Notes to the Consolidated Financial Statement

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 address of the registered office and principal place of business of the Company is disclosed in the section of "Corporate Information" in the Annual Report.

The consolidated financial statements are presented in Hong Kong dollar, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of recognised income and expense. In particular, the presentation of minority interests and share of tax of associates and a jointly controlled entity have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effect resulting from the implementation of HKAS 39 is summarised below:

Notes to the
Consolidated Financial Statement

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from January 1, 2005 onwards. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to January 1, 2005 have not been restated. As at December 31, 2005, the Group has no significant bills receivables discounted with full recourse. Upon application of HKAS 39, the relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method. Previously, the difference between the carrying amount of the bill receivables and proceeds received was expensed immediately when incurred. This change in accounting policy has had no material effect on results for the current year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see below for the financial impact). This change in accounting policy has had no material effect on results for the current year.

Notes to the Consolidated Financial Statement

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Owner-occupied Leasehold Interest in Land *(Continued)*

The cumulative effects of the application of the new HKFRSs on December 31, 2004 are summarised below:

	As at December 31, 2004 (originally stated) HK$	Adjustments HK$	As at December 31, 2004 (restated)
Balance sheet items			
Impact of HKAS 17:			
Property, plant and equipment	283,175,857	(24,603,262)	258,572,595
Prepaid lease payments	–	24,603,262	24,603,262
Total effects on assets and liabilities	283,175,857	–	283,175,857

Notes to the Consolidated Financial Statement

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after January 1, 2007.
2 Effective for annual periods beginning on or after January 1, 2006.
3 Effective for annual periods beginning on or after December 1, 2005.
4 Effective for annual periods beginning on or after March 1, 2006.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with new HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associates, less any identified impairment loss.

When a group entity transacts with associates of the Group, unrealised profits or losses are eliminated to the extent of the Group's interests in associates, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Notes to the
Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Intellectual property rights

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

Intellectual property rights with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policy in respect of impairment losses below).

Revenue recognition

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

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress and freehold land, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Notes to the
Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Buildings	Over the terms of the leases or 5%
Leasehold improvements	10%
Plant and machinery	10% – 20%
Furniture and equipment	20%
Motor vehicles	20%
Moulds and tools	20%

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Freehold land and construction in progress are carried at cost less any identified impairment losses. Depreciation of construction in progress commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Impairment losses

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.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

As lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income statement.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income statement in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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 consolidated 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 the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences 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 to profit or loss.

Inventories

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

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense 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-generally intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs 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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Loans and receivables

The Group's financial assets represent loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a jointly controlled entity, dividend receivable and bank balances, deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statement

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to a jointly controlled entity, obligations under finance leases and borrowings are subsequently measured at amortised cost, using the effective interest rate method after initial recognition.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Consolidated Financial Statement

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation

The Group's net book value of property, plant and equipment as at December 31, 2005 was HK$255,888,903. The Group depreciates property, plant and equipment on a straight-line basis over the estimated useful lives, after taking into account of their estimated residual value, commencing from the date the assets are available for intended use. The estimated useful lives that the Group places the property, plant and equipment into intended use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Provision for warranties

The policy for provision of warranties of the Group is based on the management's best estimate of the Group's liabilities under a 12-month warranty period granted on the sale of dyeing machines based on past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to income statement will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to income statement will result.

Notes to the Consolidated Financial Statement

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

Income taxes

As at December 31, 2005, the Group has deferred tax assets of HK$4,268,408, the realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the income statement for the period in which such a reversal takes place. On the other hand, no deferred tax assets have been recognised in respect of tax losses of approximately HK$63,000,000 due to the unpredictability of future profits streams. In cases where the actual future profits generated are more than expected, a material deferred tax asset may be recognised.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, dividend receivable, bank balances, deposits and cash, trade and other payables, amount due from (to) a jointly controlled entity and borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's fair value interest rate risk and cash flow interest rate risk relates to the Group's borrowings with fixed interest rates and floating interest rates, respectively. The Group is exposed to interest rate risk through the impact of rate changes on interest bearing borrowings. The interest rates and terms of repayment of borrowings of the Group are disclosed in note 25. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

Notes to the
Consolidated Financial Statement

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Although the bank balances and deposits are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high crediting ratings assigned by international credit rating agencies.

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

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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.

