

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The subsidiaries of the Company 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. The activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2006 are set out in the consolidated income statement on page 37.

An interim dividend of 8 HK cents per share plus an interim special dividend of 3 HK cents per share, amounting to a total of approximately HK\$61 million, were paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 8 HK cents per share plus a final special dividend of 7 HK cents per share to the shareholders on the register of members on May 25, 2007, amounting to approximately HK\$84 million, and the retention of the remaining profit for the year of approximately HK\$115 million.

Subject to the approval of the shareholders at the forthcoming annual general meeting, dividend is expected to be despatched to the shareholders on or before June 6, 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2006, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 8% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 40% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 24% of the total purchases.

None of the Directors, their associates, or any shareholder, which to the knowledge of the Directors owns more than 5% of the Company's share capital, has any interest in the Group's five largest suppliers or customers.

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DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2006 were as follows:

	HK\$'000
Contributed surplus	23,033
Retained profits	44,692
Dividend reserve	83,747
	<hr/>
	151,472

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Fong Sou Lam (*Chairman*)

Mr. Wan Wai Yung (*Managing Director*)

Mr. Fong Kwok Leung, Kevin

Mr. Fong Kwok Chung, Bill

Mr. Tsui Wai Keung

Dr. Tsui Tak Ming, William

Ms. Poon Hang Sim, Blanche

Mr. Tou Kit Vai

(*appointed on January 15, 2007*)

Mr. Peter Rainer Philipp

(*resigned on April 12, 2006*)

Independent Non-executive Directors:

Mr. Cheung Chiu Fan

Dr. Yuen Ming Fai

Dr. Keung Wing Ching

(*appointed on June 1, 2006*)

Mr. Lui Chi Lung, Louis

(*service contract expired on September 8, 2006*)

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Mr. Cheung Chiu Fan was appointed under a contract for a term of 2 years commencing on January 1, 2005 and expiring on December 31, 2006. Upon expiry, his term of office has been extended to December 31, 2008.

Mr. Lui Chi Lung, Louis was appointed under a contract for a term of 2 years commencing on September 9, 2004 and expiring on September 8, 2006. Upon expiry, the contract was not renewed.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on September 1, 2004 and expiring on August 31, 2006. Upon expiry, his term of office has been extended to August 31, 2008.

Dr. Keung Wing Ching was appointed under a contract for a term of 2 years commencing on June 1, 2006 and expiring on May 31, 2008.

The Company has received confirmations of independence from all Independent Non-executive Directors and considers them to be independent.

In accordance with Clauses 99 and 102 of the Company's Bye-Laws, the following Directors, namely Mr. Wan Wai Yung, Mr. Fong Kwok Leung, Kevin, Dr. Tsui Tak Ming, William, Mr. Tou Kit Vai and Dr. Keung Wing Ching, will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Other than as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at December 31, 2006, the interests of the Directors and their associates in the shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in shares of HK\$0.10 each of the Company

<u>Name of director</u>	<u>Capacity</u>	<u>Number of issued ordinary shares held</u>	<u>Percentage of the issued share capital of the Company</u>
Mr. Fong Sou Lam	Beneficial owner	22,622,000	4.05%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.27%
	Held by spouse	200,000	0.04%
	Held by discretionary trusts (<i>note</i>)	304,875,601	54.60%
		<u>306,625,601</u>	<u>54.91%</u>
Mr. Fong Kwok Chung, Bill	Beneficial owner	7,442,000	1.33%
	Held by discretionary trusts (<i>note</i>)	304,875,601	54.60%
		<u>312,317,601</u>	<u>55.93%</u>
Mr. Wan Wai Yung	Beneficial owner	1,743,500	0.31%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%

Note: The 304,875,601 shares are owned by two discretionary trusts, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members. These shares represented an interest duplicated amongst those two Directors.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2006.

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SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 29 to the consolidated financial statements.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

Other than the share option scheme disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2006, the Group entered into the following transactions which are defined in Chapter 14A of the Listing Rules as "continuing connected transactions" and are exempted from the independent shareholders' approval requirements. These continuing connected transactions are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

- (1) *The Group entered into an operating lease agreement with Sou Lam Company Limited ("Sou Lam") in which Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests.*

On December 30, 2004, Fong's National Engineering Co., Ltd. ("FNECL"), a wholly-owned subsidiary of the Company, entered into an operating lease agreement with Sou Lam for the use of a portion of a factory building by the Group as general office as well as for industrial or godown purposes for a term of three years from January 1, 2005 to December 31, 2007. The total rentals paid by the Group to Sou Lam for the year amounted to HK\$5,418,000. Details of the transaction were set out in the press announcement of the Company dated December 30, 2004.

