry as well as prevailing market conditions and their experience and performance. The Group's remuneration policies and packages were reviewed by its management on a regular basis. Bonus and rewards may also be awarded to employees based on performance evaluation, with an aim to encourage and reward staff to achieve better performance. Other employee benefits available for eligible employees include medical insurance, retirement benefits scheme, and share option scheme.

The Group recognizes the importance of having a high caliber and competent staff; hence, in order 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

The Group met its funding requirements in its usual course of business by cash flows from operations, as well as long-term and short-term bank borrowings.

Net cash inflow in the amount of approximately HK$286 million and was generated from operating activities primarily due to the reduction of inventories and account receivables. As at December 31, 2009, the Group's inventory level was reduced to approximately HK$743 million as compared to approximately HK$865 million as at December 31, 2008.

As at December 31, 2009, bank borrowings amounted to approximately HK$676 million. Most bank borrowings were sourced from Hong Kong, of which 92% were denominated in Hong Kong dollars and 8% were denominated in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates. The Group adopted interest rate swaps for the interest payables on the aggregate principal amount of HK$600 million to hedge interest rate fluctuation.

As at December 31, 2009, the bank balances and cash amounted to approximately HK$328 million of which 43% were denominated in Renminbi, 26% in United States dollars, 21% in Hong Kong dollars, 9% in Euro and 1% in Indian Rupees.

As at December 31, 2009, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was reduced to 44% (December 31, 2008: 65%) and the current ratio was 2.0 (December 31, 2008: 2.6). These ratios were at reasonable and adequate levels.

The Board is in the opinion that the Group will be in a healthy financial position and has sufficient resources in support of its working capital requirements and meet its foreseeable capital expenditures.

As the Group's sales were principally denominated in Renminbi and United States dollars while purchases were transacted mainly in United States dollars, Renminbi and Hong Kong dollars. The Group does not foresee significant exposure to exchange rate risk and does not have a fixed and regular foreign currency hedging policy. However, the Board will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposures should the need arises.

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 on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the year ended December 31, 2009.

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 ended December 31, 2009.

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 2009.

BOARD OF DIRECTORS

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

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

Executive Directors

Mr. Fong Sou Lam *(Chairman)*
Mr. Wan Wai Yung *(Cheif Executive Officer)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche
Mr. Tsui Wai Keung *(resigned on April 1, 2009)*

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 Chief Executive Officer. 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

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 Group, the role of the Chairman is separate from that of the Chief Executive Officer. The Chairman, Mr. Fong Sou Lam, 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 Chief Executive Officer, Mr. Wan Wai Yung, 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 are disclosed.

BOARD MEETINGS

The Board meets regularly throughout the year to review the overall strategy and to monitor the operations as well as the financial performance of the Group. Senior executives are from time to time invited to attend board meetings to make presentations or answer the Board's enquiries.

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 Directors.

NOMINATION OF DIRECTORS

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Mr. Fong Kwok Chung, Bill, Mr. Tou Kit Vai and Mr. Cheung Chiu Fan 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 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. There was no meeting held in 2009.

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. 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 2009 and the individual attendance of members are set out below in this report.

In discharging its responsibilities, the Audit Committee had performed the following works during the year of 2009:

(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 2010.

ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2009

	Number of meetings attended/held	
	Board Meeting	**Audit Committee Meeting**
Executive Directors		
Mr. Fong Sou Lam	6/6	0/3
Mr. Wan Wai Yung	6/6	2/3
Mr. Fong Kwok Leung, Kevin	6/6	3/3
Mr. Fong Kwok Chung, Bill	3/6	0/3
Mr. Tou Kit Vai	6/6	3/3
Dr. Tsui Tak Ming, William	6/6	3/3
Ms. Poon Hang Sim, Blanche	6/6	3/3
Independent Non-executive Directors		
Mr. Cheung Chiu Fan	6/6	3/3
Dr. Yuen Ming Fai	6/6	3/3
Dr. Keung Wing Ching	6/6	2/3

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

Remunerations paid for the above audit services and non-audit services were approximately HK$2,496,000 and approximately HK$282,000 respectively.

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$281,000.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended December 31, 2009 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.

The Board is satisfied with the effectiveness of the Group's internal controls and considers that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

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.

For and on behalf of the Board

Fong Sou Lam
Chairman

Hong Kong, April 12, 2010

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2009.

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, an associate and jointly controlled entities are set out in notes 36, 17 and 18 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2009 are set out in the consolidated statement of comprehensive income on page 32.

The Directors recommend the payment of a final dividend of 5 HK cents (2008: Nil) per share to the shareholders on the register of members on May 18, 2010, amounting to approximately HK$28 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 2, 2010.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2009, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 11% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 26% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 12% 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.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2009 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	41,899
	64,932

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 *(Chief Executive Officer)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche
Mr. Tsui Wai Keung (resigned on April 1, 2009)

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, 2009 and expiring on December 31, 2010.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on September 1, 2008 and expiring on August 31, 2010.

Dr. Keung Wing Ching was appointed under a contract for a term of 2 years commencing on June 1, 2008 and expiring on May 31, 2010.

The Company has received the annual confirmations of independence from all Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers them to be independent.

In accordance with Clauses 99 of the Company's Bye-Laws, the following Directors, namely Mr. Fong Kwok Chung, Bill, Mr. Tou Kit Vai and Mr. Cheung Chiu Fan 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, 2009, 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	39,900,000	7.24%
	Corporate interests (note 1(a))	289,947,360	52.58%
		329,847,360	59.82%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	100,000	0.02%
	Held by a discretionary trust (note 2)	17,478,241	3.17%
		19,128,241	3.47%
Mr. Fong Kwok Chung, Bill	Beneficial owner	2,988,000	0.54%
	Corporate interest (note 1(b))	4,444,000	0.81%
	Held by a discretionary trust (note 2)	17,478,241	3.17%
		24,910,241	4.52%
Mr. Wan Wai Yung	Beneficial owner	1,912,000	0.35%
	Corporate interest (note 1(c))	1,313,500	0.24%
		3,225,500	0.59%
Mr. Tou Kit Vai	Beneficial owner	294,000	0.05%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%

Note 1: (a) Mr. Fong Sou Lam is deemed to be interested in 289,947,360 shares by virtue of him being beneficially interested in (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 2,550,000 shares and (ii) the entire issued share capital of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 287,397,360 shares as follows:

1. Bristol Investments Limited – 18,000,000 shares
2. Derby Holdings Company Limited – 48,000,000 shares
3. Polar Bear Holdings Limited – 48,000,000 shares
4. Reeds Limited – 57,600,000 shares
5. Runaway Holdings Limited – 57,600,000 shares
6. Sheffield Holdings Company Limited – 58,197,360 shares

(b) Mr. 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., Ltd.

(c) Mr. Wan Wai Yung is deemed to be interested in 1,313,500 shares held by Campbell and Company Limited as he wholly owns Campbell and Company Limited.

Note 2: The 17,478,241 shares are owned by a discretionary trust, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members. These shares represented an interest duplicated amongst those two Directors.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2009.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 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, 2009, the Group entered into the following transactions which are defined in Chapter 14A of the Listing Rules as "continuing connected transactions" and are exempted from the independent shareholders' approval requirements. These continuing connected transactions are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

(1) *The Group entered into an operating lease agreement with Sou Lam Company Limited ("Sou Lam") in which Messrs. Fong Sou Lam, Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests. Sou Lam is beneficially owned as to 89.55% by Mr. Fong Sou Lam and as to 10.45% by a discretionary trust of which Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill are beneficiaries.*

On December 27, 2007, 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, 2008 to December 31, 2010. The total rentals paid by the Group to Sou Lam for the year ended December 31, 2009 amounted to HK$6,243,192. Details of the transaction were set out in the announcement of the Company dated December 27, 2007.

