THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Fong's Industries Company Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance and Transfer to the purchaser(s) or transferee(s) or to the licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Composite Document should be read in conjunction with the Form of Acceptance and Transfer, the contents of which form part of the terms of the Offer contained herein.

中国恒天集团有限公司
CHINA HI-TECH GROUP CORPORATION

CHINA HENGTIAN GROUP CO., LTD.

(Incorporated in the People's Republic of China with limited liability)

FONG'S

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

**COMPOSITE OFFER AND RESPONSE DOCUMENT
RELATING TO THE
UNCONDITIONAL MANDATORY CASH OFFER BY
CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF
CHINA HENGTIAN GROUP CO., LTD.
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
FONG'S INDUSTRIES COMPANY LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED
BY CHINA HENGTIAN GROUP CO., LTD. OR PARTIES ACTING IN CONCERT WITH IT
(OTHER THAN MR. FONG SOU LAM))**

Financial Adviser to China Hengtian Group Co., Ltd.

citi

Financial Adviser to Mr. Fong Sou Lam

Standard Chartered

**Independent Financial Adviser to the Independent Board Committee of
Fong's Industries Company Limited**

Investec

Investec Capital Asia Limited

A letter from Citigroup containing, amongst others, the details of the terms of the Offer is set out on pages 6 to 15 of this Composite Document.

A letter from the Board is set out on pages 16 to 20 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 21 to 22 of this Composite Document. A letter from the Independent Financial Adviser, containing its opinion on the Offer and its advice to the Independent Board Committee, is set out on pages 23 to 40 of this Composite Document.

The procedures for acceptance and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance and Transfer. Acceptances should be received no later than 4:00 p.m. on June 3, 2011 (or such other time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code).

May 13, 2011

* *For identification purpose only*

CONTENTS

EXPECTED TIMETABLE

Despatch date of this Composite Document and the commencement of the Offer[1]	May 13, 2011
Latest time and date for acceptance of the Offer[2][3]	4:00 p.m. on June 3, 2011
Closing date of the Offer[2]	June 3, 2011
Announcement of the results of the Offer, or as to whether the Offer has been revised or extended, on the website of the Stock Exchange[2]	By 7:00 p.m. on June 3, 2011
Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received under the Offer[4]	June 13, 2011

Notes:

(1) The Offer is made on May 13, 2011, being the date of posting of this Composite Document, and is capable of acceptance on and from that date until the close of the Offer Period.

(2) The Offer, which is unconditional, will close on June 3, 2011 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror reserves the right to extend the Offer in accordance with the Takeovers Code. An announcement will be posted on the website of the Stock Exchange by 7:00 pm on June 3, 2011 stating whether the Offer has been revised or extended or has expired. Acceptances tendered after 4:00 p.m. on June 3, 2011 will only be valid if the Offer is revised or extended before 7:00 p.m. on June 3, 2011. If the Offeror decides to extend the Offer, at least 14 days' notice in writing will be given to those Shareholders who have not yet accepted the Offer before the Offer is closed. If, in the course of the Offer, the Offeror revises the terms of the Offer, all Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised Offer must be kept open for at least 14 days following the date on which the revised offer document is posted.

(3) Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to paragraph 4 headed "Right of Withdrawal" in Appendix I to this Composite Document for further information on the circumstances where acceptances may be withdrawn.

(4) Remittances in respect of the consideration payable for the Shares tendered under the Offer will be despatched by ordinary post to the relevant Shareholders or, in the case of joint Shareholders, to the Shareholder whose name stands first in the register of members of the Company (unless otherwise specified in the relevant Form of Acceptance and Transfer), at their own risk to their respective addresses as they appear on the register of members of the Company as soon as possible but in any event within 10 days of the date of the receipt by the Registrar of the duly completed Form of Acceptance and Transfer and all requisite documents from the relevant Shareholder accepting the Offer. Please refer to the paragraph headed "Acceptance and Settlement – Settlement" in the "Letter from Citigroup" in this Composite Document for further information in relation to the settlement of the Offer.

All time references contained in this Composite Document are to Hong Kong time. The expected timetable above is indicative only and further announcement(s) will be made in the event of any changes to the timetable.

In this Composite Document, the following expressions have the meanings set out below unless the context otherwise requires:

"Acquisition"	the acquisition of the Sale Shares by the Offeror from Mr. Fong pursuant to the Sale and Purchase Agreement
"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"Announcement"	the announcement dated January 14, 2011 issued jointly by the Offeror and the Company in relation to, amongst others, the Offer
"associate"	has the meaning ascribed to it in the Takeovers Code
"Board"	the board of directors of the Company
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"Citigroup"	Citigroup Global Markets Asia Limited, a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities, and the financial adviser to the Offeror
"Company"	Fong's Industries Company Limited, a limited liability company incorporated in Bermuda, whose Shares are listed on the Stock Exchange (Stock Code: 641)
"Completion"	completion of the Acquisition
"Completion Announcement"	the announcement dated May 6, 2011 issued jointly by the Offeror and the Company pursuant to the Completion of the Acquisition
"Composite Document"	this composite offer and response document dated May 13, 2011 issued jointly by the Offeror and the Company in connection with the Offer
"Condition"	the condition to Completion set out in the section headed "The Acquisition – Condition to Completion" in the Announcement
"connected person"	has the meaning ascribed to it in the Listing Rules
"controlling shareholder"	has the meaning ascribed to it in the Listing Rules

"Director(s)"	the director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Form of Acceptance and Transfer"	the form of acceptance and transfer of Shares in respect of the Offer which accompanies this Composite Document
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, comprising Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching, who are the independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the Offer
"Independent Financial Adviser" or "ICAL"	Investec Capital Asia Limited (formerly known as Access Capital Limited), a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and the independent financial adviser to the Independent Board Committee in respect of the Offer
"Independent Shareholders"	Shareholders other than the Offeror and the parties acting in concert with it (including Mr. Fong)
"Irrevocable Undertaking"	the Irrevocable Undertaking dated January 7, 2011 given by Mr. Fong to the Offeror
"Last Trading Date"	January 7, 2011, being the last trading day prior to the suspension of trading in the Shares on the Suspension Date
"Latest Practicable Date"	May 9, 2011, being the latest practicable date prior to the date of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Mr. Fong"	Mr. Fong Sou Lam, the controlling shareholder of the Company as at the date of the Announcement, a substantial Shareholder as at the Latest Practicable Date, a Director and the chairman of the Company
"Offer"	the unconditional mandatory cash offer made by Citigroup on behalf of the Offeror in accordance with the Takeovers Code for the Offer Shares, on the terms and conditions set out in this Composite Document and the Form of Acceptance and Transfer
"Offer Period"	the period from January 14, 2011, being the date of the Announcement, to 4:00 p.m. on June 3, 2011, or such later time and/or date to which the Offeror may decide to extend the Offer in accordance with the Takeovers Code
"Offer Price"	the price of HK$5.00 per Offer Share payable in cash by the Offeror on the terms of the Offer
"Offer Shares"	all the Shares in issue, other than those Shares which are owned or agreed to be acquired by the Offeror and the parties acting in concert with it (other than Mr. Fong) as at the date of this Composite Document
"Offeror"	China Hengtian Group Co., Ltd., a PRC state-owned company
"PRC or China"	the People's Republic of China
"Registrar"	Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, the branch share registrar of the Company in Hong Kong and the receiving agent for receiving and processing the acceptances of the Offer
"Relevant Period"	the period from July 14, 2010 (being the date falling six months prior to January 14, 2011, being the date of the Announcement) to the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the Sale and Purchase Agreement dated January 7, 2011 entered into between the Offeror and Mr. Fong in relation to the Acquisition

"Sale Shares"	the 207,895,250 Shares acquired by the Offeror from Mr. Fong pursuant to the Sale and Purchase Agreement, representing approximately 37.7% of the issued share capital of the Company as at the Latest Practicable Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	registered holders of Shares
"Shares"	ordinary shares of HK$0.10 par value each in the share capital of the Company
"Special Dividend"	the special dividend of HK$0.20 per Share declared by the Company on February 11, 2011 and paid by the Company on April 8, 2011 to the Shareholders whose names appeared on the register of members of the Company on March 3, 2011, details of which are set out in the announcement published by the Company on February 11, 2011
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Suspension Date"	January 10, 2011, the date on which the Shares were suspended from trading pending the release of the Announcement
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"trading day"	a day on which the Stock Exchange is open for the business of dealings in securities

CITIGROUP GLOBAL MARKETS ASIA LIMITED
50/F, CITIBANK TOWER, 3 GARDEN ROAD, CENTRAL, HONG KONG
Telephone: (852) 2502 2020

May 13, 2011

To the Shareholders of Fong's Industries Company Limited (the "Company")

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF CHINA HENGTIAN GROUP CO., LTD. TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF FONG'S INDUSTRIES COMPANY LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY CHINA HENGTIAN GROUP CO., LTD. OR PARTIES ACTING IN CONCERT WITH IT (OTHER THAN MR. FONG SOU LAM))

1. INTRODUCTION

On January 14, 2011, the Offeror and the Company jointly announced that on January 7, 2011, the Offeror and Mr. Fong, a Director, the chairman and the controlling shareholder of the Company as at the date of the Announcement, entered into the Sale and Purchase Agreement pursuant to which the Offeror agreed to acquire, and Mr. Fong agreed to sell the Sale Shares, representing approximately 37.7% of the issued share capital of the Company as at the date of the Announcement, for a cash consideration of HK$1,039,476,250 (equivalent to HK$5.00 per Sale Share). The consideration was agreed between the Offeror and Mr. Fong after arm's length negotiations with reference to the prevailing market prices of the Shares. Completion of the Acquisition was conditional upon the fulfilment of the Condition.

On May 6, 2011, the Offeror and the Company jointly announced that the Condition was fulfilled and Completion of the Acquisition took place on May 6, 2011. Immediately following Completion, the Offeror and the persons acting in concert with it (other than Mr. Fong) held an aggregate of 207,895,250 Shares, representing approximately 37.7% of the issued share capital of the Company as at the Latest Practicable Date. As a result, the Offeror is required pursuant to Rule 26.1 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the Offer Shares.

This Composite Document and the accompanying Form of Acceptance and Transfer together set out the terms and conditions of the Offer and certain other information relating to the Offer. Unless the context otherwise requires, terms defined in the "Definitions" section of this Composite Document shall have the same meanings when used in this letter.

2. THE OFFER

On behalf of the Offeror, we are making the Offer on the terms and conditions set out below in this letter (together with the terms set out in Appendix I to this Composite Document) and in the Form of Acceptance and Transfer.

Unconditional Offer

The Offer is unconditional in all respects.

Offer Price

For each Offer Share	HK$5.00 in cash

The Offer Price is equal to the price paid by the Offeror for each Sale Share pursuant to the Sale and Purchase Agreement.

Other than the Shares in issue, there are no convertible securities, warrants, options, derivatives or other securities issued by the Company.

Comparisons of Value

The Offer Price of HK$5.00 represents:

(a) (i) a discount of approximately 5% to the closing price of HK$5.28 per Share as quoted on the Stock Exchange on the Last Trading Date and (ii) a discount of approximately 2% to the adjusted closing price of HK$5.08 per Share on the Last Trading Date, being the closing price of HK$5.28 per Share as quoted on the Stock Exchange on the Last Trading Date as adjusted for the Special Dividend of HK$0.20 per Share which was paid to Shareholders prior to the date of this Composite Document;

(b) a premium of approximately 10% over the average adjusted volume weighted average closing price of HK$4.54 per Share based on the daily adjusted volume weighted average closing prices for the 30 trading days immediately prior to and including the Last Trading Date, being the average volume weighted average closing price of HK$4.74 per Share based on the daily volume weighted average closing prices quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date as adjusted for the Special Dividend of HK$0.20 per Share which was paid to Shareholders prior to the date of this Composite Document;

(c) a premium of approximately 9% over the average closing price of HK$4.58 per Share as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;

(d) a discount of approximately 0.4% to the average closing price of HK$5.02 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date;

(e) a discount of approximately 1% over the closing price of HK$5.07 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(f) a premium of 170% over the audited consolidated net assets value attributable to the Shareholders per Share of HK$1.85 as at December 31, 2010, the date on which the latest audited financial results of the Group were made up.

Highest and Lowest Prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange for each full quarterly period since January 1, 2009 are as follows:

		Highest	**Lowest**
		HK$	*HK$*
2009	First Quarter	1.59	1.20
	Second Quarter	1.91	0.85
	Third Quarter	2.52	1.90
	Fourth Quarter	4.09	1.99
2010	First Quarter	3.86	3.04
	Second Quarter	3.50	2.81
	Third Quarter	4.15	3.29
	Fourth Quarter	4.91	3.82
2011	First Quarter	5.44	4.87

During the Relevant Period, the highest closing price of the Shares was HK$5.44 per Share as quoted on the Stock Exchange on February 18 and 21, 2011 and the lowest closing price of the Shares was HK$3.29 per Share as quoted on the Stock Exchange on August 3, 2010.

Effect of Accepting the Offer

By accepting the Offer, Shareholders will sell to the Offeror the Offer Shares free from all liens, charges, options, claims, equity, rights of pre-emption and any other third party rights or encumbrances of any nature whatsoever and together with all rights attaching to them as at the date of Completion on May 6, 2011, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of Completion.

Acceptance of the Offer shall be unconditional and irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code.

The Offeror will nominate Newish Trading Limited, its wholly-owned subsidiary, to hold the Offer Shares in respect of which acceptances of the Offer are received.

Stamp Duty

Seller's ad valorem stamp duty arising in connection with acceptance of the Offer will be payable by each accepting Shareholder at the rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror to such accepting Shareholder, whichever is higher, and which is to be rounded up to the nearest HK$1,000 and will be deducted from the cash amount payable to such accepting Shareholder. The Offeror will pay the buyer's ad valorem stamp duty and will account to the Stamp Office of Hong Kong for the stamp duty payable on the sale and purchase of the relevant Offer Shares pursuant to acceptances of the Offer.

Closing of the Offer

The latest time for acceptance of the Offer is at 4:00 p.m. on June 3, 2011, unless the Offer is revised or extended in accordance with the Takeovers Code.

3. CONFIRMATION OF FINANCIAL RESOURCES

On the basis of the Offer Price of HK$5.00 per Offer Share and 551,446,285 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK$2,757,231,425.

In light of the Irrevocable Undertaking given by Mr. Fong regarding the acceptance of the Offer in respect of the Shares beneficially owned by him (please refer to the section headed "The Irrevocable Undertaking" below for details) and assuming full acceptance of the Offer in respect of the Offer Shares (other than the Offer Shares beneficially owned by Mr. Fong), the maximum amount of cash payable by the Offeror to the Shareholders in respect of acceptances of the Offer is HK$1,107,994,625.

The Offeror will finance the cash consideration for the Offer partially by the Offeror's internal resources and partially by a HK$1,750,000,000 term loan facility from China Construction Bank (Asia) Corporation Limited. This term loan facility is supported by a standby letter of credit issued by China Construction Bank Corporation Limited, Beijing Branch. The term of the facility is 36 months from the initial drawdown of the loan or one calendar month prior to the expiry date of the aforementioned standby letter of credit.

As at the Latest Practicable Date, Citigroup, as financial adviser to the Offeror, is satisfied that sufficient resources are available to the Offeror to satisfy full acceptance of the Offer as described above.

