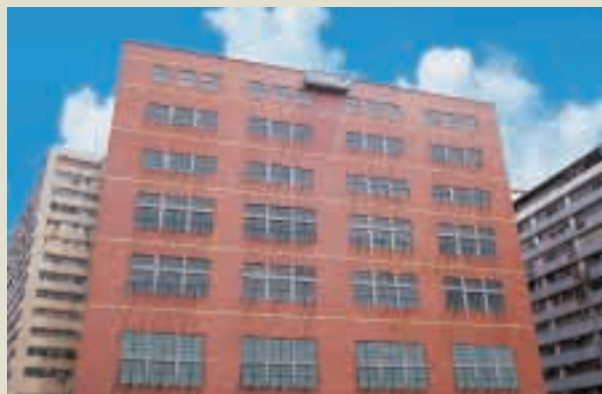


Management Discussion and Analysis



• China Headquarters



• Hong Kong Headquarters

OPERATING RESULTS

For the year ended December 31, 2003, the Group's consolidated turnover was approximately HK\$1,350 million (2002: HK\$1,142 million) and the net profit amounted to approximately HK\$277 million (2002: HK\$173 million), representing an increase of 18% and 60% respectively as compared with that of last year. Basic earnings per share was 49.2 cents (2002: 30.7 cents). The surge in profit from operations was mainly attributable to two factors: increase in sales turnover and improvement in cost effectiveness via efficient cost control and operational leverage.

DYEING AND FINISHING MACHINERY MANUFACTURING

Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Co., Ltd.

During the year under review, this business segment recorded a turnover of approximately HK\$924 million (2002: HK\$781 million) or 68% of the Group's consolidated turnover, generating an operating profit of approximately HK\$226 million (2002: HK\$179 million). This core business remains the largest income contributor to the Group with the PRC as its major market.

Management Discussion and Analysis



• LABWIN Laboratory Package Dyeing Machine

• ALLWIN High Temperature Package Dyeing Machine

Research and Development

The Group's research and development ("R&D") capability is always one of our key competitive strength in an industry in which businesses are always competing for the best design and functions as well as the quickest response to customers' needs. During the year under review, the Group successfully launched the ALLWIN High Temperature Package Dyeing Machine and the LABWIN Laboratory Package Dyeing Machine. These machines were well received in the market as they satisfy users' need for an excellent performance in terms of quality and cost savings achieved at a reasonable price.

With their innovative and environmentally friendly designs, the ALLWIN and the LABWIN were honored with the "Machinery and Equipment Design Award" and the "Machinery and Equipment Design Certificate of Merit" respectively in the 2003 Hong Kong Awards for Industry. These awards represent a formal recognition of the achievements made by the Group's R&D team.

Sales and Marketing

Apart from focusing on R&D, the Group will continue to expand its sales force and intensify its marketing and promotion efforts. In order to diversify its customer base and to tap into new potential markets, the Group is prepared to further explore textile markets in South America and in the Asia Pacific region. The Group intends to expand its sales network, on one hand, by establishing sales offices or appointing sales agents in new locations, and on the other hand, by strengthening its existing sales and marketing team to further promote the Group's products. In 2003, the Group participated in the largest textile machinery exhibitions held in Birmingham, the U.K. and Shanghai, the PRC and received favourable responses therefrom. The Group sees participating in such exhibitions as an opportunity to further expand its customer base and to strengthen our brand and market position.

Management Discussion and Analysis



• ITMA 2003 in Birmingham, the U.K.



• ShanghaiTex 2003, the PRC

In 2002, the Group acquired an 80% interest in Xorella AG, a Swiss company which is the technology and market leader in yarn steam setting and conditioning systems. Through this alliance, the Group has extended its product range into the yarn conditioning equipment sector. Although the initial market feedback in the PRC appears to be very encouraging, the performance of this division during 2003 was somewhat below management's expectation as the demand from the conventional overseas markets for European machines was poor. However, the Group anticipates that the performance of this division in 2004 will make up the minor setback of 2003.