On April 23, 2008, FNECL further entered into an operating lease arrangement with Sou Lam for use of an additional portion of the same factory building as godown for a term of two years and nine months from April 1, 2008 to December 31, 2010. The total rentals paid by the Group to Sou Lam for the year ended December 31, 2009 amounted to HK$1,380,000.

(2) *The Group, through its six wholly-owned 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%, respectively, by Mr. Peter Rainer Philipp who was an ex-director of certain operating subsidiaries of the Group and had ceased to hold any directorship in the Group since April 8, 2009.*

Details of these transactions were set out in the announcements of the Company dated April 2, 2007, December 3, 2007, July 2, 2008, January 16, 2009 and February 2, 2009.

(i) On April 1, 2007, a sales agency agreement (the "Old Agency Agreement") was entered into between PSP International and Tycon Alloy Industries (Hong Kong) Company Limited whereby PSP International was appointed as the non-exclusive sales agent for the sales of the stainless steel casting products in the United States of America (the "USA"), Canada and Mexico for a term of three years with effect from April 1, 2007. On February 1, 2009, the parties agreed to terminate the Old Agency Agreement forthwith and entered into a new sales agency agreement (the "New Agency Agreement") with substantially the same terms but at a reduced monthly retainer fee for a period of two years and eleven months from February 1, 2009 to December 31, 2011. The New Agency Agreement was early terminated by the Group with effect from February 28, 2010 by servicing a three-month prior notice to PSP International.

(ii) On December 3, 2007, a sales agency 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 USA for a term of three years with effect from January 1, 2008.

(iii) On December 3, 2007, a sales agency 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 for a term of three years with effect from January 1, 2008.

(iv) On December 3, 2007, a sales agency agreement was entered into between PSP Marketing and THEN Maschinen GmbH whereby PSP Marketing was appointed as the exclusive sales agent for the sales of "THEN" branded products of the Group in Canada and the USA for a term of three years with effect from January 1, 2008.

(v) 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. 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.

(vi) On June 30, 2008, a project management agreement was entered into between PSP Marketing and Fong's National Engineering (B.V.I.) Company Limited whereby PSP Marketing was appointed as the project manager to provide sales coordination and liaison services in relation to a sales project for a term of three years with effective from June 30, 2008.

(vii) On January 16, 2009, a regional sales coordination 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 of the "FONG'S" branded products of the Group in Central and South America for a term of one year with effect from January 1, 2009.

The aggregate amounts paid and payable to PSP Marketing and PSP International under the above-mentioned agreements for the year ended December 31, 2009 were HK$3,344,487 and HK$1,107,600 respectively, which have not exceeded the cap amount under Rule 14A. 34 of the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Board 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 its factual findings on these procedures to the Board. 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 and usual course of its businesses, 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, its ultimate holding company, or any of its subsidiaries or fellow 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, 2009, 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	Nature of interest	Number of issued ordinary shares	Percentage of the issued share capital in the Company
GBOGH Assets Limited	Corporate *(Note A)*	287,397,360	52.12%
Mondrian Investment Partners Ltd	Investment Manager	44,172,000	8.01%
Li Tin Sang, Adam	Beneficial Owner	27,746,000	5.03%

Note A: Mr. Fong Sou Lam is the sole shareholder of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 287,397,360 shares as follows:

1. Bristol Investment Limited – 18,000,000 shares
2. Derby Holdings Company Limited – 48,000,000 shares
3. Polar Bear Holdings Limited – 48,000,000 shares
4. Reeds Limited – 57,600,000 shares
5. Runaway Holdings Limited – 57,600,000 shares
6. Sheffield Holdings Company Limited – 58,197,360 shares

Save as disclosed above, as at December 31, 2009, 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$321,116.

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 31 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2009.

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, 2009, 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 12, 2010

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 32 to 93, which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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.

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 of the Company, 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, 2009 and of the Group's loss 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 12, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Revenue	5	**1,797,695**	2,499,856
Cost of sales		**(1,446,032)**	(2,076,023)
Gross profit		**351,663**	423,833
Interest income		**2,782**	9,348
Other income		**46,107**	64,301
(Loss) gain on fair value change of financial assets held for trading		**(264)**	1,123
Loss on fair value change of financial assets designated as at fair value through profit or loss ("FVTPL")		**–**	(53)
Net loss on embedded derivatives and convertible loan notes	6	**–**	(11,245)
Selling and distribution costs		**(127,373)**	(156,075)
General and administrative expenses		**(320,819)**	(351,638)
Other expenses		**(53,551)**	(67,088)
Finance costs	7	**(48,992)**	(81,083)
Share of results of an associate		**(178)**	(2,128)
Share of results of jointly controlled entities		**44,817**	30,309
Loss before tax		**(105,808)**	(140,396)
Income tax expense	8	**(527)**	(2,383)
Loss for the year	9	**(106,335)**	(142,779)
Other comprehensive (expense) income			
Exchange difference arising on translation		**(5,848)**	26,336
Share of changes in translation reserve of an associate		**83**	1,874
Share of changes in translation reserve of jointly controlled entities		**170**	3,715
Gain (loss) on cash flow hedge		**7,838**	(36,862)
Reclassification adjustment for the cumulative exchange loss included in profit or loss upon deregistration of a subsidiary	12	**–**	233
Other comprehensive income and expense for the year		**2,243**	(4,704)
Total comprehensive income and expense for the year		**(104,092)**	(147,483)
Loss per share	13		
Basic		**(19.3) HK cents**	(25.8) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(At December 31, 2009)

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	14	**399,441**	418,062
Prepaid lease payments	15	**15,586**	15,485
Intellectual property rights	16	**13,439**	16,355
Interest in an associate	17	**34,036**	34,131
Interests in jointly controlled entities	18	**78,286**	73,299
Deposits for acquisition of property, plant and equipment		**1,154**	4,067
Deposits for acquisition of leasehold land		**66,886**	66,744
Deferred tax assets	19	**11,147**	4,745
		619,975	632,888
Current assets			
Inventories	20	**742,916**	864,689
Trade and other receivables	21	**279,884**	357,748
Prepaid lease payments	15	**469**	460
Amounts due from jointly controlled entities	22	**14,295**	1,438
Tax recoverable		**5,392**	17,883
Bank balances and cash	23	**328,364**	309,785
		1,371,320	1,552,003
Current liabilities			
Trade and other payables	24	**471,371**	336,464
Amount due to a jointly controlled entity	22	**–**	264
Warranty provision	25	**11,685**	12,684
Derivative financial instruments	26	**210**	408
Tax liabilities		**6,947**	1,433
Bank borrowings – due within one year	27	**206,888**	240,010
		697,101	591,263
Net current assets		**674,219**	960,740
Total assets less current liabilities		**1,294,194**	1,593,628

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(At December 31, 2009)

	NOTES	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Bank borrowings – due after one year	27	**469,158**	656,662
Derivative financial instruments	26	**29,024**	36,862
		498,182	693,524
		796,012	900,104
Capital and reserves			
Share capital	28	**55,145**	55,145
Share premium and reserves		**740,867**	844,959
		796,012	900,104

The financial statements on pages 32 to 93 were approved and authorised for issue by the Board of Directors on April 12, 2010 and are signed on its behalf by:

Fong Kwok Chung, Bill
DIRECTOR

Fong Sou Lam
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended December 31, 2009)

