DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 8 cents per share plus an interim special dividend of 3 cents per share (2005: an interim dividend of 8 cents per share plus an interim special dividend of 3 cents per share) to the shareholders of the Company whose names appear in the Register of Members of the Company on October 20, 2006.

It is expected that dividend warrants will be dispatched to the shareholders of the Company on or before November 2, 2006.

The Register of Members of the Company will be closed from October 16, 2006 to October 20, 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and interim special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Secretaries Limited, at the 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, October 13, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF RESULTS

The Group's revenue and profit attributable to the equity holders of the Company for the six months period ended June 30, 2006 amounted to approximately HK$1,027,991,000 and HK$134,806,000 (2005: HK$1,078,239,000 and HK$141,303,000) respectively, marginally lower than that of the same period in 2005 but have shown significant improvements in comparison with the second half of 2005. Basic earnings per share for the period were 24.06 cents (2005: 25.22 cents).

DYEING AND FINISHING MACHINE MANUFACTURING

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

For the period under review, the revenue from this segment as a whole was similar to that of the corresponding period in 2005 as a result of a moderate slowdown in sales in the China market while solid growth in the overseas markets balanced the set back. In addition, sales in the China market have already shown improvements as compared to the second half of 2005. The revenue amounted to approximately HK$598,685,000 (2005: HK$635,420,000), representing a decrease of 6% as compared with the same period in 2005. It accounted for approximately 58% of the Group's consolidated revenue. The segment results dropped 26% to approximately HK$75,168,000 (2005: HK$101,920,000).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

DYEING AND FINISHING MACHINE MANUFACTURING (Continued)

The decrease in profitability of this segment can be largely attributable to the greater losses in the European operations namely **THEN, XORELLA** and the recently acquired **GOLLER** as compared to the same period last year. Although continued efforts have been made to improve the performance of these divisions, sales have not been satisfactory mainly due to the recent Financial Volatility Shock in the Turkish market which traditionally contributes to 20-30% of sales for European textile machinery manufacturers. Nevertheless, with the Financial Volatility Shock in the Turkish market similar to the financial crisis of Asia in 1998, we expect the Turkish market to gradually improve in the next 12 months and efforts are being made to focus on improving sales beyond this market, particularly focusing on South Asia.

Also recently, driven by the recent tightened Chinese Government directives on pollution particularly in southern China, we noticed that some mainland Chinese and Hong Kong customers have shown certain hesitancy or the deferring of their investment decisions on textile equipment. Although this may cause some minor uncertainty in the near future, we nevertheless believe that this will have an overall neutral impact on our business as we expect that many customers will have to further upgrade their machinery to our latest models in order to reduce the amount of waste water for their plants.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the six months ended June 30, 2006, the revenue of this trading segment amounted to approximately HK$326,878,000 (2005: HK$354,852,000) representing a decrease of 8% as compared with the same period in 2005. It accounted for 32% of the Group's consolidated revenue. However, the segment results grew 42% to approximately HK$55,882,000 (2005: HK$39,286,000).

During the period under review, this trading segment continued to achieve satisfactory performance mainly attributable to a surge of global market prices of stainless steels starting in the second quarter of 2006 resulting in an increase in our selling prices and correspondingly the profits of this segment.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

STAINLESS STEEL CASTING

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

This segment achieved continuous growth in revenue and segment results. For the six months ended June 30, 2006, the revenue increased to approximately HK$102,428,000 (2005: HK$87,967,000), representing an increase of 16% as compared with the corresponding period in 2005. It accounted for 10% of the Group's consolidated revenue. The segment results grew 30% to approximately HK$16,430,000 (2005: HK$12,628,000). Larger sales volume has led to higher plant utilization and improvement in gross margins in addition to more orders for high value added services in machined parts have been received from customers.

With the extended production capacity, the external customers' orders have been increased. The management has successfully diversified its customer base and widened the variety of casting products, therefore in addition to the Group's consumption and supplementing the dyeing and finishing machine manufacturing process, the enlarged range of casting products could better meet external customer demands and satisfaction as well.