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

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below:

2005

	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$
REVENUE					
External sales	1,162,713,576	646,466,335	203,072,359	–	2,012,252,270
Inter-segment sales	64,297,294	265,978,140	22,826,377	(353,101,811)	–
Total	1,227,010,870	912,444,475	225,898,736	(353,101,811)	2,012,252,270
RESULTS					
Segment results	129,294,665	64,192,480	27,578,148	–	221,065,293
Interest income					2,575,693
Finance costs					(17,241,877)
Share of results of associates					2,053,934
Share of results of a jointly controlled entity	32,253,561				32,253,561
Profit before tax					240,706,604
Income tax expense					(22,510,441)
Profit for the year					218,196,163

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

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2005 *(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	632,450,590	150,894,254	120,228,511	903,573,355
Interests in associates				33,142,190
Interest in a jointly controlled entity	60,750,623			60,750,623
Unallocated corporate assets				324,696,980
Consolidated total assets				1,322,163,148
LIABILITIES				
Segment liabilities	176,883,802	23,791,215	39,803,598	240,478,615
Unallocated corporate liabilities				207,127,903
Consolidated total liabilities				447,606,518

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	20,536,119	155,821	3,107,862	23,799,802
Increase in prepaid lease payments	393,697	–	–	393,697
Depreciation and amortisation	27,524,813	960,846	3,775,240	32,260,899
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	(10,835,856)	1,977	25,534	(10,808,345)
Allowance for inventories	–	–	985,280	985,280
(Reversal of) allowance for doubtful debts	(173,206)	(483,771)	2,816,068	2,159,091
Increase in warranty provision	12,238,633	–	–	12,238,633

Notes to the Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2004 (restated)

	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$
REVENUE					
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	992,253,685	851,519,439	147,423,017	(247,323,357)	1,743,872,784
RESULTS					
Segment results	145,966,597	81,370,377	17,390,331	–	244,727,305
Interest income					977,571
Finance costs					(10,955,139)
Share of results of associates					1,685,649
Share of results of a jointly controlled entity	31,286,197				31,286,197
Profit before tax					267,721,583
Income tax expense					(32,473,389)
Profit for the year					235,248,194

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

Notes to the
Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2004 (restated) *(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				1,254,335,024
LIABILITIES				
Segment liabilities	209,813,857	29,113,042	23,539,126	262,466,025
Unallocated corporate liabilities				199,223,415
Consolidated total liabilities				461,689,440

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
Consolidated Financial Statement

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's operations are located mainly in Hong Kong, the People's Republic of China (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	
	2005	2004
	HK$	HK$
The PRC	**780,339,934**	685,972,398
Hong Kong	**581,100,161**	571,565,506
Asia Pacific (other than the PRC and Hong Kong)	**273,608,519**	284,444,400
Europe	**207,147,808**	116,538,825
North and South America	**149,615,868**	67,100,890
Others	**20,439,980**	18,250,765
	2,012,252,270	1,743,872,784

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**	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
The PRC	**569,497,128**	584,252,308	**15,803,273**	21,003,237
Hong Kong	**602,746,117**	500,099,831	**4,301,395**	3,377,107
Europe	**145,651,495**	166,235,933	**3,695,134**	59,178,013
	1,317,894,740	1,250,588,072	**23,799,802**	83,558,357

Notes to the Consolidated Financial Statement

7. FINANCE COSTS

	2005 HK$	2004 HK$
Interest on:		
Bank borrowings wholly repayable within five years	**11,929,773**	5,621,625
Obligations under finance leases	**28,866**	105,390
Bank charges	**4,051,166**	4,730,035
Factoring charges	**1,232,072**	498,089
	17,241,877	10,955,139

8. PROFIT BEFORE TAX

	2005 HK$	2004 HK$
Profit before tax has been arrived at after charging (crediting):		
Amortisation of goodwill	**–**	2,974,379
Amortisation of intellectual property rights	**2,892,345**	1,205,144
Amortisation of prepaid lease payments	**369,790**	372,256
Depreciation of property, plant and equipment	**28,998,764**	27,792,774
Total depreciation and amortisation	**32,260,899**	32,344,553
Allowance for (reversal of allowance for) inventories	**985,280**	(221,937)
Allowance for doubtful debts	**2,159,091**	5,174,651
Auditors' remuneration	**1,416,776**	1,214,047
Cost of inventories recognised as an expense	**1,439,392,092**	1,195,300,181
(Gain) loss on disposal of property, plant and equipment	**(67,231)**	85,082
Gain on disposal of prepaid lease payments	**(10,741,114)**	–
Loss on disposal of a subsidiary	**1,658,025**	–
Net foreign exchange loss (gain)	**819,974**	(6,078,824)
Research and development costs	**1,329,617**	846,806
Staff costs, including directors' emoluments	**173,772,974**	143,708,131
Share of tax of associates (included in share of results of associates)	**339,120**	580,820
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	**4,943,893**	4,184,879

Notes to the Consolidated Financial Statement

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the fourteen (2004: twelve) Directors were as follows:

	Executive Directors											Independent Non-executive Directors			
	Wan Wai Yung	Lee Che Chiu	Fong Sou Lam	Fong Kwok Chung, Bill	Fong Kwok Leung, Kevin	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Tsui Wai Keung	Peter Rainer Philipp	Mo Yiu Leung, Jerry	Cheuk Hon Kin, Kelvin	Yuen Ming Fai	Cheung Chiu Fan	Lui Chi Lung, Louis	Total 2005
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
2005															
Fees	–	–	–	–	–	–	–	–	–	–	–	50,000	50,000	50,000	150,000
Other emoluments:															
Salaries and other benefits	3,340,000	2,613,600	3,250,000	2,103,400	1,775,082	1,298,361	1,010,000	1,298,361	1,345,500	1,659,039	1,198,361	–	–	–	20,891,704
Performance-related incentive payments	668,000	871,200	–	247,200	380,328	393,444	260,000	736,954	–	560,000	393,444	–	–	–	4,510,570
Retirement benefits scheme contributions	194,555	12,000	240,000	135,912	96,000	79,500	64,239	96,000	–	10,000	88,000	–	–	–	1,016,206
Total emoluments	4,202,555	3,496,800	3,490,000	2,486,512	2,251,410	1,771,305	1,334,239	2,131,315	1,345,500	2,229,039	1,679,805	50,000	50,000	50,000	26,568,480

	Executive Directors									Independent Non-executive Directors			
	Fong Sou Lam	Lee Che Chiu	Fong Kwok Leung, Kevin	Fong Kwok Chung, Bill	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Tsui Wai Keung	Mo Yiu Leung, Jerry	Cheuk Hon Kin, Kelvin	Yuen Ming Fai	Cheung Chiu Fan	Lui Chi Lung, Louis	Total 2004
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
2004													
Fees	–	–	–	–	–	–	–	–	–	16,667	50,000	50,000	116,667
Other emoluments:													
Salaries and other benefits	3,250,000	2,489,052	1,690,000	2,103,400	1,270,000	845,000	400,000	1,744,355	1,270,000	–	–	–	15,061,807
Performance-related incentive payments	1,250,000	990,000	350,000	309,000	450,000	325,000	–	321,775	450,000	–	–	–	4,445,775
Retirement benefits scheme contributions	240,000	12,000	91,200	131,063	75,250	51,026	32,000	12,000	92,950	–	–	–	737,489
Total emoluments	4,740,000	3,491,052	2,131,200	2,543,463	1,795,250	1,221,026	432,000	2,078,130	1,812,950	16,667	50,000	50,000	20,361,738

Note: The performance-related incentive payments are determined as a percentage of the profit of the Group for the years ended December 31, 2005 and 2004.

No Director waived any emoluments in the years ended December 31, 2005 and 2004.

Notes to the Consolidated Financial Statement

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

(b) Employees' emoluments

The five highest paid individuals included five (2004: four) Directors, details of whose emoluments are set out above. The emoluments of the five highest paid individuals for the year were as follows:

	2005	2004
	HK$	HK$
Salaries and other benefits	**13,750,082**	13,540,452
Performance-related incentive payments	**2,166,728**	4,569,000
Retirement benefits scheme contributions	**716,877**	697,208
	16,633,687	18,806,660

The emoluments of the five highest paid individuals were within the following bands:

	Number	
	2005	2004
HK$2,000,001 – HK$2,500,000	**2**	1
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**2**	1
HK$4,500,001 – HK$5,000,000	**1**	1
HK$5,500,001 – HK$6,000,000	**–**	1

Notes to the Consolidated Financial Statement

10. INCOME TAX EXPENSE

	2005 HK$	2004 HK$
Hong Kong Profits Tax calculated at 17.5% (2004: 17.5%) on the estimated assessable profits:		
Current year	**21,620,923**	29,107,926
Overprovision in prior years	**(403,803)**	(939,212)
Overseas income tax:		
Current year	**10,283,049**	6,169,109
Overprovision in prior years	**(8,536,650)**	(8,035)
	22,963,519	34,329,788
Deferred tax *(note 26)*	**(453,078)**	(1,856,399)
	22,510,441	32,473,389

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 concessions and part of the income tax was exempted from PRC income tax.

During the year, a subsidiary obtained approval from the PRC tax authority for granting a concessionary tax rate on taxable profits in 2002 and 2003. An overprovision of overseas income tax in prior years of approximately HK$8,500,000 was thus reversed in current year.