	Attributable to owners of the Company										
	Share capital HK$'000	**Share premium** HK$'000	**Dividend reserve** HK$'000	**Capital redemption reserve** HK$'000	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Contributed surplus** HK$'000 (Note a)	**Hedging reserve** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At January 1, 2008	55,542	173,805	83,313	1,973	47,395	770,921	25,582	–	1,158,531	1,290	1,159,821
Loss for the year	–	–	–	–	–	(142,779)	–	–	(142,779)	–	(142,779)
Exchange difference arising on translation	–	–	–	–	26,336	–	–	–	26,336	–	26,336
Share of changes in translation reserve of an associate	–	–	–	–	1,874	–	–	–	1,874	–	1,874
Share of changes in translation reserve of jointly controlled entities	–	–	–	–	3,715	–	–	–	3,715	–	3,715
Loss on cash flow hedge	–	–	–	–	–	–	–	(36,862)	(36,862)	–	(36,862)
Deregistration of a subsidiary	–	–	–	–	233	–	–	–	233	(1,290)	(1,057)
Other comprehensive income and expense for the year	–	–	–	–	32,158	–	–	(36,862)	(4,704)	(1,290)	(5,994)
Total comprehensive income and expense for the year	–	–	–	–	32,158	(142,779)	–	(36,862)	(147,483)	(1,290)	(148,773)
Shares repurchased and cancelled	(397)	(16,544)	–	397	–	(397)	–	–	(16,941)	–	(16,941)
Final dividend for 2007 paid (Note b)	–	–	(44,434)	–	–	181	–	–	(44,253)	–	(44,253)
Final special dividend for 2007 paid (Note b)	–	–	(38,879)	–	–	158	–	–	(38,721)	–	(38,721)
Interim dividend for 2008 paid	–	–	–	–	–	(11,029)	–	–	(11,029)	–	(11,029)
At December 31, 2008 and January 1, 2009	55,145	157,261	–	2,370	79,553	617,055	25,582	(36,862)	900,104	–	900,104

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended December 31, 2009)

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Dividend reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note a)	Hedging reserve HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Loss for the year	–	–	–	–	–	(106,335)	–	–	(106,335)	–	(106,335)
Exchange difference arising on translation	–	–	–	–	(5,848)	–	–	–	(5,848)	–	(5,848)
Share of changes in translation reserve of an associate	–	–	–	–	83	–	–	–	83	–	83
Share of changes in translation reserve of jointly controlled entities	–	–	–	–	170	–	–	–	170	–	170
Gain on cash flow hedge	–	–	–	–	–	–	–	7,838	7,838	–	7,838
Other comprehensive income and expense for the year	–	–	–	–	(5,595)	–	–	7,838	2,243	–	2,243
Total comprehensive income and expense for the year	–	–	–	–	(5,595)	(106,335)	–	7,838	(104,092)	–	(104,092)
Proposed final dividend for 2009	–	–	27,572	–	–	(27,572)	–	–	–	–	–
At December 31, 2009	55,145	157,261	27,572	2,370	73,958	483,148	25,582	(29,024)	796,012	–	796,012

Notes:

(a) 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.

(b) The Company repurchased 2,264,000 of its own shares through the Stock Exchange before the payment of final dividend and final special dividend for 2007. The proposed dividend for these cancelled shares amounting to HK$339,000 was transferred to retained profits.

CONSOLIDATED STATEMENT OF CASH FLOWS

(For the year ended December 31, 2009)

	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(105,808)**	(140,396)
Adjustments for:		
Interest expense	**43,421**	66,927
Interest income	**(2,782)**	(9,348)
Share of results of an associate	**178**	2,128
Share of results of jointly controlled entities	**(44,817)**	(30,309)
Depreciation and amortisation	**66,978**	55,528
Reversal of allowance for doubtful debts	**(2,348)**	(15,892)
(Reversal of) allowance for inventories	**(3,682)**	51,752
Loss on fair value change of financial assets designated as at FVTPL	**–**	53
Loss (gain) on fair value change of financial assets held for trading	**264**	(1,123)
Net loss on embedded derivatives and convertible loan notes	**–**	11,245
Loss on disposal of property, plant and equipment	**743**	130
Gain on disposal of prepaid lease payments	**(2,032)**	–
Addition of warranty provision	**7,233**	4,015
Gain on deregistration of a subsidiary	**–**	(308)
Operating cash flows before movements in working capital	**(42,652)**	(5,598)
Decrease in inventories	**125,455**	35,326
Decrease in trade and other receivables	**80,813**	156,771
(Increase) decrease in amounts due from jointly controlled entities	**(12,857)**	5,837
Increase (decrease) in trade and other payables	**133,257**	(81,374)
(Decrease) increase in amount due to a jointly controlled entity	**(264)**	264
Utilisation of warranty provision	**(8,232)**	(14,605)
Change in derivative financial instruments	**(462)**	(828)
Cash generated from operations	**275,058**	95,793
Hong Kong Profits Tax paid	**(526)**	(24,122)
Overseas income tax and the People's Republic of China (the "PRC")		
Enterprise Income Tax paid	**(695)**	(4,425)
Hong Kong Profits Tax refunded	**11,898**	–
Overseas income tax and the PRC Enterprise Income Tax refunded	**399**	103
NET CASH GENERATED FROM OPERATING ACTIVITIES	**286,134**	67,349

CONSOLIDATED STATEMENT OF CASH FLOWS

(For the year ended December 31, 2009)

	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(43,556)**	(55,522)
Prepaid lease payments made	**(921)**	(2,300)
Deposits paid for acquisition of property, plant and equipment and leasehold land	**–**	(54,811)
Dividend received from jointly controlled entities	**40,000**	50,000
Interest received	**2,782**	9,348
Proceeds from disposal of prepaid lease payments	**2,418**	–
Proceeds from disposal of property, plant and equipment	**1,919**	1,453
Decrease in structured deposits	**–**	57,800
NET CASH GENERATED FROM INVESTING ACTIVITIES	**2,642**	5,968
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(698,644)**	(163,000)
Interest paid on bank borrowings	**(43,421)**	(30,229)
New bank borrowings raised	**478,018**	834,172
Redemption and repurchase of convertible loan notes	**–**	(883,530)
Dividends paid	**–**	(94,003)
Payment on repurchase of shares	**–**	(16,941)
NET CASH USED IN FINANCING ACTIVITIES	**(264,047)**	(353,531)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**24,729**	(280,214)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**309,785**	583,060
Effect of foreign exchange rate changes	**(6,150)**	6,939
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**328,364**	309,785

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate parent is GBOGH Assets Limited, a company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" in the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, which is also 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 ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after July 1, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk.

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after January 1, 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). This change in accounting policy has no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

[2] Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate

[3] Effective for annual periods beginning on or after January 1, 2010

[4] Effective for annual periods beginning on or after February 1, 2010

[5] Effective for annual periods beginning on or after July 1, 2010

[6] Effective for annual periods beginning on or after January 1, 2011

[7] Effective for annual periods beginning on or after January 1, 2013

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after January 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from January 1, 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

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 Rules Governing the Listing of Security on the Stock Exchange 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 statement of comprehensive income 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 in 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.

Interest 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of the 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 statement of financial position 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.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in an associate *(Continued)*

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

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 statement of financial position 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.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Intangible assets

Intellectual property rights

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

Gains or losses arising from derecognition of intellectual property rights are measured at the difference between net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

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 discounts and sales related taxes.

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

Commission income and management fee income are recognised when services are provided.

Interest income from a financial asset including financial assets at FVTPL 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 on initial recognition.

Dividend income from investments including financial assets at FVTPL is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including land and 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 recognised impairment losses. Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of construction in progress, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 profit or loss in the period in which the item is derecognised.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid operating lease payments and are charged to profit or loss over the lease terms.

Impairment losses on tangible and intangible assets

At the end of each reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after January 1, 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or 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 associated with investments in subsidiaries and an associate, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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 FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 the 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 (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

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 as 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss *(Continued)*

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the 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
- it 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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss 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. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from jointly controlled entities and bank balances) 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).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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 affected.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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 profit or loss. 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 profit or loss.

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 profit or loss 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 a group entity 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 at FVTPL and other financial liabilities.