4. THE IRREVOCABLE UNDERTAKING

Further to the Sale and Purchase Agreement, Mr. Fong has given the Irrevocable Undertaking to the Offeror pursuant to which he has irrevocably undertaken that:

(a) if, immediately prior to the close of the Offer, the Offeror receives valid acceptances of the Offer which together with the Shares owned by the Offeror and parties acting in concert with it (other than Mr. Fong) result in the Offeror and parties acting in concert with it (other than Mr. Fong) owning Shares representing less than 55% of the issued share capital of the Company as at the closing date of the Offer, he will, and will cause the registered holder(s) to, accept the Offer in respect of such number of Shares beneficially owned by him which will, upon the close of the Offer, result in the Offeror and parties acting in concert with it (other than Mr. Fong) owning Shares representing 55% of the issued share capital of the Company as at the closing date of the Offer. For the avoidance of doubt, he will not, and will cause the registered holder(s) not to, accept the Offer in respect of any of the Shares beneficially owned by him to the extent that immediately prior to the close of the Offer, the Offeror receives valid acceptances of the Offer which together with the Shares owned by the Offeror and parties acting in concert with it (other than Mr. Fong) result in the Offeror and parties acting in concert with it (other than Mr. Fong) owning Shares representing not less than 55% of the issued share capital of the Company as at the closing date of the Offer; and

(b) in the event that the Shares held by the public following the close of the Offer is less than the minimum public float requirement under the Listing Rules, in order to satisfy the minimum public float requirement, he will, and will cause the registered holder(s), as soon as practicable following the close of the Offer, to dispose of such number of additional Shares beneficially owned by him representing half of such number of Shares required to be disposed of in order to satisfy the minimum public float requirement ("**X Shares**") provided that the Offeror will then dispose of, or procure the disposal of, the same number of Shares owned by it and parties acting in concert with it (other than Mr. Fong) (that is, X Shares) for the restoration of the public float of the Company.

Mr. Fong has also irrevocably undertaken to the Offeror that before the Offer closes, lapses or is withdrawn or until the Irrevocable Undertaking lapses in accordance with its terms, he will not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any Shares beneficially owned by him or any other Shares issued or unconditionally allotted to, or otherwise acquired by, him, other than pursuant to the Acquisition or pursuant to the acceptance of the Offer in accordance with the Irrevocable Undertaking as set out above in paragraphs (a) and (b) above.

The Irrevocable Undertaking will lapse if (A) the Offer lapses or is withdrawn, or (B) the Offer is not made in any of the following circumstances: (i) the Executive consents to the Offeror not making the Offer, (ii) Completion does not occur in accordance with the terms of the Sale and Purchase Agreement, (iii) an event occurs which means that the Offeror is no longer required by the Takeovers Code to proceed with the Offer or (iv) the Offeror becomes aware that any condition of the Offer as set out in the Announcement has become incapable of being fulfilled, or (C) the Announcement is not released by 21 January 2011 (or such other date as the Offeror and the Company may agree).

Save as provided in the Sale and Purchase Agreement and the Irrevocable Undertaking, there is no agreement, arrangement or understanding between the Offeror or any parties acting in concert with it, on the one hand, and any Directors on the other hand in relation to the acquisition of any assets or the injection of any assets.

Furthermore, save as provided in the Irrevocable Undertaking, neither the Offeror, the members of the board of directors of the Offeror, or any parties acting in concert with it had any arrangement with any other person of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code.

5. INFORMATION ON THE OFFEROR

The Offeror is a major state-owned enterprise under the supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Committee of the State Council of the PRC. The principal business activities of the Offeror and its subsidiaries include the following businesses, namely textile machinery, cargo truck, textile production and trade, and other strategic investments, among which the textile machinery business is one of the core sectors of the Offeror's businesses. Based on the audited consolidated financial statements of the Offeror for the year ended December 31, 2010, the total assets and net assets as at December 31, 2010 were RMB32.98 billion and RMB9.69 billion respectively and the total revenue of the Offeror was RMB24.05 billion. The Offeror holds an important position in the global textile machinery industry in the world. By comparing the Offeror's revenue figures in 2010 to the revenue figures obtained from the annual reports of other companies in the global textile industry, the Offeror believes it is one of the largest manufacturers of textile machinery in the world in terms of revenue in 2010. The Offeror has developed capacity to manufacture and supply full sets of cotton and chemical fibres machinery, has all along secured a majority share in the domestic market over the years, and also has considerable strength in the field of dyeing and finishing machinery. The Offeror and its subsidiaries have established large-scale manufacturing bases in many places, such as Shanxi, Henan, Shandong and Hunan, and have comprehensive marketing networks in major markets such as Guangdong, Fujian, Zhejiang, Jiangsu, Shandong, and Xinjiang. The Offeror and its subsidiaries' products are exported to foreign countries and have significant market shares in the South East Asia, South Asia, Middle East, Latin America and other places. The Offeror's products are reputable among customers both at home and abroad. As a leading enterprise in the textile machinery industry in the PRC and even around the world, the Offeror makes every effort to continue developing its textile machinery business as a core strategy, to maintain and further enhance its global position in the industry, and to achieve sustainable business growth and ever-increasing profit.

The directors of the Offeror are Zhang Jie, Liu Haitao, Yang Yongyuan, Sun Lishi, Zhou Mingchen, Ren Chuanjun, Wang Zhenhou, Gao Shixing and Chen Tianli.

6. INFORMATION ON THE COMPANY

The Company was incorporated in Bermuda with limited liability on January 11, 1989 and its Shares have been listed on the Stock Exchange since 1990.

The Group is principally engaged in the design, manufacture and sale of dyeing and finishing machinery, the trading of stainless steel supplies and the manufacture and sale of stainless steel casting products.

7. INTENTIONS OF THE OFFEROR

The Offeror holds an important position in the global textile machinery industry in the world. By comparing the Offeror's revenue figures in 2010 to the revenue figures obtained from the annual reports of other companies in the global textile industry, the Offeror believes it is one of the largest manufacturers of textile machinery in the world in terms of revenue in 2010. The Acquisition and the Offer would therefore enable the Group to further enhance its market position and brand effect by offering strong support to the Group for its future development, facilitating the Group to achieve economies of scale and to further strengthening its competitiveness in the field of dyeing and finishing machinery. Furthermore, the Acquisition and the Offer also follow the current trend of the consolidation in the textile machinery industry, and is also in line with the Offeror's strategy to continuously expand and strengthen its textile machinery manufacturing operations.

Specifically, the strategic significance of the Acquisition and the Offer is reflected in the following aspects:

Procurement of Raw Materials

Given the Offeror's large textile machinery production capacity and the corresponding large scale of its raw material procurement, the Acquisition and the Offer will generate economies of scale for the Group and bring about bargaining power to negotiate lower procurement costs. Additionally, becoming a larger and thus more important client to the suppliers means that in times of low supplies, the Group's supply of raw materials would be relatively more secured.

At the same time, the Offeror may also introduce even more procurement channels to the Group and thereby further enhancing its procurement capabilities.

Sales Networks

The Offeror has established a comprehensive marketing and service network in major cities in China such as Guangdong, Fujian, Zhejiang, Jiangsu, Shandong and Xinjiang. By exporting its products overseas, the Offeror has secured important market shares in the South East Asia, South Asia, Middle East and Latin America. The Acquisition and the Offer may therefore enable the Group to expand its market coverage both within China and globally.

At the same time, due to the differences of the products of the Offeror and the Group, the Acquisition and the Offer may enable the Offeror and the Group to provide a broader range of products for selection which may improve the competitiveness and corporate images of both the Offeror and the Group.

Through the Acquisition and the Offer, the Offeror intends to become one of the largest dyeing machinery players globally and a leader in the dyeing equipment technology worldwide. The Offeror believes the Acquisition and the Offer will provide the Group with a platform to continue expanding its existing dyeing and finishing machinery business internationally. This may significantly improve the Offeror's competitiveness within the industry.

The Offeror intends to continue with the existing businesses of the Group. As at the Latest Practicable Date, the Offeror has no intention to introduce any major changes to the businesses and operations of the Group or to re-deploy the fixed assets of the Group, other than in the ordinary course of business. The Offeror also does not intend to make any major changes to the continued employment of the Group's employees.

The Offeror anticipates that changes will be made to the composition of the Board, which will be made in compliance with the Takeovers Code and the Listing Rules. A further announcement will be made upon any changes being made to the composition of the Board.

8. COMPULSORY ACQUISITION

The Offeror does not intend to exercise the right to compulsorily acquire those Offer Shares not acquired by the Offeror (or any parties acting in concert with it (other than Mr. Fong)) pursuant to the Offer under Section 102 and 103 of the Companies Act 1981 of Bermuda (the "**Act**") even if it acquires (i) in the case of section 102 of the Act, not less than 90% of the Offer Shares within four months of the posting of this Composite Document or (ii) in the case of section 103 of the Act, not less than 95% of the issued Shares of the Company.

9. MAINTAINING THE LISTING STATUS AND PUBLIC FLOAT OF THE COMPANY

It is the intention of the Offeror to maintain the listing status of the Company on the Stock Exchange following the close of the Offer.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

(a) a false market exists or may exist in the trading of the Shares; or

(b) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

In this connection, it should be noted that following the close of the Offer, there may be insufficient public float of the Shares and therefore, trading in the Shares may be suspended until sufficient public float exists in the Shares.

The directors of the Offeror and the new Directors to be nominated by the Offeror and appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that sufficient public float exists in the Shares.

In addition, pursuant to the Irrevocable Undertaking, Mr. Fong has irrevocably undertaken to the Offeror that in the event that the Shares held by the public following the close of the Offer is less than the minimum public float requirement under the Listing Rules, in order to satisfy the minimum public float requirement, he will, and will cause the registered holder(s), as soon as practicable following the close of the Offer to dispose of such number of additional Shares beneficially owned by him representing half of such number of Shares required to be disposed of in order to satisfy the minimum public float requirement ("**X Shares**") provided that the Offeror will then dispose of, or procure the disposal of, the same number of Shares owned by it and parties acting in concert with it (other than Mr. Fong) (that is, X Shares) for the restoration of the public float of the Company.

10. ACCEPTANCE AND SETTLEMENT

Procedures for Acceptance

To accept the Offer in respect of your Shares, you should complete the accompanying Form of Acceptance and Transfer in accordance with the instructions printed thereon, which forms part of the terms and conditions of the Offer. The completed Form of Acceptance and Transfer should then be forwarded together with the relevant original Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Offer, by hand or by post, to the Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on June 3, 2011 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code). No acknowledgement of receipt of the Form of Acceptance and Transfer, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is drawn to the section headed "Procedures for Acceptance" as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

Settlement

Provided that a Form of Acceptance and Transfer together with the relevant documents required to accept the Offer are valid, complete and in good order and have been received by the Registrar no later than 4:00 p.m. on June 3, 2011 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to the relevant accepting Shareholder in respect of the Shares tendered by him/her/it under the Offer, less seller's ad valorem stamp duty payable by the relevant accepting Shareholder, will be despatched to the relevant Shareholder at the Shareholder's address as it appears on the register of members of the Company or, in the case of joint Shareholders, to the Shareholder whose name appears first on the register of members of the Company, by ordinary post at the Shareholder's own risk as soon as possible but in any event within 10 days following the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

Nominee Registration

In order for the beneficial owners of Shares, whose investments are registered in the names of their nominees, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer. To ensure equality of treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately.

11. SHAREHOLDERS OUTSIDE HONG KONG

The Offer is in respect of securities of a company incorporated in Bermuda and admitted to listing in Hong Kong and is subject to the procedure and disclosure requirements of Hong Kong, which may be different from other jurisdictions. The ability of Shareholders located outside of Hong Kong to participate in the Offer is subject to, and may be limited by, the laws and regulations of their respective jurisdictions.

The attention of overseas Shareholders and any person (including, without limitation, any nominee, custodian or trustee) who may have an obligation to forward this Composite Document and the accompanying Form of Acceptance and Transfer outside of Hong Kong is drawn to the section headed "Overseas Shareholders" as set out in Appendix I to this Composite Document.

12. TAXATION

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offer in respect of their Shares. It is emphasised that none of the Offeror and parties acting in concert with it, Citigroup, Mr. Fong, the Company, the Registrar or any of their respective directors, officers or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

13. GENERAL

Further terms and conditions of the Offer are set out in Appendix I to this Composite Document and in the Form of Acceptance and Transfer.

14. ADDITIONAL INFORMATION

Your attention is drawn to the "Letter from the Board" on pages 16 to 20, the "Letter from the Independent Board Committee" on pages 21 to 22 and the "Letter from the Independent Financial Adviser" on pages 23 to 40 of this Composite Document of which this letter forms part in relation to their recommendations and/or advice regarding the Offer.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document of which this letter forms part.

Yours faithfully,
For and on behalf of
CITIGROUP GLOBAL MARKETS ASIA LIMITED

Name: Florence Fan
Title: Managing Director

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

(Incorporated in Bermuda with limited liability)
(Stock Code: 641)

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

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business in Hong Kong:
8th Floor
22-28 Cheung Tat Road
Tsing Yi
Hong Kong

May 13, 2011

To the Independent Shareholders

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF CHINA HENGTIAN GROUP CO., LTD. TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF FONG'S INDUSTRIES COMPANY LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY CHINA HENGTIAN GROUP CO., LTD. OR PARTIES ACTING IN CONCERT WITH IT (OTHER THAN MR. FONG SOU LAM))

INTRODUCTION

On January 14, 2011, the Offeror and the Company jointly announced that on January 7, 2011, the Offeror and Mr. Fong, a Director, the chairman and the controlling shareholder of the Company as at the date of the Announcement, entered into the Sale and Purchase Agreement pursuant to which the Offeror agreed to acquire, and Mr. Fong agreed to sell the Sale Shares, representing approximately

* *For identification purpose only*

37.7% of the issued share capital of the Company as at the date of the Announcement, for a cash consideration of HK$1,039,476,250 (equivalent to HK$5.00 per Sale Share). The consideration was agreed between the Offeror and Mr. Fong after arm's length negotiations with reference to the prevailing market prices of the Shares. Completion of the Acquisition was conditional upon the fulfilment of the Condition. Further to the Sale and Purchase Agreement, Mr. Fong has given the Irrevocable Undertaking to the Offeror, further details of which are set out in the "Letter from Citigroup" in this Composite Document.

On May 6, 2011, the Offeror and the Company jointly announced that the Condition was fulfilled and Completion of the Acquisition took place on May 6, 2011. Immediately following Completion, the Offeror and the persons acting in concert with it (other than Mr. Fong) held an aggregate of 207,895,250 Shares, representing approximately 37.7% of the issued share capital of the Company as at the Latest Practicable Date. As a result, the Offeror is required pursuant to Rule 26.1 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the Offer Shares.

This Composite Document and the accompanying Form of Acceptance and Transfer together set out the terms and conditions of the Offer and certain other information relating to the Offer. Unless the context otherwise requires, terms defined in the "Definitions" section of this Composite Document shall have the same meanings when used in this letter.

THE OFFER

Citigroup, on behalf of the Offeror, is making the Offer on the terms and conditions set out in the "Letter from Citigroup" together with the terms set out in Appendix I to this Composite Document and in the Form of Acceptance and Transfer.

Unconditional Offer

The Offer is unconditional in all respects.

Offer Price

The Offer Price payable under the Offer is as follows:

For each Offer Share	HK$5.00 in cash

SHAREHOLDING OF THE COMPANY

As at the Latest Practicable Date, there were 551,446,285 Shares in issue. Other than the Shares in issue, there were no convertible securities, warrants, options, derivatives or other securities convertible into Shares and the Group has not entered into any arrangements for the issue of such securities, warrants, options, derivatives or other securities convertible into Shares issued by the Company. The shareholdings in the Company (i) as at the Latest Practicable Date; and (ii) for illustration purpose only, immediately following the completion of the Offer are as follows:

	As at the Latest Practicable Date		For illustration purpose only: Immediately following the completion of the Offer (assuming minimum acceptance)[(2)]		Immediately following the completion of the Offer (assuming maximum acceptance)[(3)]		Immediately following the completion of the Offer (assuming minimum level of public float)[(4)]	
	No. of Shares held	*Approx. % of issued Shares*	*No. of Shares held*	*Approx. % of issued Shares*	*No. of Shares held*	*Approx. % of issued Shares*	*No. of Shares held*	*Approx. % of issued Shares*
Offeror and the persons acting in concert with it (excluding Mr. Fong)	207,895,250	37.70	303,295,457	55.00	429,494,175	77.88	330,063,648	59.85
Mr. Fong[(1)]	121,952,110	22.12	26,551,903	4.82	121,952,110	22.12	53,021,324	9.62
Sub-total	329,847,360	59.82	329,847,360	59.82	551,446,285	100.0	383,084,972	69.47
Mr. Fong Kwok Leung, Kevin	19,128,241[5]	3.47[5]	19,128,241[5]	3.47[5]	0	0	19,128,241[5]	3.47[5]
Mr. Fong Kwok Chung, Bill	24,910,241[5]	4.52[5]	24,910,241[5]	4.52[5]	0	0	24,910,241[5]	4.52[5]
Mr. Wan Wai Yung	3,331,500	0.60	3,331,500	0.60	0	0	3,331,500	0.60
Mr. Tou Kit Vai	488,000	0.09	488,000	0.09	0	0	488,000	0.09
Ms. Poon Hang Sim, Blanche	120,000	0.02	120,000	0.02	0	0	120,000	0.02
Public Shareholders	191,099,184	34.65	191,099,184	34.65	0	0	137,861,572	25.00
Total	551,446,285	100.0	551,446,285	100.0	551,446,285	100.0	551,446,285	100.0

Notes:

(1) The Sale and Purchase Agreement and the Irrevocable Undertaking together constitute an agreement to acquire interests in a listed corporation as described in section 317 of the SFO. Accordingly, Mr. Fong is taken to be interested in any Shares comprised in the relevant share capital of the Company in which the Offeror is interested apart from the said agreement pursuant to sections 317 and 318 of the SFO. Upon Completion, Mr. Fong, apart from having interests in approximately 22.12% of the issued share capital of the Company, will therefore also be taken to have interests in approximately 37.7% of the issued share capital of the Company (and such other interests in the Shares that the Offeror is interested or taken to be interested in under the SFO) under sections 317 and 318 of the SFO. In addition, Mr. Fong's interest in the Shares may change after the Latest Practicable Date depending on whether he accepts the Offer during the Offer Period in accordance with the terms of the Irrevocable Undertaking as described in this Composite Document.