Notes to the Consolidated Financial Statement

10. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit per the Consolidated Income Statement as follows:

	2005	2004
	HK$	HK$
Profit before tax	**240,706,604**	267,721,583
Tax at the Hong Kong Profits Tax of 17.5%	**42,123,656**	46,851,277
Tax effect of:		
– expenses that are not deductible for tax purpose	**935,118**	432,025
– income that are not taxable for tax purpose	**(5,741,183)**	(2,543,542)
– tax losses not recognised	**6,398,928**	1,680,619
– share of results of associates	**(359,438)**	(294,989)
– share of results of a jointly controlled entity	**(5,644,373)**	(5,475,084)
Income tax on concessionary rate	**(2,491,765)**	(5,577,862)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,711,095)**	(1,859,287)
Overprovision in prior years	**(8,940,453)**	(947,247)
Others	**(58,954)**	207,479
Income tax expense	**22,510,441**	32,473,389

Notes to the
Consolidated Financial Statement

11. DIVIDENDS/SPECIAL DIVIDENDS

	2005	2004
	HK$	HK$
Interim dividend of 8 HK cents (2004: 7 HK cents) per share	**44,830,263**	39,226,480
Proposed final dividend of 5 HK cents (2004: 7 HK cents) per share	**28,018,914**	39,226,480
Overprovision of final dividends *(Note)*	**–**	(225,181)
	72,849,177	78,227,779
Interim special dividend of 3 HK cents (2004: 3 HK cents) per share	**16,811,349**	16,811,349
Proposed final special dividend of 7 HK cents (2004: 7 HK cents) per share	**39,226,480**	39,226,480
Overprovision of special dividends *(Note)*	**–**	(175,140)
	56,037,829	55,862,689

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

The final dividend and final special dividend of 5 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.

12. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the parent is based on the profit for the year attributable to equity holders of the parent of HK$218,653,354 (2004: HK$235,112,143) and 560,378,285 ordinary shares (2004: weighted average number of 561,227,668 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
Consolidated Financial Statement

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Moulds and tools	Construction in progress	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
COST									
At January 1, 2004	–	181,455,861	4,661,150	121,494,809	45,001,569	16,617,973	5,877,001	17,537,970	392,646,333
Currency realignment	–	–	–	35,663	100,965	44,266	–	–	180,894
Reclassifications	–	8,011,571	–	1,270,998	(241,830)	–	–	(9,040,739)	–
Additions	9,563,000	10,776,627	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 and January 1, 2005	9,563,000	200,244,059	5,040,138	133,930,982	52,925,863	17,107,358	6,051,595	19,299,428	444,162,423
Currency realignment	–	3,650,060	55,811	2,079,360	(380,745)	10,913	75,232	371,141	5,861,772
Additions	–	809,008	1,761,140	10,923,514	6,671,434	1,841,788	381,033	1,411,885	23,799,802
Disposals	–	(412,656)	–	(205,764)	(537,422)	(1,580,107)	–	–	(2,735,949)
At December 31, 2005	**9,563,000**	**204,290,471**	**6,857,089**	**146,728,092**	**58,679,130**	**17,379,952**	**6,507,860**	**21,082,454**	**471,088,048**
DEPRECIATION AND AMORTISATION									
At January 1, 2004	–	63,792,892	1,277,584	49,558,777	31,906,526	9,704,484	4,159,935	–	160,400,198
Currency realignment	–	–	–	8,679	8,950	–	–	–	17,629
Provided for the year	–	9,129,854	725,013	10,160,650	5,044,322	2,346,994	385,941	–	27,792,774
Eliminated on disposals	–	–	–	(1,667,437)	(338,883)	(614,453)	–	–	(2,620,773)
At December 31, 2004 and January 1, 2005	–	72,922,746	2,002,597	58,060,669	36,620,915	11,437,025	4,545,876	–	185,589,828
Currency realignment	–	1,397,571	12,092	1,041,149	87,707	36,472	76,594	–	2,651,585
Provided for the year	–	9,155,290	734,264	11,279,262	5,294,574	2,277,783	257,591	–	28,998,764
Eliminated on disposals	–	(91,472)	–	(178,903)	(468,960)	(1,301,697)	–	–	(2,041,032)
At December 31, 2005	**–**	**83,384,135**	**2,748,953**	**70,202,177**	**41,534,236**	**12,449,583**	**4,880,061**	**–**	**215,199,145**
NET BOOK VALUES									
At December 31, 2005	**9,563,000**	**120,906,336**	**4,108,136**	**76,525,915**	**17,144,894**	**4,930,369**	**1,627,799**	**21,082,454**	**255,888,903**
At December 31, 2004	9,563,000	127,321,313	3,037,541	75,870,313	16,304,948	5,670,333	1,505,719	19,299,428	258,572,595

Notes to the Consolidated Financial Statement

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

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

	2005 HK$	2004 HK$
Buildings on long leases located in the PRC	**90,964**	–
Buildings on medium-term leases located in the PRC	**109,294,878**	115,770,342
Buildings on medium-term leases located in Hong Kong	**68,768**	398,066
Freehold land and buildings in Europe	**21,014,726**	20,715,905
	130,469,336	136,884,313

At December 31, 2004, the net book values of the Group's plant and machinery and motor vehicles included an amount of HK$4,766,668 (2005: Nil) and HK$346,000 (2005: Nil), respectively, in respect of assets held under finance leases.