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 other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL

Financial liabilities at FVTPL represent financial liabilities held 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.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

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

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

Convertible loan notes issued by the Group that contain liability, conversion option derivative and early redemption option derivative components are classified separately into respective items on initial recognition. Conversion option that 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 conversion option derivative. At the date of issue, the liability, conversion option derivative and early option derivative components are measured 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 are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability, conversion option derivative and early redemption option components in proportion to the allocation of the gross proceeds. Transaction costs relating to the conversion option derivatives and early redemption derivatives are charged to profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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 profit or loss.

Hedge accounting

The Group designates certain derivatives as hedges of variable-rate bank borrowings (cash flow hedges).

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that accumulated in equity is recognised immediately in profit or loss.

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 recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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 profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income taxes

As at December 31, 2009, a deferred tax asset of HK$12,830,000 (2008: HK$12,331,000) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK$418,499,000 (2008: HK$276,495,000) 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 or less than expected, a material recognition or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes places.

Allowances for inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale and 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 the end of each reporting period 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, 2009, the carrying amount of inventories is HK$742,916,000 (2008: HK$864,689,000).

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

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, 2009, the carrying amount of trade receivable is HK$191,927,000 (2008: HK$219,322,000) (net of allowance for doubtful debts of HK$2,454,000 (2008: HK$6,677,000).

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 management's estimation, a future charge to profit or loss will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to profit or loss will result. As at December 31, 2009, the carrying amount of warranty provision is HK$11,685,000 (2008: HK$12,684,000). The movement of the warranty provision for the year are set out in note 25.

5. REVENUE AND SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from January 1, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standards (HKAS 14, Segment Reporting) required an entity to identity two sets of segments (business and geographical) using a risk and return approach. However, in prior years' segment information reported externally and to the Group's Finance Director for the purpose of resource allocation and assessment of performance was the same and analysed on the basis of the Group's operating divisions. As a result, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews operating results and financial information on a group company by company basis. Each company is identified as an operating segment in accordance with HKFRS 8. When the group company is operating in similar business model with similar target group of customers, the Group's operating segments are aggregated. The reportable segments comprise manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and manufacture and sale of stainless steel casting products.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended December 31, 2009

	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	1,228,043	363,693	205,959	–	1,797,695
Inter-segment sales	9,372	186,717	43,660	(239,749)	–
Total	1,237,415	550,410	249,619	(239,749)	1,797,695
RESULTS					
Segment results	(61,059)	7,367	(50,281)		(103,973)
Interest income					2,782
Loss on fair value change of financial assets held for trading					(264)
Finance costs					(48,992)
Share of results of an associate					(178)
Share of results of jointly controlled entities					44,817
Loss before tax					(105,808)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended December 31, 2008

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,387,146	623,034	489,676	–	2,499,856
Inter-segment sales	87,986	400,741	28,217	(516,944)	–
Total	1,475,132	1,023,775	517,893	(516,944)	2,499,856
RESULTS					
Segment results	(104,008)	16,903	438		(86,667)
Interest income					9,348
Gain on fair value change of financial assets held for trading					1,123
Loss on fair value change of financial assets designated as at FVTPL					(53)
Net loss on embedded derivatives and convertible loan notes					(11,245)
Finance costs					(81,083)
Share of results of an associate					(2,128)
Share of results of jointly controlled entities					30,309
Loss before tax					(140,396)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the results of each segment excluding interest income, (loss) gain on fair value change of financial assets held for trading, loss on fair value change of financial assets designated as at FVTPL, net loss on embedded derivatives and convertible loan notes, finance costs, share of results of an associate and share of results of jointly controlled entities. This is the measure reported to the Finance Director for the purposes of resource allocation and performance assessment.

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

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment.

As at December 31, 2009

	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	**953,257**	**313,523**	**267,290**	**1,534,070**
Interest in an associate				**34,036**
Interests in jointly controlled entities				**78,286**
Unallocated corporate assets				**344,903**
Consolidated total assets				**1,991,295**
LIABILITIES				
Segment liabilities	**413,801**	**18,658**	**50,597**	**483,056**
Unallocated corporate liabilities				**712,227**
Consolidated total liabilities				**1,195,283**

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at December 31, 2008

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	1,192,749	206,951	345,348	1,745,048
Interest in an associate				34,131
Interests in jointly controlled entities				73,299
Unallocated corporate assets				332,413
Consolidated total assets				2,184,891
LIABILITIES				
Segment liabilities	287,191	15,150	47,071	349,412
Unallocated corporate liabilities				935,375
Consolidated total liabilities				1,284,787

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interest in an associate, interests in jointly controlled entities, deferred tax assets, tax recoverable, bank balances and cash; and
- all liabilities are allocated to reportable segments other than tax liabilities, derivative financial instruments and bank borrowings.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended December 31, 2009

Amounts included in the measure of segment results or segment assets:

	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**
Additions to non-current assets excluding deferred tax assets	**31,933**	**188**	**15,127**	**47,248**
Depreciation and amortisation	**54,533**	**984**	**11,461**	**66,978**
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	**(1,356)**	**20**	**47**	**(1,289)**
(Reversal of) allowance for inventories	**(5,563)**	**–**	**1,881**	**(3,682)**
Reversal of allowance for doubtful debts	**(68)**	**(2,205)**	**(75)**	**(2,348)**

For the year ended December 31, 2008

Amounts included in the measure of segment results or segment assets:

	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
Additions to non-current assets excluding deferred tax assets	61,875	1,659	14,519	78,053
Depreciation and amortisation	47,162	1,048	7,318	55,528
(Gain) loss on disposal of property, plant and equipment	(80)	(75)	285	130
Allowance for (reversal of allowance for) inventories	7,837	46,181	(2,266)	51,752
Allowance for (reversal of allowance for) doubtful debts	971	(16,175)	(688)	(15,892)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located mainly in Hong Kong, the PRC, Germany and Switzerland.

The Group's revenue from external customers by location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**809,518**	765,753	**547,189**	554,155
Hong Kong	**359,560**	586,048	**19,945**	26,935
Asia Pacific (other than the PRC and Hong Kong)	**294,588**	473,082	**166**	194
Europe	**197,462**	396,170	**41,528**	46,859
North and South America	**100,939**	199,577	**–**	–
Others	**35,628**	79,226	**–**	–
	1,797,695	2,499,856	**608,828**	628,143

Non-current assets excluded deferred tax assets. The management considered that the cost to develop the revenue by individual countries for "Asia Pacific", "Europe", "North and South America" and "Others" are excessive and revenue included in these areas attributed to each individual country is not material.

6. NET LOSS ON EMBEDDED DERIVATIVES AND 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.

During 2008, the Company repurchased the Notes in the market with principal amount of HK$165,450,000 at aggregate consideration of HK$176,895,000, including transaction cost of HK$413,000. A loss on repurchase of the Notes of HK$123,000, including the embedded derivatives, was recognised in the consolidated statement of comprehensive income for the year ended December 31, 2008.

On November 10, 2008, the Company early redeemed the remaining Notes from the bondholders with principal amount of HK$634,550,000 at aggregate consideration of HK$706,635,000. On November 10, 2008, the liability component of the Notes is HK$677,748,000 which is stated at amortised cost using the effective interest method and the fair value of the derivative components of the Notes is HK$430,000. Moreover, a loss on redemption of the Notes, including the embedded derivatives, of HK$28,457,000 was also recognised in the consolidated statement of comprehensive income for the year ended December 31, 2008.

6. NET LOSS ON EMBEDDED DERIVATIVES AND CONVERTIBLE LOAN NOTES *(Continued)*

The effective interest expense of the Notes and net loss on embedded derivatives and the Notes (including gain arising on change in fair value of the embedded derivatives of HK$17,335,000, loss on repurchase of HK$123,000 and loss on redemption of HK$28,457,000) amounting to HK$36,698,000 and HK$11,245,000, respectively, have been recognised in the consolidated statement of comprehensive incomes for the year ended December 31, 2008.

