MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended December 31, 2006, the consolidated revenue of the Group was approximately HK$2,380 million (2005: HK$2,012 million) representing an increase of 18% as compared with the previous year. The profit for the year attributable to the shareholders was approximately HK$260 million (2005: HK$219 million) representing an increase of approximately 19% as compared with last year. Basic earnings per share for the year amounted to 46.5 cents (2005: 39.0 cents).

1. Hong Kong Headquarters

2. China Headquarters

MANAGEMENT DISCUSSION AND ANALYSIS

3. Xorella AG, Switzerland

4. THEN Maschinen GmbH, Germany

5. Goller Textilmaschinen GmbH, Germany

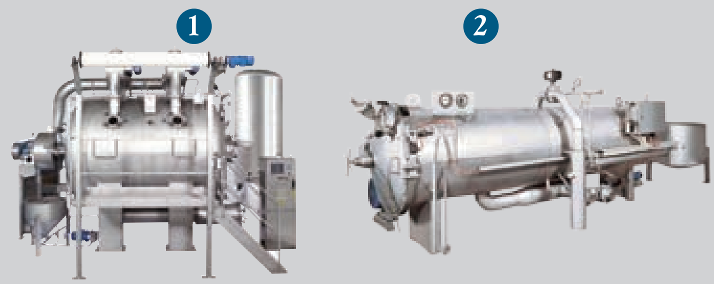
MANAGEMENT DISCUSSION AND ANALYSIS

DYEING AND FINISHING MACHINE MANUFACTURING

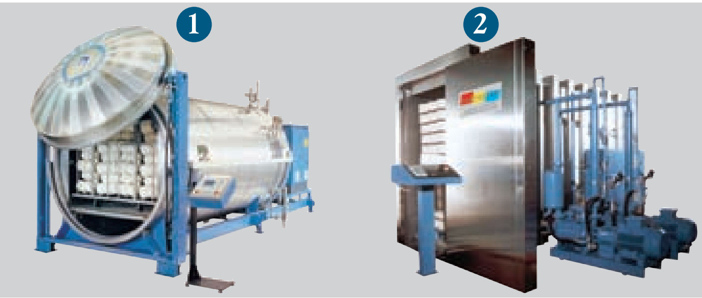
Fong's National Engineering Company, Limited, Fong's National Engineering (Shenzhen) Co., Ltd., THEN Maschinen GmbH, THEN Maschinen (HK) Limited, Goller Textilmaschinen GmbH, Goller (HK) Limited, Xorella AG and Xorella Hong Kong Limited

1. ECO-88D
   High Temperature Dyeing Machine
2. JUMBOFLOW
   High Temperature Dyeing Machine
3. ALLWIN
   High Temperature Package Dyeing Machine

1. THEN AIRFLOW® SYNERGY
2. THEN HST



1. CONTEXXOR® Plus
2. CONTEXXOR® LTC-S



1. SINTENSA®

MANAGEMENT DISCUSSION AND ANALYSIS

ATME-1 2006

CITME 2006

The revenue of this division achieved an increase of 13% to approximately HK$1,313 million (2005: HK$1,163 million) for the year under review and accounted for 55% (2005: 58%) of the Group's consolidated revenue. However, the segment results decreased 26% to approximately HK$96 million (2005: HK$129 million) as a result of the delays in the turnaround of the European operations and the addition of Goller Textilmaschinen GmbH into this division.

In particular, the European operations (Goller, THEN, and Xorella) achieved sales of approximately HK$324 million (2005: HK$249 million) but incurred losses of approximately HK$75 million (2005: Losses of HK$33 million) during the year.

As described in our Interim Report 2006, the Group has been carrying out a series of improvement measures in re-building the sales force, streamlining the operations, optimizing the inventory levels and improving the manufacturing efficiencies of the above European operations. It is believed that with the ongoing implementation of the above various strategies of these European operations, the Group will see benefits from the synergy effects in the very near future.