(2) Assuming that no valid acceptances were received by the Offeror from other Shareholders, but pursuant to the Irrevocable Undertaking, which, the valid acceptances of the Offer together with the Shares already held by the Offeror and parties acting in concert with it (other than Mr. Fong) constitute less than 55% of the issued share capital of the Company, Mr. Fong will cause the registered holders to accept the Offer in respect of the 95,400,207 Shares beneficially owned by him which will result in the Offeror and its concert parties (other than Mr. Fong) holding 55% of Shares in issue following the completion of the Offer.

(3) Assuming the Offer is accepted in full following the completion of the Offer and before any required action is taken to restore the public float of the Company to 25%. Pursuant to the Irrevocable Undertaking, in the event the Shares held by the public is less than the minimum public float requirement, in order to satisfy the minimum public float requirement, Mr. Fong will, and will cause the registered owners to dispose of such number of additional Shares beneficially owned by him representing half of such number of Shares required to be disposed of in order to satisfy the minimum public float requirement provided that the Offeror will then dispose of, or procure to dispose of, the same number of Shares owned by it and parties acting in concert with it (other than Mr. Fong) for the restoration of the public float of the Company.

(4) Assuming there is minimum public float of 25% following the completion of the Offer.

(5) Of the 19,128,241 Shares beneficially owned by Mr. Fong Kwok Leung, Kevin, 17,478,241 Shares representing approximately 3.17% of the issued 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. Of the 24,910,241 Shares beneficially owned by Mr. Fong Kwok Chung, Bill, 17,478,241 Shares representing approximately 3.17% of the issued Shares are owned by the same discretionary trust. Therefore, these 17,478,241 Shares represented an interest duplicated amongst those two Directors and when calculating the aggregate number of Shares held by the Shareholders or the aggregate percentage of the issued Shares, the repeated 17,478,241 Shares representing approximately 3.17% of the issued Shares are not included.

INFORMATION ON THE GROUP

The Group is principally engaged in the design, manufacture and sale of dyeing and finishing machinery, the trading of stainless steel supplies and the manufacture and sale of stainless steel casting products.

As at December 31, 2010, the audited consolidated net assets of the Group were approximately HK$1,021 million, or HK$1.85 per Share. The table below shows the audited consolidated revenue, profit (loss) before tax and profit (loss) after tax of the Group for the three years ended December 31, 2008, 2009 and 2010.

	December 31,		
	2010	**2009**	**2008**
	Audited	**Audited**	**Audited**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	2,587,182	1,797,695	2,499,856
Profit (loss) before tax	371,146	(105,808)	(140,396)
Profit (loss) after tax	302,965	(106,335)	(142,779)

INTENTIONS OF THE OFFEROR

The Board noted that the Offeror intends to continue the Group's existing businesses and maintain the listing status of the Company on the Stock Exchange after the close of the Offer. Your attention is drawn to the section headed "Intentions of the Offeror" in the "Letter from Citigroup" of this Composite Document.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all the non-executive Directors all of whom are independent of the Offeror, namely Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching, has been appointed to advise the Independent Shareholders in respect of the Offer.

ICAL has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether the Independent Shareholders should accept the Offer. The appointment of ICAL has been approved by the Independent Board Committee. Further details of such appointment are set out in the announcement issued by the Company dated April 6, 2011.

MAINTAINING THE LISTING STATUS AND PUBLIC FLOAT OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares, or
- there are insufficient Shares in public hands to maintain an orderly market,

then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon completion of the Offer, there may be insufficient public float for the Shares and therefore, trading in the Shares may be suspended until a prescribed level of public float is attained.

As set out in the "Letter from Citigroup" of this Composite Document, the Offeror intends for the Company to remain listed on the Stock Exchange following the close of the Offer.

RECOMMENDATION

The recommendation of the Independent Board Committee is set out in the "Letter from the Independent Board Committee" on pages 21 to 22 of this Composite Document. Your attention is also drawn to the "Letter from the Independent Financial Adviser" on pages 23 to 40 of this Composite Document which sets out its recommendation in relation to the Offer and the principal factors considered by it in arriving at its recommendation. Your attention is also drawn to the additional information set out in the appendices contained in this Composite Document.

Yours faithfully,
By order of the Board of
Fong's Industries Company Limited
C.K. Lee
Company Secretary

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

(Incorporated in Bermuda with limited liability)
(Stock Code: 641)

May 13, 2011

To the Independent Shareholders

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF CHINA HENGTIAN GROUP CO., LTD. TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF FONG'S INDUSTRIES COMPANY LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY CHINA HENGTIAN GROUP CO., LTD. OR PARTIES ACTING IN CONCERT WITH IT (OTHER THAN MR. FONG SOU LAM))

We refer to the composite offer and response document dated May 13, 2011 jointly issued by the Company and the Offeror in relation to the Offer (the "Composite Document") of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein have the same meanings as defined in the "Definitions" section of this Composite Document.

On January 14, 2011, the Offeror and the Company jointly announced that on January 7, 2011, the Offeror and Mr. Fong, a Director, the chairman and the controlling shareholder of the Company as at the date of the Announcement, entered into the Sale and Purchase Agreement pursuant to which the Offeror agreed to acquire, and Mr. Fong agreed to sell the Sale Shares, representing approximately 37.7% of the issued share capital of the Company as at the date of the Announcement, for a cash consideration of HK$1,039,476,250 (equivalent to HK$5.00 per Sale Share).

Details of the Offer are set out in the "Letter from the Board" on pages 16 to 20 and the "Letter from Citigroup" on pages 6 to 15 of this Composite Document.

We have been appointed as members of the Independent Board Committee to consider and to advise the Independent Shareholders as to whether or not the terms of the Offer are fair and reasonable, and to make a recommendation to the Independent Shareholders in respect of the Offer.

* *For identification purpose only*

ICAL has been appointed as the Independent Financial Adviser to advise us as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether the Independent Shareholders should accept the Offer. Your attention is drawn to the "Letter from the Independent Financial Adviser" as set out on pages 23 to 40 of this Composite Document.

Having taken into account the terms of the Offer, and the advice and recommendation of ICAL, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to accept the Offer.

Yours faithfully,
For and on behalf of
INDEPENDENT BOARD COMMITTEE

Mr. Cheung Chiu Fan	**Dr. Yuen Ming Fai**	**Dr. Keung Wing Ching**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from ICAL prepared for the purpose of inclusion in this Composite Document.

Investec

Room 3609-3613, 36/F
Two International Finance Centre
8 Finance Street
Central
Hong Kong

May 13, 2011

To: the Independent Board Committee and
the Independent Shareholders of Fong's Industries Company Limited (the "Company")

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF CHINA HENGTIAN GROUP CO., LTD. TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF FONG'S INDUSTRIES COMPANY LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY CHINA HENGTIAN GROUP CO., LTD. OR PARTIES ACTING IN CONCERT WITH IT (OTHER THAN MR. FONG SOU LAM))

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Offer, details of which are set out in the Composite Document to the Shareholders dated May 13, 2011, of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Offer. Unless otherwise stated, terms used in this letter shall have the same meanings as those defined in the Composite Document.

On January 14, 2011, the Offeror and the Company jointly announced that on January 7, 2011, the Offeror and Mr. Fong, the chairman and the controlling shareholder of the Company as at the date of the Announcement, entered into the Sale and Purchase Agreement pursuant to which the Offeror agreed to acquire, and Mr. Fong agreed to sell the Sale Shares, representing approximately 37.7% of the issued share capital of the Company as at the date of the Announcement, for a cash consideration of HK$1,039,476,250 (equivalent to HK$5 per Sale Share). The consideration was agreed between the Offeror and Mr. Fong after arm's length negotiations with reference to the prevailing market prices of the Shares. Completion of the Acquisition was conditional upon the fulfilment of the Condition.

On May 6, 2011, the Offeror and the Company jointly announced that the Condition was fulfilled and Completion of the Acquisition took place on May 6, 2011. Immediately following Completion, the Offeror and the persons acting in concert with it (other than Mr. Fong) held an aggregate of 207,895,250 Shares, representing approximately 37.7% of the issued share capital of the Company as at the Latest Practicable Date. As a result, the Offeror is required pursuant to Rule 26.1 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the Offer Shares.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of seven executive Directors, namely 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 and Ms. Poon Hang Sim, Blanche; and three independent non-executive Directors, namely Mr. Cheung Chiu Fan, Dr. Yuen Ming Fai and Dr. Keung Wing Ching.

An Independent Board Committee (comprising all the independent non-executive Directors) has been established for the purpose of advising the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer.

We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these respects, and to give our opinion in relation to the Offer for the Independent Board Committee's consideration when making its recommendation to the Independent Shareholders. Our appointment has been approved by the Independent Board Committee.

III. BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Composite Document and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Composite Document or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors, and for which it is/they are solely responsible were true, accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Composite Document. We have assumed that all the opinions and representations made or provided by the Directors, and/or the senior management staff of the Company contained in the Composite Document have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors, that no material facts have been omitted from the information provided and referred to in the Composite Document.

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors, and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the businesses and affairs of the Group.

We have not considered the tax consequences on the Shareholders of acceptance of the Offer since these are particular to their individual circumstances. In particular, Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Offer, we have taken into consideration the following principal factors and reasons:

1. Historical financial performance of the Group

The Group is principally engaged in the design, manufacture and sale of dyeing and finishing machinery, the trading of stainless steel supplies and the manufacture and sale of stainless steel casting products.

Set out below is the summary of financial information of the Group for the three years ended December 31, 2008, 2009 and 2010 as extracted from the annual reports of the Company for the years ended December 31, 2009 (the "2009 Annual Report") and 2010 (the "2010 Annual Report"):

	For the year ended December 31,		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Revenue from:			
– Manufacture and sale of dyeing and finishing machines	1,624,704	1,228,043	1,387,146
– Trading of stainless steel supplies	621,028	363,693	623,034
– Manufacture and sale of stainless steel casting products	341,450	205,959	489,676
Total Revenue	2,587,182	1,797,695	2,499,856
Cost of sales	(1,784,134)	(1,446,032)	(2,076,023)
Gross profit	803,048	351,663	423,833
Profit (loss) before tax	371,146	(105,808)	(140,396)
Income tax expense	(68,181)	(527)	(2,383)
Profit (loss) for the year	302,965	(106,335)	(142,779)

	As at December 31, 2010 HK$'000 (Audited)
Assets:	
Non-current assets	575,582
Current assets	1,573,028
Total assets	2,148,610
Liabilities:	
Non-current liabilities	29,620
Current liabilities	1,097,706
Total liabilities	1,127,326
Net assets	1,021,284

It is noted from the table above that for the three most recent financial years, the Group recorded a loss attributable to Shareholders for the two years ended December 31, 2008 and 2009. The businesses of the Group recovered and recorded profit of approximately HK$303.0 million for the year ended December 31, 2010.

For the year ended December 31, 2009

The Group recorded a loss of approximately HK$106.3 million for the year ended December 31, 2009 (2008: a loss of HK$142.8 million). The revenue of the Group decreased by approximately 28.1% from 2008 to 2009, from approximately HK$2,499.9 million for the year ended December 31, 2008 to approximately HK$1,797.7 million for the year ended December 31, 2009.

Dyeing and finishing machine manufacturing

Revenue generated from the dyeing and finishing machine manufacturing segment was approximately HK$1,228 million (2008: HK$1,387 million), representing a decrease of 11% as compared to the previous year and accounted for approximately 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. As stated in the 2009 Annual Report, 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.

As stated in the 2009 Annual Report, 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.

Stainless steel trading

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

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. As the sales volume and profit margin were boosted by the increasing demand and selling price of stainless steel, this trading segment returned to profit in the second half of 2009.

Stainless steel casting

For the year under review, this business segment recorded a revenue of approximately HK$206 million (2008: HK$490 million), representing a decrease of approximately 58% from 2008 and accounted for approximately 12% of the Group's total revenue. The segment recorded 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 the Group's 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 the Group's 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.

For the year ended December 31, 2010

For the year ended December 31, 2010, the Group's revenue grew approximately 43.9% from approximately HK$1,797.7 million in 2009 to approximately HK$2,587.2 million in 2010. The profit attributable to equity holders of the Company amounted to approximately HK$303.0 million against a loss of approximately HK$106.3 million for 2009.

Dyeing and finishing machine manufacturing

For the year ended December 31, 2010, the segment remained the major source of revenue for the Group and accounted for approximately 63% of the Group's revenue. The Group recorded a revenue of approximately HK$1,625 million (2009: HK$1,228 million), representing an increase of approximately 32% over 2009, which indicated a strong turnaround in business to the pre-crisis level. This segment recorded an operating profit of approximately HK$242 million, which demonstrated a remarkable improvement as compared to an operating loss of approximately HK$61 million in 2009. The turnaround from loss-making to profit-making was mainly due to (i) increase in sales volume driven by the gradual recovery of the global economy; (ii) the increase in the gross profit margin of the products primarily attributable to decrease in the costs of raw materials (in particular the stainless steels) as compared to 2009; and (iii) the decrease in operating costs as a result of stringent cost controls and improvement on production efficiency.

As stated in the 2010 Annual Report, in retrospect, during the global financial crisis that broke out in the fourth quarter of 2008, the Group, like many other equipment manufacturers, experienced a drop in orders or postponement in deliveries leading to a slump in sales. However, against the various economic stimulus measures taken by the PRC government subsequent to the financial crisis, delivery of the postponed orders have resumed gradually and new orders also have increased rapidly since the second half of 2009. The growth momentum in the PRC market, which is regarded as the Group's major market, was encouraging. The sales volume of the Group's dyeing and finishing machines products from the PRC market increased by 38% over 2009. In addition, despite the European economy was suffering and recovering slowly, the sales of the Group's dyeing and finishing machines products from overseas markets, particularly in Bangladesh, India and Latin America, also recorded a satisfactory performance and have shown notable signs of improvements. The revenue of this segment from the overseas markets for the year amounted to approximately HK$600 million, which increased by approximately 31% over 2009.

Stainless steel trading

For the year ended December 31, 2010, the sales volume amounted to approximately HK$621 million (2009: HK$364 million), representing an increase of 71% as compared to the previous year and accounted for 24% of the Group's total revenue. Its operating profit was approximately HK$34 million in 2010 as compared to approximately HK$7 million in 2009. The increase in profitability was mainly attributable to the increase in sales volume and selling price of stainless steel products.