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 January 1, 2008	813,725	21,862
Changes in fair value	–	(17,335)
Effective interest expenses	36,698	–
Repurchase of the Notes during 2008	(172,675)	(4,097)
Redemption of the Notes at November 10, 2008	(677,748)	(430)
Carrying amount at December 31, 2008	–	–

7. FINANCE COSTS

	2009 **HK$'000**	2008 HK$'000
Interest on bank borrowings wholly repayable within five years	**43,421**	30,229
Effective interest expense on the Notes	**–**	36,698
Bank charges	**5,571**	14,156
	48,992	81,083

8. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Hong Kong Profits Tax:		
Current year	**326**	1,520
Overprovision in prior years	**(87)**	(401)
PRC Enterprise Income Tax ("EIT"):		
Current year	**4,510**	158
Under(over)provision in prior years	**815**	(410)
Overseas income tax:		
Current year	**1,281**	1,124
Underprovision in prior years	**84**	94
	6,929	2,085
Deferred tax (note 19):		
Current year	**(6,402)**	194
Attributable to a change in tax rate	**–**	104
	527	2,383

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guafa [2007] No. 39), the applicable tax rate for those entities that previously enjoyed tax incentive rate at 15% would increase progressively to 25% over a five-year transitional period. Accordingly, the relevant tax rate for the Group's subsidiaries in the PRC is 20% for the year ended December 31, 2009 (2008: 18%).

Taxation arising in other jurisdictions is calculated at rates prevailing in the respective jurisdictions.

8. INCOME TAX EXPENSE *(Continued)*

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

	2009 HK$'000	2008 HK$'000
Loss before tax	**(105,808)**	(140,396)
Tax at the Hong Kong Profits Tax rate of 16.5%	**(17,458)**	(23,165)
Tax effect of:		
– expenses that are not deductible for tax purpose	**7,497**	24,790
– income that are not taxable for tax purpose	**(6,998)**	(6,677)
– tax losses not recognised	**23,431**	12,539
– share of results of an associate	**29**	351
– share of results of jointly controlled entities	**(7,395)**	(5,001)
– decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	**–**	104
Effect of different tax rates of subsidiaries operating in other jurisdictions	**550**	374
Under(over)provision in prior years	**812**	(717)
Others	**59**	(215)
Income tax expense for the year	**527**	2,383

9. LOSS FOR THE YEAR

	2009 HK$'000	2008 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Amortisation of intellectual property rights (included in cost of sales)	**2,916**	2,916
Amortisation of prepaid lease payments	**452**	418
Depreciation of property, plant and equipment	**63,610**	52,194
Total depreciation and amortisation	**66,978**	55,528
(Reversal of) allowance for inventories (included in cost of sales)	**(3,682)**	51,752
Reversal of allowance for doubtful debts	**(2,348)**	(15,892)
Auditor's remuneration	**2,777**	2,640
Cost of inventories recognised as an expense	**1,070,873**	1,382,446
Loss on disposal of property, plant and equipment	**743**	130
Gain on disposal of prepaid lease payments	**(2,032)**	–
Net foreign exchange loss (gain)	**1,355**	(29,904)
Research and development costs recognised as an expense	**4,157**	6,233
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**197,234**	229,876
Retirement benefits scheme contributions	**27,715**	30,591
Total staff costs	**224,949**	260,467

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2008: eleven) Directors were as follows:

	Executive directors								Independent non-executive directors			
	Fong Sou Lam	Wan Wai Yung	Fong Kwok Leung, Kevin	Fong Kwok Chung, Bill	Tou Kit Vai	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Tsui Wai Keung	Cheung Chiu Fan	Yuen Ming Fai	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
2009												
Fees	–	–	–	–	–	–	–	–	75	75	75	225
Other emoluments												
Salaries and other benefits	4,550	4,008	2,040	2,104	1,820	1,560	1,352	1,560	–	–	–	18,994
Retirement benefits scheme contributions	336	273	115	155	12	110	97	115	–	–	–	1,213
Total emoluments	4,886	4,281	2,155	2,259	1,832	1,670	1,449	1,675	75	75	75	20,432

	Executive directors								Independent non-executive directors			
	Fong Sou Lam	Wan Wai Yung	Fong Kwok Leung, Kevin	Fong Kwok Chung, Bill	Tou Kit Vai	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Tsui Wai Keung	Cheung Chiu Fan	Yuen Ming Fai	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
2008												
Fees	–	–	–	–	–	–	–	370	75	75	75	595
Other emoluments												
Salaries and other benefits	4,550	4,008	2,040	2,103	1,820	1,560	1,243	1,440	–	–	–	18,764
Performance related incentive payments (Note)	–	–	1,000	300	600	500	200	250	–	–	–	2,850
Retirement benefits scheme contributions	336	263	115	151	12	106	94	115	–	–	–	1,192
Total emoluments	4,886	4,271	3,155	2,554	2,432	2,166	1,537	2,175	75	75	75	23,401

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

(a) Directors' emoluments *(Continued)*

Note: The performance related incentive payments were determined with reference to the operating results of the Group for the year ended December 31, 2008. No performance related incentive payments were granted to directors for the year ended December 31, 2009.

No director waived any emoluments for both years.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2009 and 2008 were all Directors of the Company and details of their emoluments are included above.

11. DIVIDENDS

No dividend was paid or declared during 2009.

Dividends recognised as distribution during the year ended December 31, 2008:

	HK$'000
2008 interim dividend of 2 HK cents per share	11,029
2007 final dividend of 8 HK cents per share	44,253
	55,282
2007 final special dividend of 7 HK cents per share	38,721

A final dividend of 5 HK cents per share (2008: Nil), amounting to approximately HK$28 million, has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

12. DEREGISTRATION OF A SUBSIDIARY

In 2008, a PRC subsidiary of the Company, which had been inactive for many years, was deregistered by The State Administration for Industry and Commerce in the PRC. The gain on deregistration of the subsidiary amounted to approximately HK$308,000 was included as other income in the consolidated statement of comprehensive income. The translation reserve released on deregistration of the subsidiary amounted to approximately HK$233,000.

13. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2009 **HK$'000**	2008 HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(106,335)**	(142,779)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**551,446**	552,797

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

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Moulds and tools	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST									
At January 1, 2008	9,563	266,368	10,931	255,190	85,272	23,655	7,424	8,353	666,756
Currency realignment	1,521	10,826	168	15,583	724	191	302	455	29,770
Reclassification	–	2,537	446	4,474	3,362	–	3,556	(14,375)	–
Additions	–	8,616	14,218	21,777	15,666	3,376	4,400	7,700	75,753
Disposals	(809)	–	(439)	(4,589)	(9,996)	(5,095)	(2)	(36)	(20,966)
At December 31, 2008 and January 1, 2009	10,275	288,347	25,324	292,435	95,028	22,127	15,680	2,097	751,313
Currency realignment	188	836	40	771	393	38	31	4	2,301
Reclassification	–	–	–	(8,210)	2,495	2,703	8,634	(5,622)	–
Additions	–	542	118	22,189	15,293	133	2,646	5,406	46,327
Disposals	–	(96)	(219)	(4,127)	(3,932)	(1,548)	(38)	–	(9,960)
At December 31, 2009	10,463	289,629	25,263	303,058	109,277	23,453	26,953	1,885	789,981
DEPRECIATION AND AMORTISATION									
At January 1, 2008	–	115,534	5,109	94,733	51,127	15,470	5,843	–	287,816
Currency realignment	–	7,351	141	4,086	430	270	346	–	12,624
Reclassification	–	–	(84)	–	84	–	–	–	–
Provided for the year	–	12,199	3,182	21,832	11,932	2,193	856	–	52,194
Eliminated on disposals	–	–	(439)	(4,049)	(9,904)	(4,991)	–	–	(19,383)
At December 31, 2008 and January 1, 2009	–	135,084	7,909	116,602	53,669	12,942	7,045	–	333,251
Currency realignment	–	321	13	409	195	24	15	–	977
Reclassification	–	–	–	(3,088)	326	417	2,345	–	–
Provided for the year	–	12,749	3,847	25,864	14,310	2,741	4,099	–	63,610
Eliminated on disposals	–	(33)	(168)	(1,902)	(3,803)	(1,358)	(34)	–	(7,298)
At December 31, 2009	–	148,121	11,601	137,885	64,697	14,766	13,470	–	390,540
CARRYING VALUES									
At December 31, 2009	10,463	141,508	13,662	165,173	44,580	8,687	13,483	1,885	399,441
At December 31, 2008	10,275	153,263	17,415	175,833	41,359	9,185	8,635	2,097	418,062