At December 31, 2005 and 2004, the Group pledged the buildings on medium-term leases located in Hong Kong to secure banking facilities granted to the Group.

14. PREPAID LEASE PAYMENTS

	2005 HK$	2004 HK$
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term leases	**422,437**	13,260,265
Leasehold land in the PRC:		
Long leases	**387,792**	–
Medium-term leases	**11,186,738**	11,342,997
	11,996,967	24,603,262
Analysed for reporting purposes as:		
Current asset	**331,767**	372,256
Non-current asset	**11,665,200**	24,231,006
	11,996,967	24,603,262

At December 31, 2005 and 2004, the Group pledged the prepaid lease payments relating to the medium-term leasehold land in Hong Kong to secure banking facilities granted to the Group.

Notes to the Consolidated Financial Statement

15. INTELLECTUAL PROPERTY RIGHTS

	HK$
COST	
Additions during the year ended December 31, 2004 and at December 31, 2004 and December 31, 2005	**28,923,453**
AMORTISATION	
Provided for the year ended December 31, 2004 and at December 31, 2004	1,205,144
Provided for the year	2,892,345
At December 31, 2005	**4,097,489**
CARRYING AMOUNT	
At December 31, 2005	**24,825,964**
At December 31, 2004	27,718,309

Intellectual property rights represent technical know-how skills for manufacturing of machines and are amortised on a straight-line basis over ten years.

16. INTERESTS IN ASSOCIATES

	2005	2004
	HK$	HK$
Cost of unlisted investment in associates	**46,469,124**	46,469,124
Share of post-acquisition profits, net of dividends received	**(13,326,934)**	(14,668,360)
Share of net assets	**33,142,190**	31,800,764

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. It acts as a holding company and its subsidiaries are engaged in the manufacture of colour woven fabrics.

In the opinion of the Directors, Foshan East Asia and its subsidiaries are the only associates which 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 Consolidated Financial Statement

16. INTERESTS IN ASSOCIATES *(Continued)*

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

	2005 HK$	2004 HK$
Revenue	**192,143,516**	211,726,146
Profit for the year	**6,846,446**	5,725,360
Profit attributable to the Group	**2,053,934**	1,685,649
Financial position:		
Total non-current assets	**116,088,113**	130,761,529
Total current assets	**206,657,136**	191,228,966
Total non-current liabilities	**(89,827,796)**	(93,853,381)
Total current liabilities	**(116,024,841)**	(115,585,563)
Minority interests	**(6,418,645)**	(5,473,998)
	110,473,967	107,077,553
Shareholders' funds attributable to the Group	**33,142,190**	31,800,764

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005 HK$	2004 HK$
Cost of unlisted investment in a jointly controlled entity	**9,200,000**	9,200,000
Share of post-acquisition profits, net of dividends received	**51,550,623**	48,286,349
Share of net assets	**60,750,623**	57,486,349

Notes to the
Consolidated Financial Statement

17. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

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

	2005	2004
	HK$	HK$
Revenue	434,355,404	299,863,323
Profit for the year	64,507,122	62,572,394
Profit attributable to the Group	32,253,561	31,286,197
Financial position:		
Total non-current assets	42,472,220	37,562,290
Total current assets	175,490,546	141,907,976
Total non-current liabilities	(72,256)	(134,709)
Total current liabilities	(96,389,264)	(64,362,859)
	121,501,246	114,972,698
Shareholders' funds attributable to the Group	60,750,623	57,486,349

18. INVENTORIES

	2005	2004
	HK$	HK$
Raw materials	207,951,152	257,100,689
Work in progress	85,920,662	63,760,060
Finished goods	74,100,952	72,578,450
	367,972,766	393,439,199

Notes to the Consolidated Financial Statement

19. TRADE AND OTHER RECEIVABLES

	2005 HK$	2004 HK$
Trade receivables	**159,064,096**	149,464,782
Less: Allowance for doubtful debts	**(19,058,387)**	(16,590,705)
	140,005,709	132,874,077
Other receivables	**86,679,488**	60,281,502
Total trade and other receivables	**226,685,197**	193,155,579

The Group allows an average credit period of 60 days (2004: 60 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2005 HK$	2004 HK$
0-30 days	**131,842,692**	108,620,294
31-60 days	**4,974,648**	16,653,252
Over 60 days	**3,188,369**	7,600,531
	140,005,709	132,874,077

The Directors of the Company consider the fair value of trade and other receivables at December 31, 2005 approximates to the corresponding carrying amount.

At December 31, 2005 and 2004, the Group pledged trade receivables at a carrying value of HK$10,205,849 (2004: HK$5,954,147) to secure credit facilities granted to the Group.