This segment's stainless steel materials are sold to customers mainly in the PRC and Hong Kong in the sectors of construction, houseware, machinery, chemical processes, watch and kitchen equipment, the high growth in sales volume was due to the strong demand in the relevant industries driven by the recovery of global economy in 2010. In addition, the stainless steel prices have reversed the decline since the second quarter of 2009. As the sales volume and profit margin were boosted by the increasing demand and selling price of stainless steel, this trading segment recorded a remarkable improvement in profit in 2010.

Stainless steel casting

With the gradual recovery of the global economy and the tremendous efforts contributed in the past years to the improvement on production efficiency and cost cutting, this business segment managed to sustain growth during the first half of 2010 and even achieved rapid growth during the second half of the year, driven by restocking and even with sustained demand from developing markets.

For the year ended December 31, 2010, this business segment recorded a revenue of approximately HK$341 million (2009: HK$206 million), representing an increase of 66% over 2009 and accounted for 13% of the Group's revenue. The operating profit for the year was approximately HK$45 million as compared to an operating loss of approximately HK$50 million in 2009.

As stated in the 2010 Annual Report, through the Group's strong efforts in operations management coupled with production process improvement and automation, the Group has enhanced productivity and yield rate to minimize the overall production and energy costs. The total shipments amounted to approximately 4,200 tons in 2010 with an increase of 35% as compared to 2009. Besides, during the year, the European economy enjoyed a modest recovery and the Group actively explored and opened up new overseas markets leading to the increase in overall sales orders.

2. Prospects of the Group

During the three years ended December 31, 2010, the majority of the Group's revenue was derived from the manufacture and sales of dyeing and finishing machines segment.

Dyeing and finishing machine manufacturing

As stated in the 2010 Annual Report, as a global trend, more stringent environmental rules and regulations on the textile industry will be imposed by many governments worldwide, which in turn will facilitate another round of equipment investment by customers on more advanced and environmentally friendly dyeing and finishing machines.

Looking ahead, the Group will also face the same challenges as other manufacturers in the PRC – the fluctuation of stainless steel raw material prices, the rise of the labour costs and the uncertain economic environment. Against the backdrop of such challenges, the Group will endeavor to further strengthen its marketing teams and sales network through maintaining good and close relationship with distribution agents and valuable customers, and to improve the Group's operational efficiency by optimizing the production process with an aim to better control operating costs. The Group also keeps putting effort in research and development of new products and improvement of existing products in order to meet the needs of the dynamic textile industry. The Board believes that the Group enjoys a significant advantage in brandname and comprehensive product portfolio and the Group is confident to encounter those challenges ahead.

According to information published by National Bureau of Statistics of China on 11 March 2011, the total production of fabric amounted to approximately 8.3 billion meters for the two months ended 28 February 2011, representing a growth of approximately 13.9% over the corresponding period in 2010, which shows that the textile industry in the PRC in general has shown a recovery from the financial crisis in 2009. Notwithstanding the improvement in the Group's financial performance in 2010 and the latest market trend in fabric production as mentioned above, we acknowledge that factors including fluctuation of stainless steel prices and the rise in labour costs may potentially affect the profitability of the textile machinery industry.

Stainless steel trading and casting

As stated in the 2010 Annual Report, the Group will continue to adopt a prudent approach and take appropriate actions in relation to market risk control 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.

In respect of the stainless steel casting segment, to cater for the anticipated business growth, the Group has entered into land-use rights sale and purchase agreements to acquire two parcels of land in Zhongshan, one of which with a site area of approximately 150 mu (100,000 m^2) will be for use by this business segment. The construction of the new production plant is expected to commence within 2011 and will be completed by the end of 2012.

The stainless steel production industry has also recovered. According to information published by National Bureau of Statistics of China on 11 March 2011, the total production amount of steel amounted to approximately 130.9 million tonnes for the two months ended 28 February 2011, representing a growth of approximately 14.5% over the same period in 2010.

Accordingly, we concur with the Company that the steel industry will benefit from the continued growth in the PRC economy.

3. The Offer

The Offer is made by Citigroup, financial adviser to the Offeror, on behalf of the Offeror in compliance with the Takeovers Code.

The Offer Price is as follows:

For each Offer Share HK$5.00 in cash

The Offer Price is equal to the price paid by the Offeror for each Sale Share pursuant to the Sale and Purchase Agreement.

On the basis of 551,446,285 Shares in issue as at the Latest Practicable Date and the Offer Price of HK$5.00 per Offer Share, the entire issued share capital of the Company is valued at HK$2,757,231,425.

The Offer Price of HK$5.00 per Offer Share represents:

(i) a discount of approximately 5% to the closing price of HK$5.28 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a discount of approximately 0.4% to the average closing price of HK$5.02 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date;

(iii) a premium of approximately 9% to the average closing price of HK$4.58 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Date;

(iv) a discount of approximately 1% to the closing price of HK$5.07 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 170% over the audited consolidated net asset value attributable to the Shareholders per Share of HK$1.85 as at December 31, 2010, the date on which the latest audited financial results of the Group were made up.

The Irrevocable Undertaking

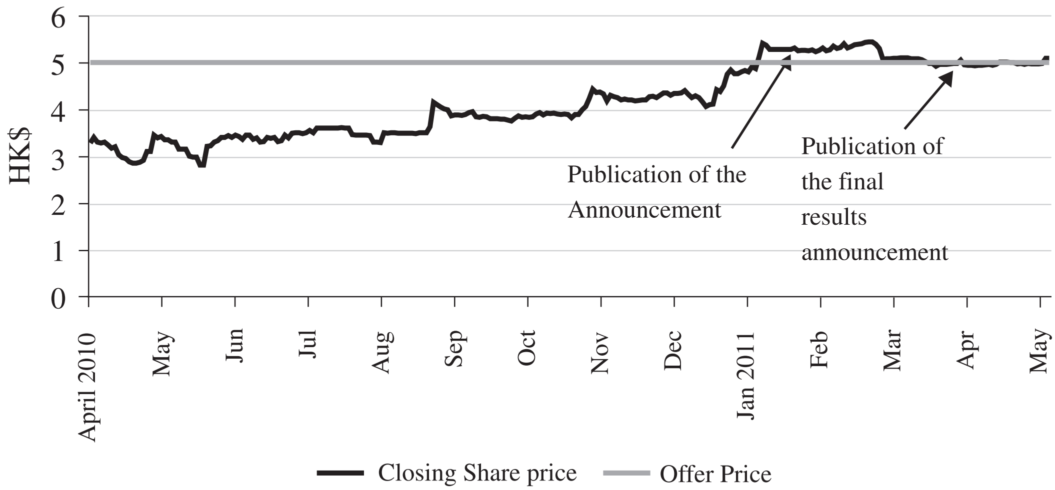
Mr. Fong has given the Irrevocable Undertaking to the Offeror pursuant to which he has irrevocably undertaken that:

(a) if, immediately prior to the close of the Offer, the Offeror receives valid acceptances of the Offer which, together with the Shares owned by the Offeror and parties acting in concert with it (other than Mr. Fong), result in the Offeror and parties acting in concert with it (other than Mr. Fong) owning Shares representing less than 55% of the issued share capital of the Company as at the closing date of the Offer, he will, and will cause the registered holder(s) to, accept the Offer in respect of such number of Shares beneficially owned by him which will, upon the close of the Offer, result in the Offeror and parties acting in concert with it (other than Mr. Fong) owning Shares representing 55% of the issued share capital of the Company as at the closing date of the Offer. For the avoidance of doubt, he will not, and will cause the registered holder(s) not to, accept the Offer in respect of any of the Shares beneficially owned by him to the extent that immediately prior to the close of the Offer, the Offeror receives valid acceptances of the Offer which, together with the Shares owned by the Offeror and parties acting in concert with it (other than Mr. Fong), result in the Offeror and parties acting in concert with it (other than Mr. Fong) owning Shares representing not less than 55% of the issued share capital of the Company as at the closing date of the Offer; and

(b) in the event that the Shares held by the public following the close of the Offer is less than the minimum public float requirement under the Listing Rules, in order to satisfy the minimum public float requirement, he will, and will cause the registered holder(s), as soon as practicable following the close of the Offer, to dispose of such number of additional Shares beneficially owned by him representing half of such number of Shares required to be disposed of in order to satisfy the minimum public float requirement ("**X Shares**") provided that the Offeror will then dispose of, or procure the disposal of, the same number of Shares owned by it and parties acting in concert with it (other than Mr. Fong) (that is, X Shares) for the restoration of the public float of the Company.

4. Historical Share price performance

The chart below illustrates the daily closing prices of the Shares as quoted on the Stock Exchange for the period from April 1, 2010 up to and including the Latest Practicable Date (the "Review Period").



Source: website of the Stock Exchange (www.hkex.com.hk)

As shown in the chart above, during the Review Period, the Share prices have been showing an increasing trend from April 2010 to January 2011 and remained at a level around the Offer Price afterward. The closing prices of the Shares were trading between HK$2.81 per Share ("Lowest Closing Price") recorded on May 19 and 20, 2010 to HK$5.44 ("Highest Closing Price") per Share recorded on February 18 and 21, 2011. The Share prices have been below the Offer Price before January 2011 and showed an increasing trend from around the level of HK$3 in April 2010 to HK$5 at the end of the year. On January 10, 2011, the Company suspended the trading of the Shares pending the publication of the Announcement. On January 14, 2011, the Announcement was published and the trading of the Shares resumed on January 17, 2011. The Company announced the special dividend of HK$0.2 per Share on February 11, 2011, and the Share price reached the Highest Closing Price on February 18 and 21, 2011. The Share price decreased from HK$5.3 on February 23, 2011 to HK$5.07 on February 24, 2011 as the Shares were trading on ex-special dividend basis. Thereafter, the Share price remained relatively stable at a level around the Offer Price.

In general, the Offer Price has been at premiums over the trading prices of the Shares for 216 out of 268 trading days during the Review Period. The Offer Price of HK$5 per Share represents (i) a discount of approximately 8.1% to the Highest Closing Price; (ii) a premium of approximately 77.9% over the Lowest Closing Price; and (iii) a discount of approximately 1% to the closing Share price on the Latest Practicable Date.

5. Historical liquidity of the Shares

Set out below is the average daily trading volume of the Shares during the Review Period and the percentages of average daily trading volume of the Shares to the total number of issued Shares and the number of Offer Shares as at the Latest Practicable Date:

Month/Period	Total trading volume	Average daily trading volume *(note 1)*	Average daily trading volume to the total number of issued Shares	Average daily trading volume to the number of Offer Shares
	(Number of Shares)	*(Number of Shares)*	*(%)*	*(%)*
2010				
April	2,908,800	153,095	0.03%	0.07%
May	2,308,500	115,425	0.02%	0.05%
June	4,702,000	223,905	0.04%	0.10%
July	1,098,000	52,286	0.01%	0.02%
August	6,860,544	311,843	0.06%	0.14%
September	6,790,000	323,333	0.06%	0.15%
October	22,704,000	1,135,200	0.21%	0.51%
November	12,744,000	579,273	0.11%	0.26%
December	16,168,000	734,909	0.13%	0.33%
2011				
January (before and including Last Trading Day)	12,746,300	2,549,260	0.46%	1.15%
January (after Last Trading Day)	70,424,000	6,402,182	1.16%	2.89%
February	52,199,145	2,899,953	0.53%	1.31%
March	24,962,200	1,085,313	0.20%	0.49%
April	9,442,000	524,556	0.10%	0.24%
May (before and including Latest Practicable Date)	1,860,000	372,000	0.07%	0.17%
Maximum			1.16%	2.89%
Minimum			0.01%	0.02%
Average			0.21%	0.53%

Source: website of the Stock Exchange (www.hkex.com.hk)

Note:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.

As illustrated in the table above, from April 2010 up to the Last Trading Day, the monthly average daily trading volume of the Shares was in the range of approximately 0.01% to approximately 0.46% of the total number of issued Shares as at the Latest Practicable Date and approximately 0.02% to approximately 1.15% of the number of Offer Shares. After publication of the Announcement up to the Latest Practicable Date, the average daily trading volume of the Shares was approximately 0.38% and approximately 0.96% of the total number of issued Shares and number of Offer Shares as at the Latest Practicable Date, respectively.

As shown from the above table, liquidity of the Shares was low during the Review Period. Given the thin average monthly trading liquidity of the Shares of approximately 0.21% of issued share capital of the Company and approximately 0.53% of the total number of Offer Shares during the Review Period, the Offer can be viewed as an opportunity for the Independent Shareholders to realise their investment in the Company at the Offer Price.

6. Comparable analysis

In order to assess the fairness and reasonableness of the Offer Price, we have considered the analysis of comparable companies. However, there is no company listed on the Stock Exchange which is directly comparable to the Company for the purpose of comparison.

Alternatively, given the Group is mainly engaged in the dyeing and finishing machine manufacturing business, we have compared the valuation of the Group with the valuation of companies in the Group's downstream business, being all those companies listed on the Stock Exchange that are principally engaged in the manufacturing and sales of fabric (the "Comparable Companies"). Based on aforesaid criteria (i.e., companies in the Group's downstream business and listed on the Stock Exchange), we consider the list of Comparable Companies to be exhaustive. As the Comparable Companies are in the same textile sector as the Group, the valuation of the Comparable Companies offers a reference to the valuation of the Company under the Offer Price.

We have compared the price to earnings multiple (the "P/E ratio"), price to book multiple (the "P/B ratio") and dividend yield (the "Dividend Yield") of the Company under the Offer Price with the Comparable Companies. The table below illustrates the P/E ratio, P/B ratio and Dividend Yield of the Comparable Companies:

Company name (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date *(HK$ million)*	Earnings attributable to owners of the company for the latest financial year *(HK$ million)*	P/E ratio *(times)*	Net asset value attributable to owners of the company for the latest financial year *(HK$ million)*	P/B ratio *(times)*	Dividend Yield
Art Textile Technology International Co. Ltd. (565)	Manufacture and sales of cotton yarn, finished woven, fabrics and cotton fabrics.	271	6	48.7	830	0.3	0.0%
Pacific Textiles Holdings Ltd. (1382)	Manufacture and trading of textile products.	6,993	803	8.7	3,254	2.1	10.7%
Texhong Textile Group Ltd. (2678)	Manufacture and distribution of quality yarn, grey fabrics and garment fabrics.	5,910	1,000	5.9	2,626	2.3	4.2%
Weiqiao Textile Co. Ltd. (2698)	Production, sale and distribution of cotton yarn, grey fabric and denim.	8,217[(1)]	1,934	4.2	18,330	0.4	7.6%
Huafeng Group Holdings Ltd. (364)	Manufacture and sales of yarn and provision of fabric processing services.	637	68	9.3	1,487	0.4	0.0%
Kam Hing International Holdings Ltd. (2307)	Manufacture and trading of garment products, knitted and dyed fabrics.	887	96	9.2	1,641	0.5	2.6%

Company name (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date *(HK$ million)*	Earnings attributable to owners of the company for the latest financial year *(HK$ million)*	P/E ratio *(times)*	Net asset value attributable to owners of the company for the latest financial year *(HK$ million)*	P/B ratio *(times)*	Dividend Yield
Co-Prosperity Holdings Ltd. (707)	Sale of finished fabrics, provision of fabrics processing subcontracting services, the trading of goods and the manufacture and sale of high density and high-end yarns.	322	Loss	N/A	530	0.6	0.0%
Kingdom Holdings Ltd. (528)	Manufacture and sale of linen yarns.	448	81	5.6	814	0.6	6.9%
Addchance Holdings Ltd. (3344)	Production and sale of dyed yarn, knitted sweaters and cotton yarn, the provision of dyeing services and knitting services, and the trading of cotton and yarns.	375	71	5.3	912	0.4	3.5%
Fountain Set (Holdings) Ltd. (420)	Production, dyeing, printing, sales and trading of yarns and fabrics and production and sales of garment.	1,525	224	6.8	2,633	0.6	0.5%
Victory City International Holdings Ltd. (539)	Production and sale of knitted fabric and dyed yarn and garment products.	2,054	315	6.5	3,078	0.7	2.4%
Bao Yuan Holdings Ltd. (692)	Sales of garments, fabrics and accessories.	165	Loss	N/A	1,272	0.1	0.0%
Yangtzekiang Garment Ltd. (294)	Manufacturing and sale of garment products and textiles, the provision of processing services and the rental of properties.	438	103	4.2	969	0.5	3.4%
Average				10.4		0.7	3.2%
Median				6.5		0.5	2.6%
Maximum				48.7		2.3	10.7%
Minimum				4.2		0.1	0.0%
The Company		2,757[(2)]	303	9.1	1,021	2.7	7.0%

Notes:

(1) Including domestic shares.

