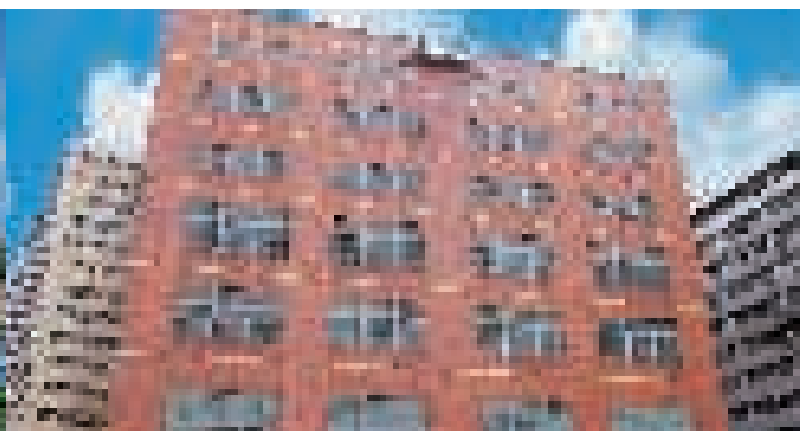


## Management Discussion and Analysis



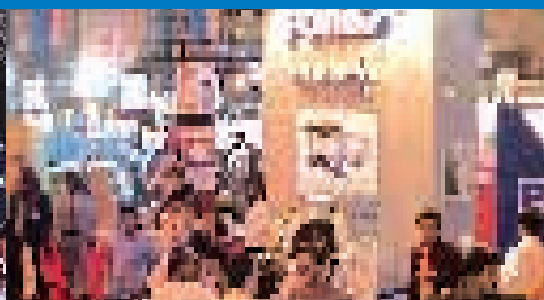
Shenzhen Manufacturing Complex



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.

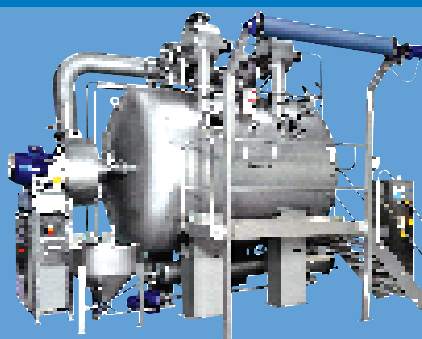
## Management Discussion and Analysis



ALLWIN  
High Temperature Package Dyeing Machine



ECO-6  
High Temperature Dyeing Machine



THEN-AIRFLOW® AFE  
High Temperature Jet Dyeing Machine

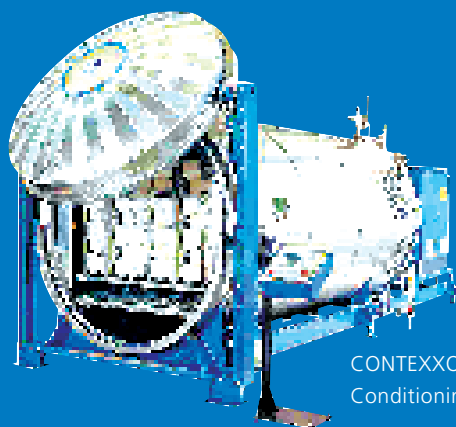
As disclosed in our Interim Report 2004, the Group acquired from the insolvency administrators of Then Maschinen- und Apparatebau GmbH and Scholl-Then AG (collectively the "SCHOLL-THEN Group") certain production facilities and intellectual property rights including the technology and know-how relating 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

