FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNUAL REPORT **2008**

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam *(Chairman)*
Mr. Wan Wai Yung *(Chief Executive Officer)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Fong Sou Lam
Mr. Fong Kwok Chung, Bill

QUALIFIED ACCOUNTANT

Ms. Poon Hang Sim, Blanche

AUDIT COMMITTEE

Mr. Cheung Chiu Fan *(Committee Chairman)*
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

REMUNERATION COMMITTEE

Mr. Fong Sou Lam *(Committee Chairman)*
Mr. Wan Wai Yung
Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

SOLICITORS

Richards Butler
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
Bank of Communications
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia Limited
Agricultural Bank of China
Industrial and Commercial Bank of China

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Hamilton,
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Hong Kong

REGISTERED OFFICE

Canon's Court,
22 Victoria Street,
Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor,
22-28 Cheung Tat Road,
Tsing Yi,
Hong Kong
Tel: (852) 2497 3300
Fax: (852) 2432 2552

WEBSITE ADDRESS

http://www.fongs.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company"), I would like to present the annual results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2008.

During the year, the Group recorded a revenue of approximately HK$2,500 million, representing a decrease of 17% as compared to that of 2007 and regrettably the loss attributable to equity holders was approximately HK$143 million when compared to a net profit of approximately HK$274 million for 2007. The significant loss for the year was the result of a combination of various factors, some of which were anticipated and others were not.

As per our last annual report, 2008 was already expected to be a difficult year in the textile industry worldwide with profits being squeezed by rising input costs and slowing sales. In addition, by the end of September 2008, the situation was further worsened by the full blown global financial crisis. Consequently, with such adverse economic environment, all of the Group's divisions were even more negatively affected in the second half of 2008.

In particular, having already been affected by rising input costs and high stainless steel prices, the loss in our textile machinery manufacturing segment was exacerbated by the losses from our European divisions due to the large reduction of orders and postponement of projects by the overseas customers during the last two quarters of 2008. In addition, lay-off expenses amounting to approximately HK$20 million were made for a combination of divisions in this segment.

As for our stainless steel trading segment, which has already been suffering from falling stainless steel prices during the year, a provision for impairment loss on inventory in the amount of approximately HK$46 million was further made for the year.

As reported in the Company's Interim Report 2008, during the year the Group acquired land use rights with an aggregate area of approximately 178 mu (approximately 118,600 m^2) located at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the People's Republic of China (the "PRC") at the purchase price of approximately RMB46 million and that the Group was in negotiations to acquire further land at that location for future expansion. Now, in light of the global financial crisis, the Group has decided to put on hold the expansion project temporarily and thus no further land acquisition will be made in the foreseeable future.

To weather the global financial crisis, the Group has undertaken reorganization and cost reduction schemes. Expenses are being tightly controlled and cost cutting measures have been implemented to reduce overall operating costs.

Given the continued difficult market conditions and the financial loss for the full year, which call for the need for prudent allocation of resources, the Board does not recommend the payment of a final dividend for the year ended December 31, 2008. Thus, an interim dividend of 2 HK cents per share paid on 30 October, 2008 represented the total dividend paid for the year 2008.

Fong Sou Lam, *Chairman*

CHAIRMAN'S STATEMENT

PROSPECT

2009 will still be a challenging year for the Group and unfortunately a loss is anticipated due to extremely weak order intake during the last quarter of 2008 and the first quarter of 2009.

Nevertheless, given the various economic stimulus programs implemented by governments worldwide and particularly the Chinese government, we have observed that the markets are showing signs of stabilization and certain orders which had been postponed are now resumed. Furthermore, it appears that the consolidation in the textile industry has reached its peak denoting a further sign of stabilization.

Although it seems the worst has passed, we believe that a full recovery will be slow. Therefore, from an internal perspective, the Group will continue to scale back its operating costs to cope with the slower demand and the effect should start reflecting in the second half of 2009. Furthermore, stainless steel material costs for our textile machinery manufacturing and casting businesses will see a significant reduction by mid-2009 when the higher-cost inventories are used up and replaced by new lower-cost inventories following the sharp adjustments in stainless steel prices in the second half of 2008. Consequently, with orders stabilizing and the above internal strategies, the Group is confident that our loss will be stemmed by the second half of 2009.

As the world market leader in the textile dyeing and finishing machinery with over 45 years of experience, we are confident that the Group has the management expertise and resources to overcome the current unprecedented global financial crisis and the resulting global recession and to take this as an opportunity to further consolidate our position in the industry.

APPRECIATION

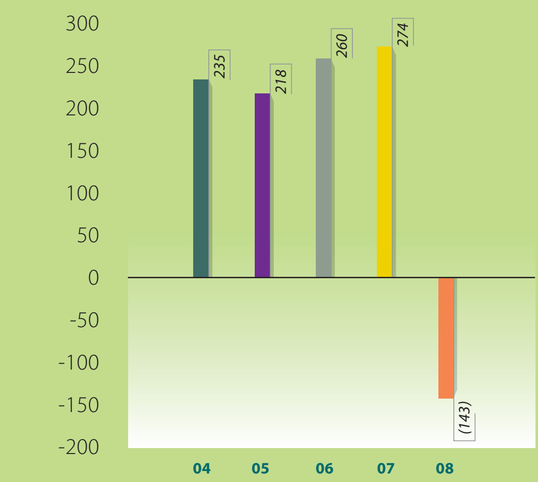
On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, suppliers, bankers and business partners for their continuous support. I would also like to take this opportunity to express my heartfelt thank to our management team and staff members for their hard work and valuable contributions to the Group in the past year. Lastly, I would also like to thank our shareholders for their continuous support to the Group. The Group is confident to achieve better results in the coming future.