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

The above items of property, plant and equipment other than the freehold land and construction in progress 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 improvements	10%
Plant and machinery	10% – 20%
Furniture and equipment	20%
Motor vehicles	20%
Moulds and tools	20%

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

	2009 **HK$'000**	2008 HK$'000
Buildings on land under long leases located in the PRC	**861**	973
Buildings on land under medium-term leases located in the PRC	**128,858**	140,557
Buildings on land under medium-term leases located in Hong Kong	**–**	63
Freehold land and buildings in Europe	**22,252**	21,945
	151,971	163,538

15. PREPAID LEASE PAYMENTS

	2009 HK$'000	2008 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term leases	–	387
Leasehold land in the PRC:		
Long leases	**1,609**	1,631
Medium-term leases	**14,446**	13,927
	16,055	15,945
Analysed for reporting purposes as:		
Current asset	**469**	460
Non-current asset	**15,586**	15,485
	16,055	15,945

16. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At January 1, 2008, December 31, 2008, January 1, 2009 and December 31, 2009	29,156
AMORTISATION	
At January 1, 2008	9,885
Provided for the year	2,916
At December 31, 2008 and January 1, 2009	12,801
Provided for the year	2,916
At December 31, 2009	15,717
CARRYING AMOUNTS	
At December 31, 2009	13,439
At December 31, 2008	16,355

16. INTELLECTUAL PROPERTY RIGHTS *(Continued)*

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.

17. INTEREST IN AN ASSOCIATE

	2009 HK$'000	2008 HK$'000
Cost of unlisted investment in an associate	**67,524**	67,524
Share of post-acquisition losses and other comprehensive income	**(33,488)**	(33,393)
	34,036	34,131

As at December 31, 2009 and 2008, the 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:

	2009 HK$'000	2008 HK$'000
Total assets	**275,916**	263,178
Total liabilities	**(162,463)**	(149,408)
Net assets	**113,453**	113,770
Group's share of net assets of associate	**34,036**	34,131
Revenue	**200,442**	220,404
Loss for the year	**(595)**	(7,094)
Other comprehensive income	**277**	6,247
Group's share of losses and other comprehensive income of associate for the year	**(95)**	(254)

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009 HK$'000	2008 HK$'000
Cost of unlisted investments in jointly controlled entities	**10,779**	10,779
Share of post-acquisition profits and other comprehensive income, net of dividends received	**67,507**	62,520
	78,286	73,299

As at December 31, 2009 and 2008, the Group had interests in the following significant 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., Ltd.	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. However, Plexxor Co., Limited is jointly controlled by the Group and the other significant shareholder pursuant to a shareholders' agreement which stated that each of the shareholders shall be entitled to nominate equal number of directors to the board and no business shall be transacted at any meeting of the board unless such meeting is attended by equal number of directors nominated by each of the shareholders. Besides, all board decisions shall be by a majority vote of the directors attending the board meeting. As a result, approval of directors nominated by both shareholders is required to pass all board resolutions and therefore, Plexxor Co., Limited is classified as a jointly controlled entity of the Group.

18. 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:

	2009	2008
	HK$'000	HK$'000
Non-current assets	**21,155**	26,638
Current assets	**178,524**	96,422
Non-current liabilities	**(1,499)**	(3,587)
Current liabilities	**(119,894)**	(46,174)
	78,286	73,299
Income recognised in profit or loss	**251,658**	299,512
Expense recognised in profit or loss	**206,841**	269,203
Other comprehensive income	**170**	3,715
Profit and other comprehensive income attributable to the Group	**44,987**	34,024

19. DEFERRED TAX ASSETS

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

	Property, plant and equipment	**Allowance for doubtful debts**	**Tax losses**	**Unrealised profit for inventories**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At January 1, 2008	2,801	(4,637)	–	(3,207)	(5,043)
Effect of change in tax rate	(154)	258	–	–	104
(Credit) charge to profit or loss	(4,040)	3,949	(2,035)	2,320	194
At December 31, 2008 and January 1, 2009	(1,393)	(430)	(2,035)	(887)	(4,745)
Charge (credit) to profit or loss	(6,296)	65	(82)	(89)	(6,402)
At December 31, 2009	(7,689)	(365)	(2,117)	(976)	(11,147)

19. DEFERRED TAX ASSETS *(Continued)*

At the end of the reporting period, the Group had unused tax losses of approximately HK$431,329,000 (2008: HK$288,826,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$12,830,000 (2008: HK$12,331,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$418,499,000 (2008: HK$276,495,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$9,600,000 (2008: HK$9,600,000), HK$2,900,000 (2008: HK$2,900,000), HK$5,400,000 (2008: HK$5,400,000), HK$6,700,000 (2008: HK$6,700,000), HK$6,997,000 (2008: HK$6,997,000), HK$4,385,000 (2008: HK$4,385,000) and HK$11,966,000 (2008: Nil) that will expire in 2010, 2011, 2012, 2013, 2014, 2015 and 2016, respectively. Other losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred tax liability has not been provided for in the consolidated financial statements, in respect of the temporary differences attributable to accumulated profits of PRC subsidiaries amounting to approximately HK$21,298,000 (2008: HK$1,394,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

20. INVENTORIES

	2009 **HK$'000**	2008 HK$'000
Raw materials	**518,258**	524,771
Work in progress	**124,868**	159,959
Finished goods	**99,790**	179,959
	742,916	864,689

21. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables	**194,381**	225,999
Less: Allowance for doubtful debts	**(2,454)**	(6,677)
	191,927	219,322
Bills receivables	**36,407**	60,141
	228,334	279,463
Other receivables	**51,550**	78,285
Total trade and other receivables	**279,884**	357,748

The Group allows an average credit period of 60 days (2008: 60 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts and bills receivables presented based on the invoice date at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
0 – 60 days	**165,097**	213,369
61 – 90 days	**41,423**	44,934
Over 90 days	**21,814**	21,160
	228,334	279,463

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 approximately HK$63,237,000 (2008: HK$66,094,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The average age of these receivables is 91 days (2008: 87 days). For those past due but not impaired receivables, although no collateral is held, the Group has assessed the creditworthiness, past payment history and substantial settlement after the end of the reporting period, and considered that the credit quality is satisfactory. Accordingly, no impairment has been provided.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2009 HK$'000	2008 HK$'000
Overdue by:		
1 – 30 days	**41,423**	44,934
31 – 60 days	**13,280**	19,093
Over 60 days	**8,534**	2,067
Total	**63,237**	66,094

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

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**6,677**	27,253
Impairment losses recognised on receivables	**783**	4,264
Amounts written off as uncollectible	**(1,875)**	(4,684)
Amounts recovered during the year	**(3,131)**	(20,156)
Balance at end of the year	**2,454**	6,677

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$2,454,000 (2008: HK$6,677,000). The Group does not hold any collateral over these balances.

During the year, the Group discounted certain bill receivables to financial institutions with recourse. The Group continues to recognise the full carrying amount of the receivables as the Group is still exposed to credit risk on these receivables. At December 31, 2009, the carrying amount of the bills discounted is approximately HK$3,752,000 (2008: HK$14,747,000). The carrying amount of the associated liability which represented the cash received from discounted bills (see note 27) is approximately HK$3,752,000 (2008: HK$14,747,000).