As disclosed in a press announcement dated September 26, 2002, being part of the consideration for the acquisition of Xorella AG by Xorella Hong Kong Limited (the "Purchaser"), a subsidiary of the Company, the Purchaser issued 700,000 shares of US\$1.00 each in the Purchaser (the "Consideration Shares") to Mr. Freddy Wanger, the vendor of Xorella AG (the "Vendor"), representing 20% of the issued share capital of the Purchaser and 20% of the total consideration for the acquisition. On completion of the acquisition on September 25, 2002, the Purchaser granted a put option to the Vendor exercisable within a period of six months after the second anniversary of September 25, 2002 whereby, upon the exercise of such option, the Vendor shall have the right to sell the Consideration Shares to the other shareholder of the Purchaser, which is a wholly-owned subsidiary of the Company, for a purchase price of US\$700,000. Since the Vendor has, on completion of the acquisition, become a substantial shareholder holding



• CONTEXXOR® Plus Vacuum Yarn Conditioning and Steaming Machine

20% of the issued share capital of the Purchaser, the Vendor is a connected person of the Company. Accordingly, the granting of the put option constituted a connected transaction of the Company under the Listing Rules. Upon the exercise of the put option by the Vendor, the Group will be able to pay the purchase price out of internal resources.

M a n a g e m e n t D i s c u s s i o n a n d A n a l y s i s



• Sheet and Plate



• Coil Sheet

Looking ahead, while the world economy is on the road to recovery, the overall operating environment will still be very challenging and competitive in the coming years. In particular, we have experienced a significant increase in stainless steel prices, a major component of the Group's production cost, towards the end of 2003 and this increase appears to be sustainable in the foreseeable future. And despite the Group's efforts to hedge the costs of our major raw material and to take appropriate cost control measures, we anticipate that we may raise our average selling prices in the second half of this year. Furthermore, we will continue to concentrate our expertise and experience in providing high standard machines and better services. Being one of the leading manufacturers with the widest range of textile machinery and equipment in this field, we remain confident of reinforcing and to further establish ourselves as a leader in the market.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the year under review, the turnover of this business segment amounted to approximately HK\$357 million, an increase of 15% over last year, while the operating profit remained at approximately HK\$22 million, same as that of last year due to the impact of SARS epidemic during the second and third quarters of the year.

Stainless steel prices are expected to remain high in the near future due to the imbalance between supply and demand of nickel, one of the major raw materials for the production of stainless steels. The Group has been actively managing the inventory level based on its forecasts of stainless steel prices and demand in order to maximize profitability.

As the PRC continues to report strong economic growth, it is expected that the demand for a large variety of stainless steel products in the PRC will be sustainable in the foreseeable future, which means this trading business will be able to grow along with this demand trend.