Fong Sou Lam
Chairman
Hong Kong, April 22, 2009

FINANCIAL HIGHLIGHTS

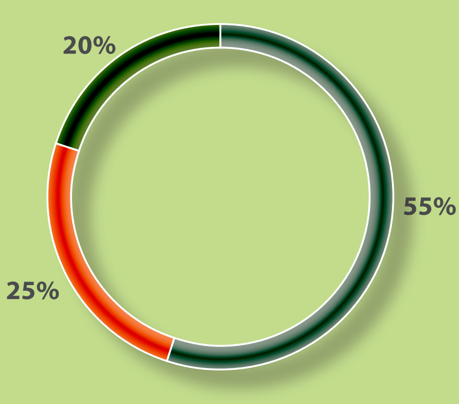
REVENUE

RESULTS



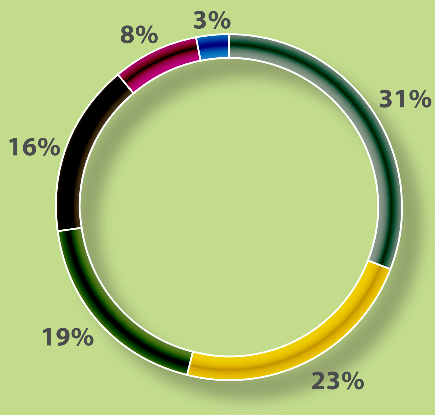
ANALYSIS OF REVENUE FOR THE YEAR

By principal activity



- 55% Manufacture and sale of dyeing and finishing machines
- 25% Trading of stainless steel supplies
- 20% Manufacture and sale of stainless steel casting products

By geographical region



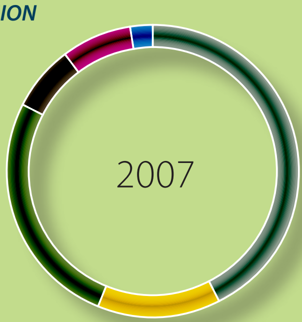
- (31%) The PRC
- (23%) Hong Kong
- (19%) Asia Pacific (other than the PRC and Hong Kong)
- (16%) Europe
- (8%) North and South America
- (3%) Others

FINANCIAL HIGHLIGHTS

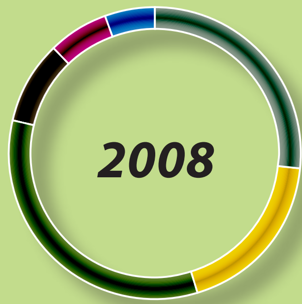
MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

BY GEOGRAPHICAL REGION

HK$ Million



690	The PRC
219	Hong Kong
427	Asia Pacific
116	Europe
124	North and South America
39	Others
1,615	

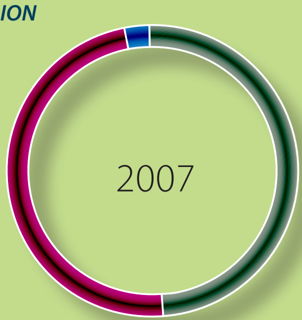


371	The PRC
261	Hong Kong
463	Asia Pacific
127	Europe
94	North and South America
71	Others
1,387	

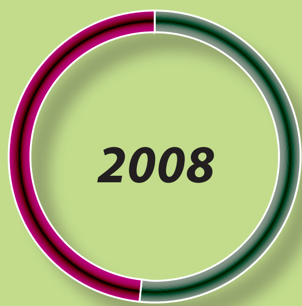
TRADING OF STAINLESS STEEL SUPPLIES

BY GEOGRAPHICAL REGION

HK$ Million



436	The PRC
443	Hong Kong
24	Asia Pacific
903	

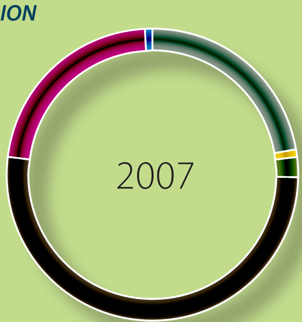


302	The PRC
321	Hong Kong
623	

MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

BY GEOGRAPHICAL REGION

HK$ Million



114	The PRC
5	Hong Kong
11	Asia Pacific
264	Europe
113	North and South America
4	Others
511	

93	The PRC
5	Hong Kong
11	Asia Pacific
271	Europe
106	North and South America
4	Others
490	

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam, aged 74, is the founder and Chairman of the Group. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has over 40 years of business experience in that industry. Mr. Fong is responsible for formulating and implementing the overall corporate directions, corporate strategies and policies of the Group. Mr. Fong is also the Chairman of the Remuneration Committee of the Company. Mr. Fong is the father of Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill.

Mr. Wan Wai Yung, aged 58, is the Chief Executive Officer and a member of the Remuneration Committee of the Company. Mr. Wan is responsible for the overall supervision of the Group's operations and assisting the Chairman in strategic planning and business development. Mr. Wan first joined the Group in 1978 and has over 20 years of experience with excellent customer relationships in the textile and dyeing industry.

Mr. Fong Kwok Leung, Kevin, aged 47, is the eldest son of Mr. Fong Sou Lam and joined the Group in 1986. Mr. Kevin Fong has been involved in the business of stainless steel trading since 1988 and is currently responsible for overseeing the stainless steel trading and stainless steel casting businesses of the Group. Mr. Kevin Fong holds a Bachelor's degree in Business Administration from the Simon Fraser University, Canada.

Mr. Fong Kwok Chung, Bill, aged 39, is the second son of Mr. Fong Sou Lam and joined the Group in 1994. Mr. Bill Fong is responsible for overseeing business development projects of the Group. In addition, since October 2005, Mr. Bill Fong has been responsible for the European operations of the overseas subsidiaries of the Group. Mr. Bill Fong studied at the Simon Fraser University, Canada with concentration on Accounting and Finance.

Mr. Tou Kit Vai, aged 46, joined the Group in October, 2005 and is responsible for the general financial management of the Group. Mr. Tou is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, he has extensive experiences in business operations, financial management, project management and internal audit.

