



FONG'S

Annual Report 2004

**FONG'S INDUSTRIES
COMPANY LIMITED**
(Incorporated in Bermuda with limited liability)



fong's[®]

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam (*Chairman*)
Mr. Wan Wai Yung (*Joint Managing Director*)
(appointed on March 1, 2005)
Mr. Lee Che Chiu (*Joint Managing Director*)
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Mo Yiu Leung, Jerry
Mr. Cheuk Hon Kin, Kelvin
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche
Mr. Tsui Wai Keung
(appointed on September 1, 2004)
Mr. Peter Rainer Philipp
(appointed on April 11, 2005)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai
(appointed on September 1, 2004)

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

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

QUALIFIED ACCOUNTANT

Mr. Mo Yiu Leung, Jerry

AUDIT COMMITTEE

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

SOLICITORS

Woo, Kwan, Lee & Lo
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

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

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

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

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
Ground Floor, BEA Harbour View Centre,
56 Gloucester Road,
Wanchai,
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE ADDRESS

<http://www.fongs.com>

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Fong's Industries Company Limited (the "Company") will be held at Ching Room, 4th Floor, Sheraton Hong Kong Hotel and Towers, 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, May 25, 2005 at 11:30 a.m. for the following purposes:

1. To receive and adopt the audited Financial Statements and Reports of the Directors and Auditors for the year ended December 31, 2004.
2. To declare a final dividend/special dividend.
3. To re-elect Directors and to fix a maximum number of Directors.
4. To re-appoint Messrs. Deloitte Touche Tohmatsu as Auditors and authorise the Directors to fix their remuneration.
5. To transact any other ordinary business(es).

By Order of the Board

C.K. Lee

Company Secretary

Hong Kong, April 11, 2005

Notes:

- (a) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, the proxy form and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's principal place of business at the 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong not less than 48 hours before the time fixed for holding the Annual General Meeting or any adjourned meeting.
- (b) In order to determine who are entitled to attend and vote at the Annual General Meeting, the register of members will be closed from May 23, 2005 to May 25, 2005, both days inclusive, during which period no transfer of shares can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Secretaries Limited, at the Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, May 20, 2005.

Chairman's Statement



On behalf of the Board of Directors (the "Board"), I would like to present the results of Fong's Industries Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended December 31, 2004.

For the year under review, the Group's consolidated turnover rose by 29% to approximately HK\$1,744 million (2003: HK\$1,350 million), the increase in turnover was mainly attributable to the growth in sales volume of the stainless steel trading segment. However, the Group's net profit declined by 15% to approximately HK\$235 million (2003: HK\$277 million).

With regards to the market conditions during the year under review, it has been quite challenging with many unforeseen events taken place. In particular, our customers in the Hong Kong and China markets were affected firstly by the Mainland China's austerity measures against fixed asset investment growth and the uncertainty relating to these measures also further dampened the investment sentiments during the year. Secondly, also relating to these same customers was

the uncertainty regarding the elimination of textile quotas under the WTO Agreement. In particular, although all textile quotas have been eliminated as of January 1 2005, there are still various "Safeguard" measures that may be taken against China's export of textile and garments by the major importing regions such as the United States and the European Union. Up till now, there is a consensus in the industry that certain restraints against China's exports of textile and garments will eventually take place but what is uncertain is the severity of the restraints and the categories of the textile products that may or may not be affected. With this in mind, it has been difficult for the industry to make reasonable capital expenditure decisions and is affecting the buying behaviours of major retailers in the United States and the European Union. Some experts have even commented that the US is already achieving its target of restraining the export growth of China's textile and garments with this uncertainty despite the fact that all textile quotas have been eliminated and that no new restraints have yet been implemented. Nevertheless, we have seen market improvements since the end of the third quarter of 2004 and that major market regions outside of Hong Kong and China have continued to perform well as they are not affected by these mentioned factors and may in fact benefit there from.

With regards to stainless steel prices, since the significant rise from the end of 2003 till the middle of 2004, stainless steel prices have remained relatively stable but at these higher prices. During this time our core business of dyeing and finishing machine manufacturing has been able to hedge most of the cost increases by holding high level of lower cost inventories but even so the rise in stainless steel costs started to flow through towards the end of the year and as a result the profit margins of this business segment were affected somewhat in the very end of the second half year.

As a countermeasure and together with the improvements in the market conditions as mentioned, our dyeing and finishing machine manufacturing business implemented price increases in October and December, 2004. Consequently, it is expected that the pressure on the profit margins as experienced in the very end of 2004 will be mitigated by these price

Chairman's Statement

increases in the coming year. In addition, during such times of stainless steel price increase, our stainless steel trading segment has outperformed in one of its capacities of helping to hedge against the adverse effect of such price increases within the Group.

In August, 2004, the Group acquired from the insolvency administrators of Then Maschinen- und Apparatebau GmbH and Scholl-Then AG (collectively the "SCHOLL-THEN Group") certain production facilities and intellectual property rights including the technology and know-how relating to the manufacture of dyeing and finishing machines for a cash consideration of approximately HK\$55 million. The SCHOLL-THEN Group was a leading European dyeing machine manufacturer with its renowned "SCHOLL" and "THEN" branded products. Through this strategic acquisition, the Group will be able to further advance its strategy of providing customers with the widest range of products and to improve its leading position in the industry on a global basis.

Looking ahead, the Board believes the Group has encountered the worst as a result of the two major factors affecting the Hong Kong and China markets in relation to our dyeing and finishing machinery business. In particular, we have seen sales stabilize in the China market despite the ongoing austerity measures. Secondly, the uncertainty surrounding the potential new quota restraints should only improve and be clarified as we move into the coming new years. Furthermore, these potential new restraints will only be effective until the end of 2007 and where all remaining post-quota restraints are expected to be completely removed under the WTO Agreement.

As for major markets outside of Hong Kong and China, even though we have seen three consecutive years of healthy growth, we are still expecting sizable growth in the coming year. In general, from a macro perspective and from previous experience, we expect the recent final elimination of quotas under the WTO Agreement will bring about continued growth in the Asian region as a whole, which we consider our strongest markets.



Also moving forward, the Group will keep improving the quality of our products and services and to look for ways to introduce wider ranges of products to our customers to meet their needs. Given the strength of our leading position in the global market, comprehensive product portfolio, reputable brand names, strong customer base, the Group aims at consolidating its position as one of the largest and strongest dyeing and finishing machine manufacturers in the world.

We will continue to focus on strengthening our business foundation to ensure that we have a strong base on which we can rely to explore new business opportunities for the development of our core business, broaden our revenue base, increase the growth potential and thus enhance the shareholders' worth.

APPRECIATION

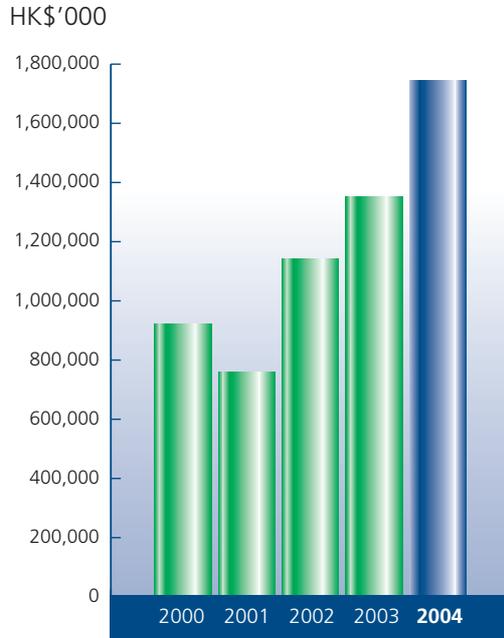
I would like to take this opportunity to express my sincere gratitude to our customers, suppliers, bankers, investors and business partners who have continuously supported us and to all members of the Board and staff for their dedication and contribution to the Group.

Fong Sou Lam
Chairman

Hong Kong, April 11, 2005

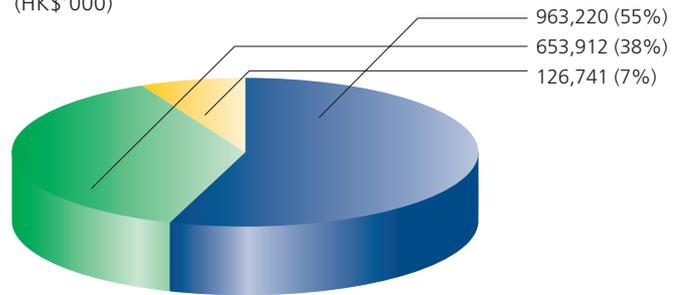
Financial Highlights

Turnover



Analysis of Turnover for the year

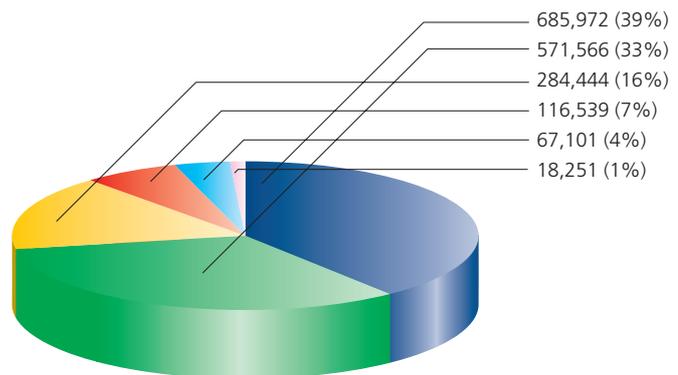
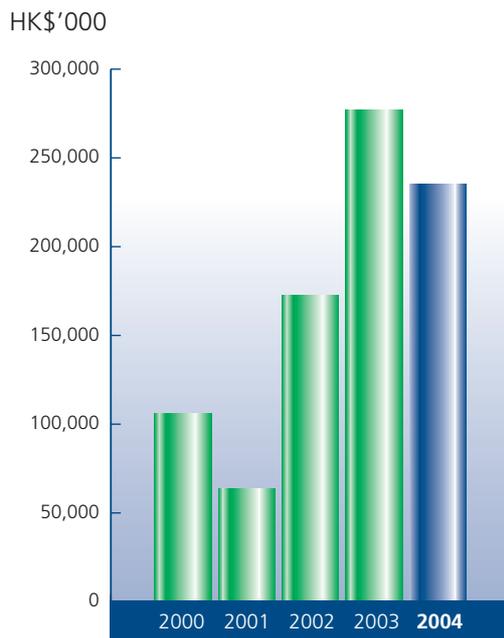
(HK\$'000)