20. AMOUNT DUE FROM (TO) A JOINTLY CONTROLLED ENTITY

The amount, which is aged within 60 days, is unsecured, interest-free and repayable on demand.

The Directors of the Company consider the fair value of amount due from a jointly controlled entity at December 31, 2005 approximates to the corresponding carrying amount.

Notes to the Consolidated Financial Statement

21. BANK BALANCES, DEPOSITS AND CASH

The amount includes short-term fixed deposits which carry fixed interest rate ranging from 0.25% to 3.90% per annum. The fair value of bank deposits at December 31, 2005 approximates to the corresponding carrying amount.

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2005	2004
	HK$	HK$
0-30 days	**53,924,969**	70,178,817
31-60 days	**5,106,863**	9,053,202
over 60 days	**2,968,872**	3,891,133
	62,000,704	83,123,152

The Directors of the Company consider the fair value of trade and other payables at December 31, 2005 approximates to the corresponding carrying amount.

23. WARRANTY PROVISION

	HK$
At January 1, 2005	11,064,509
Additional provision in the year	12,238,633
Utilisation of provision	(11,004,560)
At December 31, 2005	**12,298,582**

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

Notes to the Consolidated Financial Statement

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Amount payable under finance leases:				
Within one year	–	1,543,788	–	1,518,217
Less: Future finance charges	–	(25,571)	–	N/A
Present value of lease obligations	–	1,518,217	–	1,518,217
Less: Amount due within one year shown under current liabilities			–	(1,518,217)
Amount due after one year			–	–

It is the Group's policy to lease certain of its plant and machinery and motor vehicles 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%. Interest rates were fixed at the contract dates. All leases were fully repaid in current year.

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

Notes to the Consolidated Financial Statement

25. BORROWINGS

	2005 HK$	2004 HK$
Borrowings comprise the following:		
Trust receipt loans	–	110,851,056
Bank loans	200,000,000	70,000,000
	200,000,000	180,851,056
Other borrowings	7,015,544	3,037,394
	207,015,544	183,888,450
Secured	157,015,544	72,292,367
Unsecured	50,000,000	111,596,083
	207,015,544	183,888,450

The above amounts are repayable as follows:

	2005 HK$	2004 HK$
Within one year	87,015,544	183,888,450
In the second year	30,000,000	–
In the third to fifth years inclusive	90,000,000	–
	207,015,544	183,888,450
Less: Amount due within one year shown under current liabilities	(87,015,544)	(183,888,450)
Amount due after one year	120,000,000	–

Notes to the Consolidated Financial Statement

25. BORROWINGS *(Continued)*

The Group has two borrowings amounting to HK$50,000,000 in aggregate which are repayable within one year and carry fixed interest rate ranging from 3.825% to 3.900% per annum and two borrowings amounting to HK$157,015,544 in aggregate which carry floating interest rates of HIBOR plus 0.75% and LIBOR plus 2.725% to 2.325% per annum respectively.

	HK$
The Group's borrowings denominated in currencies other than the functional currencies of the relevant group entities are set out below:	
As at December 31, 2005	50,000,000
As at December 31, 2004	70,000,000

The Directors of the Company consider the fair value of borrowings approximates to their corresponding carrying amount.

26. DEFERRED TAX

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

	Accelerated tax depreciation	**Allowance for doubtful debts**	**Allowance for inventories**	**Others**	**Total**
	HK$	HK$	HK$	HK$	HK$
At January 1, 2004	2,101,802	(1,802,275)	(589,013)	(553,825)	(843,311)
(Credit) charge to the consolidated income statement for the year	(1,193,498)	(905,564)	38,839	203,824	(1,856,399)
At December 31, 2004 and January 1, 2005	908,304	(2,707,839)	(550,174)	(350,001)	(2,699,710)
Charge (credit) to the consolidated income statement for the year	97,188	(377,842)	(522,425)	350,001	(453,078)
At December 31, 2005	1,005,492	(3,085,681)	(1,072,599)	–	(3,152,788)

Notes to the
Consolidated Financial Statement

26. DEFERRED TAX *(Continued)*

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax (assets) liabilities for financial reporting purposes:

	2005	2004
	HK$	HK$
Deferred tax assets	**(4,268,408)**	(3,746,952)
Deferred tax liabilities	**1,115,620**	1,047,242
	(3,152,788)	(2,699,710)

At the balance sheet date, the Group has unused tax losses of approximately HK$63,000,000 (2004: HK$26,000,000) 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 (2004: HK$9,600,000), HK$2,900,000 (2004: HK$2,900,000) and HK$5,400,000 (2004: Nil) that will expire in 2010, 2011 and 2012 respectively. Other losses may be carried forward indefinitely.