Dr. Tsui Tak Ming, William, aged 50, is a chartered engineer and chartered I.T. professional, and he is in charge of the research & development team of the Group. Dr. Tsui holds a bachelor of science degree and a doctorate degree in Aeronautical Engineering and is a corporate member of the British Royal Aeronautical Society and a member of the Institution of Mechanical Engineers in the United Kingdom, the Hong Kong Institution of Engineers, the Hong Kong Computer Society and the British Computer Society. Dr. Tsui joined the Group in 1989 and has over 25 years of experience in research and development on mechanical engineering and information technology.

Ms. Poon Hang Sim, Blanche, aged 42, is the Finance Director and Qualified Accountant of the Company. Ms. Poon is responsible for overseeing the overall corporate financial management of the Group. Ms. Poon holds a Bachelor's degree in Commerce from the University of New South Wales, Australia and is an associate member of the Hong Kong Institute of Certified Public Accountants and a CPA, Australia. Before joining the Group in 1995, Ms. Poon had been working for an international accounting firm for five years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan, aged 55, has been appointed as an Independent Non-executive Director of the Company since August 1996. Mr. Cheung is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Cheung is a professional accountant with extensive experience in public accounting and professional management. Mr. Cheung holds a master's degree in Business Administration from the Chinese University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries.

Dr. Yuen Ming Fai, aged 58, as been appointed as an Independent Non-executive Director of the Company since September 2004. Dr. Yuen is also a member of the Audit Committee and Remuneration Committee of the Company. Dr. Yuen is currently a Professor of Mechanical Engineering and Head of Department of Mechanical Engineering at the Hong Kong University of Science and Technology. Dr. Yuen holds a doctorate degree in Mechanical Engineering from the University of Bristol, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and Hong Kong Institution of Engineers.

Dr. Keung Wing Ching, aged 57, has been appointed as an Independent Non-executive Director, a member of the Audit Committee and Remuneration Committee of the Company by the Board with effect from 1 June, 2006. Dr. Keung holds a Ph.D. in Mechanical Engineering from the University of Birmingham (the United Kingdom). Dr. Keung is a fellow member of the Hong Kong Institution of Engineers and a professional member and chartered engineer of the institute of Materials, Minerals and Mining (United Kingdom). Dr. Keung has served and presently still serves on various public and community bodies including Permanent Honorary Chairman of the Hong Kong Diecasting Association, Permanent Honorary Chairman of the Hong Kong Foundry Association, Committee Member of the Hong Kong Q Mark Council and Member of Standing Provincial Committee of the Chinese People's Political Consultative Conference. Dr. Keung is currently the Vice Chairman and Chief Executive Officer of Ka Shui International Holdings Limited engaged in the manufacture of diecasting parts and has over 25 years of business experience in the field of metal forming, critical components manufacturing, new materials properties and related applications and maintains a close working relationship with the Hong Kong manufacturing industries.

SENIOR MANAGEMENT

Mr. Thomas Archner, aged 51, is the Chief Executive Officer of THEN Maschinen GmbH and a director of Xorella AG. Mr. Archner graduated from the University of Hamburg with a Diploma in Economics. He has more than 20 years' senior and executive management experience in industrial companies, including in the textile machinery business. Mr. Archner joined the Group in January, 2008.

Mr. Friedrich Baur, aged 31, is the Managing Director of Xorella AG and is responsible for the overall operations of Xorella AG. Mr. Baur holds a Bachelor's degree in Business Administration and a master's degree in Service Management from the University of Buckingham, the United Kingdom. In 2004, Mr. Baur worked for the Service and Quality Management Department at Fong's National Engineering Company, Limited and in 2005 he conducted his thesis for the master's degree with THEN Maschinen GmbH. Mr. Baur officially joined the Group in May, 2006 upon the completion of his master's degree.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Lee Che Keung, aged 48, is the company secretary of the Group. Mr. Lee graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration and is an associate member of the Hong Kong Institute of Chartered Secretaries. Mr. Lee is responsible for the overall corporate secretarial matters of the Group. Mr. Lee joined the Group in February 1990.

Mr. Leung Sheung Wai, Walter, aged 42, is a director of Fong's National Engineering Company, Limited and is responsible for overseeing the sales and marketing activities of the FONG's branded dyeing and finishing machine business of the Group in the overseas markets. Mr. Leung graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Textile Chemistry. Mr. Leung joined the Group in 1997.

Mr. Hans-Eckhard Meiler, aged 58, joined the Group in April, 2006 and is the General Manager of Goller Textilmaschinen GmbH. Mr. Meiler graduated from Regensburg University with a Diploma in Business and has over 30 years of experience in the textile machine industry.

Mr. Heinz Scheungraber, aged 53, is the Chief Financial Officer of THEN Maschinen GmbH and Goller Textilmaschinen GmbH. Mr. Scheungraber graduated from the Academy of Business and Administration in Stuttgart, Germany with a Diploma in Business Administration and has over 20 years' experience in finance and controlling management of manufacturing and machinery building companies. Mr. Scheungraber joined the Group in April, 2006.

Mr. Wong Ching Chuen, Patrick, aged 47, is a director of Fong's National Engineering Company, Limited and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the woven market in China. Mr. Wong has been respectively educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for Mechanical Engineering and Griffith University in Australia for law. Mr. Wong has over 15 years' experience in China trade for industrial equipment supplies and engineering work. Mr. Wong joined the Group in July, 2000.

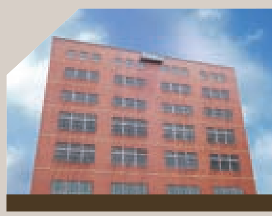
Mr. Wong Tak Man, Francis, aged 45, is a director of Fong's National Engineering Company, Limited and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the Knitting market in China. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Marine Engineering. Mr. Wong joined the Group in 1987.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The global financial meltdown triggered by the US sub-prime mortgage crisis has hit different industries. For the year ended December 31, 2008, the total revenue of the Group was approximately HK$2,500 million (2007: HK$3,029 million) representing a decrease of 17% as compared with the previous year. Loss attributable to equity holders was approximately HK$143 million (2007: profit of HK$274 million) and basic loss per share was 25.8 HK cents for the year under review (2007: basic earnings per share was 49.2 HK cents).