By principal activity

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

Net Profit



By geographical region

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

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

1. Mr. Fong Sou Lam, aged 70, is the founder and chairman of the Group. Mr. Fong established the dyeing and finishing machinery manufacturing business in 1963 and has over 40 years' experience in that industry.
2. Mr. Wan Wai Yung, aged 54, is responsible for the overall supervision of the Group's operations and assisting the chairman in strategic planning and business development. Mr. Wan has over 20 years' experience with excellent customer relationships in the textile & dyeing industry. Mr. Wan first joined the Group in 1978 and has held various key positions in the Group. Mr. Wan was appointed as joint managing director of the Company on March 1, 2005.
3. Mr. Lee Che Chiu, aged 58, is a chartered engineer and holds a master degree in business administration from the Cranfield School of Management, U.K.. Mr. Lee has extensive experience in industrial and business management as well as in strategic management training and consultancy. Mr. Lee was appointed as a non-executive director in 1990 and redesignated to executive director of the Company on July 10, 2000. Mr. Lee is the joint managing director of the Company.
4. Mr. Fong Kwok Leung, Kevin, aged 43, is the eldest son of Mr. Fong Sou Lam and joined the Group in 1986. Mr. Kevin Fong is also the general manager and director of Fong's Steels Supplies Company Limited and has been involved in the business of stainless steel trading since 1988. Mr. Kevin Fong holds a bachelor degree in business administration from the Simon Fraser University, Canada.
5. Mr. Fong Kwok Chung, Bill, aged 35, is the second son of Mr. Fong Sou Lam. Mr. Bill Fong joined the Group in 1994 and had been working as project manager dealing with various inter-departmental coordination prior to his appointment as an executive director in May 1997. Mr. Bill Fong studied at the Simon Fraser University, Canada with concentrations in accounting and finance. Prior to joining the Group, Mr. Bill Fong spent approximately two years articling at a Chartered Accountants' firm and held the position as the treasurer for one of the oldest rugby football clubs, both in Vancouver, Canada.
6. Mr. Mo Yiu Leung, Jerry, aged 46, joined the Group as Chief Financial Officer in July, 2003 and is responsible for the overall corporate financial management of the Group. Mr. Mo has over 20 years' experience in financial management, accounting and auditing in the manufacturing sector including a NASDAQ listed company with a manufacturing base in China and a major industrial conglomerate in Australia. Mr. Mo holds a bachelor of science degree in accounting and data processing from Leeds University in the U.K.. Mr. Mo is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Mo was appointed as an executive director of the Company on November 28, 2003.

Directors and Senior Management Profile

7. Mr. Cheuk Hon Kin, Kelvin, aged 45, joined the Group in 1986. He is in charge of the sales and marketing department of the Group. Mr. Cheuk graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a higher diploma in textile chemistry and has a master of science degree in polymer science and technology from the Queen's University of Belfast, U.K.. He also holds a master degree in business administration from the Monash University of Australia. Mr. Cheuk is also a member of the Textile Institute and the Society of Dyers and Colourists and obtains Royal Charter status. He is also a corporate member of the Institute of Management and the Hong Kong Institution of Textile and Apparel.
8. Dr. Tsui Tak Ming, William, aged 46, is a chartered engineer and is in charge of the research & development department, control & automation department and mechanical design department of the Group. Before joining the Group in 1989, he worked in the U.K. for eight years in research & design on mechanical engineering and digital processing. Dr. Tsui holds a bachelor of science degree in aeronautical engineering and a doctorate degree in aeronautical engineering. Dr. Tsui is a corporate member of the British Royal Aeronautical Society, the British Institution of Mechanical Engineers, the Hong Kong Institution of Engineers and the Hong Kong Computer Society. Dr. Tsui has been appointed as the Head of Office for Scheme "A" training in Fong's National Engineering Company, Limited (electrical and mechanical engineering disciplines) by Hong Kong Institution of Engineers since 1998. Dr. Tsui has been appointed as a member of the Departmental Advisory Committee by the Manufacturing Engineering and Engineering Management Department of City University of Hong Kong since 2002. Dr. Tsui has also been nominated by Hong Kong Institution of Engineers since 1998 as a professional assessment assessor with specialism in the fields of industrial, power and process plant. Dr. Tsui was appointed as an executive director of the Company on July 10, 2000.
9. Ms. Poon Hang Sim, Blanche, is the financial controller of the Group. Ms. Poon joined the Group in 1995 and holds a bachelor degree in commerce from the University of New South Wales, Australia. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a CPA, Australia. Ms. Poon was appointed as an executive director of the Company on July 10, 2000.
10. Mr. Tsui Wai Keung, aged 47, is a director of Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Company, Limited. Since joining the Group in 1980, Mr. Tsui has been involved in the production of the Group's dyeing and finishing machinery which he is now in charge of. Mr. Tsui was appointed as executive director of the Company on September 1, 2004.
11. Mr. Peter Rainer Philipp, aged 56, holds a bachelor degree in textile engineering from the University of Reutlingen, Germany and has over 30 years of extensive business experience in the sales and marketing of dyeing and finishing machinery and is well experienced in the US and European markets. Mr. Philipp was appointed as executive director of the Company on April 11, 2005 and is responsible for the business development projects of the Group in the Americas and in Europe. Mr. Philipp has also held executive posts in two subsidiaries of the Group, namely the Chief Executive Officer of Xorella AG and an Advisory Committee Member of THEN Maschinen GmbH.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

1. Mr. Cheung Chiu Fan, aged 51, is a professional accountant with extensive experience in public accounting and professional management. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Company Secretaries, a member of the British Institute of Management in the U.K. and has a master degree in business administration from the Chinese University of Hong Kong. Mr. Cheung was appointed as a non-executive director of the Company in 1996.
2. Mr. Lui Chi Lung, Louis, aged 51, is an experienced and well-trained corporate and private banker for over 20 years and has worked as a senior marketing manager for a number of well-known international banks both in Hong Kong and in California, U.S.A.. Mr. Lui holds a master degree in business administration from State University of New York at Buffalo, U.S.A. and graduated from the University of Wisconsin at Madison, U.S.A.. Mr. Lui was appointed as an independent non-executive director of the Company on September 9, 2000.
3. Dr. Yuen Ming Fai, aged 54, is currently the Director of Technology Transfer Center at the Hong Kong University of Science and Technology and a Professor in Mechanical Engineering. Dr. Yuen holds a doctorate degree in mechanical engineering from the University of Bristol, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and Hong Kong Institution of Engineers. Dr. Yuen has extensive research experience in design and manufacturing. Dr. Yuen was appointed as an independent non-executive director of the Company on September 1, 2004.

SENIOR MANAGEMENT

1. Mr. Fu Hoi Kam, aged 68, is a director of Fong's National Engineering Company, Limited. He joined the Group in 1981 and is responsible for technical support towards customers. Mr. Fu graduated from the Beijing College of Mineralogy and is also a mechanical design engineer. He has extensive experience in dyeing process and production and often conducts seminars periodically at various international textile conferences and exhibitions.
2. Mr. Lee Bo Shing, Alfred, aged 49, is a senior manager of Fong's National Engineering Company, Limited. Mr. Lee got an endorsement to higher certificate in mechanical engineering from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) in 1978 and is a member of the American Welding Society and the Chinese Mechanical Engineering Society. He joined the Group in 1979 and is responsible for the technical department and participates in product development of the Group.
3. Mr. Wong Tak Man, Francis, aged 41, is a senior manager of the sales and marketing department. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a higher diploma in marine engineering and joined the Group in 1987. Mr. Wong is responsible for the sales and administration of the sales and marketing department in our China headquarters.

Directors and Senior Management Profile

4. Mr. Wong Ching Chuen, Patrick, aged 43, is a senior manager of the sales and marketing department and is responsible for the sales work of part of our China market. Mr. Wong has been respectively educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for mechanical engineering and Griffith University in Australia for law. He has over 15 years' experience in China trade for industrial equipment supplies and engineering work. He joined the Group in July 2000.
5. Dr. Dawood Jackson, aged 39, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the technical service and spare parts sales. Dr. Jackson graduated from Warwick University, U.K. and received a bachelor degree in electrical engineering. He also obtained a doctorate degree in electronic engineering from London University, U.K.. He has extensive experience in engineering industry and research field. He joined the Group in June, 2001.
6. Mr. Wong Tuh Hoe, Philip, aged 52, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the personnel and administration functions of the Group. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for human resources management studies. He has over 20 years' experience in human resources management, administration, staff career development and planning. Mr. Wong joined the Group in February, 2002.
7. Mr. Yan Tak Kuen, aged 58, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the production operations of the Group's dyeing and finishing machinery manufacturing business. Mr. Yan graduated from Guangzhou Marine Engineering Technical School with a secondary technical diploma and has extensive experience in mechanics and sheet metal working. He joined the Group in September 1984.
8. Mr. Leung Sheung Wai, Walter, aged 38, is a senior manager of the sales and marketing department and is responsible for the sales activities of overseas markets. Mr. Leung graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a higher diploma in textile chemistry and has over extensive experience in overseas trade for dyeing and finishing equipment. Mr. Leung joined the Group in June, 1997.
9. Mr. Chan Sze Hei, Byron, aged 42, is a senior manager of Fong's National Engineering Company Limited and is responsible for the corporate and legal services of the Group. Mr. Chan graduated from the Law School of Hong Kong University and is a qualified solicitor having extensive experience in legal practice. Mr. Chan is a holder of a bachelor of arts degree in English language and literature from Guangzhou Jinan University, a LL.B from Hong Kong University and Peking University respectively, a PCLL from Hong Kong University and a LL.M in Chinese and Comparative Law from the City University of Hong Kong. Mr. Chan joined the Group in December, 2003.