22. AMOUNTS DUE FROM AND TO JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and trade in nature. The average credit period is 60 days. All the outstanding balances are aged within 60 days based on the invoice date at the end of the reporting period.

23. BANK BALANCES

Bank balances carry interest at market rates which rage from 0.01% to 0.17% (2008: 0.1% to 3.93%) per annum.

24. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
0 – 90 days	**35,226**	37,596
91 – 120 days	**21,181**	22,606
Over 120 days	**6,775**	11,468
	63,182	71,670

The average credit period on purchase of goods is 90 days (2008: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

25. WARRANTY PROVISION

	2009 HK$'000	2008 HK$'000
At beginning of the year	**12,684**	23,274
Additional provision in the year	**7,233**	4,015
Utilisation of provision	**(8,232)**	(14,605)
At end of the year	**11,685**	12,684

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.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2009 HK$'000	2008 HK$'000
	Liabilities	Liabilities
Derivative under hedge accounting		
Cash flow hedges – Interest rate swaps	**29,024**	36,862
Other derivatives (not under hedge accounting)		
Foreign currency forward contracts	**210**	408
	29,234	37,270
Analysed as:		
Non-current	**29,024**	36,862
Current	**210**	408
	29,234	37,270

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms and the Directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps as at December 31, 2009 and 2008 are set out below:

Initial notional amount	Contract date	Maturity date	Swaps
HK$300,000,000 (reduced by 10 equal quarterly installments)	June 23, 2008	December 24, 2012	**Before 4 May 2009** From Hong Kong Interbank Offered Rate ("HIBOR") +1% to 5.28% **With effect from 4 May 2009** From HIBOR +1.5% to 5.78%
HK$400,000,000 (reduced by 20 equal quarterly installments)	September 4, 2008	September 4, 2013	From HIBOR to 3.56%

26. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Interest rate swaps *(Continued)*

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. As at December 31, 2009, the fair value changes of approximately HK$29,024,000 (2008: HK$36,862,000) have been recognised in other comprehensive income and accumulated in equity and are expected to be released to profit or loss at various dates during the lives of the swaps when the hedged interest expense is recognised in profit or loss.

Foreign currency forward contracts

At the end of the reporting period, the Group had the following foreign currency forward contracts denominated in United States Dollars ("USD") and Euro ("EUR"). The major terms of these contracts are as follows:

Notional amount	Maturity date	Exchange rate
2009		
Purchase EUR432,756.32 and sell USD650,000 at the date of settlement	April 15, 2010	EUR1 to USD1.502
2008		
Purchase EUR1,000,000 and sell USD1,460,500 at the date of settlement	January 29, 2009	EUR1 to USD1.4605

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 profit or loss.

27. BANK BORROWINGS

	2009 **HK$'000**	2008 HK$'000
Unsecured bank borrowings comprise the following:		
– bank borrowings	**624,162**	781,666
– trust receipts loans	**48,132**	100,259
– discounted bills with recourse	**3,752**	14,747
	676,046	896,672

The above amounts are repayable as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**206,888**	240,010
In the second year	**205,004**	185,004
In the third to fifth years inclusive	**264,154**	471,658
	676,046	896,672
Less: Amount due within one year shown under current liabilities	**(206,888)**	(240,010)
Amount due after one year	**469,158**	656,662

In 2009, the Group had four bank borrowings amounting to HK$624,162,000 (of which HK$600,000,000 are hedged by interest rate swaps) which carry floating interest rates ranging from HIBOR plus 1% per annum to HIBOR plus 3.2% per annum, and HK$155,004,000 being repayable within one year. The remaining bank borrowings included HK$48,132,000 trust receipts loans and HK$3,752,000 discounted bills with recourse which are repayable within one year and carry floating interest rates at HIBOR + 2.25% per annum and ranging from LIBOR+0.75% to LIBOR+2.75% per annum.

In 2008, the Group had four bank borrowings amounting to HK$781,666,000 (of which HK$680,000,000 were hedged by interest rate swaps) which carry floating interest rates ranging from HIBOR plus 0.75% per annum to HIBOR plus 1.9% per annum, and HK$125,004,000 being repayable within one year. The remaining bank borrowings included HK$100,259,000 trust receipts loans and HK$14,747,000 discounted bills with recourse which were repayable within one year and carry floating interest rates ranging from LIBOR + 0.75% to LIBOR + 1.7% per annum.

In 2009, the effective interest rate (which is also equal to the contractual interest rate) on the Group's bank borrowings is 2.04% (2008: 2.01%).

28. SHARE CAPITAL OF THE COMPANY

	2009 HK$'000	2008 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At January 1, 2009: 551,446,285 (January 1, 2008: 555,420,285) ordinary shares of HK$0.10 each	**55,145**	55,542
Repurchase of 3,974,000 shares (2009: nil)	**–**	(397)
At December 31, 2009 and 2008: 551,446,285 ordinary shares of HK$0.10 each	**55,145**	55,145

In 2008, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	**No. of ordinary shares of HK$0.10 each**	**Price per share Highest** HK$	**Lowest** HK$	**Aggregate consideration paid** HK$'000
April	2,264,000	4.31	4.28	9,735
May	1,710,000	4.28	4.12	7,206
	3,974,000			16,941

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to approximately HK$16,544,000 was charged against share premium. An amount of approximately HK$397,000 equivalents to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

29. 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 net debt, which includes bank borrowings disclosed in notes 27, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

29. CAPITAL RISK MANAGEMENT *(Continued)*

Certain bank borrowings of the Group include covenants that require the maintenance of certain financial ratios. As at December 31, 2009, no financial ratio covenant was breached.

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.

30. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2009 **HK$'000**	2008 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**592,428**	615,249
Financial liabilities		
Derivatives classified as held for trading	**210**	408
Amortised cost	**783,468**	1,017,904
Derivative instruments in designated hedge accounting relationships	**29,024**	36,862

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from and to jointly controlled entity, bank balances, trade and other payables, derivative financial instruments and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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 denominated USD and EUR, which expose the Group to foreign currency risk. The Group also has bank balances, trade and other receivables/payables and bank borrowings denominated in foreign currency. During the year, the Group entered into several foreign currency forward contracts with a bank to reduce its exposure to currency fluctuations risk of certain sales and purchases that are denominated in other currencies. These derivatives are not accounted for under hedge accounting as the Group currently does not have a formal currency hedging policy. However, the management monitors foreign exchange exposure and will further consider hedging significant foreign currency exposure should the need arise. No sensitivity analysis was presented on the foreign currency forward contracts as the exposures are considered limited.

30. 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 end of the reporting period are as follows:

	Liabilities		Assets	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
USD	**62,859**	117,764	**148,016**	270,372
EUR	**4,851**	2,319	**9,675**	20,045

In the opinion of the Directors of the Company, since Hong Kong dollars is pegged to USD under the Linked Exchange Rate System, the exposure to USD exchange rate risk is minimal relative to Hong Kong dollars. Accordingly, only the sensitivity analysis in relation to USD against foreign currencies other than Hong Kong dollars is presented.

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents 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 an increase in post-tax loss where respective functional currencies strengthen 5% against the relevant foreign currencies. For a 5% weakening of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax loss, and the balances below would be negative.

	USD		EUR	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Loss for the year*	**3,061**	5,255	**198**	735

* This is mainly attributable to the exposure outstanding on USD (against foreign currencies other than Hong Kong dollars) and EUR receivables, payables, bank balances and borrowings at year end.

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Interest rate risk

The Group's cash flow interest rate risk relates to the bank balances and borrowings with floating interest rates. The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank balances and borrowings.

The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flow of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rates swaps are designated as effective hedging instruments and hedge accounting is used (see note 26 for details).