Shenzhen Headquarters

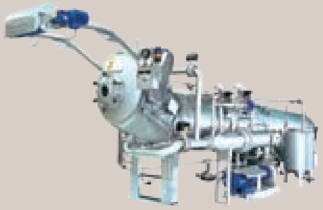


Hong Kong Headquarters

DYEING AND FINISHING MACHINE MANUFACTURING

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

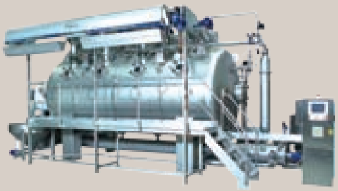

ALLWIN
High Temperature Package Dyeing Machine


ECO-88D
Double Rope High Speed Dyeing Machine


JUMBOFLOW
High Temperature Dyeing Machine

FONG'S®


THEN-CKM
Colour Kitchen Management System


THEN-AIRFLOW®
High Temperature Dyeing Machine

THEN®
The Technology Leader


PERFECTA
Mercerizing Range


SINTENSA
Washing Range for Printed Fabric

GOLLER

XO-SELECT
Vacuum Conditioning and Heat Setting Machine


XO-SMART
Vacuum Conditioning and Heat Setting Machine

XORELLA


Reverse Osmosis Components


Pilot Test Unit

FWT

MANAGEMENT DISCUSSION AND ANALYSIS

For the year under review, this segment remained the major source of revenue for the Group. Revenue generated from this segment was approximately HK$1,387 million (2007: HK$1,615 million) representing a decrease of 14% as compared to the previous year and accounted for 55% of the Group's revenue. This segment recorded an operating loss of approximately HK$104 million while the operating profit was approximately HK$135 million for 2007.

The poor results were mainly due to the abrupt drop in the purchase orders in the second half of 2008 due to the global financial tsunami, which in turn attributed to the fall of production level below the economies of scale. Under the shadow of the global economic turmoil during the year, the textile industry faced enormous challenges and the crisis has adversely affected market sentiment in which customers placed their orders cautiously in light of the difficult operating environment. The average selling price of dyeing and finishing machines has lowered about 10%.

During the year, our manufacturing operations in China continued to be under pressure, as the currency (Renminbi) rising significantly during the first half of 2008, and labour costs increasing after the PRC government tightened the labour laws and regulations. Moreover, major raw material prices remained fluctuating, making it a difficult job to control our costs. In addition, the streamlining process of our Eurporean operations (**THEN, Goller and Xorella**) was unable to make a turnaround yet. During the year, our European operations recorded an aggregate revenue of approximately HK$571 million (2007:HK$578 million) and accounted for 41% of the segment revenue but continued to have incurred operating loss of approximately HK$136 million, inclusive of lay-off expenses, (2007: HK$55 million) which had offset the operating profit of our **FONG'S** branded dyeing and finishing machine manufacturing operations. In the year ahead, the Group will continue to carry out its rationalization program and strategy to the full.

In the face of the difficult operating environment, the Group will strive to improve further its overall efficiency and competitiveness by implementing stringent cost control initiatives and optimizing its production and operation activities. To this end, the Group will primarily focus on the following aspects:

- Further reduce both production and human resources costs;
- Optimize the human resources structure; and
- Improve the efficiency of capital utilization by effectively controlling materials procurement and inventory with the aid of its newly implemented Enterprise Resource Planning (ERP) System.

The 5th Dhaka International Textile and Garment Machinery and Apparel Accessories Exhibition, Dhaka, Bangladesh

The 8th India International Textile Machinery Exhibition, Bangalore, India

Looking forward to 2009, the global operating environment will likely continue to be difficult. To combat the current slowdown, the Chinese government has recently announced a series of stimulus packages and favourable policies to entice the textile industry. These policies have already shown positive impacts on the domestic sales. In order to boost sales and improve our performance, the Group will continue to introduce new and environmentally friendly dyeing and finishing machines such as AIRFLOW Dyeing Machines in an effort to enrich our product portfolio and gear up sales volume.

Fong's booth - ITMA Asia + CITME 2008 - Shanghai, China

Xorella's booth - ITMA Asia + CITME 2008 - Shanghai, China

STAINLESS STEEL TRADING

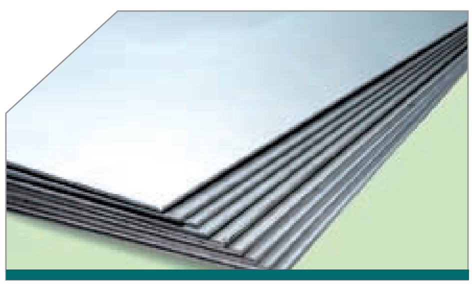
Fong's Steels Supplies Co., Ltd.

The sales of this trading segment amounted to approximately HK$623 million (2007: HK$903 million), accounting for 25% of the Group's total revenue but its operating profit was reduced to approximately HK$17 million as compared to approximately HK$100 million last year.

The decline in sales was mainly attributable to the deteriorating global economy, which led to a downturn in demand for stainless steels, particularly in the construction and watch manufacturing sectors as well as lower stainless steel selling prices. The decrease in operating profit was due to the decline in sales as well as the average selling prices. During the year, impairment loss of the inventory of approximately HK$46 million further contributed to offset the operating profit.

FONG'S STEELS

Coil Centre



Stainless Steel Plates

Following the drastic decline of stainless steel prices in the second half of 2008, the prices appear to have bottomed and will remain in this lower range for the remainder of the year due to slow global demand as a result of the global recession. The Group will continue to closely monitor price fluctuations and adopt a prudent approach to manage this trading business in a bid to perform a better result.