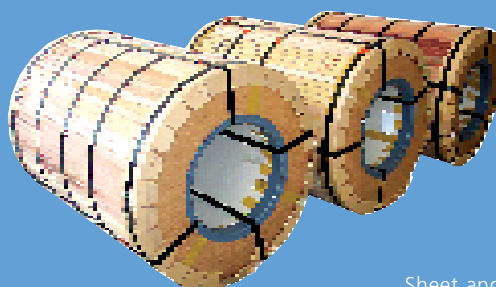


CONTEXXOR® Plus Vacuum Yarn  
Conditioning and Steaming Machine



CONTEXXOR® Compact LTC-S

Coil Sheet



Sheet and Plate



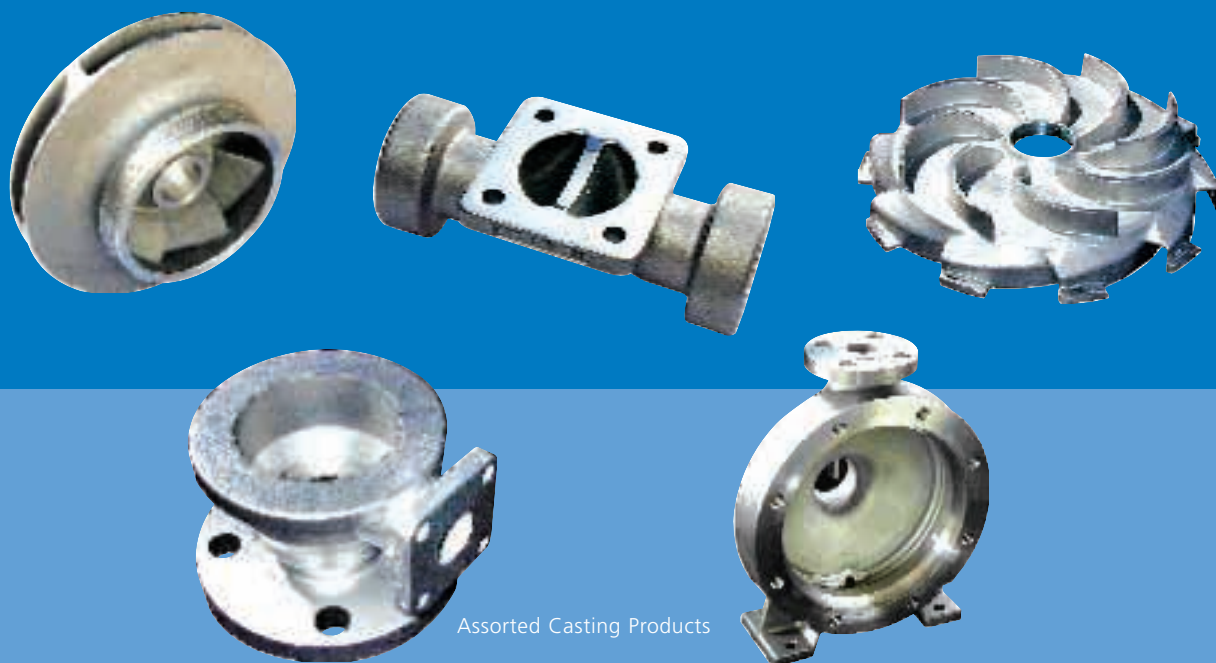
Also, during the year under review, our 80% owned subsidiaries, Xorella Hong Kong Limited and Xorella AG both engaging in the business of yarn conditioning equipment, recorded a turnover of approximately HK\$65 million (2003: HK\$28 million), representing an increase of 132%. As anticipated in our 2003 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.**

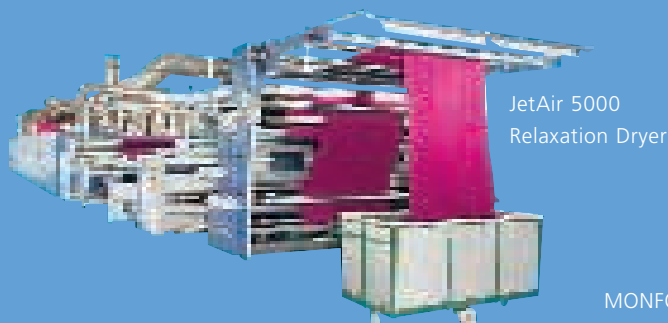
For the year ended December 31, 2004, the turnover of stainless steel casting segment amounted to approximately HK\$127 million (2003: HK\$69 million), representing an increase of 83% over last year. It accounted for 7% (2003: 5%) of the Group's consolidated turnover. The operating profit decreased 33%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

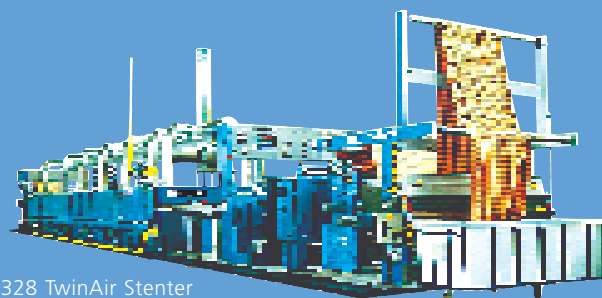
## Management Discussion and Analysis



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.