27. SHARE CAPITAL OF THE COMPANY

	2005	2004
	HK$	HK$
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000,000**	100,000,000
Issued and fully paid:		
At January 1, 2005: 560,378,285 (January 1, 2004: 562,996,285) ordinary shares of HK$0.10 each	**56,037,829**	56,299,629
Repurchase of shares	**–**	(261,800)
At December 31 2004 and December 31 2005: 560,378,285 ordinary shares of HK$0.10 each	**56,037,829**	56,037,829

Notes to the Consolidated Financial Statement

27. SHARE CAPITAL OF THE COMPANY *(Continued)*

During the year ended December 31, 2004, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	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 equivalents to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

Notes to the
Consolidated Financial Statement

28. RESERVES AND MINORITY INTERESTS

	Attributable to equity holders of the parent							
	Share premium	Dividend reserve	Capital redemption reserve	Translation reserve	Retained profits	Contributed surplus	Total reserves	Minority interests
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
At January 1, 2004	216,087,846	90,079,406	1,215,200	(12,928,424)	341,608,228	25,582,177	661,644,433	1,611,276
Exchange difference arising on translation of overseas subsidiaries and net income recognised directly in equity	–	–	–	1,183,406	–	–	1,183,406	–
Profit for the year	–	–	–	–	235,112,143	–	235,112,143	136,051
Total recognised income and expense for the year	–	–	–	1,183,406	235,112,143	–	236,295,549	136,051
Repurchases of shares	(17,362,640)	–	261,800	–	(261,800)	–	(17,362,640)	–
Final dividend for 2003 paid	–	(50,669,666)	–	–	–	–	(50,669,666)	–
Final special dividend for 2003 paid	–	(39,409,740)	–	–	–	–	(39,409,740)	–
Interim dividend for 2004 paid	–	–	–	–	(39,001,299)	–	(39,001,299)	–
Interim special dividend for 2004 paid	–	–	–	–	(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 and January 1, 2005	198,725,206	78,452,960	1,477,000	(11,745,018)	442,368,103	25,582,177	734,860,428	1,747,327
Exchange difference arising on translation of overseas subsidiaries recognised directly in equity	–	–	–	35,306	–	–	35,306	–
Share of changes in equity of associates and a jointly controlled entity	–	–	–	1,910,713	–	–	1,910,713	–
Net income recognised directly in equity	–	–	–	1,946,019	–	–	1,946,019	–
Realised on disposal of a subsidiary	–	–	–	1,863,435	–	–	1,863,435	–
Profit (loss) for the year	–	–	–	–	218,653,354	–	218,653,354	(457,191)
Total recognised income and expense for the year	–	–	–	3,809,454	218,653,354	–	222,462,808	(457,191)
Final dividend for 2004 paid	–	(39,226,480)	–	–	–	–	(39,226,480)	–
Final special dividend for 2004 paid	–	(39,226,480)	–	–	–	–	(39,226,480)	–
Interim dividend for 2005 paid	–	–	–	–	(44,830,263)	–	(44,830,263)	–
Interim special dividend for 2005 paid	–	–	–	–	(16,811,348)	–	(16,811,348)	–
Proposed final dividend for 2005	–	28,018,914	–	–	(28,018,914)	–	–	–
Proposed final special dividend for 2005	–	39,226,480	–	–	(39,226,480)	–	–	–
At December 31, 2005	198,725,206	67,245,394	1,477,000	(7,935,564)	532,134,452	25,582,177	817,228,665	1,290,136

Notes to the Consolidated Financial Statement

28. RESERVES AND MINORITY INTERESTS *(Continued)*

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.

29. SHARE OPTION SCHEME

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

The Board of Directors of the Company may, at their discretion, grant 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 the Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the 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 as cash consideration for the grant of the share options in accordance with the Scheme. The total number of shares in respect of which share options may be granted shall not exceed 10% of the issued share capital of the Company. 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.

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

No share option has been granted by the Company under the Scheme since its adoption.

Notes to the Consolidated Financial Statement

30. DISPOSAL OF A SUBSIDIARY

On December 20, 2005, the Group disposed of a subsidiary, Front Standard Limited. The net assets of Front Standard Limited at the date of disposal were as follows:

	HK$
NET ASSETS DISPOSED OF	
Interest in an associate	1,612,508
Exchange losses realised	1,863,435
	3,475,943
Loss on disposal	1,658,025
Total consideration	1,817,918
Satisfied by:	
Cash, which represents the cash inflow from disposal of a subsidiary	1,817,918

The impact of Front Standard Limited on the Group's results and cash flows in the current and prior years is insignificant.

31. CONTINGENT LIABILITIES

At December 31, 2004, the Group had export bills discounted with recourse of HK$24,707,137. There are no significant export bills discounted with recourse at December 31, 2005.