Directors and Senior Management Profile

10. Mr. Lee Che Keung, aged 44, is the company secretary of the Group. He graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a professional diploma in company secretaryship and administration and is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in the U.K.. Prior to joining the Group in 1990, Mr. Lee had extensive experience in company secretarial practice in a number of accounting firms. He is responsible for the corporate secretarial matters of the Group.

11. Mr. Jürg Rupp, aged 54, is the Director – Corporate Relations and Communications responsible for the corporate relations and marketing communications of the Company and its subsidiaries. Mr. Rupp has over 30 years' extensive experience in the textile industry as well as in media communications, marketing and professional journalism. Mr. Rupp joined the Group on February 1, 2005.

Management Discussion and Analysis



Shenzhen Manufacturing Complex



Hong Kong Headquarters



CITME 2004, China



India ITME 2004

OPERATING RESULTS

For the year ended December 31, 2004, the Group achieved consolidated turnover of approximately HK\$1,744 million (2003: HK\$1,350 million) representing an increase of 29% as compared with the previous year, mainly resulting from revenue growth of the stainless steel trading business. The net profit for the year was approximately HK\$235 million (2003: HK\$277 million) representing a decrease of 15% as compared with last year. Basic earnings per share for the year amounted to 41.9 HK cents (2003: 49.2 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

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

The turnover of the dyeing and finishing machine manufacturing segment, the Group's core business and principal profit earner, recorded a rise of 4% to approximately HK\$963 million (2003: HK\$924 million) for the year under review and accounted for 55% (2003: 68%) of the Group's consolidated turnover. The operating profit decreased 35% to approximately HK\$146 million (2003: HK\$226 million), which was mainly attributable to the austerity measures in China, the uncertainty relating to post quota restraints, higher prices of stainless steel and the negative contributions from the new acquisition.

Management Discussion and Analysis



ALLWIN
High Temperature Package Dyeing Machine



ECO-6
High Temperature Dyeing Machine



THEN-AIRFLOW® AFE
High Temperature Jet Dyeing Machine

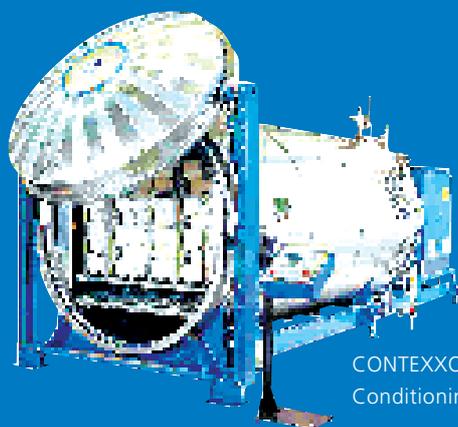
As disclosed in our Interim Report 2004, the Group acquired from the insolvency administrators of Then Maschinen- und Apparatebau GmbH and Scholl-Then AG (collectively the "SCHOLL-THEN Group") certain production facilities and intellectual property rights including the technology and know-how relating to the manufacture of dyeing and finishing machines for a cash consideration of approximately HK\$55 million. The SCHOLL-THEN Group was a leading European dyeing machine manufacturer with its renowned "SCHOLL" and "THEN" branded products. This strategic investment will enable the Group to further complement its "FONG'S" branded product range with the "SCHOLL" and "THEN" branded products in the global markets.



THEN Maschinen GmbH in Schwäbisch Hall, Germany

The Group's subsidiary namely THEN Maschinen GmbH, which was incorporated for the purpose, had taken over the continued manufacturing operation of the THEN branded products in Germany forthwith after the acquisition. During the year under review, the sale of "THEN" branded products amounted to approximately HK\$89 million and incurred an operating loss of approximately HK\$11 million. The management is continuing its efforts to increase its operational efficiencies and to rationalize its production costs. So far, there has been an encouraging inflow of orders and growth and this is expected to continue. The management believes that such loss will be diminishing and this subsidiary will become profitable in the coming year as well as contributing to sales growth of the Group.

Management Discussion and Analysis

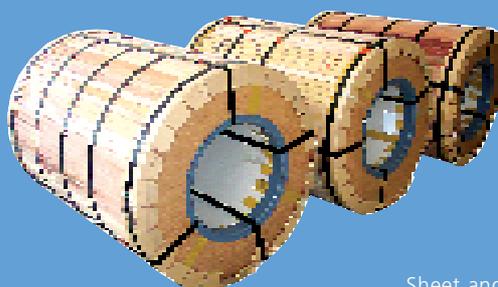


CONTEXXOR® Plus Vacuum Yarn
Conditioning and Steaming Machine



CONTEXXOR® Compact LTC-S

Coil Sheet



Sheet and Plate



Also, during the year under review, our 80% owned subsidiaries, Xorella Hong Kong Limited and Xorella AG both engaging in the business of yarn conditioning equipment, recorded a turnover of approximately HK\$65 million (2003: HK\$28 million), representing an increase of 132%. As anticipated in our 2003 Annual Report, these subsidiaries made a setback in 2003 and turned into a profitable company this year. Their profit for the year amounted to approximately HK\$1 million (2003: loss of approximately HK\$10 million). Although the results were still below the Group's target mainly because of the factors affecting the Hong Kong and China markets, the management will keep up its efforts at exploring the major markets in China and the Asia Pacific region. It is believed these subsidiaries will continue to have a steady growth in sales and profit in the years to come.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the year ended December 31, 2004, the turnover of stainless steel trading segment reached approximately HK\$654 million (2003: HK\$357 million) with a growth of 83% and accounted for 38% (2003: 27%) of the Group's consolidated turnover. The operating profit grew 270% to approximately HK\$81 million (2003: HK\$22 million).

Management Discussion and Analysis



Owing to the weakening of the US dollar and a strong demand for stainless steels driven by global economic growth coupled with an imbalance between supply and demand of nickel, chromium and molybdenum, which are the major base metals for producing stainless steels, stainless steel prices experienced a significant rise starting from the last quarter of 2003. The management believes the stainless steel prices will remain high and stay at this level for 2005. In view of that, the management has adopted a prudent approach in monitoring its inventory level taking into account of the projected sales.

STAINLESS STEEL CASTING

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

For the year ended December 31, 2004, the turnover of stainless steel casting segment amounted to approximately HK\$127 million (2003: HK\$69 million), representing an increase of 83% over last year. It accounted for 7% (2003: 5%) of the Group's consolidated turnover. The operating profit decreased 33% to approximately HK\$17 million (2003: HK\$26 million).

Due to the significant increases in stainless steel prices and other raw material costs, the profit margins of this business have been unfavourably affected. Nevertheless, the management expects that the profit margins will improve as new orders are re-negotiated, hence the profit margins are expected to improve in 2005 resulting from the increased sales price in addition to the improvements already seen in the second half of 2004.

Management Discussion and Analysis



Thermefix 338
Continuous Dyeing Range



JetAir 5000
Relaxation Dryer



MONFONGS 328 TwinAir Stenter

JOINTLY CONTROLLED ENTITY

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

Following the poor first half results due to the austerity measures and the uncertainties regarding the potential new restraints in the post quota era in relation to China, Monforts Fong's recorded a turnover of approximately HK\$300 million (2003: HK\$306 million) representing a decrease of 2% for the year under review, while the Group's share of profit amounted to approximately HK\$35 million (2003: HK\$50 million) representing a decline of 30% compared with last year.

During the year, the construction of the new plant and relocation of the production facilities were completed on schedule in September, 2004. The new manufacturing space has doubled to approximately 20,000 square metres. The relocation exercise has enabled Monforts Fong's to upgrade its production capability and capacity so as to meet the growing market demands. Consequently, in order to leverage its new advantage in economies of scale, Monforts Fong's has reduced selling prices of its machines in order to capture a greater market share. Even so, the management expects the profitability of Monforts Fong's to continue to grow in the coming years. In addition, barring any unforeseeable circumstances, the management remains optimistic that the poor performance experienced in the first half of 2004 is unlikely to be repeated in the foreseeable future.

Management Discussion and Analysis

With the continued growth of the Chinese economy in recent years, more business opportunities are expected to be available for Monforts Fong's. And currently, the finishing machines launched by Monforts Fong's include its flagship product "MONFONGS" Stenters, as well as the "JetAir" Relaxation Dryers and the more recently introduced "Thermefix" Continuous Dyeing Range. These top quality product ranges will continue to provide customers with greater and better choices of machinery to meet their needs.

ASSOCIATES

Foshan East Asia Company Limited (a 30% owned associate)

For the year under review, the sales revenue of woven color fabrics conducted by this associate recorded a rise of 18% to approximately HK\$208 million (2003: HK\$176 million) and the Group's share of profit before tax was approximately HK\$2.1 million (2003: HK\$2.5 million) representing a decline of 18%. The decrease in profit was mainly attributable to higher cotton costs and a competitive environment.

However, the management believes that this associate will continue to benefit from the expected growth in the textile industry and is on the right track for steady growth in revenue and profitability in the coming years.

Although the profit contribution level from this associate is not high when compared with our core business, this investment has brought steady and satisfactory returns to the Group over the years.

HUMAN RESOURCES

As at December 31, 2004, the Group had a total of 3,278 employees including 2,853 employees in China, 240 employees in Hong Kong, 167 employees in Germany, 13 employees in Switzerland and 5 employees in Thailand.

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

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

The Board considers the Group's financial position as healthy and believes that the Group has adequate financial resources to meet its cash flow requirements.

As at December 31, 2004, net of borrowings, the Group's net cash and bank balance was approximately HK\$72 million. In 2004, there was no gearing ratio shown as the Group had a net cash and bank balance. The current ratio was 1.85 reflecting a healthy liquidity level.