As the management believes the demand from external customers will be increasing, complemented by the Group's internal demand, this segment will continue to have a positive contribution to the Group.

JOINTLY CONTROLLED ENTITY

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

For the six months ended June 30, 2006, the revenue of Monforts Fong's was approximately HK$195 million (2005: HK$196 million) while the Group's share of profit after tax amounted to approximately HK$18,888,000 (2005: HK$15,629,000) representing an increase of 21% as compared with the same period last year. Enhancements of production capability, including further horizontal integration, and improvements in manufacturing efficiency have contributed to the growth in profit margins.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

ASSOCIATES

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

For the six months ended June 30, 2006, the sales revenue of woven color fabrics conducted by this associate amounted to approximately HK$106 million (2005: HK$89 million) and the Group's share of profit after tax was approximately HK$153,000 (2005: HK$648,000). The woven color fabric market continued to face intense competition and pricing pressure during the period under review. Despite an increase of 19% in sales volume, the competitive environment caused a decline of 76% in profit.

PROSPECTS

Barring any unforeseeable circumstances, the Group expects that sales will be relatively stable for the remainder of the year. Looking ahead, the Group will continue to implement effective cost-saving measures and to further implement its synergy strategy at its European operations so as to further improve the overall efficiency, and thereby enhancing the competitiveness of its dyeing and finishing machine manufacturing business. Moreover, synergy effects from the acquisitions of the three **THEN, GOLLER** and **XORELLA** businesses are expected to be gradually materialized. These European subsidiaries are targeted to turnaround and become profitable after completion of their re-structuring of operations and launches of new product ranges in the coming years.

Though the operating environments are challenging, the Group is dedicated to strive for the best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will continue to strengthen its core business, streamline its existing operations and tighten cost control measures and inventory measures. The Group is confident all these efforts can sustain and enhance its business growth.

LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operations through internally generated funds and banking facilities provided by its principal bankers and other financial institutions. The Group successfully maintained a strong and healthy liquidity and financial position during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

On 10 May, 2006, the Company issued HK$800 million zero coupon convertible bonds due 2011, the convertible bonds will carry rights to convert into new shares of the Company at the conversion price of, subject to adjustment, HK$8.18 per share (as adjusted). The net proceeds after deducting the relevant expenses amounted to approximately HK$773 million. The Group will utilize the above said proceeds for the establishment of new production facilities within the nearby Guangdong region, possible future acquisitions of business or potential joint ventures relating to its core business and to fund the Group's general working capital. As at June 30, 2006, the proceeds have been placed in banks as short-term deposits. The directors may review and vary the purpose for which the proceeds are used in light of what they consider to be the optimal use of proceeds from time to time.

As at June 30, 2006, there was a gearing ratio of 12% and the current ratio was 4.4.

As at June 30, 2006, bank and other borrowings amounted to approximately HK$214 million. Most bank and other borrowings were sourced from Hong Kong, of which 85% were denominated in Hong Kong dollars, 14% were denominated in US dollars and the remaining were denominated in Euro. The bank and other borrowings of the Group are predominantly subject to floating interest rates.

As at June 30, 2006, the cash and bank balance amounted to approximately HK$863 million of which 66% were denominated in Hong Kong dollars, 14% in US dollars, 11% in Renminbi, 5% in Euro, 3% in Swiss France and 1% in Japanese yen.

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign exchange risks. Certain trade receivable and trade payables of the Group are denominated in foreign currencies. The exposure to foreign exchange risks of the Group during the period under review was not significant. Currently, the Group does not have a foreign currency hedging policy. However, the directors will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposure should the need arises.

HUMAN RESOURCES

As at June 30, 2006, the Group had a total of approximately 3,800 (December 31, 2005: 3,300) employees spreading among China, Hong Kong, Germany, Switzerland and Thailand.

Employees are remunerated based on their performance, experience and the prevailing industry practice. The Group's remuneration policies and packages are being reviewed by its management on a periodic 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. Up to the date of this report, no share option had been granted under the existing share option scheme adopted by the Company.