Management Discussion and Analysis



• Assorted Casting Products

STAINLESS STEEL CASTING

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

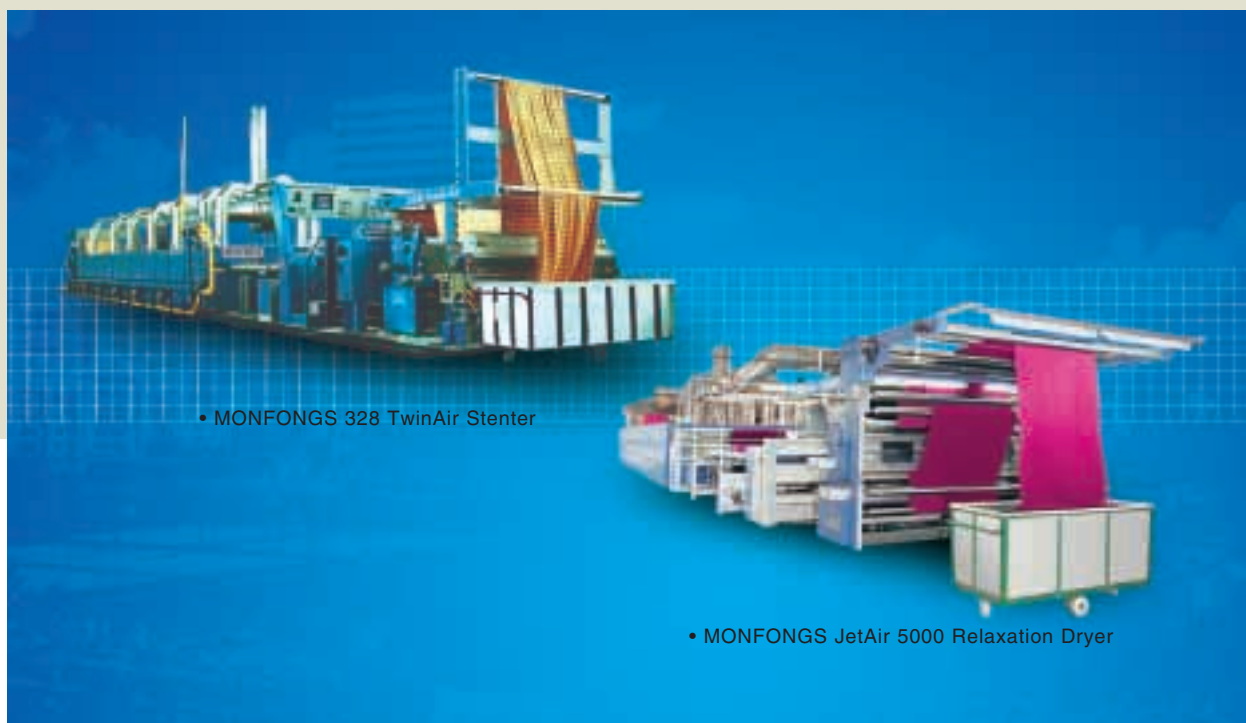


• Tycon's Foundry Workshop

During the year under review, this stainless steel casting business managed to report an increase in sales and profit. The turnover increased by 35% to approximately HK\$69 million (2002: HK\$51 million), net of inter-segment sales of approximately HK\$24 million (2002: HK\$18 million) and the operating profit increased by 284% to approximately HK\$26 million (2002: HK\$7 million). These encouraging results were mainly attributable to management restructuring in this division. Besides, the Group will also focus on maintaining effective measures in controlling expenses and costs in order to maximize operational efficiency.

To cope with the increased demand from overseas customers in respect of both quantity and quality, the Group has invested in new equipment to enhance productivity. The Group expects this casting business to have steady growth in turnover and operating profit in the coming years.

Management Discussion and Analysis



• MONFONGS 328 TwinAir Stenter

• MONFONGS JetAir 5000 Relaxation Dryer

JOINTLY CONTROLLED ENTITY

Monforts Fong's Textile Machinery Co. Limited (“Monforts Fong's”)

For the year under review, Monforts Fong's recorded a turnover of approximately HK\$306 million (2002: HK\$245 million), representing an increase of approximately 25% in comparison to last year. The increase in turnover was attributable to the continuing demand for Stenters and other new products, namely the JetAir Relaxation Dryers and the Levelling and Stretching Machines. These new products are gaining increasing acceptance in the PRC market where demand is expected to grow further in the years to come. For the year ended December 31, 2003, the Group's share of profit amounted to approximately HK\$50 million (2002: HK\$25 million).

As mentioned in the Interim Report 2003, construction of the 20,000 square metres factory building within the existing production complex of the Group in Shenzhen is progressing smoothly with completion expected within the third quarter of 2004. Upon completion of the new production plant, the production capacity of Monforts Fong's is expected to double in volume.

| M a n a g e m e n t D i s c u s s i o n a n d A n a l y s i s

ASSOCIATES

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

As mentioned in the Interim Report 2003, the woven colour fabrics trading business conducted by this associate reported a modest growth. For the year under review, the turnover increased 14% to approximately HK\$176 million compared to HK\$154 million in 2002 and the Group's share of profit before taxation was approximately HK\$3 million.

HUMAN RESOURCES

As of December 31, 2003, the Group employed a total of approximately 3,000 employees. They were remunerated according to their performance, working experience and market conditions. Other employee benefits available for eligible employees include retirement benefits scheme, share option scheme, performance bonus and sales commission.

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, 2003, net of borrowings, the Group's net cash and bank balance was approximately HK\$175 million. In 2003, there was no gearing ratio shown as the Group had a net cash and bank balance. The current ratio was 2.55 reflecting a healthy liquidity level.

As at December 31, 2003, bank borrowings amounted to approximately HK\$38 million of which approximately 67% were secured by certain assets of the Group. All of the bank borrowings are repayable within one year. Most bank borrowings were sourced from Hong Kong, of which 99% were denominated in US dollars and the remaining were denominated in various foreign currencies. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at December 31, 2003, the cash and bank balance amounted to approximately HK\$217 million of which approximately 33% were denominated in US dollars, 29% in Renminbi, 23% in Euro, 11% in Hong Kong dollars and the remaining were denominated in various other foreign currencies.