(2) Based on the Offer Price of HK$5.00 multiplied by 551,446,285 Shares in issue as at the Latest Practicable Date.

As set out in the table above, the P/E ratio of the Comparable Companies ranges from 4.2 times to 48.7 times with an average P/E ratio of 10.4 times. We note that the P/E ratio of Art Textile Technology International Co. Ltd., being approximately 48.7 times, was exceptionally higher than other Comparable Companies. This is mainly due to Art Textile Technology International Co. Ltd. only recorded a profit of approximately HK$5.6 million for the year ended 30 June 2010. Should the P/E ratio of Art Textile Technology International Co. Ltd. be excluded, the P/E ratio of the Comparable Companies range from approximately 4.2 times to approximately 9.3 times, with an average of approximately 6.6 times. We note that the P/E ratio of the Group is within the range, but lower than the average of the P/E ratio of the Comparable Companies and should Art Textile Technology International Co. Ltd. which has exceptionally high P/E ratio be excluded, the P/E ratio of the Group is higher than the average of the P/E ratio of the Comparable Companies without Art Textile Technology International Co. Ltd..

The P/B ratio of the Comparable Companies ranges from 0.1 times to 2.3 times with an average P/B ratio of 0.7 times. The P/B ratio of 2.7 times implied by the Offer Price is above the average P/B ratio and is above the range of the Comparable Companies, hence, the Offer Price to the book value of the Company represents a premium to the trading P/B ratio of Comparable Companies and the Offer assigns a higher valuation in terms of P/B ratio to the Company than its Comparables Companies.

The Dividend Yield of the Comparable Companies ranges from 0% to 10.7% with an average Dividend Yield of 3.2%. The Dividend Yield of 7.0% implied by the Offer Price is above the average Dividend Yield and within the range of the Comparable Companies. We note that the Company issued special dividends totaling HK$0.26 per Share for the financial year ended 31 December 2010, which might not be sustainable in the future.

Having regard to the fact that (i) the Company has just returned to profitability in the 2010 financial year after two consecutive years of losses; (ii) the Share price was trading at a discount to the Offer Price for most of the time from April 2010 to the Last Trading Date prior to the date of the Announcement; and (iii) the valuation of the Company under the Offer (save for the aforesaid P/B ratio of the Company which is higher than the Comparable Companies as mentioned above) are generally within range of the Comparable Companies, which are typically the end user of the type of products manufactured by the Company, we consider that the Offer Price is fair and reasonable.

7. Offeror's intentions in respect of the Company and the Group

Following the close of the Offer, the Offeror intends to continue with the existing businesses of the Group. As at the Latest Practicable Date, the Offeror has no intention to introduce any major changes to the businesses and operations of the Group or to re-deploy the fixed assets of the Group other than in the ordinary course of business. The Offeror also does not intend to make any major changes to the continued employment of the Group's employees.

The Offeror anticipates that changes will be made to the composition of the Board, which will be made in compliance with the Takeovers Code and the Listing Rules.

Details of the intention of the Offeror are set out in the "Letter from Citigroup" in the Composite Document.

The Offeror intends the issued Shares to remain listed on the Stock Exchange after the close of the Offer.

V. RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, in particular:

(i) the Offer has created an opportunity for the Independent Shareholders to realise their investment in the Shares at the Offer Price, which is higher than the Share price for the majority of the Review Period and is close to the Share price as at the Latest Practicable Date;

(ii) the Group recorded a loss for two of the three most recent financial years and notwithstanding the improvement in the Group's financial performance in 2010 and the latest market trend in fabric production, we acknowledge that factors including fluctuation of prices of stainless steel, the main raw material of manufacturing of textile machinery, and the rise in labour costs might potentially affect the profitability of the textile machinery industry; and

(iii) the Offer Price represents a significant premium of approximately 170% to the audited net asset value of the Company as at 31 December 2010,

we consider that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

Shareholders who wish to accept the Offer are recommended to read carefully the procedures for accepting the Offer as detailed in the section headed "Further terms of the Offer" in Appendix I to the Composite Document, and also the accompanying Form of Acceptance and Transfer.

Shareholders are advised that the decision to realise or to hold on to their investments in the Company is subject to individual circumstances and investment objectives. In the event that the market price of the Shares exceeds the Offer Price during the period while the Offer is open and the sales proceeds, net of transactions costs, exceed the amount receivable under the Offer, the Independent Shareholders should consider not accepting the Offer and should seek to sell their Shares on the market if they are able to do so.

Yours faithfully,
For and on behalf of
Investec Capital Asia Limited

Ambrose Lam	**Jimmy Chung**
Chief Executive Officer	*Executive Director*

1. PROCEDURES FOR ACCEPTANCE

(a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer, you must send the completed Form of Acceptance and Transfer together with the relevant original Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by hand or by post, to the Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong by 4:00 p.m. on June 3, 2011 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.)

(b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are registered in the name of a nominee company or a name other than your own, and you wish to accept the Offer, you must either:

(i) lodge your original Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the completed Form of Acceptance and Transfer together with the relevant original Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by hand or by post, to the Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong by 4:00 p.m. on June 3, 2011 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code);

(ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the completed Form of Acceptance and Transfer together with the relevant original Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by hand or by post, to the Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on June 3, 2011 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code);

(iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer in respect of your Shares on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on processing your instructions, and submit your instructions to your broker/custodian bank as required by them; or

(iv) if your Shares have been lodged with your Investor Participant Account maintained with CCASS, authorise your instructions via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

(c) If the Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer, the Form of Acceptance and Transfer should nevertheless be completed and forwarded, by hand or by post, to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the Form of Acceptance and Transfer and forward it, by hand or by post, to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to the Offeror and/or Citigroup and/or any of their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance and Transfer.

(e) Provided that a Form of Acceptance and Transfer and the relevant documents are valid, complete and in good order and have been received by the Registrar by no later than 4:00 p.m. on June 3, 2011 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to the relevant accepting Shareholder in respect of the Shares tendered by him/her/it, less seller's ad valorem stamp duty payable by the relevant accepting Shareholder, will be despatched to the relevant Shareholder at the Shareholder's address as it appears on the register of members of the Company or, in the case of joint Shareholders, to the Shareholder whose name appears first in the register of members of the Company, by ordinary post at the Shareholder's own risk as soon as possible but in any event within 10 days following the date on which all relevant documents are received by the Registrar to render such acceptance complete and valid.

(f) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance and Transfer is received by the Registrar by not later than 4:00 p.m. on June 3, 2011 or such later time and/or date as the Offeror may determine and announce in compliance with the requirements of the Takeovers Code, and is:

(i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those Share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant shares in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or

(ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (f)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance and Transfer is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or a certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

(g) No acknowledgement of receipt of any Form of Acceptance and Transfer, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. ACCEPTANCE PERIOD AND REVISIONS

(a) The Offer is made on May 13, 2011, being the date of posting of this Composite Document, and is capable of acceptance on and from that date until the close of the Offer Period.

(b) Unless the Offer is revised or extended in accordance with the Takeovers Code, the Offer will close at 4:00 p.m. on June 3, 2011. The Offeror reserves the right to revise or extend the offer in accordance with the Takeovers Code.

(c) If the Offer is extended or revised, the announcement of such extension or revision will state the next closing date and the Offer will remain open for acceptance for a period of not less than 14 days from the posting of the written notification and/or announcement of the extension or revision to the Shareholders and, unless previously extended or revised, shall be closed on the subsequent closing date. If the Offeror revises the terms of the Offer, all Shareholders whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. The Offeror may introduce new conditions to be attached to any revision to the terms of the Offer, or any subsequent revision thereof but only to the extent necessary to implement the revised Offer and subject to the consent of the Executive. If the Offer is extended, any reference in this Composite Document and in the Form of Acceptance and Transfer to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer as so extended.

3. ANNOUNCEMENTS

As required under Rule 19 of the Takeovers Code, by 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on June 3, 2011, the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement on the Stock Exchange website by 7:00 p.m. on June 3, 2011 stating whether the Offer has been closed, revised or extended. The announcement must state the total number of Shares and rights over Shares:

(i) for which acceptances of the Offer have been received;

(ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and

(iii) acquired or agreed to be acquired during the Offer Period by the Offeror or any persons acting in concert with it.

The announcement must specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers. The announcement must also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any person acting in concert with it has borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

In computing the total number of Shares represented by acceptances, for announcement purposes, acceptances which are not in all respects in complete and good order or that are subject to verification may only be included where they could be counted towards fulfilling the conditions under paragraph 1(f) of this Appendix.

As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, will be published on the website of the Stock Exchange and the website of the Company.

4. RIGHT OF WITHDRAWAL

(a) As the Offer is unconditional in all respects, acceptances of the Offer tendered by Shareholders shall be irrevocable and cannot be withdrawn, except as permitted under the Takeovers Code and in the circumstances set out in (b) below.

(b) If the Offeror is unable to comply with the requirements set out in paragraph 3 of this Appendix, under Rule 19.2 of the Takeovers Code, the Executive may require that the Shareholders who tendered acceptances of the Offer be granted a right of withdrawal on terms acceptable to the Executive until the requirements set out in that paragraph are met.

5. OVERSEAS SHAREHOLDERS

The making of the Offer or the acceptance thereof by persons not being a resident of Hong Kong or with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the applicable laws and regulations and requirements of the relevant jurisdictions. Independent Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should obtain appropriate legal advice, or acquaint themselves about and observe any applicable legal and regulatory requirements in their own jurisdictions. It is the responsibility of each overseas Shareholder who wishes to accept the Offer to satisfy himself as to the full observance of all the applicable legal and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required, complying with any other necessary formalities or legal requirements and paying any issue, transfer or other taxes due in respect of such jurisdiction. Acceptance of the Offer by any Shareholder will constitute a warranty by such Shareholder that such Shareholder (i) is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, (ii) has observed all the applicable laws and regulations of all relevant jurisdictions in connection with such acceptance, including obtaining any government or other consent which may be required and has complied with any other necessary formality, and regulating and/or legal requirement and (iii) shall be fully responsible for payment of any issue, transfer or other taxes due in any relevant jurisdiction and that such acceptance shall be valid and binding in accordance with all applicable laws. Shareholders are recommended to seek professional advice on whether to accept the Offer.

6. GENERAL

(a) All communications, notices, Forms of Acceptance and Transfer, Share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or remittances to be delivered by or sent to or from Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Company, the Offeror, Citigroup, the Registrar nor any of their respective directors, officers, associates, agents or any other person involved in the Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result.

(b) The provisions set out in the accompanying Form of Acceptance and Transfer form part of the Offer.

(c) The accidental omission to despatch this Composite Document and the Form of Acceptance and Transfer to any person to whom the Offer is made will not invalidate the Offer in any way.

(d) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance and Transfer by or on behalf of a Shareholder will constitute such Shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offer.

(e) Due execution of the Form of Acceptance and Transfer will constitute an authority to the Offeror, Citigroup or such person or persons as the Offeror or Citigroup may direct, to complete and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares in respect of which such person or persons has/have accepted the Offer.

(f) Acceptance of the Offer by any Shareholder will be deemed to constitute a warranty by such person to the Offeror that the Shares acquired under the Offer are sold by such person free from all liens, charges, options, claims, equity, rights of pre-emption and any other third party rights or encumbrances of any nature and together with all rights attaching to them as at the date of Completion on May 6, 2011, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of Completion.

(g) Seller's ad valorem stamp duty arising in connection with acceptance of the Offer will be payable by each accepting Shareholder at the rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror to such accepting Shareholder, whichever is higher and to be round up to the nearest HK$1,000 and will be deducted from the cash amount payable to such accepting Shareholder. The Offeror will pay the buyer's ad valorem stamp duty and will account to the Stamp Office of Hong Kong for the stamp duty payable on the sale and purchase of the relevant Offer Shares pursuant to acceptances of the Offer.

(h) The consideration payable to Shareholders under the Offer will be paid in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against the accepting Shareholders.

(i) References to the Offer in this Composite Document and the Form of Acceptance and Transfer shall include any extension and/or revision of the Offer.

(j) In making their decision, the Shareholders must rely on their own examination of the Offeror, the Company and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form of Acceptance and Transfer are not to be construed as any legal or business advice. Shareholders should consult their own professional advisers for professional advice.

(k) The English texts of this Composite Document and the Form of Acceptance and Transfer shall prevail over their Chinese texts for the purpose of interpretation.

A. SUMMARY OF FINANCIAL STATEMENTS FOR THE LAST THREE FINANCIAL YEARS

Set out below is a summary of the audited consolidated financial information of the Group for each of the three years ended December 31, 2008, 2009 and 2010. The figures are extracted from annual report of respective years. Deloitte Touche Tohmatsu, the independent auditor of the Group for each of the three years ended December 31, 2008, 2009 and 2010, expressed unqualified opinions on the Group's financial statement in their reports for each of three years ended December 31, 2008, 2009 and 2010. For each of the three years ended December 31, 2008, 2009 and 2010, the Group had (i) no minority interests and (ii) no items which were exceptional or extraordinary in nature.

	For the year ended December 31,		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	2,587,182	1,797,695	2,499,856
Profit (loss) before tax	371,146	(105,808)	(140,396)
Income tax expense	(68,181)	(527)	(2,383)
Profit (loss) for the year	302,965	(106,335)	(142,779)
Profit (loss) attributable to the Shareholders	302,965	(106,335)	(142,779)
Dividends	193,006	27,572	11,029
Dividends per Share	35 HK cents	5 HK cents	2 HK cents
Basic earning (loss) per Share	54.9 HK cents	(19.3) HK cents	(25.8) HK cents

B AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED DECEMBER 31, 2010

Set out below is the audited consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes to the consolidated financial statements of the Group as extracted from pages 33 to 99 of the annual report of the Company for the year ended December 31, 2010.