STAINLESS STEEL CASTING

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

During the year under review, the revenue of this segment amounted to approximately HK$490 million (2007: HK$511 million), representing a decrease of 4% over last year. It accounted for 20% of the Group's total revenue. The operating profit was approximately HK$0.4 million (2007: HK$46 million). Rising raw material costs (particularly stainless steel scraps), increasing electricity expenses and appreciating values of Renminbi were critical factors, which impacted on our overall performance to a certain extent. As a result, the operating profit of this segment was squeezed during the year.

State-of-the-Art 5-Axis Machining Centre

Sand Casting Workshop

Despite the difficult operating conditions, by leveraging on its solid foundation and reputation for producing high quality products, this segment continued to have good order intake from existing customers. As a result, the utilization rate of our foundry plant was maintained at a relatively high level. The Group has been planning an expansion and upgrade of production capacity for some time. However, in light of the current depressed market condition, the management is moving ahead cautiously. Furthermore, the management has implemented various measures to cope with the market challenges, mainly emphasizing on cost-control and streamlining the production process including the use of automation processing equipment.

There is no doubt that the stainless steel casting market is large and growing but not without competition. Since our inception in 1995, this segment has established a strong reputation as a quality and reliable supplier of castings. It is expected that this segment will continue to make long-term steady contribution to the Group.

JOINTLY CONTROLLED ENTITY

Monforts Fong's Textile Machinery Co., Ltd. ("Monforts Fong's")

Despite a difficult operating environment, Monforts Fong's continued to maintain its market leading position in respect of its flag-ship "TwinAir" branded Stenter in China in 2008. Its revenue decreased 38% to approximately HK$425 million (2007: HK$691 million) and the Group's share of profit after tax amounted to approximately HK$32 million (2007: HK$78 million), representing a decrease of 59%. The decrease in profit was mainly attributable to the drop in revenue as well as the increases in raw materials costs and overall operating expenses due to the new labour regulations in China and the appreciation of Reminbi during the year.

Monforts Fong's Manufacturing Plant, Shenzhen, China

Monfongtex 868 Shrinking Range

In 2009, Monforts Fong's sales in China are expected to keep its momentum as fueled by the numerous stimulus packages and favourable policies to entice the textile industry being implemented by the Chinese government. In addition, with the agreement and support of our joint venture partner, Monforts Fong's will also expand into certain selected overseas markets in the Asian region. The management believes that such strategies will further increase and strengthen the revenue bases of Monforts Fong's. With the quality products and services, the management endeavours to make Monforts Fong's an international brand symbolizing top quality textile finishing products and solutions.

With its established track record and strong brand recognition, Monforts Fong's continues to be a relatively stable profit contributor to the Group.

HUMAN RESOURCES

To maintain its competitiveness, the Group has been implementing tight control on operating expenses and cash flow through reduction of headcounts and consolidation of operation structures.

The Group has launched a structuring programme to downsize workforce since the second half of 2008. As at December 31, 2008, the Group had a total of approximately 4,700 employees (2007: 5,300) spreading among China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. Staff costs, including directors' remuneration were approximately HK$260 million (2007: HK$238 million). The headcounts were further reduced to approximately 4,300 as at March 31, 2009. Together with voluntary salary reduction by our senior management in January, 2009, we are targeting to reduce our payroll costs by 20% in 2009.

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 medical insurance, retirement benefits scheme, 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 couple convertible bonds due 2011 (the "Convertible Bonds"). 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 adjustment (as from 28 May, 2008, the adjusted conversion price is HK$7.34 per share). Pursuant to the terms and conditions of the Convertible Bonds, the holders of the Convertible Bonds will have the right, at such holder's option, to require the Company to redeem all or some only of the Convertible Bonds at 111.36% of their principal amount on November 10, 2008

During the year, the Company repurchased Convertible Bonds with an aggregate principal amount of HK$165.5 million by batches at the consideration of approximately HK$176.5 million. On 10 November 2008, the holders of the Convertible Bonds exercised their right to require the Company to redeem all of the outstanding HK$634.5 million principal amount of the Convertible Bonds. The aggregate redemption amount was approximately HK$706.6 million being financed by newly raised bank loans and the general working capital of the Group.

As the financial impact of redemption of the Convertible Bonds was balanced by the newly raised bank loans, there was no significant impact on the financial position of the Group. As at December 31, 2008, there was a gearing ratio of 65% and the current ratio was 2.6.

As at December 31, 2008, bank borrowings amounted to approximately HK$897 million. Most bank borrowings were sourced from Hong Kong, of which 88% were denominated in Hong Kong dollars and 12% were denominated in USD. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at December 31, 2008, the bank balances, deposits and cash amounted to approximately HK$310 million of which 47% were denominated in US dollars, 22% in Hong Kong dollars, 21% in Renminbi, 9% in Euro, and 1% in Swiss France.

As at December 31, 2008, the Group's inventory level amounted to approximately HK$865 million and has been further reduced to approximately HK$775 million as of February 28, 2009.

The Group's sales were principally denominated in US dollars or Euro while purchases were transacted mainly in US dollars, Renminbi and Hong Kong dollars. Currently, the Group does not have a fixed and regular foreign currency hedging policy. However, the Board will monitor the Group's overall foreign exchange exposures and consider hedging significant foreign currency exposures should the need arises.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Code") was introduced to Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force for accounting periods commencing on or after January 1, 2005.

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

In the opinion of the Board, the Company has complied with the code provisions in the Code during the year ended December 31, 2008.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted in December, 2005 a code of conduct regarding securities transactions by the Directors of the Company (the "Directors") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the year.

To comply with the code provision A. 5.4 of the Code, the Company has also adopted in December, 2005 a code of conduct regarding securities transactions by relevant employees on no less exacting terms than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance was noted by the Company in 2008.

BOARD OF DIRECTORS

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing the duties.

The Board is led by the Chairman and currently comprises seven Executive Directors and three Independent Non-executive Directors. The Directors of the Company during the year and up to the date of this Annual Report were:

Executive Directors

Mr. Fong Sou Lam *(Chairman)*
Mr. Wan Wai Yung *(Cheif Executive Officer)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche
Mr. Tsui Wai Keung *(resigned on April 1, 2009)*

Independent Non-executive Directors

Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

The biographical details of the Directors are listed in the section of "Directors and Senior Management Profile" in this Annual Report.