In addition, during the year:

The textile machinery division added the well established brand of **Goller** with its series of continuous washing, bleaching, dyeing and mercerizing range of textile machinery into the Group's product portfolio via the asset acquisition transaction during April 2006.

Xorella Hong Kong Limited launched a joint venture with Plexus Cotton Limited of the UK in April 2006. The new joint venture company Plexxor Co. Limited, which is owned as to 51% by the Group, is engaged in the marketing and sale of a new patented vacuum bale system. Three vacuum bale systems have since been sold and are currently under installation in various locations around the world. Upon the successful start up of these systems, it is anticipated that these references will generate further sales in the coming year.

Xorella Hong Kong Limited and Xorella AG had become wholly-owned subsidiaries of Group following our acquisitions of the 20% equity interests from the minority shareholder in December, 2006.

With regards to the raw material costs of stainless steel, due to the acute shortage of nickel in the world market, stainless steel prices have increased by 100% in the course of the second half of 2006. On a larger perspective, stainless steel prices have increased by four folds since 2003. Fortunately, the Group has been well hedged against such an abrupt stainless steel price increases and in addition the Group has implemented a series of price increases over the course of the last several years for its textile machinery business.

Nevertheless, according to nickel industry reports, the nickel shortage situation is not likely to abate any time soon. Consequently, should stainless steel prices continue to remain at these elevated levels, the Group may have to again consider raising machinery prices in the second half of 2007 in order to mitigate the effects of the stainless steel prices.

MANAGEMENT DISCUSSION AND ANALYSIS

ShanghaiTex 2006

Furthermore, the Group will continue to focus on the various cost controls and reduction and to further leverage on its bargaining power with its suppliers due to the division's purchasing scale so as to maintain reasonable profit margins.

Lastly, Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Co., Ltd. are in the process of switching to a new ERP system during 2007. Upon its successful implementation, it is foreseeable that this new ERP system will be extended to all companies in this division to further enhance operational cost savings and efficiencies in the future.

Looking ahead, the Group remains optimistic and excited for the outlook in the coming year and also in the medium and long term as the domestic consumption in Asia as a whole is accelerating to become a major driver for the demand of textiles despite the foreseeable slow down in terms of export growth from Asia in the coming years as the Group is now well positioned to further take advantage of this scenario.

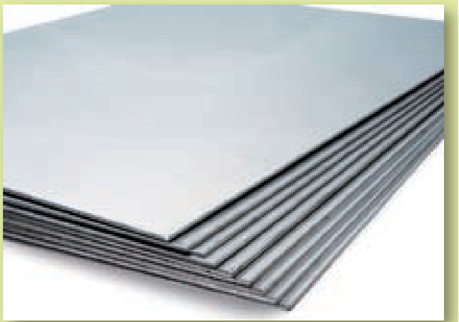
STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

This stainless steel trading segment achieved an out performance year of good sales and profit growth as a result of the large increase in stainless steel prices during the year. For the year ended December 31, 2006, its revenue reached approximately HK$809 million (2005: HK$646 million) and accounted for 34% (2005: 32%) of the Group's consolidated revenue. The segment results grew 126% to approximately HK$145 million (2005: HK$64 million)

The management will maintain a conservative approach in conducting this trading business. It will also continue to adopt a prudent policy in selecting customers and tighten the credit control policy towards customers in order to minimize the risk associated with accounts receivables. Stainless steel prices are likely to stabilize at the present level and remain high in the near future, the management has been actively managing the inventory level based on its forecasts of stainless steel prices with an aim to minimize its risks given the volatile stainless steel market.