As at December 31, 2004, bank borrowings amounted to approximately HK\$181 million of which approximately 38% were secured by certain assets of the Group. All bank borrowings are repayable within one year. Most bank borrowings were sourced from Hong Kong, of which 61% were denominated in US dollars and the remaining were denominated in Hong Kong dollars. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at December 31, 2004, the cash and bank balance amounted to approximately HK\$254 million of which approximately 37% were denominated in Hong Kong dollars, 29% in US dollars, 20% in Renminbi, 11% in Euro and the remaining were denominated in various other foreign currencies.

The directors present their annual report and the audited financial statements for the year ended December 31, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The subsidiaries of the Company are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and property holding. The activities of its principal subsidiaries are set out in note 35 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2004 are set out in the consolidated income statement on page 27.

An interim dividend of 7 cents per share plus a special dividend of 3 cents per share, amounting to approximately HK\$56 million, were paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 7 cents per share plus a special dividend of 7 cents per share to the shareholders on the register of members on May 25, 2005, amounting to approximately HK\$78 million, and the retention of the remaining profit for the year of approximately HK\$101 million.

Subject to the approval of the shareholders at the forthcoming annual general meeting, dividend warrants are expected to be despatched to the shareholders on or before June 8, 2005.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2004, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 11% of the Group's total turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 42% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 17% of the total purchases.

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

Directors' Report

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Fong Sou Lam (<i>Chairman</i>)	
Mr. Wan Wai Yung (<i>Joint Managing Director</i>)	(appointed on March 1, 2005)
Mr. Lee Che Chiu (<i>Joint Managing Director</i>)	
Mr. Fong Kwok Leung, Kevin	
Mr. Fong Kwok Chung, Bill	
Mr. Mo Yiu Leung, Jerry	
Mr. Cheuk Hon Kin, Kelvin	
Dr. Tsui Tak Ming, William	
Ms. Poon Hang Sim, Blanche	
Mr. Tsui Wai Keung	(appointed on September 1, 2004)
Mr. Peter Rainer Philipp	(appointed on April 11, 2005)

Independent non-executive directors:

Mr. Cheung Chiu Fan	
Mr. Lui Chi Lung, Louis	
Dr. Yuen Ming Fai	(appointed on September 1, 2004)

Mr. Cheung Chiu Fan was appointed under a contract for a term of 2 years commencing on January 1, 2003 and expiring on December 31, 2004. Upon expiry, his term of office has been extended to December 31, 2006.

Mr. Lui Chi Lung, Louis was appointed under a contract for a term of 2 years commencing on September 9, 2002 and expiring on September 8, 2004. Upon expiry, his term of office has been extended to September 8, 2006.

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

The Company has received confirmations of independence from all independent non-executive directors and considers them to be independent.

In accordance with Clause 99 of the Company's Bye-Laws, all directors shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at December 31, 2004, the interests of the directors and their associates in the shares of the Company and its associated corporations as recorded in the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Sou Lam	Beneficial owner	17,604,000	3.14%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.04%
	Held by discretionary trusts (note)	304,875,601	54.40%
		306,625,601	54.72%
Mr. Fong Kwok Chung, Bill	Beneficial owner	4,562,000	0.82%
	Held by discretionary trusts (note)	304,875,601	54.40%
		309,437,601	55.22%
Mr. Cheuk Hon Kin, Kelvin	Beneficial owner	50,000	0.01%
Ms. Poon Hang Sim, Blanche	Beneficial owner	150,000	0.03%

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

Save as disclosed above and other than certain nominee shares in subsidiaries held by the directors in trust for the Company or its subsidiaries, none of the directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2004.

Directors' Report

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 26 to the financial statements.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 28 to the financial statements.

Pursuant to an ordinary resolution passed on June 8, 2000 by the shareholders of the Company, the Company had approved a share option scheme pursuant to which share options might be granted to full-time employees, including executive directors, of the Group to subscribe for shares in the Company.

Termination of the aforementioned share option scheme and adoption of a New Share Option Scheme were approved by the shareholders of the Company at a special general meeting held on May 26, 2003 in order to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") effective from September 1, 2001.

During the years ended December 31, 2004 and 2003, no share option was granted to or exercised by any director of the Company. There are no share options outstanding at December 31, 2004 and 2003.

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests in Sou Lam Company, Limited ("Sou Lam").

The Group entered into operating lease agreements with Sou Lam for the leasing of a portion of a factory building. The operating lease agreements expired on December 31, 2004. Total rentals paid by the Group to Sou Lam for the year amounted to HK\$5,638,412.

On December 30, 2004, the Group had renewed an operating lease agreement with Sou Lam for the use of a portion of the same factory building for a term of three years from January 1, 2005 to December 31, 2007.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE (continued)

The above operating lease agreements constituting continuing connected transactions of the Company were negotiated at terms agreed between the relevant parties and the rentals were determined by independent rental valuations.

The independent non-executive directors of the Company have reviewed the above-mentioned continuing connected transactions and have confirmed that the continuing connected transactions were:

- (i) entered into in the ordinary and usual course of business;
- (ii) conducted on normal commercial terms, which were no less than favourable than those available to or from independent third parties; and
- (iii) fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at December 31, 2004, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the following shareholder had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
The Capital Group Companies Inc.	Beneficial owner	50,227,300	8.96%

Save as disclosed above, as at December 31, 2004, the Company has not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Directors' Report

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$413,900.

EMOLUMENT POLICY

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

The emolument packages of the directors of the Company will be reviewed by the directors of the Company regularly. A share option scheme was established by the Company on May 26, 2003 to grant share options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Details of the share option scheme was set out in note 28 to the financial statements. No share option has been granted by the Company under the share option scheme since its adoption.

PRE-EMPTIVE RIGHTS

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

POST BALANCE SHEET EVENT

Details of the significant event occurring after the balance sheet date are set out in note 33 to the financial statements.

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

During the year ended December 31, 2004, the Company purchased its own shares through the Stock Exchange. Details of the repurchase of shares are set out in note 26 to the financial statements.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2004.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended December 31, 2004 with the Code of Best Practice contained in Appendix 14 of the Listing Rules.

The Code of Best Practice contained in Appendix 14 to the Listing Rules has been replaced by the Code on Corporate Governance Practices with effect from January 1, 2005 and the new Code will apply for subsequent reporting periods.

The Company has adopted the Code of Conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the year ended December 31, 2004 and all directors have complied with the required standard of dealings set out therein.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited financial statements and the continuing connected transactions for the year ended December 31, 2004.

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board

Fong Sou Lam

Director

Hong Kong, April 11, 2005

Auditors' Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF FONG'S INDUSTRIES COMPANY LIMITED

立信工業有限公司

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 27 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at December 31, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

April 11, 2005

Consolidated Income Statement

For the year ended December 31, 2004

	Notes	2004 HK\$	2003 HK\$
Turnover		1,743,872,784	1,350,380,079
Cost of sales		(1,205,301,079)	(840,405,312)
Gross profit		538,571,705	509,974,767
Other operating income		32,335,415	31,296,456
Distribution costs		(81,144,958)	(54,404,259)
Administrative expenses		(198,078,327)	(169,436,464)
Other operating expenses		(46,956,530)	(44,115,212)
Profit from operations	5	244,727,305	273,315,288
Finance costs	7	(10,955,139)	(4,874,750)
Interest income		977,571	1,325,762
Share of results of associates		2,266,469	2,667,207
Share of results of a jointly controlled entity		35,471,076	50,435,002
Profit before tax		272,487,282	322,868,509
Income tax expense	8	(37,239,088)	(47,901,247)
Profit before minority interests		235,248,194	274,967,262
Minority interests		(136,051)	1,942,872
Net profit for the year		235,112,143	276,910,134
Earnings per share	10	41.9 HK cents	49.2 HK cents

Consolidated Balance Sheet

At December 31, 2004

	Notes	2004 HK\$	2003 HK\$
Non-current assets			
Property, plant and equipment	11	283,175,857	257,221,653
Intellectual property rights	13	27,718,309	–
Goodwill	14	–	2,974,379
Interests in associates	15	31,800,764	31,342,135
Interest in a jointly controlled entity	16	57,486,349	56,200,152
Deferred tax assets	25	3,746,952	2,945,113
		403,928,231	350,683,432
Current assets			
Inventories	17	393,439,199	265,382,760
Trade and other receivables	18	193,155,579	124,488,457
Amount due from a jointly controlled entity	19	–	980,213
Tax recoverable		9,636,082	4,589,195
Bank balances, deposits and cash		254,175,933	217,209,182
		850,406,793	612,649,807
Current liabilities			
Trade and other payables	21	248,981,666	187,141,541
Amount due to a jointly controlled entity	19	2,419,850	–
Warranty provision	22	11,064,509	6,300,000
Tax liabilities		15,806,900	6,226,849
Obligations under finance leases – due within one year	23	1,518,217	2,231,885
Bank borrowings – due within one year	24	180,851,056	38,257,757
		460,642,198	240,158,032
Net current assets		389,764,595	372,491,775
		793,692,826	723,175,207
Capital and reserves			
Share capital	26	56,037,829	56,299,629
Reserves	27	734,860,428	661,644,433
		790,898,257	717,944,062
Minority interests		1,747,327	1,611,276
Non-current liabilities			
Obligations under finance leases – due after one year	23	–	1,518,067
Deferred tax liabilities	25	1,047,242	2,101,802
		1,047,242	3,619,869
		793,692,826	723,175,207

The financial statements on pages 27 to 68 were approved and authorised for issue by the Board of Directors on April 11, 2005 and are signed on its behalf by:

Fong Kwok Chung, Bill
Director

Fong Sou Lam
Director

Balance Sheet

At December 31, 2004

	Notes	2004 HK\$	2003 HK\$
Non-current asset			
Investments in subsidiaries	12	36,584,983	36,584,983
Current assets			
Other receivables		225,741	–
Amounts due from subsidiaries	20	372,070,092	415,785,724
Bank balances		198,546	135,820
		372,494,379	415,921,544
Current liabilities			
Other payables		312,473	301,456
Tax liabilities		32,187	106,517
		344,660	407,973
Net current assets		372,149,719	415,513,571
		408,734,702	452,098,554
Capital and reserves			
Share capital	26	56,037,829	56,299,629
Reserves	27	352,696,873	395,798,925
		408,734,702	452,098,554

Fong Kwok Chung, Bill
Director

Fong Sou Lam
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2004

	Total equity HK\$
At January 1, 2003	580,226,092
Exchange difference arising on translation of overseas subsidiaries not recognised in the consolidated income statement	1,556,908
Net profit for the year	276,910,134
Dividends	(87,264,425)
Special dividends	(53,484,647)
At December 31, 2003 and January 1, 2004	717,944,062
Exchange difference arising on translation of overseas subsidiaries not recognised in the consolidated income statement	1,183,406
Repurchase of shares	(17,624,440)
Net profit for the year	235,112,143
Dividends	(89,670,965)
Special dividends	(56,045,949)
At December 31, 2004	<u>790,898,257</u>

Consolidated Cash Flow Statement

For the year ended December 31, 2004

	2004 HK\$	2003 HK\$
OPERATING ACTIVITIES		
Profit from operations	244,727,305	273,315,288
Adjustments for:		
Depreciation and amortisation on property, plant and equipment	28,165,030	30,546,206
Reversal of allowance for inventories	(221,937)	(1,471,520)
Allowance for doubtful debts	5,174,651	4,582,080
Amortisation of intellectual property rights/intangible assets	1,205,144	174,371
Amortisation of goodwill	2,974,379	2,974,380
Impairment loss on property held for redevelopment	–	1,998,971
Loss on disposal of property, plant and equipment	85,082	2,224,304
Increase in warranty provision	11,637,296	7,300,000
Operating cash flows before movements in working capital	293,746,950	321,644,080
Increase in inventories	(127,834,502)	(85,876,492)
(Increase) decrease in trade and other receivables	(73,841,773)	11,831,702
Decrease in amount due from a jointly controlled entity	980,213	4,661,211
Increase in trade and other payables	61,840,125	13,168,298
Increase in amount due to a jointly controlled entity	2,419,850	–
Utilisation of warranty provision	(6,872,787)	(4,766,200)
Cash generated from operations	150,438,076	260,662,599
Hong Kong Profits Tax paid	(24,971,218)	(51,503,875)
Overseas income tax paid	(4,945,743)	(12,367,226)
Hong Kong Profits Tax refunded	120,337	–
Overseas income tax refunded	–	128,141
NET CASH GENERATED FROM OPERATING ACTIVITIES	120,641,452	196,919,639
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(54,634,904)	(51,432,720)
Purchases of intellectual property rights	(28,923,453)	–
Dividend received from a jointly controlled entity	30,000,000	19,032,000
Dividends received from associates	1,227,020	5,893,771
Interest received	977,571	1,325,762
Proceeds from disposal of property, plant and equipment	593,853	2,628,601
Capital injection to a jointly controlled entity	–	(50,000)
NET CASH USED IN INVESTING ACTIVITIES	(50,759,913)	(22,602,586)

Consolidated Cash Flow Statement

For the year ended December 31, 2004 (continued)

	2004	2003
	HK\$	HK\$
FINANCING ACTIVITIES		
Dividends paid	(145,716,914)	(140,749,072)
Repurchase of shares	(17,624,440)	–
Interest paid on bank borrowings	(5,621,625)	(300,660)
Bank charges	(4,730,035)	(4,103,972)
Repayment of obligations under finance leases	(2,231,735)	(3,490,868)
Factoring charges	(498,089)	(234,827)
Interest paid on finance leases	(105,390)	(235,291)
Repayment of bank loans	–	(10,825,500)
Increase (decrease) in trust receipt loans	72,593,299	(15,216,843)
New bank loans raised	70,000,000	–
NET CASH USED IN FINANCING ACTIVITIES	(33,934,929)	(175,157,033)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,946,610	(839,980)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	217,209,182	216,051,264
Effect of foreign exchange rate changes	1,020,141	1,997,898
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances, deposits and cash	254,175,933	217,209,182

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 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, manufacture and sale of stainless steel casting products and property holding.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries prior to January 1, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions of subsidiaries after January 1, 2001 is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the profit and loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intellectual property rights

Intellectual property rights are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

Revenue recognition

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Property, plant and equipment

Property, plant and equipment, other than property held for redevelopment and construction in progress, are stated at cost less depreciation, amortisation and accumulated impairment losses.

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

Leasehold land	Over the terms of the leases
Buildings	Over the estimated useful lives from 25 to 50 years or over the terms of the leases, if less than 50 years
Leasehold improvements	10%
Plant and machinery	10%-20%
Furniture and equipment	20%
Motor vehicles	20%
Moulds and tools	20%

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

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

Properties held for redevelopment are stated at cost less any identified impairment loss. No depreciation is provided on properties held for redevelopment until the construction is completed.

Construction in progress represents buildings under construction in the People's Republic China, other than Hong Kong ("PRC") is stated at cost less any identified impairment loss. Cost includes all direct costs attributable to such projects. Construction in progress is not depreciated until the construction or installation is completed and the relevant assets are ready to be put into operation.

Impairment

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

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

Assets held under finance leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the terms of the relevant leases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation the financial statements of subsidiaries, associates and a jointly controlled entity which are denominated in currencies other than Hong Kong dollars are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. All exchange differences arising on consolidation are dealt with in reserves.

Borrowing costs

All borrowing costs are recognised as expenses in the period in which they are incurred.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

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

Retirement benefit costs

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

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development expenditure incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments** (continued)

Turnover represents the net amounts received and receivable less returns, and allowances, for goods sold by the Group to outside customers.

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

Segment information about these businesses is presented below:

2004

	Manufacture and sale of dyeing and finishing machines HK\$	Trading of stainless steel supplies HK\$	Manufacture and sale of stainless steel casting products HK\$	Eliminations HK\$	Consolidated HK\$
TURNOVER					
External sales	963,219,414	653,912,085	126,741,285	–	1,743,872,784
Inter-segment sales	29,034,271	197,607,354	20,681,732	(247,323,357)	–
Total	<u>992,253,685</u>	<u>851,519,439</u>	<u>147,423,017</u>	<u>(247,323,357)</u>	<u>1,743,872,784</u>

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

RESULTS

Segment results	<u>145,966,597</u>	<u>81,370,377</u>	<u>17,390,331</u>	–	244,727,305
Finance costs					(10,955,139)
Interest income					977,571
Share of results of associates					2,266,469
Share of results of a jointly controlled entity	35,471,076				<u>35,471,076</u>
Profit before tax					272,487,282
Income tax expense					(37,239,088)
Minority interests					<u>(136,051)</u>
Net profit for the year					<u>235,112,143</u>

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2004 (continued)

CONSOLIDATED BALANCE SHEET

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

OTHER INFORMATION

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

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments** (continued)

2003

	Manufacture and sale of dyeing and finishing machines HK\$	Trading of stainless steel supplies HK\$	Manufacture and sale of stainless steel casting products HK\$	Eliminations HK\$	Consolidated HK\$
TURNOVER					
External sales	924,018,554	357,107,252	69,254,273	–	1,350,380,079
Inter-segment sales	16,839,319	133,261,396	24,157,087	(174,257,802)	–
Total	940,857,873	490,368,648	93,411,360	(174,257,802)	1,350,380,079

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

RESULTS					
Segment results	225,530,504	21,998,673	25,786,111	–	273,315,288
Finance costs					(4,874,750)
Interest income					1,325,762
Share of results of associates					2,667,207
Share of results of a jointly controlled entity	50,435,002				50,435,002
Profit before tax					322,868,509
Income tax expense					(47,901,247)
Minority interests					1,942,872
Net profit for the year					276,910,134

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2003 (continued)

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines HK\$	Trading of stainless steel supplies HK\$	Manufacture and sale of stainless steel casting products HK\$	Consolidated HK\$
ASSETS				
Segment assets	422,310,965	168,161,040	60,575,457	651,047,462
Interests in associates				31,342,135
Interest in a jointly controlled entity	56,200,152			56,200,152
Unallocated corporate assets				224,743,490
Consolidated total assets				<u>963,333,239</u>
LIABILITIES				
Segment liabilities	137,588,086	38,801,575	17,051,880	193,441,541
Unallocated corporate liabilities				50,336,360
Consolidated total liabilities				<u>243,777,901</u>

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines HK\$	Trading of stainless steel supplies HK\$	Manufacture and sale of stainless steel casting products HK\$	Consolidated HK\$
Capital additions	44,428,182	1,150,099	5,854,439	51,432,720
Depreciation and amortisation	26,319,367	738,777	6,636,813	33,694,957
Impairment loss on the property held for redevelopment	1,998,971	–	–	1,998,971
Loss (gain) on disposal of property, plant and equipment	677,448	(39,834)	1,586,690	2,224,304
Reversal of allowance for inventories	–	–	(1,471,520)	(1,471,520)
Allowance for doubtful debts	399,723	3,880,357	302,000	4,582,080
Increase in warranty provision	7,300,000	–	–	7,300,000

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Geographical segments**

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

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

	Revenue by geographical market	
	2004 HK\$	2003 HK\$
The PRC	685,972,398	627,684,244
Hong Kong	571,565,506	420,137,457
Asia Pacific (other than the PRC and Hong Kong)	284,444,400	176,271,396
Europe	116,538,825	88,083,649
North and South America	67,100,890	28,256,638
Others	18,250,765	9,946,695
	1,743,872,784	1,350,380,079