Save as Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill are the sons of Mr. Fong Sou Lam, there is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board and in particular, between the Chairman and the Chief Executive Officer. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interest of the Company and that the current board size is adequate for its present operations. Executive Directors are in charge of different businesses or functional divisions in accordance with their respective areas of expertise.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In order to have a clear division between the management of the Board and the day-to-day management of the business operation of the Company, the role of the Chairman is separate from that of the Chief Executive Officer. The Chairman focuses on overall corporate development and strategic direction of the Group and provides leadership for the Board and oversees the efficient functioning of the Board. The Chief Executive Officer is responsible for all day-to-day corporate management matters as well as assisting the Chairman in planning and developing the Group's strategies. Such division of responsibilities helps to reinforce their independence and to ensure a balance of power and authority.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(2) of the Listing Rules, Mr. Cheung Chiu Fan, one of the Independent Non-executive Directors, is a public auditor and has appropriate qualifications and accounting and related financial management expertise.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence. The Board considers that each Independent Non-executive Director is independent in character and judgement and that they all meet the specific independence criteria as required under Rule 3.13 of the Listing Rules. Moreover, all Independent Non-executive Directors are engaged on service contracts for a term of two years, subject to retirement by rotation and re-election in accordance with the provisions of the Bye-Laws of the Company.

The Independent Non-executive Directors are expressly identified in all of the Company's publications such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

BOARD MEETINGS

The Board conducts meetings on a regular basis and on an ad hoc basis, as required by business needs. The Bye-Laws of the Company allows board meetings to be conducted by way of telephone or videoconference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. The Board held a total of five regular Board Meetings during the year under review. The attendance record of each Director at the Board Meetings is disclosed below in this report.

In the said Board Meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the board meetings and at least three days before the regular board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Directors.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a Director, and approving and terminating the appointment of a Director. The Company has not set up a nomination committee for the time being.

The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional Director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a Director must be approved by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is empowered under the Company's Bye-Laws to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. A newly appointed Director must retire and be-elected at the first annual general meeting after his/her appointment. According to the Bye-Laws of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to one-third) should retire from office by rotation, provided that the Chairman and Managing Director (if any) of the Company should not be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year.

In the spirit of good corporate governance practices, Mr. Fong Sou Lam who is the Chairman of the Board of the Company, will voluntarily retire from his office by rotation at the relevant annual general meetings of the Company notwithstanding that he is not required by the Bye-Laws to do so.

Mr. Fong Sou Lam, Mr. Fong Kwok Leung, Kevin, Dr. Tsui Tak Ming, William and Dr. Keung Wing Ching will retire from office by rotation under the Bye-Laws of the Company at the forthcoming annual general meeting, but all of them will be offering themselves for re-election at the same meeting.

REMUNERATION COMMITTEE

In order to comply with the code provision B.1.1. of the Code, the Board has established a Remuneration Committee in December, 2005 with specific terms of reference which deal clearly with its authority and duties. The terms of reference have been posted on the Company's website (www.fongs.com).

The Remuneration Committee comprises the following five members, the majority of which are the Independent Non-executive Directors:

Mr. Fong Sou Lam *(Committee Chairman)*
Mr. Wan Wai Yung
Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

The Remuneration Committee's role is to make recommendations to the Board on the remuneration policy and structures for Directors of the Company and senior management of the Group and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of the shareholders. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain and motivate a high-calibre team which is essential to the success of the Company. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all Executive Directors and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. In particular, the Remuneration Committee is delegated with the specific task of ensuring that no Director is involved in deciding his own remuneration.

The Remuneration Committee shall meet as and when required to consider remuneration-related matters. In 2008, the Remuneration Committee convened two meetings. The attendance record of the members of the Remuneration Committee is disclosed below in this report.

AUDIT COMMITTEE

The Company established its Audit Committee in December, 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the Code, the terms of reference of the Audit Committee were revised in December, 2005 in terms substantially the same as the provisions set out in the Code. The revised terms of reference of the Audit Committee are available on the Company's website (www.fongs.com).

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. The Audit Committee also reviews the Company's internal audit plan, and submits relevant reports and recommendations to the Board on a regular basis.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Chiu Fan (Chairman of the Audit Committee), Dr. Yuen Ming Fai and Dr. Keung Wing Ching. The Audit Committee meets formally at least three times a year. The external auditors and the Executive Directors and senior management are invited to attend the meetings whenever it is considered appropriate or necessary. The Audit Committee held three meetings in 2008 and the individual attendance of members are set out below in this report.

In discharging its responsibilities, the Audit Committee had performed the following works during the year of 2008:

(i) reviewed the interim and annual financial statements and the related results announcements;

(ii) reviewed the change in accounting standards and assessment on potential impacts on the Group's financial statements;

(iii) reviewed the continuing connected transactions and commented on the fairness and reasonableness of the transactions;

(iv) reviewed the Group's internal control system and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and

(v) made recommendation on the appointment or re-appointment on the external auditors and approved their terms of engagement.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Messrs. Deloitte Touche Tohmatsu be re-appointed as the Company's external auditors for 2009.

ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2008

	Number of meetings attended/held		
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Executive Directors			
Mr. Fong Sou Lam	5/5		2/2
Mr. Wan Wai Yung	0/5		2/2
Mr. Fong Kwok Leung, Kevin	5/5		
Mr. Fong Kwok Chung, Bill	4/5		
Mr. Tou Kit Vai	5/5		
Dr. Tsui Tak Ming, William	4/5		
Ms. Poon Hang Sim, Blanche	5/5		
Mr. Tsui Wai Keung *(resigned on April 1, 29)*	3/5		
Independent Non-executive Directors			
Mr. Cheung Chiu Fan	5/5	3/3	2/2
Dr. Yuen Ming Fai	5/5	3/3	2/2
Dr. Keung Wing Ching	4/5	2/3	2/2

In each of the above meetings, certain Directors were unable to attend the meeting(s) due to business trip or other commitment.