Consolidated Statement of Comprehensive Income
(For the year ended December 31, 2010)

	NOTES	2010 HK$'000	2009 HK$'000
Revenue	5	2,587,182	1,797,695
Cost of sales		(1,784,134)	(1,446,032)
Gross profit		803,048	351,663
Interest income		2,667	2,782
Other income		59,482	44,818
Other gains and losses	8	13,127	(330)
Selling and distribution costs		(161,984)	(127,373)
General and administrative expenses		(335,999)	(320,819)
Other expenses		(56,131)	(52,196)
Finance costs	6	(42,142)	(48,992)
Share of results of an associate		(477)	(178)
Share of results of jointly controlled entities		89,555	44,817
Profit (loss) before tax		371,146	(105,808)
Income tax expense	7	(68,181)	(527)
Profit (loss) for the year	8	302,965	(106,335)
Other comprehensive income (expense)			
Exchange difference arising on translation		17,067	(5,848)
Share of changes in translation reserve of an associate		1,454	83
Share of changes in translation reserve of jointly controlled entities		4,381	170
Gain on cash flow hedge		9,694	7,838
Other comprehensive income for the year		32,596	2,243
Total comprehensive income and expense for the year		335,561	(104,092)
Earning (loss) per share			
Basic	11	54.9 HK cents	(19.3) HK cents

Consolidated Statement of Financial Position
(At December 31, 2010)

	NOTES	12.31.2010 HK$'000	12.31.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	12	362,799	399,441	418,062
Prepaid lease payments	13	15,584	15,586	15,485
Intellectual property rights	14	10,595	13,439	16,355
Interest in an associate	15	35,013	34,036	34,131
Interests in jointly controlled entities	16	112,222	78,286	73,299
Deposits for acquisition of property, plant and equipment		2,368	1,154	4,067
Deposits for acquisition of leasehold land		24,072	66,886	66,744
Deferred tax assets	17	12,929	11,147	4,745
		575,582	619,975	632,888
Current assets				
Inventories	18	828,129	742,916	864,689
Trade and other receivables	19	332,832	279,884	357,748
Prepaid lease payments	13	484	469	460
Amounts due from jointly controlled entities	20	13,323	14,295	1,438
Tax recoverable		3,431	5,392	17,883
Bank balances and cash	21	394,829	328,364	309,785
		1,573,028	1,371,320	1,552,003

Consolidated Statement of Financial Position

(At December 31, 2010)

	NOTES	12.31.2010 HK$'000	12.31.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Current liabilities				
Trade and other payables	22	406,946	471,371	336,464
Amount due to a jointly controlled entity	20	–	–	264
Warranty provision	23	18,632	11,685	12,684
Derivative financial instruments	24	–	210	408
Tax liabilities		25,869	6,947	1,433
Bank borrowings	25	646,259	676,046	896,672
		1,097,706	1,166,259	1,247,925
Net current assets		475,322	205,061	304,078
Total assets less current liabilities		1,050,904	825,036	936,966
Non-current liabilities				
Derivative financial instruments	24	19,330	29,024	36,862
Deferred tax liabilities	17	10,290	–	–
		29,620	29,024	36,862
		1,021,284	796,012	900,104
Capital and reserves				
Share capital	26	55,145	55,145	55,145
Share premium and reserves		966,139	740,867	844,959
		1,021,284	796,012	900,104

Consolidated Statement of Changes in Equity

(For the year ended December 31, 2010)

	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
At January 1, 2009	55,145	157,261	–	2,370	79,553	617,055	25,582	(36,862)	900,104
Loss for the year	–	–	–	–	–	(106,335)	–	–	(106,335)
Other comprehensive expense and income for the year	–	–	–	–	(5,595)	–	–	7,838	2,243
Total comprehensive expense and income for the year	–	–	–	–	(5,595)	(106,335)	–	7,838	(104,092)
Proposed final dividend for 2009	–	–	27,572	–	–	(27,572)	–	–	–
At December 31, 2009 and January 1, 2010	55,145	157,261	27,572	2,370	73,958	483,148	25,582	(29,024)	796,012
Profit for the year	–	–	–	–	–	302,965	–	–	302,965
Other comprehensive income for the year	–	–	–	–	22,902	–	–	9,694	32,596
Total comprehensive income for the year	–	–	–	–	22,902	302,965	–	9,694	335,561
Final dividend for 2009 paid *(Note 10)*	–	–	(27,572)	–	–	–	–	–	(27,572)
Interim dividends *(Note 10)*	–	–	–	–	–	(82,717)	–	–	(82,717)
At December 31, 2010	55,145	157,261	–	2,370	96,860	703,396	25,582	(19,330)	1,021,284

Note:

(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.

Consolidated Statement of Cash Flows
(For the year ended December 31, 2010)

	2010	2009
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (loss) before tax	371,146	(105,808)
Adjustments for:		
Interest expense	35,534	43,421
Interest income	(2,667)	(2,782)
Share of results of an associate	477	178
Share of results of jointly controlled entities	(89,555)	(44,817)
Depreciation and amortisation	70,311	66,978
Allowance for (reversal of allowance for) doubtful debts	3,648	(2,348)
Reversal of allowance for inventories	(967)	(3,682)
(Gain) loss on fair value change of financial assets held for trading	(172)	264
(Gain) loss on disposal of property, plant and equipment	(616)	743
Gain on disposal of prepaid lease payments	–	(2,032)
Warranty provision expense	18,713	7,233
Operating cash flows before movements in working capital	405,852	(42,652)
(Increase) decrease in inventories	(84,246)	125,455
(Increase) decrease in trade and other receivables	(49,238)	80,813
Decrease (increase) in amounts due from jointly controlled entities	972	(12,857)
(Decrease) increase in trade and other payables	(69,219)	133,257
Decrease in amount due to a jointly controlled entity	–	(264)
Utilisation of warranty provision	(11,766)	(8,232)
Change in derivative financial instruments	(38)	(462)
Cash generated from operations	192,317	275,058
Hong Kong Profits Tax paid	(54)	(526)
Overseas income tax and the People's Republic of China (the "PRC") Enterprise Income Tax paid	(39,795)	(695)
Hong Kong Profits Tax refunded	393	11,898
Overseas income tax and the PRC Enterprise Income Tax refunded	666	399
NET CASH FROM OPERATING ACTIVITIES	153,527	286,134

Consolidated Statement of Cash Flows

(For the year ended December 31, 2010)

	2010	2009
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Dividend received from jointly controlled entities	60,000	40,000
Refund of deposits from acquisition of leasehold land	55,903	–
Deposits paid for acquisition of leasehold land	(10,605)	–
Proceeds from disposal of property, plant and equipment	5,031	1,919
Interest received	2,667	2,782
Proceeds from disposal of prepaid lease payments	–	2,418
Prepaid lease payments made	–	(921)
Purchases of intellectual property rights	(78)	–
Purchases of property, plant and equipment	(24,949)	(43,556)
NET CASH FROM INVESTING ACTIVITIES	87,969	2,642
FINANCING ACTIVITIES		
Repayment of bank borrowings	(815,794)	(698,644)
Dividends paid	(110,289)	–
Interest paid on bank borrowings	(35,534)	(43,421)
New bank borrowings raised	786,007	478,018
NET CASH USED IN FINANCING ACTIVITIES	(175,610)	(264,047)
NET INCREASE IN CASH AND CASH EQUIVALENTS	65,886	24,729
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	328,364	309,785
Effect of foreign exchange rate changes	579	(6,150)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	394,829	328,364

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

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 and immediate parent is GBOGH Assets Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Fong Sou Lam. 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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

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

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$469,158,000 and HK$656,662,000 have been reclassified from non-current liabilities to current liabilities as at December 31, 2009 and January 1, 2009 respectively.

As at December 31, 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$264,154,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 28 for details).

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKAS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKAS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Date for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
2 Effective for annual periods beginning on or after July 1, 2010.
3 Effective for annual periods beginning on or after July 1, 2011.
4 Effective for annual periods beginning on or after January 1, 2013.
5 Effective for annual periods beginning on or after January 1, 2012.
6 Effective for annual periods beginning on or after January 1, 2011.
7 Effective for annual periods beginning on or after February 1, 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

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

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that the application of the new Standard may not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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 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 Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods. The principle accounting policies are set out below.

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 into line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment 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 or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are 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 cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From January 1, 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are 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 cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From January 1, 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intellectual property rights

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

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.

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 activities (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. Amortisation of internally generated intangible assets with finite useful lives is provided on straight line basis over their estimated useful lives.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction and freehold land, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Freehold land and properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets other than freehold land, 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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.

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).

From January 1, 2010 onwards, on the disposal of a foreign operation (i. e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 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.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventories

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

Retirement benefits costs

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

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
- 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 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.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 and cash) 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
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

For financial assets carried at amortised cost, an impairment loss is recognised in 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.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

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.

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.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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).

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

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, 2010, a deferred tax asset of HK$1,161,000 (2009: HK$2,117,000) in relation to unused tax losses of HK$7,036,000 (2009: HK$12,830,000) 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$444,308,000 (2009: HK$418,499,000) 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 inventories 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, 2010, the carrying amount of inventories is HK$828,129,000 (2009: HK$742,916,000).

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2010, the carrying amount of trade receivable is HK$211,035,000 (2009: HK$191,927,000) (net of allowance for doubtful debts of HK$5,048,000 (2009: HK$2,454,000).

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, 2010, the carrying amount of warranty provision is HK$18,632,000 (2009: HK$11,685,000). The movement of the warranty provision for the year are set out in note 23.

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The CODM 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.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Manufacture and sales of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

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, 2010

	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$'000*	**Total** *HK$'000*
REVENUE				
External sales	1,624,704	621,028	341,450	2,587,182
Inter-segment sales	6,714	310,790	46,922	364,426
Segment revenue	1,631,418	931,818	388,372	2,951,608
Elimination				(364,426)
Group revenue				2,587,182
Segment profit	242,396	33,507	45,468	321,371
Interest income				2,667
Gain on fair value change of financial assets held for trading				172
Finance costs				(42,142)
Share of results of an associate				(477)
Share of results of jointly controlled entities				89,555
Profit before tax				371,146

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended December 31, 2009

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
Segment revenue	1,237,415	550,410	249,619	2,037,444
Elimination				(239,749)
Group revenue				1,797,695
Segment (loss) profit	(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)

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, gain (loss) on fair value change of financial assets held for trading, finance costs, share of results of an associate and share of results of jointly controlled entities. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

As at December 31, 2010

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	932,095	368,172	289,919	1,590,186
Interest in an associate				35,013
Interests in jointly controlled entities				112,222
Unallocated corporate assets				411,189
Consolidated total assets				2,148,610
LIABILITIES				
Segment liabilities	354,260	18,875	52,443	425,578
Unallocated corporate liabilities				701,748
Consolidated total liabilities				1,127,326

As at December 31, 2009

	Manufacture and sale of dyeing and finishing machines	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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, deferred tax liabilities and bank borrowings.

Other segment information

For the year ended December 31, 2010

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$'000*	Total *HK$'000*
Additions to non-current assets excluding deferred tax assets	20,096	747	2,970	23,813
Depreciation and amortisation	57,570	947	11,794	70,311
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	(563)	5	(58)	(616)
(Reversal of allowance) allowance for inventories	(3,086)	–	2,119	(967)
Allowance for doubtful debts	667	2,833	148	3,648

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

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	Trading of stainless steel supplies	Manufacture and sale of stainless steel casting products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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) allowance for inventories	(5,563)	–	1,881	(3,682)
Reversal of allowance for doubtful debts	(68)	(2,205)	(75)	(2,348)

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	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	1,225,429	809,518	515,672	547,189
Hong Kong	501,414	359,560	12,255	19,945
Asia Pacific (other than the PRC and Hong Kong)	422,666	294,588	146	166
Europe	231,803	197,462	34,580	41,528
North and South America	162,788	100,939	–	–
Others	43,082	35,628	–	–
	2,587,182	1,797,695	562,653	608,828

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information (Continued)

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.

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the year ended December 31, 2010 and 2009.

6. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	35,534	43,421
Bank charges	6,608	5,571
	42,142	48,992

7. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current year	8,362	326
Overprovision in prior years	(25)	(87)
PRC Enterprise Income Tax ("EIT"):		
Current year	45,403	4,510
Underprovision in prior years	343	815
PRC EIT for the capital gain on share transfer between intercompany:		
Current year	6,485	–
Overseas income tax:		
Current year	–	1,281
(Over)underprovision in prior years	(895)	84
	59,673	6,929
Deferred tax *(note 17)*:		
Current year	8,508	(6,402)
	68,181	527

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

7. INCOME TAX EXPENSE (Continued)

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 22% for the year ended December 31, 2010 (2009: 20%).

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

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

	2010	**2009**
	HK$'000	*HK$'000*
Profit (loss) before tax	371,146	(105,808)
Tax at the Hong Kong Profits Tax rate of 16.5%	61,239	(17,458)
Tax effect of:		
– expenses that are not deductible for tax purpose	4,273	7,497
– income that are not taxable for tax purpose	(11,557)	(6,998)
– tax losses not recognised	14,499	23,431
– share of results of an associate	79	29
– share of results of jointly controlled entities	(14,777)	(7,395)
– different tax rates of subsidiaries operating in other jurisdictions	9,108	550
– utilisation of tax losses previously not recognised	(10,241)	–
(Over) underprovision in prior years	(577)	812
Withholding tax on distributable profits of subsidiaries	9,700	–
PRC EIT for the capital gain on share transfer between intercompany	6,485	–
Others	(50)	59
Income tax expense for the year	68,181	527

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

8. PROFIT (LOSS) FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Other gains and losses:		
(Gain) loss on disposal of property, plant and equipment	(616)	743
Gain on disposal of prepaid lease payments	–	(2,032)
Net foreign exchange (gain) loss	(12,339)	1,355
(Gain) loss on fair value change of financial assets held for trading	(172)	264
Total other gains and losses	(13,127)	330
Amortisation of intellectual property rights (included in cost of sales)	2,922	2,916
Amortisation of prepaid lease payments	484	452
Depreciation of property, plant and equipment	66,905	63,610
Total depreciation and amortisation	70,311	66,978
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	189,156	197,234
Retirement benefits scheme contributions	26,648	27,715
Total staff costs	215,804	224,949
Reversal of allowance for inventories (included in cost of sales)	(967)	(3,682)
Allowance for (reversal of allowance for) doubtful debts	3,648	(2,348)
Auditor's remuneration	2,358	2,777
Cost of inventories recognised as an expense	1,398,744	1,070,873
Research and development costs recognised as an expense	3,968	4,157

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2009: 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	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*
2010											
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	–	–	–	17,434
Performance related incentive payments *(Note)*	1,470	–	–	–	–	–	–	–	–	–	1,470
Retirement benefits scheme contributions	336	283	115	155	12	113	100	–	–	–	1,114
Total emoluments	6,356	4,291	2,155	2,259	1,832	1,673	1,452	75	75	75	20,243

	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

Note: The performance related incentive payments were determined with reference to the operating results of the Group for the year ended December 31, 2010.

No director waived any emoluments for both years.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group in 2010 and 2009 were all Directors of the Company and details of their emoluments are included above.

10. DIVIDENDS

Dividends recognised as distribution during the year ended December 31, 2010:

	HK$'000
2010 interim dividend of 9 HK cents per share	49,630
2010 interim special dividend of 6 HK cents per share	33,087
	82,717
2009 final dividend of 5 HK cents per share	27,572

A special interim dividend of HK$0.2 per share, amounting to approximately HK$110 million, was declared on February 11, 2011 and to be paid on or about April 8, 2011.

11. EARNING (LOSS) PER SHARE

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

	2010	**2009**
	HK$'000	*HK$'000*
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earning (loss) per share	302,965	(106,335)
	'000	*'000*
Number of ordinary shares for the purpose of basic earning (loss) per share	551,446	551,446

The Group has no outstanding potential ordinary shares as at December 31, 2010 and 2009 and during the year ended December 31, 2010 and 2009.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

12. 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, 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 and January 1, 2010	10,463	289,629	25,263	303,058	109,277	23,453	26,953	1,885	789,981
Currency realignment	(770)	9,259	606	10,890	1,412	524	930	75	22,926
Reclassification	–	–	–	1,682	(956)	–	1,069	(1,795)	–
Additions	–	–	24	12,424	5,340	1,160	2,959	1,828	23,735
Disposals	–	–	–	(6,676)	(3,824)	(917)	(538)	–	(11,955)
At December 31, 2010	9,693	298,888	25,893	321,378	111,249	24,220	31,373	1,993	824,687
DEPRECIATION									
At 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 and January 1, 2010	–	148,121	11,601	137,885	64,697	14,766	13,470	–	390,540
Currency realignment	–	5,282	316	4,992	614	285	494	–	11,983
Reclassification	–	–	–	548	(548)	–	–	–	–
Provided for the year	–	13,552	4,884	26,780	13,536	2,748	5,405	–	66,905
Eliminated on disposals	–	–	–	(2,614)	(3,529)	(913)	(484)	–	(7,540)
At December 31, 2010	–	166,955	16,801	167,591	74,770	16,886	18,885	–	461,888
CARRYING VALUES									
At December 31, 2010	9,693	131,933	9,092	153,787	36,479	7,334	12,488	1,993	362,799
At December 31, 2009	10,463	141,508	13,662	165,173	44,580	8,687	13,483	1,885	399,441
At January 1, 2009	10,275	153,263	17,415	175,833	41,359	9,185	8,635	2,097	418,062

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

12. 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:

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Buildings on land under long leases located in the PRC	785	861	973
Buildings on land under medium-term leases located in the PRC	120,618	128,858	140,557
Buildings on land under medium-term leases located in Hong Kong	–	–	63
Freehold land and buildings in Europe	20,223	22,252	21,945
	141,626	151,971	163,538

13. PREPAID LEASE PAYMENTS

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*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	1,642	1,609	1,631
Medium-term leases	14,426	14,446	13,927
	16,068	16,055	15,945
Analysed for reporting purposes as:			
Current asset	484	469	460
Non-current asset	15,584	15,586	15,485
	16,068	16,055	15,945

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(For the year ended December 31, 2010)

14. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At January 1, 2009, December 31, 2009 and January 1, 2010	29,156
Addition	78
At December 31, 2010	29,234
AMORTISATION	
At January 1, 2009	12,801
Provided for the year	2,916
At December 31, 2009 and January 1, 2010	15,717
Provided for the year	2,922
At December 31, 2010	18,639
CARRYING AMOUNTS	
At December 31, 2010	10,595
At December 31, 2009	13,439
At January 1, 2009	16,355

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.