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 Hong Kong dollars and USD borrowings and the market interest rate on the bank balances.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of each reporting period. For variable-rate bank balances and borrowings which are not hedged by interest rate swaps, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was 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 post-tax loss for the year ended December 31, 2009 would decrease/increase by approximately HK$1,096,000 (2008: HK$388,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings which are not hedged by interest rate swaps.

If the expected market interest rate inputed to the valuation model of the derivative instruments designated as hedging instruments has been 50 basic points higher/lower while all other variables were constant, hedging reserve would decrease/increase by approximately HK$4,366,000 (2008: HK$5,258,000).

Credit risk

At December 31, 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to a failure to discharge obligation by the counterparties is arising from the carrying amount of the respective recognised assets as stated in the consolidated statement of financial position. 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 the end of the reporting period 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 are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with good reputation.

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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

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 ensure compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity tables

	Weighted average 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$'000	Carrying amount HK$'000
2009							
Non-derivative financial liabilities							
Trade and other payables	–	45,231	61,076	1,115	–	107,422	107,422
Bank borrowings							
– variable rate	1.5 – 2.73	4,285	91,236	162,471	438,738	696,730	676,046
		49,516	152,312	163,586	438,738	804,152	783,468
Derivatives – net settlement							
Interest rate swaps		–	4,432	13,049	12,329	29,810	29,024
Derivatives – gross settlement							
Foreign exchange forward contracts							
– inflow		–	–	(4,848)	–	(4,848)	(4,586)
– outflow		–	–	5,070	–	5,070	4,796
		–	–	222	–	222	210

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

Liquidity tables *(Continued)*

	Weighted average 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$'000	Carrying amount HK$'000
2008							
Non-derivative financial liabilities							
Trade and other payables	–	44,201	74,151	2,616	–	120,968	120,968
Amount due to a jointly controlled entity	–	–	264	–	–	264	264
Bank borrowings – variable rate	1.7 – 2.55	61,653	24,931	161,799	684,031	932,414	896,672
		105,854	99,346	164,415	684,031	1,053,646	1,017,904
Derivatives – net settlement							
Interest rate swaps		–	–	22,795	18,714	41,509	36,862
Derivatives – gross settlement							
Foreign exchange forward contracts – inflow		(10,842)	–	–	–	(10,842)	(8,043)
– outflow		11,392	–	–	–	11,392	8,451
		550	–	–	–	550	408

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates are different to those estimates of interest rates determined at the end of the reporting period.

30. FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value

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 transactions and dealer quotes for similar instruments; and

- the fair value of foreign currency forward contracts is estimated using quoted forward exchange rates. For interest rate swaps, the fair value is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities at FVPTL				
Derivative under hedge accounting				
– Interest rate swaps	–	29,024	–	29,024
Other derivatives				
– Foreign currency forward contracts	–	210	–	210
Total	–	29,234	–	29,234

31. 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.

32. CAPITAL COMMITMENTS

	2009 **HK$'000**	2008 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment and leasehold land	**296,698**	312,649

33. OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$10,877,000 (2008: HK$11,219,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**10,012**	10,374
In the second to fifth year inclusive	**630**	9,927
	10,642	20,301

Operating lease payments represent rentals payable by the Group for certain of its 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.

34. RETIREMENT BENEFITS SCHEME

Schemes in Hong Kong

The Group has a defined contribution provident fund scheme for its Hong Kong employees. The scheme assets are being held under a 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 Scheme 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.

34. RETIREMENT BENEFITS SCHEME *(Continued)*

Schemes in Hong Kong*: (Continued)*

The aggregate employers' contributions which have been dealt with in profit or loss of the Group amounted to approximately HK$4,576,000 (2008: HK$4,782,000).

At the end of the reporting period, there are no significant forfeited contributions available to offset future employer's 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 10% to 11% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to profit or loss for the scheme in the PRC amounted to approximately HK$13,828,000 (2008: HK$15,523,000).

Scheme in Germany

In Germany, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 9.95% 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 profit or loss for the scheme in Germany amounted to approximately HK$7,879,000 (2008: HK$9,055,000).

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 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 0% to 10% of the employees' basic annual salary above CHF 79,560, plus a maximum of 2% depending on employees' age plus an individual risk surcharge of about 2%.

The total cost charged to profit or loss for the schemes in Switzerland amounted to approximately HK$1,432,000 (2008: HK$1,231,000).

35. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position on page 33 and note 22, the Group has also entered into the following transactions with related parties during the year:

	2009 HK$'000	2008 HK$'000
Related parties in which a Director of certain operating subsidiaries of the Group has beneficial interests		
Sale of goods	**1,002**	3,580
Service fee paid	**341**	77
Purchase of materials	**109**	24
Commission and agency fee paid	**4,452**	5,957
Management fee paid	**–**	430
Related parties in which Directors of the Company have beneficial interests		
Management fee received	**267**	162
Rental paid	**8,133**	7,909
Jointly controlled entities		
Sale of goods	**12,846**	14,677
Purchase of materials	**8,175**	10,578
Commission and management fee received	**31,117**	25,881
Rental paid	**–**	172
Sub-contracting fee paid	**1,237**	1,316

At the end of each reporting period, 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:

	2009 HK$'000	2008 HK$'000
Within one year	**7,623**	7,623
In the second to fifth year inclusive	**–**	7,623
	7,623	15,246

35. 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:

	2009 **HK$'000**	2008 HK$'000
Short-term benefits	**38,843**	50,091
Post-employment benefits	**1,859**	2,049
	40,702	52,140

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.

36. 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 31 December 2008 and 2009**	**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 of 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%	Trading and manufacture of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK$10,000	100%	Trading of stainless steel supplies

36. 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 31 December 2008 and 2009	Principal activities
Goller (HK) Limited	Hong Kong	HK$1	100%	Trading of textile machinery
Goller Textile Machinery (Shenzhen) Co., Ltd.*	The PRC	US$10,000,000	100%	Manufacture of textile machinery
Goller Textilmaschinen GmbH*	Germany	EUR1,000,000	100%	Trading and manufacture of textile machinery
Sunshine Glory Limited*	British Virgin Islands/ The PRC	US$10	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Company Limited	Hong Kong	HK$10,000	100%	Trading of stainless steels casting products
Tycon Alloy Industries (Shenzhen) Co. Ltd.*	The PRC	US$16,550,000	100%	Manufacture of stainless steels casting products
THEN Maschinen (HK) Limited	Hong Kong	HK$1	100%	Trading of 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 of textile machinery and technical parts
Xorella AG*	Switzerland	CHF350,000	100%	Trading and manufacture of textile machinery and technical parts
Fong's Water Technology Company Limited	Hong Kong	HK$1	100%	Providing services on recycling of polluted water
Fong's Water Technology and Conservation Equipment (Shenzhen) Co., Ltd*	The PRC	US$2,000,000	100%	Sale of water recycling system and providing services on recycling of polluted water

* 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,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	2,012,252	2,380,036	3,029,189	2,499,856	**1,797,695**
Profit (loss) before tax	240,706	308,939	314,662	(140,396)	**(105,808)**
Income tax expense	(22,510)	(48,906)	(40,257)	(2,383)	**(527)**
Profit (loss) for the year	218,196	260,033	274,405	(142,779)	**(106,335)**
Attributable to:					
Owners of the Company	218,653	260,033	274,405	(142,779)	**(106,335)**
Minority interests	(457)	–	–	–	**–**
	218,196	260,033	274,405	(142,779)	**(106,335)**

ASSETS AND LIABILITIES

	As at December 31,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,322,163	2,355,536	2,671,192	2,184,891	**1,991,295**
Total liabilities	(447,606)	(1,339,160)	(1,511,371)	(1,284,787)	**(1,195,283)**
	874,557	1,016,376	1,159,821	900,104	**796,012**
Equity attributable to owners of the Company	873,267	1,015,086	1,158,531	900,104	**796,012**
Minority interests	1,290	1,290	1,290	–	**–**
	874,557	1,016,376	1,159,821	900,104	**796,012**