AUDITORS' REMUNERATION

During the year, Messrs. Deloitte Touche Tohmatsu, auditor of the Company (which for the purpose includes any entity under common control, ownership or management with the auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and non-audit services to the Group:

(i) Audit services;
(ii) Non-audit service – agreed-upon procedures for continuing connected transactions and results announcements; and
(iii) Non-audit service – tax advisory services

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$239,000.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended December 31, 2008 have been reviewed by the Audit Committee and audited by the external auditor, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditor about their reporting responsibilities is set out in the Independent Auditor's Report of this Annual Report.

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures of the Group. The management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

There is currently no internal audit function within the Group that is separate and independent from the Group's finance team. The finance team assumes also responsibility for conducting regular review of internal control procedures, including accounting system and procedures. Although this arrangement can be improved, the management is not concerned with the lack of segregation of duties having assumed the current organizational structure, lines of responsibility and authority of the management team and the risks associated with the operations of the Group.

INVESTOR RELATIONS

During the year under review, the Company has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and annual report as well as voluntary press releases. Through the timely distribution of press releases, the Company has also kept the public abreast of its latest developments. Regular meetings and plant visits have been organized to enhance the investors' understanding of the Group's businesses and production operations.

The Company has set up a corporate website (www.fongs.com) at which relevant information including the latest development of the Group will be announced. The website offers the latest information regarding various aspects of the Group to investors and the public.

For and on behalf of the Board

Fong Sou Lam
Chairman

Hong Kong, April 22, 2009

DIRECTORS' REPORT

The Directors would like to present their annual report and the audited consolidated financial statements for the year ended December 31, 2008.

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, an associate and jointly controlled entities are respectively set out in notes 39, 16 and 17 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2008 are set out in the consolidated income statement on page 37.

An interim dividend of 2 HK cents per share, amounting to a total of approximately HK$11 million, were paid to the shareholders during the year. The Directors do not recommend the payment of a final dividend for the year ended December 31, 2008.

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, 2008, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 9% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 36% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 21% 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.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2008 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	43,931
	66,964

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 *(Chief Executive Officer)*
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche
Mr. Tsui Wai Keung (resigned on April 1, 2009)

Independent Non-executive Directors:

Mr. Cheung Chiu Fan
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

Mr. Cheung Chiu Fan was appointed under a contract for a term of 2 years commencing on January 1, 2007 and expiring on December 31, 2008. Upon expiry, his term of office has been extended to December 31, 2010.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on September 1, 2006 and expiring on August 31, 2008. Upon expiry, his term of office has been extended to August 31, 2010.

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. Upon expiry, his term of office has been extended to May 31, 2010.

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

In accordance with Clauses 99 of the Company's Bye-Laws, the following Directors, namely Mr. Fong Sou Lam, Mr. Fong Kwok Leung, Kevin, Dr. Tsui Tak Ming, William, 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 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.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at December 31, 2008, 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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Sou Lam	Beneficial owner	41,412,000	7.51%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.03%
	Held by discretionary trusts (note 1)	304,875,601	55.29%
		306,625,601	55.60%
Mr. Fong Kwok Chung, Bill	Beneficial owner	2,998,000	0.54%
	Corporate interest (note 2)	4,444,000	0.81%
	Held by discretionary trusts (note 1)	304,875,601	55.29%
		312,317,601	56.64%
Mr. Wan Wai Yung	Beneficial owner	1,677,500	0.30%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%
Mr. Tou Kit Vai	Beneficial owner	30,000	0.005%

Note 1: 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.

Note 2: Fong Kwok Chung, Bill is deemed to be interested in 4,444,000 shares held by Precision Private Capital Co., Ltd. as he wholly owns Precision Private Capital Co., Ltd.

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, 2008.

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 33 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, 2008, 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 27, 2007, 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, 2008 to December 31, 2010. The total rentals paid by the Group to Sou Lam for the year amounted to HK$6,364,032. Details of the transactions were set out in the announcement of the Company dated December 27, 2007.

On April 23, 2008, FNECL further entered into an operating lease agreement with Sou Lam for use of an additional portion of the same factory building as godown for a term of two years and nine months from April 1, 2008 to December 31, 2010. The total rentals paid by the Group to Sou Lam for the year amounted to HK$1,035,000.

(2) *The Group, through its six subsidiaries, entered into seven agreements with PSP Marketing Inc. ("PSP Marketing") and PSP International Inc. ("PSP International") in relation to agency and marketing activities for the sales of the products of these subsidiaries. PSP Marketing and PSP International are beneficially owned as to 51% and 30% by Mr. Peter Rainer Philipp respectively, who was a director of certain operating subsidiaries of the Group at the dates of the transactions.*

Details of these transactions were set out in the announcement of the Company dated April 2, 2007, December 3, 2007 and July 2, 2008.

(i) On April 1, 2007, a sales agency agreement was entered into between PSP International and Tycon Alloy Industries (Hong Kong) Company Limited whereby PSP International was appointed as the non-exclusive sales agent for the sales of the stainless steel casting products in the United States of America (the "USA"), Canada and Mexico with effect from April 1, 2007 for a term of three years.

(ii) On December 3, 2007, 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 a term of one year with effect from January 1, 2008.

(iii) On December 3, 2007, 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 USA for a term of three years with effect from January 1, 2008.

(iv) On December 3, 2007, 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 for a term of three years with effect from January 1, 2008.

(v) On December 3, 2007, a sales agency agreement was entered into between PSP Marketing and THEN Maschinen GmbH whereby PSP Marketing was appointed as the exclusive sales agent for the sales of the THEN branded products of the Group in the USA for a term of three years with effect from January 1, 2008.