15. INTEREST IN AN ASSOCIATE

	12.31.2010 *HK$'000*	**12.31.2009** *HK$'000*	**1.1.2009** *HK$'000*
Cost of unlisted investment in an associate	46,469	46,469	46,469
Share of post-acquisition losses and other comprehensive income	(11,456)	(12,433)	(12,338)
	35,013	34,036	34,131

As at January 1, 2009, December 31, 2009 and 2010, 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. Major assets of the associate and its subsidiaries are certain lands located in the district of Chancheng, Foshan, the PRC with manufacturing plants erected on the lands, which are both measured at cost less accumulated depreciation and impairment, if any.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

15. INTEREST IN AN ASSOCIATE (Continued)

In determining the value in use of the interest in an associate for impairment purpose, the management estimates the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal. During the year ended December 31, 2010 and 2009, the management of the Group determined that there is no impairment on interest in an associate.

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

	12.31.2010	**12.31.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	250,228	275,916	263,178
Total liabilities	(133,517)	(162,463)	(149,408)
Net assets	116,711	113,453	113,770
Group's share of net assets of associate	35,013	34,036	34,131
Revenue	272,321	200,442	220,404
Loss for the year	(1,589)	(595)	(7,094)
Other comprehensive income	4,847	277	6,247
Group's share of losses and other comprehensive income of associate for the year	977	(95)	(254)

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	12.31.2010	**12.31.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
Cost of unlisted investments in jointly controlled entities	10,779	10,779	10,779
Share of post-acquisition profits and other comprehensive income, net of dividends received	101,443	67,507	62,520
	112,222	78,286	73,299

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

As at January 1, 2009, December 31, 2009 and 2010, the Group had interests in the following 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	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
Monforts Fong's Textile Machinery (Shenzhen) Co., Ltd.	The PRC	HK$43,500,000	50%	Manufacture and trading of textile machinery
立信門富士紡織機械（中山）有限公司	The PRC	US$9,700,000	50%	Manufacture and trading of textile machinery
Plexxor Co., Limited	Hong Kong	HK$3,000,000	51%	In liquidation

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 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.

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16. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

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

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	58,238	21,155	26,638
Current assets	224,419	178,524	96,422
Non-current liabilities	(13,409)	(1,499)	(3,587)
Current liabilities	(157,026)	(119,894)	(46,174)
	112,222	78,286	73,299
Income recognised in profit or loss	479,666	251,658	299,512
Expense recognised in profit or loss	390,111	206,841	269,203
Other comprehensive income	4,381	170	3,715
Profit and other comprehensive income attributable to the Group	93,936	44,987	34,024

17. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets	12,929	11,147	4,745
Deferred tax liabilities	(10,290)	–	–
	2,639	11,147	4,745

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17. DEFERRED TAXATION (Continued)

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Allowance for doubtful debts	Tax losses	Unrealised profit for inventories	Undistributable profit of PRC subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2009	(1,393)	(430)	(2,035)	(887)	–	(4,745)
(Credit) charge to profit or loss	(6,296)	65	(82)	(89)	–	(6,402)
At December 31, 2009 and January 1, 2010	(7,689)	(365)	(2,117)	(976)	–	(11,147)
(Credit) charge to profit or loss	(1,808)	(1,906)	956	1,566	9,700	8,508
At December 31, 2010	(9,497)	(2,271)	(1,161)	590	9,700	(2,639)

At the end of the reporting period, the Group had unused tax losses of approximately HK$451,344,000 (2009: HK$431,329,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$7,036,000 (2009: HK$12,830,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$444,308,000 (2009: HK$418,499,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$2,900,000 (2009: HK$2,900,000), HK$5,400,000 (2009: HK$5,400,000), HK$6,700,000 (2009: HK$6,700,000), HK$6,997,000 (2009: HK$6,997,000), HK$4,385,000 (2009: HK$4,385,000), HK$11,966,000 (2009: HK$11,966,000) and HK$6,163,000 (2009: Nil) that will expire in 2011, 2012, 2013, 2014, 2015, 2016 and 2017, 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. For the year ended December 31, 2009, deferred tax liability had 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 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. For the year ended December 31, 2010, deferred tax liabilities of HK$9,700,000 has been provided for in the consolidated financial statement in respect of such temporary differences.

18. INVENTORIES

	12.31.2010	**12.31.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	630,441	518,258	524,771
Work in progress	141,883	124,868	159,959
Finished goods	55,805	99,790	179,959
	828,129	742,916	864,689

During the year ended December 31, 2010, aged inventories for over one year provided in previous years were sold in current year. As a result, a reversal of allowance for inventories of approximately HK$967,000 (2009: HK$3,682,000) has been recognised and included in cost of sales.

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(For the year ended December 31, 2010)

19. TRADE AND OTHER RECEIVABLES

	12.31.2010	**12.31.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	216,083	194,381	225,999
Less: Allowance for doubtful debts	(5,048)	(2,454)	(6,677)
	211,035	191,927	219,322
Bills receivables	65,246	36,407	60,141
	276,281	228,334	279,463
Other receivables	56,551	51,550	78,285
Total trade and other receivables	332,832	279,884	357,748

The Group allows an average credit period of 60 days (2009: 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:

	12.31.2010	**12.31.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
0 – 60 days	194,526	165,097	213,369
61 – 90 days	63,641	41,423	44,934
Over 90 days	18,114	21,814	21,160
	276,281	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$81,755,000 (2009: HK$63,237,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 84 days (2009: 91 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.

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(For the year ended December 31, 2010)

19. TRADE AND OTHER RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired

	12.31.2010	**12.31.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
Overdue by:			
1 – 30 days	63,641	41,423	44,934
31 – 60 days	14,072	13,280	19,093
Over 60 days	4,042	8,534	2,067
Total	81,755	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

	2010	**2009**
	HK$'000	*HK$'000*
At beginning of the year	2,454	6,677
Impairment losses recognised on receivables	4,125	783
Amounts written off as uncollectible	(1,054)	(1,875)
Amounts recovered during the year	(477)	(3,131)
At end of the year	5,048	2,454

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$5,048,000 (2009: HK$2,454,000) which have either been placed under liquidation or in severe financial difficulties. 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, 2010, the carrying amount of the bills discounted is approximately HK$10,600,000 (2009: HK$3,752,000). The carrying amount of the associated liability which represented the cash received from discounted bills (see note 25) is approximately HK$10,600,000 (2009: HK$3,752,000).

Other receivables of the Group are unsecured, interest-free and repayable on demand.

20. 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.

21. BANK BALANCES

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.01% to 4.75% (2009: 0.01% to 0.17%) per annum.

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(For the year ended December 31, 2010)

22. TRADE AND OTHER PAYABLES

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	44,210	63,182	71,670
Accrued salary and bonus	42,542	25,529	25,777
Receipt in advance	161,503	226,786	129,905
Accrued commission expenses	28,088	27,945	27,227
Others	130,603	127,929	81,885
	406,946	471,371	336,464

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

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	30,788	35,226	37,596
91 – 120 days	5,661	21,181	22,606
Over 120 days	7,761	6,775	11,468
	44,210	63,182	71,670

The average credit period on purchase of goods is 90 days (2009: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

23. WARRANTY PROVISION

	2010	2009
	HK$'000	*HK$'000*
At beginning of the year	11,685	12,684
Additional provision in the year	18,713	7,233
Utilisation of provision	(11,766)	(8,232)
At end of the year	18,632	11,685

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

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24. DERIVATIVE FINANCIAL INSTRUMENTS

	12.31.2010 *HK$'000* Liabilities	12.31.2009 *HK$'000* Liabilities	1.1.2009 *HK$'000* Liabilities
Derivative under hedge accounting			
Cash flow hedges – Interest rate swaps	19,330	29,024	36,862
Other derivatives (not under hedge accounting)			
Foreign currency forward contracts	–	210	408
	19,330	29,234	37,270
Analysed as:			
Non-current	19,330	29,024	36,862
Current	–	210	408
	19,330	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, except for those bank borrowings with repayment on demand clause, 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, 2010 and 2009 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 May 4, 2009** From Hong Kong Interbank Offered Rate ("HIBOR") +1% to 5.28% **With effect from May 4, 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%

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, 2010, the fair value changes of approximately HK$19,330,000 (2009: HK$29,024,000) 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.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Foreign currency forward contracts

At December 31, 2009, the Group had the following foreign currency forward contracts denominated in United States dollars ("USD") and Euro ("EUR"). The major terms of these contracts were 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

The fair values of the foreign currency forward contracts were measured based on a valuation technique which used the prevailing forward exchange rates as an input. All fair value changes were recognised in profit or loss.

25. BANK BORROWINGS

	12.31.2010 *HK$'000*	12.31.2009 *HK$'000*	1.1.2009 *HK$'000*
Unsecured bank borrowings comprise the following:			
– bank borrowings	499,158	624,162	781,666
– trust receipts loans	136,501	48,132	100,259
– discounted bills with recourse	10,600	3,752	14,747
	646,259	676,046	896,672
Carrying amount repayable*:			
Within one year	177,101	61,884	115,006
Carrying amount of bank loans containing a repayment on demand clause that are repayable (shown under current liabilities)*:			
Within one year	205,004	145,004	125,004
More than one year, but not exceeding two years	204,154	205,004	185,004
More than two years, but not exceeding five years	60,000	264,154	471,658
	469,158	614,162	781,666
	646,259	676,046	896,672
Less: Amounts due within one year shown under current liabilities	(646,259)	(676,046)	(896,672)
Amounts shown under non-current liabilities	–	–	–

* *The amounts due are based on scheduled repayment dates set out in the loan agreements.*

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(For the year ended December 31, 2010)

25. BANK BORROWINGS (Continued)

In 2010, the Group had four bank borrowings amounting to HK$499,158,000 (of which HK$460,000,000 are hedged by interest rate swaps), of which HK$30,000,000 carries fixed interest rate at 2.02% per annum and the remaining carry floating interest rates ranging from HIBOR plus 1.5% per annum to HIBOR plus 2.6% per annum. The remaining bank borrowings included HK$136,501,000 trust receipts loans and HK$10,600,000 discounted bills with recourse which are repayable within one year and carry floating interest rates ranging from HIBOR or London Interbank Offered Rate ("LIBOR") plus 0.7% per annum to HIBOR or LIBOR plus 2.25% per annum and ranging from HIBOR plus 1% per annum to LIBOR plus 1.75% per annum respectively.

In 2009, the Group had four bank borrowings amounting to HK$624,162,000 (of which HK$600,000,000 were hedged by interest rate swaps) which carry floating interest rates ranging from HIBOR plus 1% per annum to HIBOR plus 3.2% per annum. The remaining bank borrowings included HK$48,132,000 trust receipts loans and HK$3,752,000 discounted bills with recourse which were 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 2010, the effective interest rate (which is also equal to the contractual interest rate) on the Group's bank borrowings is 2.25% (2009: 2.04%).

26. SHARE CAPITAL OF THE COMPANY

	12.31.2010	**12.31.2009**	**1.1.2009**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
1,000,000,000 ordinary shares of HK$0.10 each	100,000	100,000	100,000
Issued and fully paid:			
At January 1, 2009, December 31, 2009 and 2010:			
551,446,285 ordinary shares of HK$0.10 each	55,145	55,145	55,145

27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue 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 note 25, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

Certain bank borrowings of the Group include covenant that require the maintenance of certain financial ratios. As at December 31, 2010, 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.

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28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	713,910	592,428
Financial liabilities		
Derivatives classified as held for trading	–	210
Amortised cost	718,396	783,468
Derivative instruments in designated hedge accounting relationships	19,330	29,024

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 entities, 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.

Market risk (currency risk)

Several subsidiaries of the Company have foreign currency sales and purchases in denominated USD, RMB 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 a foreign currency forward contract 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 foreign currency contracts were outstanding as at December 31, 2010.

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	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	151,476	62,859	253,798	148,016
EUR	8,347	4,851	45,330	9,675
RMB	13	745	25,696	1,018

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(For the year ended December 31, 2010)

28. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (currency risk) (Continued)

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. No sensitivity analysis in relation to Hong Kong dollars against USD 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 (2009: a decrease) in post-tax profit (2009: loss) where respective functional currencies weakening 5% against the relevant foreign currencies. For a 5% strengthen of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit (2009: loss), and the balances below would be negative.

	USD		**RMB**		**EUR**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit (loss) for the year*	4,394	3,061	1,072	11	1,544	198

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

Market risk (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 24 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.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

28. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (interest rate risk) (Continued)

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 (other than deposits placed in Hong Kong) 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 profit for the year ended December 31, 2010 would increase/decrease by approximately HK$240,000 (2009: loss for the year would decrease/increase by approximately HK$648,000). 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 basis points higher/lower while all other variables were constant, hedging reserve would decrease/increase by approximately HK$2,639,000 (2009: HK$4,366,000).

Credit risk

At December 31, 2010, 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 high credit ratings assigned by international credit-rating agencies.

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 non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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28. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010							
Non-derivative financial liabilities							
Trade and other payables	–	29,931	41,489	717	–	72,137	72,137
Bank borrowings							
– fixed rate	2.02	–	30,134	–	–	30,134	30,000
– variable rate	1.82 – 2.83	479,940	137,381	117	–	617,438	616,259
		509,871	209,004	834	–	719,709	718,396
Derivatives – net settlement							
Interest rate swaps		–	3,439	9,395	6,856	19,690	19,330

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28. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'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	618,025	58,481	–	–	676,506	676,046
		663,256	119,557	1,115	–	783,928	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

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at December 31, 2010 and December 31, 2009, the aggregate undiscounted principal amounts of these bank loans amounted to HK$469,158,000 and HK$614,162,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within 3 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$482,247,000 (2009: HK$634,386,000).

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.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

28. 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; and

- the fair value of foreign currency forward contracts was 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, 2010			
	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	–	19,330	–	19,330

	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

There were no transfers between Level 1 and Level 2 for both years.

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29. SHARE OPTION SCHEME

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

The Board of Directors of the Company may, at their discretion, grant 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.

30. CAPITAL COMMITMENTS

	2010	**2009**
	HK$'000	*HK$'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	294,002	296,698

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(For the year ended December 31, 2010)

31. OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$12,292,000 (2009: HK$10,877,000).

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:

	2010	2009
	HK$'000	*HK$'000*
Within one year	11,062	10,012
In the second to fifth year inclusive	16,252	630
	27,314	10,642

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.

32. 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 managed by AXA China Region Trustees 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.

The aggregate employers' contributions which have been dealt with in profit or loss of the Group amounted to approximately HK$4,495,000 (2009: HK$4,576,000).

At the end of the reporting period, there are no significant forfeited contributions available to offset future employer's contributions to the Scheme.

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(For the year ended December 31, 2010)

32. RETIREMENT BENEFITS SCHEME (Continued)

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$15,191,000 (2009: HK$13,828,000).

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$5,844,000 (2009: HK$7,879,000).

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 up to 10% of the employees' basic annual salary, 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$1,118,000 (2009: HK$1,432,000).