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intellectual property rights	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
The PRC	584,252,308	487,131,158	21,003,237	43,529,804
Hong Kong	500,099,831	464,359,223	3,377,107	7,121,127
Europe	166,235,933	8,897,745	59,178,013	781,789
	1,250,588,072	960,388,126	83,558,357	51,432,720

Notes to the Financial Statements

For the year ended 31 December 2004

5. PROFIT FROM OPERATIONS

	2004 HK\$	2003 HK\$
Profit from operations has been arrived at after charging (crediting):		
Allowance for doubtful debts	5,174,651	4,582,080
Amortisation of goodwill (included in administrative expenses)	2,974,379	2,974,380
Amortisation of intellectual property rights/intangible assets (included in administrative expenses)	1,205,144	174,371
Auditors' remuneration	1,214,047	1,005,939
Depreciation and amortisation:		
Owned assets	27,127,366	28,509,826
Assets held under finance leases	1,037,664	2,036,380
Impairment loss on property held for redevelopment (included in administrative expenses)	–	1,998,971
Loss on disposal of property, plant and equipment	85,082	2,224,304
Net foreign exchange gain	(6,078,824)	(7,838,027)
Research and development expenditure	846,806	903,266
Reversal of allowance for inventories	(221,937)	(1,471,520)
Staff costs, including directors' emoluments	143,708,131	124,489,574
Cost of inventories recognised as an expense	1,195,300,181	835,010,686
Gross rental income net of outgoings of HK\$162,722 (2003: HK\$145,616)	290,478	76,825

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004 HK\$	2003 HK\$
Directors		
Directors' fees:		
Executive	–	–
Independent non-executive	116,667	100,000
Other emoluments to executive directors:		
Salaries and other benefits	15,061,807	12,635,755
Performance related incentive payment	4,445,775	3,634,000
Retirement benefits scheme contribution	737,489	644,112
	20,361,738	17,013,867

Notes to the Financial Statements

For the year ended 31 December 2004

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil-HK\$1,000,000	4	3
HK\$1,000,001-HK\$1,500,000	1	1
HK\$1,500,001-HK\$2,000,000	2	3
HK\$2,000,001-HK\$2,500,000	2	–
HK\$2,500,001-HK\$3,000,000	1	2
HK\$3,000,001-HK\$3,500,000	1	–
HK\$4,500,001-HK\$5,000,000	1	1

Employees

The five highest paid individuals included four directors (2003: four), details of whose emoluments are set out above. The emoluments of the five highest paid individuals for the year were as follows:

	2004	2003
	HK\$	HK\$
Salaries and other benefits	13,540,452	13,010,400
Performance related incentive payment	4,569,000	3,409,000
Retirement benefits scheme contribution	697,208	638,799
	18,806,660	17,058,199

The emoluments of the employees were within the following bands:

	Number of employees	
	2004	2003
HK\$1,500,001-HK\$2,000,000	–	1
HK\$2,000,001-HK\$2,500,000	1	–
HK\$2,500,001-HK\$3,000,000	1	2
HK\$3,000,001-HK\$3,500,000	1	–
HK\$4,500,001-HK\$5,000,000	1	1
HK\$5,000,001-HK\$5,500,000	–	1
HK\$5,500,001-HK\$6,000,000	1	–

Notes to the Financial Statements

For the year ended 31 December 2004

7. FINANCE COSTS

	2004 HK\$	2003 HK\$
Interest on:		
Bank borrowings wholly repayable within five years	5,621,625	300,660
Obligations under finance leases	105,390	235,291
Bank charges	4,730,035	4,103,972
Factoring charges	498,089	234,827
	10,955,139	4,874,750

8. INCOME TAX EXPENSE

	2004 HK\$	2003 HK\$
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profits for the year		
Current year	29,107,926	26,275,757
Overprovision in prior years	(939,212)	(1,378,353)
Overseas income tax		
Current year	6,169,109	13,934,787
Overprovision in prior years	(8,035)	(3,316,773)
	34,329,788	35,515,418
Deferred tax (note 25)		
Current year	(1,856,399)	4,675,676
Attributable to a change in tax rate in Hong Kong	-	(473,056)
	(1,856,399)	4,202,620
Income tax attributable to the Company and its subsidiaries	32,473,389	39,718,038
Share of income tax attributable to associates	580,820	543,475
Share of income tax attributable to a jointly controlled entity	4,184,879	7,639,734
	37,239,088	47,901,247

Overseas income tax is calculated at rates prevailing in the respective jurisdictions.

The Group's subsidiaries operating in the PRC are eligible for certain tax holidays and concessions.

Notes to the Financial Statements

For the year ended 31 December 2004

8. INCOME TAX EXPENSE (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004		2003	
	HK\$	%	HK\$	%
Profit before tax	272,487,282		322,868,509	
Tax at the Hong Kong Profits Tax rate of 17.5%	47,685,274	17.5	56,501,989	17.5
Tax effect of:				
– expenses that are not deductible for tax purpose	432,025	0.1	2,111,656	0.6
– income that are not taxable for tax purpose	(2,543,542)	(1.0)	(3,653,842)	(1.1)
– tax losses not recognised	1,680,619	0.6	2,046,611	0.6
– share of results of associates	184,188	0.1	76,713	–
– share of results of a jointly controlled entity	(2,022,559)	(0.7)	(1,186,392)	(0.4)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7,437,149)	(2.7)	(2,652,238)	(0.8)
Increase in the opening deferred tax assets or liabilities resulting from an increase in tax rate	–	–	(473,056)	(0.1)
Overprovision in prior years	(947,247)	(0.3)	(4,695,126)	(1.4)
Others	207,479	0.1	(175,068)	(0.1)
Tax expense and effective tax rate for the year	37,239,088	13.7	47,901,247	14.8

Notes to the Financial Statements

For the year ended 31 December 2004

9. DIVIDENDS/SPECIAL DIVIDENDS

	2004 HK\$	2003 HK\$
Interim dividend of 7 cents (2003: 9 cents) per share	39,226,480	50,669,666
Proposed final dividend of 7 cents (2003: 9 cents) per share	39,226,480	50,669,666
Overprovision of final dividend (note)	(225,181)	–
	78,227,779	101,339,332
Special interim dividend of 3 cents (2003: 3 cents) per share	16,811,349	16,889,888
Proposed final special dividend of 7 cents (2003: 9 cents) per share	39,226,480	39,409,740
Overprovision of final special dividend (note)	(175,140)	–
	55,862,689	56,299,628

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

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

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of HK\$235,112,143 (2003: HK\$276,910,134) and the weight average number of 561,227,668 ordinary shares (2003: number of 562,996,285 ordinary shares) in issue during the year.

No diluted earnings per share has been presented as there were no potential ordinary shares in issue in either year.

Notes to the Financial Statements

For the year ended 31 December 2004

11. PROPERTY, PLANT AND EQUIPMENT

	Property held for redevelopment HK\$	Leasehold land and buildings HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture and equipment HK\$	Motor vehicles HK\$	Moulds and tools HK\$	Construction in progress HK\$	Total HK\$
THE GROUP									
COST									
At January 1, 2004	18,732,820	199,638,825	4,661,150	121,494,809	45,001,569	16,617,973	5,877,001	17,537,970	429,562,117
Currency realignment	-	-	-	35,663	100,965	44,266	-	-	180,894
Reclassifications	-	8,011,571	-	1,270,998	(241,830)	-	-	(9,040,739)	-
Additions	-	20,339,627	378,988	13,407,398	8,472,528	1,059,572	174,594	10,802,197	54,634,904
Disposals	-	-	-	(2,277,886)	(407,369)	(614,453)	-	-	(3,299,708)
At December 31, 2004	18,732,820	227,990,023	5,040,138	133,930,982	52,925,863	17,107,358	6,051,595	19,299,428	481,078,207
DEPRECIATION AND AMORTISATION									
At January 1, 2004	7,917,820	67,815,338	1,277,584	49,558,777	31,906,526	9,704,484	4,159,935	-	172,340,464
Currency realignment	-	-	-	8,679	8,950	-	-	-	17,629
Provided for the year	-	9,502,110	725,013	10,160,650	5,044,322	2,346,994	385,941	-	28,165,030
Eliminated on disposals	-	-	-	(1,667,437)	(338,883)	(614,453)	-	-	(2,620,773)
At December 31, 2004	7,917,820	77,317,448	2,002,597	58,060,669	36,620,915	11,437,025	4,545,876	-	197,902,350
NET BOOK VALUES									
At December 31, 2004	10,815,000	150,672,575	3,037,541	75,870,313	16,304,948	5,670,333	1,505,719	19,299,428	283,175,857
At December 31, 2003	10,815,000	131,823,487	3,383,566	71,936,032	13,095,043	6,913,489	1,717,066	17,537,970	257,221,653

Property held for redevelopment is temporarily held for use under operating leases.

The net book values of property held for redevelopment and leasehold land and buildings at December 31, 2004 comprise properties held on medium-term leases in Hong Kong, PRC and Europe of HK\$13,658,331 (2003: HK\$13,731,022), HK\$127,113,339 (2003: HK\$128,907,465) and HK\$20,715,905 (2003: Nil), respectively.

The net book values of the Group's plant and machinery and motor vehicles include an amount of HK\$4,766,668 (2003: HK\$5,404,401) and HK\$346,600 (2003: HK\$1,053,064), respectively, in respect of assets held under finance leases.

The Group pledged leasehold land and buildings with a carrying amount of approximately HK\$13,658,331 (2003: HK\$13,731,022) to secure banking facilities granted to the Group.

Notes to the Financial Statements

For the year ended 31 December 2004

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	36,584,983	36,584,983

The cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became ultimate holding company of the Group under the group reorganisation undertaken for the purpose of the listing of the Company's shares, and the cost of investments in subsidiaries purchased subsequent to the group reorganisation.

Details of the Company's principal subsidiaries at December 31, 2004 are set out in note 35.

13. INTELLECTUAL PROPERTY RIGHTS

	HK\$
THE GROUP	
COST	
Additions during the year and balance at December 31, 2004	28,923,453
AMORTISATION	
Provided for the year and balance at December 31, 2004	1,205,144
CARRYING AMOUNT	
At December 31, 2004	27,718,309

Intellectual property rights are amortised on a straight-line basis over ten years.