Warehouse



Stainless Steel Plates

MANAGEMENT DISCUSSION AND ANALYSIS

STAINLESS STEEL CASTING

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

Foundry Plant of Tycon Alloy

Workshop of Tycon Alloy

Despite rising costs in both auxiliary and raw materials, this segment had a satisfactory performance with increases in both sales and profit for the year under review. The revenue amounted to approximately HK$258 million (2005: HK$203 million), representing an increase of 27% over last year. It accounted for 11% (2005 10%) of the Group's consolidated revenue. The segment results increased 28% to approximately HK$35 million (2005: HK$28 million). These results were mostly attributable to the increase in sales volume through capacity expansion and tight control on costs.

Raw material price continues to be a major challenge to Tycon. Nevertheless, the management is confident that this issue could be overcome through more stringent cost control & improved operational efficiency. The Group expects that this stainless steel casting business will have a reasonable growth in the coming year.

Machine component

Open type impeller

Diffuser

MANAGEMENT DISCUSSION AND ANALYSIS

JOINTLY CONTROLLED ENTITY

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

Monforts Fong's Manufacturing Plant

During the year under review, Monforts Fong's achieved satisfactory results. The revenue was approximately HK$469 million (2005: HK$434 million), representing an increase of 8% over that of last year and the Group's share of profit after tax increased to approximately HK$47 million (2005: HK$32 million), representing an increase of 47%.

The substantial increase in profitability compared to the revenue was mainly attributed to the extra contribution derived from the increased sales volume, effective cost control on both manufacturing and overhead costs as well as a more profitable product mix.

Since the start of the joint venture in the end of 1999, over 500 stenters have been installed in the China market. The Monforts Fong's stenter has now successfully established itself as the market leader in China and the stenter equipment of choice by virtually all leading textile customers in the China market. It is expected that this success will continue as the joint venture's market position further takes root and the growth in the China textile industry will continue also.

Monfongs 328/329 TwinAir Stenter Frame Range

ASSOCIATES

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

During the year under review, the sales revenue of woven color fabrics conducted by Foshan East Asia Company Limited increased 18% to approximately HK$226 million (2005: HK$192 million) and the Group's share of profit after tax was approximately HK$8.9 million (2005: HK$2.1 million), representing an increase of 333% over last year.

It is anticipated that this associate company will continue to maintain its profit contribution to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at December 31, 2006, the Group had a total of approximately 4,500 employees (2005: 3,300) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central – South America. For the year under review, staff costs, including directors' remuneration were approximately HK$197 million (2005: HK$174 million).

Employees are remunerated based on their performances, experience and prevailing industry practice. The Group's remuneration policies and packages were 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 schemes and share option scheme.

To equip with the workforces to face the challenges ahead, the Group will continue to offer training programmes to staff in different levels and positions on an ongoing basis. The aim of these programmes is to cultivate a dynamic corporate culture and develop effective communication and customer service skills among staff members. Moreover, system controls will also be reinforced to ensure high operational efficiency and performance.

LIQUIDITY AND CAPITAL RESOURCES

On May 10, 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 HK$8.37 per share, subject to adjustments. (As at December 31, 2006, the adjusted conversion price is HK$8.02 per share.)

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 finance the Group's general working capital. As at December 31, 2006, the balances of the proceeds, which have not yet been utilized, were being 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 the proceeds from time to time.

Following the issue of the convertible bonds, the financial position of the Group has further been strengthened and improved. As at December 31, 2006, there was a gearing ratio of 38% and the current ratio was 4.5.

As at December 31, 2006, bank and other borrowings amounted to approximately HK$177 million. 95% of the bank borrowings were sourced from Hong Kong and remaining were sourced from Germany. 95% of the borrowings were denominated in Hong Kong dollars and the remaining was denominated in Euro. The bank borrowings of the Group are predominantly subject to floating interest rates.

At as December 31, 2006, the cash and bank balance amounted to approximately HK$580 million of which 54% were denominated in Hong Kong dollars, 18% in Renminbi, 14% in US dollars, 12% in Euro and 2% in Japanese Yen.

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign exchange risks. Certain trade receivables and trade payables of the Group are denominated in foreign currencies. The exposure to foreign exchange risks of the Group during the year 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.