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(2) *The Group, through its three subsidiaries, entered into five agreements with PSP Marketing Inc. ("PSP Marketing") in relation to agency and marketing activities for the sales of the products of these subsidiaries. PSP Marketing is beneficially owned as to 51% by Mr. Peter Rainer Philipp who is currently a director of certain operating subsidiaries of the Group.*

- (i) On May 1, 2003, a regional sales coordination agreement was entered into between PSP Marketing and FNECL whereby PSP Marketing was appointed as the exclusive sales coordinator to carry out sales and marketing activities in respect the **FONG'S** branded products of the Group in Central and South America for an initial term of three years commencing from May 1, 2003.
- (ii) On October 4, 2003, a sales agency agreement was entered into between PSP Marketing and FNECL whereby PSP Marketing was appointed as the exclusive sales agent for the sales of the **FONG'S** branded products of the Group in Canada and the United States of America (the "USA") with effect from October 4, 2003.
- (iii) On May 14, 2003, a technical, sales and marketing support agreement entered into between PSP Marketing and Xorella AG, a wholly owned subsidiary of the Company whereby PSP Marketing was engaged to provide technical, sales and marketing supports in respect of the products of Xorella AG in Central and South America with effect from May 2, 2003.
- (iv) On July 22, 2003, a sales agency agreement entered into between PSP Marketing and Xorella AG whereby PSP Marketing was appointed as the exclusive sales agent for the sales of the products of Xorella AG in Canada and the USA with effect from July 22, 2003.
- (v) On November 4, 2004, a sales agency agreement was entered into between PSP Marketing and THEN Maschinen GmbH, a wholly-owned subsidiary of the Company, whereby PSP Marketing was appointed as the exclusive sales agent for the sales of the **THEN** branded products of the Group in the USA with effect from November 1, 2004.

By a subsequent mutual agreement between PSP Marketing and the Group, the parties have agreed that with effect from April 10, 2005, notwithstanding any provisions set out in the above-mentioned agreements and unless otherwise being earlier terminated by either parties, each of the above-mentioned agreements shall not be renewable beyond December 31, 2007 and all the agreements shall expire on December 31, 2007.

Details of these transactions were set out in the press announcement of the Company dated April 20, 2005.

The aggregate amount paid and payable to PSP Marketing under the above-mentioned agreements for the year was HK\$7,866,000, which has not exceeded the cap amount under Rule 14A.34 of the Listing Rules.

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Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors. The Independent Non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group in the ordinary course of its businesses, on normal commercial terms and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

CONTRACTS OF SIGNIFICANCE

Other than the continuing connected transactions as disclosed above, no other contracts of significance to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at December 31, 2006, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares of HK\$0.10 each of the Company

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of issued ordinary shares</u>	<u>Percentage of the issued share capital in the Company</u>
Capital Research and Management Company	Beneficial owner	36,590,000	6.55%
Aberdeen Asset Management Plc.	Beneficial owner	33,626,000	6.02%

Save as disclosed above, as at December 31, 2006, the Company had not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$15,576,000.

EMOLUMENT POLICY

The Group's emolument policy, including salaries and bonuses, is in line with the local practices where the Company and its subsidiaries operate. The emolument policy of the Group is reviewed by the Remuneration Committee of the Company regularly, making reference to legal framework, market conditions and performance of the Group and individual employee.

The emolument packages of the Directors of the Company will be reviewed by the Remuneration Committee of the Company regularly. A share option scheme was established by the Company on May 26, 2003 to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Details of the share option scheme are set out in note 31 to the consolidated financial statements. No option has been granted by the Company under the share option scheme since its adoption.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENT

Details of a continuing connected transaction occurring after the balance sheet date are set out in note 36 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased certain of its own shares through the Stock Exchange, details of which are set out in note 29 to the consolidated financial statements. The Directors considered that the repurchases would increase the net asset value per share and earnings per share of the Company.

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PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Fong Sou Lam

DIRECTOR

Hong Kong, April 16, 2007