14. GOODWILL

	HK\$
THE GROUP	
COST	
At January 1, 2004 and December 31, 2004	8,923,139
AMORTISATION	
At January 1, 2004	5,948,760
Charge for the year	2,974,379
At December 31, 2004	8,923,139
NET BOOK VALUE	
At December 31, 2004	-
At December 31, 2003	2,974,379

Goodwill is amortised on a straight-line basis over three years.

Notes to the Financial Statements

For the year ended 31 December 2004

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK\$	HK\$
Share of net assets	31,800,764	31,342,135

At the balance sheet date, the principal associate of the Group represented a 30% interest in Foshan East Asia Company Limited ("Foshan East Asia"), a company registered and operated in the PRC and engaged in the manufacture of colour woven fabrics. The following details are extracted from the management accounts of Foshan East Asia:

Operating results for the year:

	2004	2003
	HK\$	HK\$
Turnover	208,131,603	176,009,210
Profit before tax	6,891,050	8,416,818
Profit before tax attributable to the Group	2,067,315	2,525,045

Financial position:

Non-current assets	127,935,741	137,608,713
Current assets	185,001,570	163,972,689
Total liabilities	(206,835,789)	(196,785,555)
Minority interests	(5,473,998)	(5,132,824)
	100,627,524	99,663,023
Shareholders' funds attributable to the Group	30,188,257	29,898,907

In the opinion of the directors, Foshan East Asia is the only associate which will principally affect the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$	2003 HK\$
Share of net assets	57,486,349	56,200,152

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

Operating results for the year:

	2004 HK\$	2003 HK\$
Turnover	299,863,323	305,753,352
Profit before tax	70,942,152	100,870,005
Profit before tax attributable to the Group	35,471,076	50,435,003
Financial position:		
Non-current assets	30,678,890	15,397,492
Current assets	148,791,376	160,836,547
Total liabilities	(64,497,568)	(63,833,735)
	114,972,698	112,400,304
Shareholders' funds attributable to the Group	57,486,349	56,200,152

Notes to the Financial Statements

For the year ended 31 December 2004

17. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$	HK\$
Raw materials	257,100,689	170,329,861
Work in progress	63,760,060	39,047,504
Finished goods	72,578,450	56,005,395
	393,439,199	265,382,760

Included above are raw materials of HK\$4,793,448 (2003: HK\$12,167,936), work in progress of HK\$6,313,671 (2003: HK\$2,229,084) and finished goods of HK\$13,844,520 (2003: HK\$9,415,084), which are carried at net realisable value.

18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days (2003: 60 days) to its trade customers.

The following is an aged analysis of trade receivables:

	THE GROUP	
	2004	2003
	HK\$	HK\$
0-30 days	108,620,294	62,936,688
31-60 days	16,653,252	3,652,360
Over 60 days	7,600,531	1,010,770
	132,874,077	67,599,818

19. AMOUNT DUE FROM (TO) A JOINTLY CONTROLLED ENTITY**THE GROUP**

The amount, which is aged within 60 days, is unsecured, interest-free and has no fixed repayment term.

20. AMOUNTS DUE FROM SUBSIDIARIES**THE COMPANY**

The amounts are unsecured, interest-free and have no fixed repayment terms.

Notes to the Financial Statements

For the year ended 31 December 2004

21. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

	THE GROUP	
	2004 HK\$	2003 HK\$
0-30 days	70,178,817	77,484,647
31-60 days	9,053,202	9,289,224
over 60 days	3,891,133	1,980,607
	83,123,152	88,754,478

22. WARRANTY PROVISION

	THE GROUP HK\$
At January 1, 2004	6,300,000
Additional provision in the year	11,637,296
Utilisation of provision	(6,872,787)
At December 31, 2004	11,064,509

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

The Company had no provision at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2004

23. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Amount payable under finance leases:				
Within one year	1,543,788	2,340,001	1,518,217	2,231,885
In the second to fifth year inclusive	–	1,544,611	–	1,518,067
	1,543,788	3,884,612	1,518,217	3,749,952
Less: Future finance charges	(25,571)	(134,660)	N/A	N/A
Present value of lease obligations	1,518,217	3,749,952	1,518,217	3,749,952
Less: Amount due within one year shown under current liabilities			(1,518,217)	(2,231,885)
Amount due after one year			–	1,518,067

It is the Group's policy to lease certain of its plant and equipment under finance leases. The lease terms range from 1 to 3 years. For the year ended December 31, 2004, the effective borrowing rates ranged from 3.3% to 5% (2003: 3.3% to 6%). Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

Notes to the Financial Statements

For the year ended 31 December 2004

24. BANK BORROWINGS

	THE GROUP	
	2004 HK\$	2003 HK\$
Bank borrowings comprise the following:		
Trust receipt loans	110,851,056	38,257,757
Bank loans	70,000,000	–
	180,851,056	38,257,757
Secured	69,254,973	25,467,153
Unsecured	111,596,083	12,790,604
	180,851,056	38,257,757

The bank borrowings are repayable within one year.

During the year, the Group obtained new bank loans in the amount of HK\$70,000,000. The loans bear interest at market rates and will be repayable in 2005. The proceeds were used to finance the operations of the Group.

Notes to the Financial Statements

For the year ended 31 December 2004

25. DEFERRED TAX

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

	Accelerated tax depreciation HK\$	Allowance for doubtful debts HK\$	Allowance for inventories HK\$	Tax losses HK\$	Others HK\$	Total HK\$
At January 1, 2003	745,441	(1,000,411)	(846,529)	(2,424,432)	(1,520,000)	(5,045,931)
Charge (credit) to income statement for the year	1,286,476	(708,075)	336,878	2,651,722	1,108,675	4,675,676
Effect of a change in tax rate charge (credit) to income statement	69,885	(93,789)	(79,362)	(227,290)	(142,500)	(473,056)
At December 31, 2003 and January 1, 2004	2,101,802	(1,802,275)	(589,013)	-	(553,825)	(843,311)
(Credit) charge to income statement for the year	(1,193,498)	(905,564)	38,839	-	203,824	(1,856,399)
At December 31, 2004	908,304	(2,707,839)	(550,174)	-	(350,001)	(2,699,710)

The following is the analysis of the deferred tax (assets) liabilities for financial reporting purposes:

	2004 HK\$	2003 HK\$
Deferred tax assets	(3,746,952)	(2,945,113)
Deferred tax liabilities	1,047,242	2,101,802
	(2,699,710)	(843,311)

At the balance sheet date, the Group has unused tax losses of approximately HK\$26,000,000 (2003: HK\$14,200,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$9,600,000 (2003: HK\$9,600,000) and HK\$2,900,000 (2003: Nil) that will expire in 2010 and 2011 respectively. Other losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2004

26. SHARE CAPITAL

	2004 HK\$	2003 HK\$
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000,000	100,000,000
Issued and fully paid:		
At beginning of the year, 562,996,285 (2003: 562,996,285) ordinary shares of HK\$0.10 each	56,299,629	56,299,629
Repurchase of shares	(261,800)	–
At end of the year, 560,378,285 (2003: 562,996,285) ordinary shares of HK\$0.10 each	56,037,829	56,299,629

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
April	2,502,000	6.85	6.60	16,853,300
May	116,000	6.85	6.75	789,700
	2,618,000			17,643,000

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to HK\$17,362,640 (net of dividend entitlement of HK\$18,560) was charged against share premium. An amount of HK\$261,800 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Notes to the Financial Statements

For the year ended 31 December 2004

27. RESERVES

	Share premium HK\$	Dividend reserve HK\$	Capital redemption reserve HK\$	Translation reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
THE GROUP							
At January 1, 2003	216,087,846	73,189,518	1,215,200	(14,485,332)	222,337,054	25,582,177	523,926,463
Exchange difference arising on translation of overseas subsidiaries not reflected in the income statement	-	-	-	1,556,908	-	-	1,556,908
Net profit for the year	-	-	-	-	276,910,134	-	276,910,134
Final dividend for 2002	-	(36,594,759)	-	-	-	-	(36,594,759)
Final special dividend for 2002	-	(36,594,759)	-	-	-	-	(36,594,759)
Interim dividend for 2003	-	-	-	-	(50,669,666)	-	(50,669,666)
Interim special dividend for 2003	-	-	-	-	(16,889,888)	-	(16,889,888)
Proposed final dividend for 2003	-	50,669,666	-	-	(50,669,666)	-	-
Proposed final special dividend for 2003	-	39,409,740	-	-	(39,409,740)	-	-
At December 31, 2003 and January 1, 2004	216,087,846	90,079,406	1,215,200	(12,928,424)	341,608,228	25,582,177	661,644,433
Repurchase of shares	(17,362,640)	-	261,800	-	(261,800)	-	(17,362,640)
Exchange difference arising on translation of overseas subsidiaries not reflected in the income statement	-	-	-	1,183,406	-	-	1,183,406
Net profit for the year	-	-	-	-	235,112,143	-	235,112,143
Final dividend for 2003	-	(50,669,666)	-	-	-	-	(50,669,666)
Final special dividend for 2003	-	(39,409,740)	-	-	-	-	(39,409,740)
Interim dividend for 2004	-	-	-	-	(39,001,299)	-	(39,001,299)
Interim special dividend for 2004	-	-	-	-	(16,636,209)	-	(16,636,209)
Proposed final dividend for 2004	-	39,226,480	-	-	(39,226,480)	-	-
Proposed final special dividend for 2004	-	39,226,480	-	-	(39,226,480)	-	-
At December 31, 2004	198,725,206	78,452,960	1,477,000	(11,745,018)	442,368,103	25,582,177	734,860,428

The retained profits of the Group included HK\$14,906,807 (2003: HK\$13,221,158) and HK\$97,318,349 (2003: HK\$66,032,152) attributable to associates and a jointly controlled entity of the Group, respectively.