32. CAPITAL COMMITMENTS

	2005 **HK$**	2004 HK$
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**3,226,483**	1,772,641

Notes to the Consolidated Financial Statement

33. OPERATING LEASE ARRANGEMENTS

As lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK$6,619,778 (2004: HK$6,012,756).

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

	2005	2004
	HK$	HK$
Within one year	**6,380,419**	5,700,471
In the second to fifth year inclusive	**5,871,692**	10,852,981
	12,252,111	16,553,452

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.

34. RETIREMENT BENEFITS SCHEME

Schemes in Hong Kong

The Group has a defined contribution provident fund scheme for its Hong Kong employees. The scheme assets are being held under a 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 start with 5% and further increase proportionally to a maximum of 8% of each employee's basic salary after completion of three years of service to the Group. The employees are entitled to 100% of the employers' contribution and the accrued interest after 10 years' of completed service, or at a reduced scale of between 30% to 100% after completion of 3 to 10 years' service. The forfeited contributions and related accrued interest are to be used to reduce the employers' contribution.

In 2000, the principal deed and the rules of the provident fund scheme were amended to comply with the rules of the Mandatory Provident Fund Schemes Ordinance ("MPF Ordinance").

Notes to the Consolidated Financial Statement

34. RETIREMENT BENEFITS SCHEME *(Continued)*

Schemes in Hong Kong *(Continued)*

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

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

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

	2005	2004
	HK$	HK$
Gross employers' contributions	**2,815,570**	2,718,077
Less: Forfeited contributions utilised to offset employers' contributions for the year	**(63,136)**	(4,730)
Net employers' contributions charged to the consolidated income statement	**2,752,434**	2,713,347

At the balance sheet date, there were no significant forfeited contributions available to offset future employers' contributions to the provident fund scheme.

Scheme in the PRC

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to the consolidated income statement for the scheme in the PRC amounted to HK$3,721,144 (2004: HK$2,976,361).

Notes to the Consolidated Financial Statement

34. RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in Germany

In Germany, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 9.75% of the employees' gross income. The only obligation of the Group with respect to this retirement benefits scheme is to make the specified contribution.

The total cost charged to the consolidated income statement for the scheme in Germany amounted to HK$5,393,886 (2004: HK$2,772,369).

35. POST BALANCE SHEET EVENT

Subsequent to December 31, 2005, the Group acquired the assets and intellectual property rights of a textile machinery manufacturer in Europe at an aggregate consideration of approximately HK$15 million.

Notes to the Consolidated Financial Statement

36. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2005	2004
	HK$	HK$
Related parties in which Directors have beneficial interests		
Sale of goods	**694,773**	–
Purchase of materials	**283,217**	–
Commission and agency fee received	**4,770,510**	–
Management fee received	**306,000**	313,213
Rental paid	**5,928,000**	5,638,412
A jointly controlled entity		
Sale of goods	**14,108,049**	1,543,246
Purchase of materials	**16,261,876**	11,564,892
Commission and management fee received	**26,702,739**	20,055,036

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2005	2004
	HK$	HK$
Short-term benefits	**45,709,569**	44,203,673
Post-employment benefits	**2,622,926**	1,909,172
	48,332,495	46,112,845

The remuneration of Directors and key executives is determined by the Directors of the Company having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statement

37. BALANCE SHEET OF THE COMPANY

	2005 HK$	2004 HK$
Non-current asset		
Investments in subsidiaries	**36,584,983**	36,584,983
Current assets		
Other receivables	**224,522**	225,741
Amounts due from subsidiaries	**381,884,792**	372,070,092
Tax recoverable	**47,183**	–
Bank balances	**331,621**	198,546
	382,488,118	372,494,379
Current liabilities		
Other payables	**350,471**	312,473
Tax liabilities	**–**	32,187
	350,471	344,660
Net current assets	**382,137,647**	372,149,719
	418,722,630	408,734,702
Capital and reserves		
Share capital	**56,037,829**	56,037,829
Reserves	**362,684,801**	352,696,873
	418,722,630	408,734,702

Notes to the Consolidated Financial Statement

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company indirectly held	Principal activities
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 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 stainless steel casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd.	The PRC *	US$4,350,000	100%	Manufacture of stainless steel casting products

Notes to the Consolidated Financial Statement

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company indirectly held	Principal activities
THEN Maschinen (HK) Limited	Hong Kong	HK$1	100%	Investment holding and trading in textile machinery and technical parts
THEN Maschinen GmbH	Germany	EUR1,900,000	100%	Trading and manufacture of textile machinery and technical parts
Xorella Hong Kong Limited	Hong Kong	US$3,500,000	80%	Trading in textile machinery and technical parts
Xorella AG	Switzerland	CHF350,000	80%	Trading and manufacture of textile machinery and technical parts

* *A wholly-owned foreign enterprise*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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