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

33. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position on pages 49 to 50 and note 20, the Group has also entered into the following transactions with related parties during the year:

	2010	**2009**
	HK$'000	*HK$'000*
Related parties in which a Director of certain operating subsidiaries of the Group has beneficial interests		
Sale of goods	637	1,002
Service fee paid	–	341
Purchase of materials	–	109
Commission and agency fee paid	1,376	4,452
Related parties in which Directors of the Company have beneficial interests		
Sales of goods	999	–
Management fee received	266	267
Rental paid	8,133	8,133
Jointly controlled entities		
Sale of goods	24,190	12,846
Purchase of materials	13,214	8,175
Commission and management fee received	47,167	31,117
Sub-contracting fee paid	564	1,237

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:

	2010	**2009**
	HK$'000	*HK$'000*
Within one year	7,902	7,623
In the second to fifth year inclusive	15,805	–
	23,707	7,623

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

33. 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:

	2010	2009
	HK$'000	*HK$'000*
Short-term benefits	40,413	38,843
Post-employment benefits	1,846	1,859
	42,259	40,702

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.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company indirectly held at December 31, 2009 and 2010	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) Co., Ltd.*	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
Goller (HK) Limited	Hong Kong	HK$1	100%	Trading of textile machinery

Notes to the Consolidated Financial Statements
(For the year ended December 31, 2010)

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company indirectly held at December 31, 2009 and 2010	Principal activities
Goller Textile Machinery (Shenzhen) Co., Ltd. *	The PRC	US$10,000,000	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) Co., Ltd.	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%	Trading and manufacture of stainless steels casting products
THEN Maschinen (HK) Limited	Hong Kong	HK$1	100%	Trading of textile machinery and technical parts
Fong's Europe GmbH (formerly known as 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$1,000,000	100%	Providing services on recycling of polluted water
Fong's Water Technology & 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

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company indirectly held at December 31, 2009 and 2010	Principal activities
Fong's National Dyeing and Finishing Machinery (Macao Commercial Offshore) Co. Ltd.	Macau	MOP100,000	100%	Trading of textile machinery
立信染整機械(廣東)有限公司*	The PRC	US$5,200,000	100%	Not yet commenced business
立信鋼材(中山)有限公司*	The PRC	US$1,395,000	100%	Not yet commenced business
泰鋼合金(中山)有限公司*	The PRC	US$6,750,000	100%	Not yet commenced business

* *A wholly-owned foreign enterprise in the PRC*

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.

Notes to the Consolidated Financial Statements

(For the year ended December 31, 2010)

35. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2010	2009
	HK$'000	*HK$'000*
Unlisted investments in subsidiaries	36,585	36,585
Bank balances and cash	552	462
Amounts due from subsidiaries	505,134	243,192
Other receivables	95	245
Total assets	542,366	280,484
Current liabilities	760	776
Total net assets	541,606	279,708
Share capital *(note 26)*	55,145	55,145
Reserves	486,461	224,563
Total equity	541,606	279,708

36. EVENTS AFTER THE REPORTING PERIOD

(a) On January 7, 2011, China Hengtian Group Co. Ltd., ("the Offeror"), an independent third party, and Mr. Fong Sou Lam ("Mr. Fong"), the Chairman and the controlling shareholder of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which the Offeror agreed to acquire, and Mr. Fong agreed to sell 207,895,250 shares of the Company, representing approximately 37.7% of the issued share capital of the Company as at the date of the Company's announcement dated January 14, 2011, for a cash consideration of HK$1,039,476,250 (equivalent to HK$5 per share) (the "Acquisition"). The consideration was agreed between the Offeror and Mr. Fong after arm's length negotiations with reference to the prevailing market prices of the Company's shares.

Completion of the Acquisition is conditional upon the Offeror having obtained all necessary authorisations, approvals and consents of the relevant governmental or regulatory authorities in the PRC in relation to the Acquisition and the unconditional mandatory cash offer to be made by Citigroup Global Markets Asia Limited on behalf of the Offeror, including the approval of the Ministry of Commerce and the National Development and Reform Commission in relation to the Acquisition and the approval of the State Administration of Foreign Exchange in relation to the conversion of RMB into Hong Kong dollars for the payment of the consideration, and such authorisations, approvals and consents remaining in full force and effect pursuant to the provisions of any laws or regulations in the PRC (the "Condition"). The Condition cannot be waived. If the Condition is not fulfilled on or before May 7, 2011, the Sale and Purchase Agreement will automatically terminate and neither the Offeror nor Mr. Fong will be obliged to complete the Acquisition.

(b) On January 21, 2011, 泰鋼合金(中山)有限公司 ("Tycon Zhongshan"), a wholly-owned subsidiary of the Company, entered into a land-use rights sale and purchase agreement with 中山市國土資源局 (Zhongshan Bureau of Land Resources) to purchase a piece of land located in Zhongshan at a consideration of approximately RMB38.4 million. The consideration has been fully settled subsequently. Tycon Zhongshan is now in the process of applying for the relevant land use rights certificate.

C STATEMENT OF INDEBTEDNESS

Borrowings

At the close of business on March 31, 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group had outstanding current bank loans and borrowings of approximately HK$640 million. As at March 31, 2011, none of the bank loans and borrowings was secured over buildings, land use right, machinery, equipment and tools belonging to the Group.

Disclaimer

Save as disclosed above, at the close of business on March 31, 2011, the Group did not have any other outstanding bank overdrafts or loans, or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

The Directors confirm that there has been no material change in the indebtedness and contingent liabilities of the Group since March 31, 2011 up to the Latest Practicable Date.

D. MATERIAL CHANGES

As at the Latest Practicable Date, there were no material change in the financial or trading position or outlook of the Group since December 31, 2010, being the date to which the latest published audited financial statements of the Group were made up, up to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this Composite Document by the Group have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this Composite Document (other than opinions expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

Authorised Share Capital:	**HK$**
1,000,000,000 Shares	100,000,000
Issued and Fully Paid-up Share Capital:	
551,446,285 Shares	55,144,628.50

All the Shares in issue rank pari passu in all respects with each other, including the rights in respect of capital, dividends and voting.

No Shares have been issued by the Company since December 31, 2010, being the end of the last financial year of the Company until the Latest Practicable Date.

There are no options, warrants and conversion rights affecting the Shares.

Other than the Shares in issue, there are no convertible securities, warrants, options, derivatives or other securities issued by the Company.

3. MARKET PRICES

The table below shows the closing market prices of the Shares as quoted on the Stock Exchange (a) on the Latest Practicable Date, (b) on the Last Trading Date and (c) at the end of each of the calendar months during the Relevant Period:

Date	Closing Price per Share (HK$)
July 30, 2010	3.30
August 31, 2010	3.86
September 30, 2010	3.84
October 29, 2010	4.36
November 30, 2010	4.34
December 31, 2010	4.91
January 7, 2011 (Last Trading Date)	5.28[1]
January 31, 2011	5.25
February 28, 2011	5.08
March 31, 2011	4.94
April 29, 2011	4.97
May 9, 2011 (Latest Practicable Date)	5.07

Note:

(1) This is the closing price on the Last Trading Date. The Shares were suspended from trading from the Suspension Date and resumed trading on January 17, 2011.

During the Relevant Period, the highest closing price of the Shares was HK$5.44 per Share as quoted on the Stock Exchange on February 18 and 21, 2011 and the lowest closing price of the Shares was HK$3.29 per Share as quoted on the Stock Exchange on August 3, 2010.

4. DISCLOSURE OF INTERESTS IN THE COMPANY

(a) As at the Latest Practicable Date, the interest of the Directors and their associates in the shares of the Company, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of 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))*	82,052,110	14.88%
		121,952,110	**22.12%**

Name of Director	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
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	2,018,000	0.36%
	Corporate interest *(note 1(c))*	1,313,500	0.24%
		3,331,500	**0.60%**
Mr. Tou Kit Vai	Beneficial owner	**488,000**	**0.09%**
Ms. Poon Hang Sim, Blanche	Beneficial owner	**120,000**	**0.02%**

Note 1: (a) Mr. Fong is deemed to be interested in 82,052,110 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 79,502,110 Shares as follows:

1. Bristol Investments Limited – 18,000,000 Shares

2. Polar Bear Holdings Limited – 48,000,000 Shares

3. Sheffield Holdings Company Limited – 13,502,110 Shares

The Sale and Purchase Agreement and the Irrevocable Undertaking together constitute an agreement to acquire interests in a listed corporation as described in section 317 of the SFO. Accordingly, Mr. Fong is taken to be interested in any Shares comprised in the relevant share capital of the Company in which the Offeror is interested apart from the said agreement pursuant to sections 317 and 318 of the SFO. Upon Completion, Mr. Fong, apart from having interests in approximately 22.12% of the issued share capital of the Company, will therefore also be taken to have interests in approximately 37.7% of the issued share capital of the Company (and such other interests in the Shares that the Offeror is interested or taken to be interested in under the SFO) under sections 317 and 318 of the SFO. In addition, Mr. Fong's interest in the Shares may change after the Latest Practicable Date depending on whether he accepts the Offer during the Offer Period in accordance with the terms of the Irrevocable Undertaking as described in this Composite Document.

(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 discretionary objects (in other words, potential 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. Each of Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill do not own or control the Shares in which they are deemed to be interested in under the SFO. The founder of the discretionary trust is Madam Mak Kam Ming, the spouse of Mr. Fong, and the trustee of the discretionary trust is not acting in concert with Mr. Fong.

Save as disclosed above and other than certain nominee shares in subsidiaries held by a Director 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 the Latest Practicable Date. Save as disclosed above, none of the Directors owned or controlled any Shares, convertible securities, warrants, options or derivatives in respect of the Shares.

(b) As at the Latest Practicable Date, save for the 207,895,250 Shares held by China Hi-Tech Holdings Company Limited (which is a wholly-owned subsidiary of the Offeror) and the 121,952,110 Shares held by Mr. Fong, representing approximately 37.7% and 22.12% of the issued share capital of the Company respectively as at the Latest Practicable Date, neither the Offeror, the members of the board of directors of the Offeror nor any of the persons acting in concert with any of them owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

(c) As at the Latest Practicable Date, save as provided in the Irrevocable Undertaking, there were no persons who owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares who had, prior to the posting of this Composite Document, irrevocably committed themselves to accept or reject the Offer.

(d) As at the Latest Practicable Date, save as provided in the Irrevocable Undertaking no persons who had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or parties acting in concert with it owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

(e) As at the Latest Practicable Date, there were no persons acting in concert with the Offeror who has borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

(f) As at the Latest Practicable Date, none of the subsidiaries of the Company or any pension funds of the Group nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

(g) As at the Latest Practicable Date, save as disclosed in paragraph 4(a) of this Appendix III and the shareholding of the Offeror in the Company upon Completion, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

(h) As at the Latest Practicable Date, no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company.

(i) As at the Latest Practicable Date, save for Mr. Fong Kwok Chung, Bill who intended to partially accept the Offer in the amount of 3,716,000 to 4,459,200 Shares, and save as provided in the Irrevocable Undertaking, none of the Directors intend, in respect of their own beneficial Shareholdings in the Company, to accept the Offer.

5. OTHER DISCLOSURES

(a) As at the Latest Practicable Date, save as provided in the Irrevocable Undertaking, neither the Offeror, the members of the board of directors of the Offeror, or any parties acting in concert with it had any arrangement with any other person of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code.

(b) As at the Latest Practicable Date, save as provided in the Irrevocable Undertaking, neither the Company nor any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code, had any arrangement with any other person of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code.

(c) As at the Latest Practicable Date, neither the Company nor any of the Directors was interested in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

(d) As at the Latest Practicable Date, neither the Company nor the members of the Board has borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

(e) As at the Latest Practicable Date, save as the Sale and Purchase Agreement and the Irrevocable Undertaking, there were no material contracts entered into by the Offeror in which any of the Directors has a material personal interest.

(f) As at the Latest Practicable Date, none of the subsidiaries of the Company or any pension funds of the Group nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders) owned or controlled any shares or any convertible securities, warrants, options or derivatives in respect of any shares in the Offeror.

6. DEALINGS IN THE SHARES

(a) During the Relevant Period:

(i) save as provided in the Sale and Purchase Agreement and the Irrevocable Undertaking, neither the Offeror, the members of the board of directors of the Offeror or any parties acting in concert with it had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(ii) none of the Directors had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, save as and except for the Acquisition and the purchase by Mr. Tou Kit Vai of 20,000 Shares at the price of HK$3.60 per Share through the Stock Exchange on July 15, 2010;

(iii) neither the Company nor any of the Directors had dealt for value in the shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror; and

(iv) save as provided in the Irrevocable Undertaking and the Acquisition, no persons who had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any parties acting in concert with it had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

(b) During the period from the commencement of the Offer Period to the Latest Practicable Date:

(i) none of the subsidiaries of the Company or any pension funds of the Group nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders) had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(ii) save as provided in the Irrevocable Undertaking and the Acquisition, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and

(iii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, each of the following Directors had entered into a service contract with the Company renewing their terms of appointment as Directors, particulars of which are set out below:

Director	Date of Service Contract	Expiry Date of Service Contract	Fixed Annual Remuneration *HK$*	Bonus Payment *HK$*
Mr. Cheung Chiu Fan	December 31, 2010	December 31, 2012	75,000	Nil
Dr. Yuen Ming Fai	May 18, 2010	August 31, 2012	75,000	Nil
Dr. Keung Wing Ching	May 18, 2010	May 31, 2012	75,000	Nil

The service contracts of these independent non-executive Directors which expired immediately prior to the renewals above are in substantially the same terms as those set out above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before January 14, 2011, being the date of the Announcement, (ii) is a continuous contract with a notice period of 12 months or more, or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period.

8. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

No material contracts (being contracts not entered into in the ordinary course of business of the Group) have been entered into by the members of the Group after the date of two years before the commencement of the Offer Period from January 14, 2009 up to and including the Latest Practicable Date.

10. EXPERTS AND CONSENTS

(a) The names and qualifications of the professional advisers who have given opinions or advice which are contained or referred to in this Composite Document are set out below:

Name	Qualification
Citigroup	a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
ICAL	a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

(b) Each of Citigroup and the Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion in this Composite Document of the text of its letter and references to its name in the form and context in which they respectively appear.

11. MISCELLANEOUS

(a) The principal members of the Offeror's concert group are (i) the Offeror and (ii) Citigroup, the financial adviser to the Offeror.

(b) None of the Directors will be or has been given any benefit (save for any statutory compensation required under appropriate laws) as compensation for loss of office or otherwise in connection with the Offer.

(c) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer, save as provided in the Irrevocable Undertaking.

(d) There is no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to its offer and the consequences of its doing so.

(e) Save as provided in the Sale and Purchase Agreement and the Irrevocable Undertaking, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any parties acting in concert with it, on the one hand, and any Directors, recent Directors, Shareholders or recent Shareholders, on the other hand, having any connection with or dependence upon the Offer.

(f) Unless otherwise required by the Listing Rules with regard to the public float requirements, save for any transfers between certain subsidiaries of the Offeror, the Offeror has no intention to transfer, charge or pledge the Shares acquired in the Acquisition and the Shares to be acquired in the Offer to any other persons.

(g) The registered address of the Offeror is at China Garments Mansion, 99 Jianguo Road, Chaoyang District, Beijing, the PRC. The correspondence address of the Offeror in Hong Kong is Room B, 23/F, Empire Land Commercial Centre, 81-85 Lockhart Road, Wan Chai, Hong Kong.

(h) The address of Citigroup is 50/F, Citibank Tower, 3 Garden Road, Central, Hong Kong.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from the date of this Composite Document until the closing date of the Offer (a) at the principal place of business of the Company in Hong Kong at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong between 9:00 a.m. and 6:00 p.m. (except Saturdays, Sundays and public holidays), (b) on the website of the Company at www.fongs.com, and (c) on the website of the SFC at www.hksfc.org.hk:

(a) the articles of association of the Offeror;

(b) the memorandum of association and bye-laws of the Company;

(c) the annual reports of the Company for the two financial years ended December 31, 2009 and 2010;

(d) the letter from Citigroup dated May 13, 2011, the text of which is set out on pages 6 to 15 of this Composite Document;

(e) the letter from the Board dated May 13, 2011, the text of which is set out on pages 16 to 20 of this Composite Document;

(f) the letter from the Independent Board Committee dated May 13, 2011, the text of which is set out on pages 21 to 22 of this Composite Document;

(g) the letter from the Independent Financial Adviser dated May 13, 2011, the text of which is set out on pages 23 to 40 of this Composite Document;

(h) the service contracts referred to in the section headed "Directors' Service Contracts" in this Appendix III;

(i) the written consents referred to in the section headed "Experts and Consents" in this Appendix III;

(j) the Sale and Purchase Agreement;

(k) the Irrevocable Undertaking; and

(l) this Composite Document and the Form of Acceptance and Transfer.