Notes to the Financial Statements

For the year ended 31 December 2004

27. RESERVES (continued)

The translation reserve of the Group included HK\$4,660,293 (2003: HK\$4,660,293) attributable to an associate of the Group.

	Share premium HK\$	Dividend reserve HK\$	Capital redemption reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
THE COMPANY						
At January 1, 2003	216,087,846	73,189,518	1,215,200	–	23,033,335	313,525,899
Net profit for the year	–	–	–	223,022,098	–	223,022,098
Final dividend for 2002	–	(36,594,759)	–	–	–	(36,594,759)
Final special dividend for 2002	–	(36,594,759)	–	–	–	(36,594,759)
Interim dividend for 2003	–	–	–	(50,669,666)	–	(50,669,666)
Interim special dividend for 2003	–	–	–	(16,889,888)	–	(16,889,888)
Proposed final dividend for 2003	–	50,669,666	–	(50,669,666)	–	–
Proposed final special dividend for 2003	–	39,409,740	–	(39,409,740)	–	–
At December 31, 2003 and January 1, 2004	216,087,846	90,079,406	1,215,200	65,383,138	23,033,335	395,798,925
Repurchase of shares	(17,362,640)	–	261,800	(261,800)	–	(17,362,640)
Net profit for the year	–	–	–	119,977,502	–	119,977,502
Final dividend for 2003	–	(50,669,666)	–	–	–	(50,669,666)
Final special dividend for 2003	–	(39,409,740)	–	–	–	(39,409,740)
Interim dividend for 2004	–	–	–	(39,001,299)	–	(39,001,299)
Interim special dividend for 2004	–	–	–	(16,636,209)	–	(16,636,209)
Proposed final dividend for 2004	–	39,226,480	–	(39,226,480)	–	–
Proposed final special dividend for 2004	–	39,226,480	–	(39,226,480)	–	–
At December 31, 2004	198,725,206	78,452,960	1,477,000	51,008,372	23,033,335	352,696,873

The contributed surplus of the Company represents the excess of the value of the net assets of the subsidiaries at the date at which they were acquired by the Company over the nominal value of the shares issued by the Company for the acquisition at the time of group reorganisation on September 13, 1990.

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, less goodwill or capital reserve arising on consolidation.

27. RESERVES (continued)

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

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2004	2003
	HK\$	HK\$
Contributed surplus	23,033,335	23,033,335
Retained profits	51,008,372	65,383,138
Dividend reserve	78,452,960	90,079,406
	152,494,667	178,495,879

28. SHARE OPTIONS SCHEMES**(a) 2000 Scheme**

A share option scheme (the "2000 Scheme") of the Company, which was approved and adopted on September 19, 2000 pursuant to a resolution passed on June 8, 2000 for the primary purpose of providing incentives to directors and eligible employees, was terminated on May 26, 2003. Under the 2000 Scheme, the board of directors of the Company might grant share options to directors and full time employees of the Company and its subsidiaries to subscribe for shares 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\$1.00 as cash consideration for the grant of the share options in accordance with the 2000 Scheme. The total number of shares in respect of which issued upon exercise of share options to be granted shall not exceed 10% of the total number of shares of the Company in issue from time to time, excluding shares issued on exercise of share options granted under the 2000 Scheme. The exercise price is determined by the directors of the Company, and shall not be less than the highest 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.

Notes to the Financial Statements

For the year ended 31 December 2004

28. SHARE OPTIONS SCHEMES (continued)

(a) 2000 Scheme (continued)

No share option had been granted or exercised by any of the directors of the Company under the 2000 Scheme during the year ended December 31, 2004 and 2003. There were no share options under the 2000 Scheme outstanding at December 31, 2004 and 2003.

(b) 2003 Scheme

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

The board of directors of the Company may, at their discretion, grant share options to the eligible participants including any employees, directors or consultants of the Group. The maximum number of shares of the Company which may be issued upon exercise of all share options granted under its 2003 Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the share options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

Share options granted must be taken up within 28 days of the date of grant. Each of the grantees is required to pay HK\$1.00 as cash consideration for the grant of the share options in accordance with the 2003 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.

No share option has been granted under the 2003 Scheme during the year ended December 31, 2004 and 2003.

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

Notes to the Financial Statements

For the year ended 31 December 2004

29. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Export bills discounted with recourse	24,707,137	7,874,407	–	–
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	–	–	854,912,000	517,600,962

At the balance sheet date, the extent of banking facilities utilised by the subsidiaries amounted to approximately HK\$181 million (2003: HK\$38 million).

30. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$	2003 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	1,772,641	11,159,604

At the balance sheet date, the Company did not have any significant capital commitments.

Notes to the Financial Statements

For the year ended 31 December 2004

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK\$6,012,756 (2003: HK\$6,160,213).

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

	THE GROUP	
	2004 HK\$	2003 HK\$
Within one year	5,700,471	5,028,671
In the second to fifth year inclusive	10,852,981	–
	16,553,452	5,028,671

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

The Group as lessor

Property rental income earned during the year was HK\$453,200 (2003: HK\$222,441). The property is expected to generate rental yield of 4.2% (2003: 2.2%) on a temporary basis. The property held has committed tenants for less than one year.

32. RETIREMENT BENEFITS SCHEME

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

The Group is required to make contributions to the Scheme calculated at 5% of the employees' basic salaries on a monthly basis. The Group's contribution will 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.

On July 28, 2000, the above provident fund scheme was granted an exemption on the Mandatory Provident Fund Scheme ("MPF Scheme"). The principal deed and the rules of the above provident fund scheme were amended accordingly to comply with the rules of the Mandatory Provident Fund Schemes Ordinance ("MPF Ordinance").

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

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

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

	2004	2003
	HK\$	HK\$
Gross employers' contributions	2,718,077	2,596,834
Less: Forfeited contributions utilised to offset employers' contributions for the year	(4,730)	(179,845)
Net employers' contributions charged to the income statement	2,713,347	2,416,989

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

Notes to the Financial Statements

For the year ended 31 December 2004

33. POST BALANCE SHEET EVENT

Subsequent to December 31, 2004, the Group disposed of the property held for redevelopment for an aggregate consideration of approximately HK\$20,600,000.

34. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions to related companies in which Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests.

	2004 HK\$	2003 HK\$
Management fee received	313,213	328,525
Rental paid	5,638,412	5,731,626

In addition, the Group entered into the following transactions with the jointly controlled entity:

	2004 HK\$	2003 HK\$
Sale of goods	1,543,246	1,981,249
Purchase of materials	11,564,892	14,337,089
Commission and management fee received	20,055,036	20,243,281
Compensation received for plant reallocation	–	2,100,000

The above transactions were carried out at market price or where no market price was available, at cost.

Notes to the Financial Statements

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35. 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		Principal activity
			Directly held	Indirectly held	
Falmer Investments Ltd.	British Virgin Islands/ The PRC	US\$1	–	100%	Research and development
Fong's Engineering Services Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in steel and provision of management services to group companies
Fong's Manufacturers Company Limited	British Virgin Islands/ Hong Kong	US\$10,000	100%	–	Investment holding
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK\$100 Deferred – HK\$8,000,000 (note)	–	100%	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Company Limited	The PRC *	US\$22,500,000	–	100%	Manufacture of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in stainless steel supplies
Sunshine Glory Limited	British Virgin Islands/ The PRC	US\$10	–	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in metal castings products
Tycon Alloy Industries (Shenzhen) Co. Ltd.	The PRC *	US\$4,350,000	–	100%	Manufacture of metal castings products
Vastpark Limited	Hong Kong	HK\$2	–	100%	Property holding
THEN Maschinen (HK) Limited	Hong Kong	HK\$1	–	100%	Investment holding and trading in technical parts

Notes to the Financial Statements

For the year ended 31 December 2004

35. 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		Principal activity
			Directly held	Indirectly held	
THEN Maschinen GmbH	Germany	EUR1,900,000	–	100%	Trading and manufacture of textile machinery and technical parts
Xorella Hong Kong Limited	Hong Kong	US\$3,500,000	–	80%	Trading in textile machinery and technical parts
Xorella AG	Switzerland	CHF350,000	–	80%	Manufacture of textile machinery and technical parts

* A wholly-owned foreign enterprise

The above table lists the subsidiaries of the Group 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.

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

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

FINANCIAL SUMMARY

RESULTS

	Year ended December 31,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	922,877	758,336	1,142,419	1,350,380	1,743,873
Profit from operations	146,690	72,781	208,307	273,315	244,727
Finance costs	(17,664)	(11,573)	(8,017)	(4,875)	(10,955)
Interest income	471	2,694	1,431	1,326	978
Impairment loss on loan to an associate	(4,967)	–	–	–	–
Share of results of associates	1,897	2,802	(19,025)	2,667	2,266
Share of results of a jointly controlled entity	307	3,379	24,773	50,435	35,471
Profit before tax	126,734	70,083	207,469	322,868	272,487
Income tax expense	(20,860)	(6,554)	(35,909)	(47,901)	(37,239)
Profit before minority interests	105,874	63,529	171,560	274,967	235,248
Minority interests	–	–	965	1,943	(136)
Net profit for the year	105,874	63,529	172,525	276,910	235,112

ASSETS AND LIABILITIES

	As at December 31,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Total assets	820,632	701,919	861,423	963,333	1,254,335
Total liabilities	(301,264)	(214,935)	(277,643)	(243,778)	(461,689)
Minority interests	(1,290)	(1,290)	(3,554)	(1,611)	(1,747)
Shareholders' funds	518,078	485,694	580,226	717,944	790,899

SUMMARY OF PROPERTY HELD FOR REDEVELOPMENT

Location	Category of lease	Site area	Nature of property	Percentage of interest in the property	Stage of completion
The site of Hung Hsin Factory Building, No. 932 Cheung Sha Wan Road, Kowloon, Hong Kong	Medium term lease	535.67m ²	Factory site	51%	Building demolished and site cleared