(vi) On December 3, 2007, a sales agency agreement was entered into between PSP Marketing and Fong's National Dyeing and Finishing Machinery (Macao Commercial offshore) Co. Ltd. whereby PSP Marketing was appointed as the exclusive sales agent for the sales of FONG's branded products of the Group in Canada and the USA with effect from January 1, 2008 for a term of three years.

(vii) On June 30, 2008, a project management agreement was entered into between PSP Marketing and Fong's National Engineering (B.V.I.) Company Ltd. whereby PSP Marketing was appointed as the project manager to provide sales coordination and liaison services in relation to a sales project with effective from June 30, 2008 for a term of three years.

The aggregate amounts paid and payable to PSP Marketing and PSP International under the above-mentioned agreements for the year were HK$4,085,000 and HK$1,872,000 respectively, which have not exceeded the cap amount under Rule 14A. 34 of the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported its 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 auditor and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, 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, 2008, 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.

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued share capital in the Company
Hang Seng Bank Trustee International Limited	Trustee (note)	287,397,360	51.12%
Capital Research and Management Company	Investment Manager	36,590,000	6.64%
Aberdeen Asset Management Plc.	Investment Manager	32,732,000	5.94%
Mondrian Investment Partners Ltd	Investment Manager	38,608,000	7.00%

Note: The 287,397,360 shares are owned by one discretionary trust, 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, as at December 31, 2008, 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.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$286,235.

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 33 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.

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

During the year, the Company repurchased certain of its own securities 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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended December 31, 2008, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

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

On behalf of the Board

Fong Sou Lam
DIRECTOR
Hong Kong, April 22, 2009

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF FONG'S INDUSTRIES COMPANY LIMITED
立信工業有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Fong's Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 101, which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

April 22, 2009

CONSOLIDATED INCOME STATEMENT

(For the year ended December 31, 2008)

	NOTES	2008 HK$'000	2007 HK$'000
Revenue	5	**2,499,856**	3,029,189
Cost of sales		**(2,076,023)**	(2,249,775)
Gross profit		**423,833**	779,414
Interest income		**9,348**	14,188
Other income		**64,301**	91,420
Gain (loss) on fair value change of financial assets held for trading		**1,123**	(2,142)
(Loss) gain on fair value change of financial assets designated at fair value through profit and loss ("FVTPL")		**(53)**	2,363
Net (loss) gain on embedded derivatives and convertible loan notes		**(11,245)**	3,936
Selling and distribution costs		**(156,075)**	(162,973)
General and administrative expenses		**(351,638)**	(352,968)
Other expenses		**(67,088)**	(73,778)
Finance costs	6	**(81,083)**	(64,484)
Share of results of an associate		**(2,128)**	1,371
Share of results of jointly controlled entities		**30,309**	78,315
(Loss) profit before tax	8	**(140,396)**	314,662
Income tax expense	10	**(2,383)**	(40,257)
(Loss) profit for the year attributable to equity holders of the Company		**(142,779)**	274,405
(Loss) earnings per share	12		
Basic		**(25.8) HK cents**	49.2 HK cents
Diluted		**N/A**	47.9 HK cents

CONSOLIDATED BALANCE SHEET

(At December 31, 2008)

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13	**418,062**	378,940
Prepaid lease payments	14	**15,485**	13,099
Intellectual property rights	15	**16,355**	19,271
Interests in an associate	16	**34,131**	34,385
Interests in jointly controlled entities	17	**73,299**	89,275
Deposits for acquisition of property, plant and equipment		**4,067**	20,282
Deposits for acquisition of leasehold lands		**66,744**	16,000
Deferred tax assets	28	**4,745**	7,844
		632,888	579,096
Current assets			
Inventories	18	**864,689**	951,869
Trade and other receivables	19	**357,748**	489,258
Prepaid lease payments	14	**460**	362
Amounts due from jointly controlled entities	20	**1,438**	7,275
Tax recoverable		**17,883**	2,419
Structured deposits	21	**–**	57,853
Bank balances, deposits and cash	22	**309,785**	583,060
		1,552,003	2,092,096
Current liabilities			
Trade and other payables	23	**336,464**	409,648
Amount due to a jointly controlled entity	20	**264**	–
Warranty provision	24	**12,684**	23,274
Derivative financial instruments	25	**408**	2,359
Tax liabilities		**1,433**	12,202
Bank borrowings – due within one year	26	**240,010**	143,000
Embedded derivative components of convertible loan notes	27	**–**	21,862
Convertible loan notes	27	**–**	813,725
		591,263	1,426,070
Net current assets		**960,740**	666,026
		1,593,628	1,245,122

CONSOLIDATED BALANCE SHEET

(At December 31, 2008)

	NOTES	**2008** **HK$'000**	2007 HK$'000
Capital and reserves			
Share capital	29	**55,145**	55,542
Reserves	30	**844,959**	1,102,989
Equity attributable to equity holders of the Company		**900,104**	1,158,531
Minority interests	30	**–**	1,290
Total equity		**900,104**	1,159,821
Non-current liabilities			
Bank borrowings – due after one year	26	**656,662**	82,500
Derivative financial instrument	25	**36,862**	–
Deferred tax liabilities	28	**–**	2,801
		693,524	85,301
		1,593,628	1,245,122

The financial statements on pages 37 to 101 were approved and authorised for issue by the Board of Directors on April 22, 2009 and are signed on its behalf by:

Fong Kwok Chung, Bill
DIRECTOR

Fong Sou Lam
DIRECTOR

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(For the year ended December 31, 2008)

	2008 HK$'000	2007 HK$'000
Net exchange difference arising on translation of overseas subsidiaries and an associate	**28,210**	30,666
Share of changes in translation reserve of a jointly controlled entity	**3,715**	4,648
Loss on cash flow hedges	**(36,862)**	–
Net (loss) income recognised directly in equity	**(4,937)**	35,314
(Loss) profit for the year	**(142,779)**	274,405
Deregistration of a subsidiary (Note 7)	**233**	–
Total recognised income and expense for the year attributable to equity holders of the Company	**(147,483)**	309,719

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended December 31, 2008)

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(140,396)**	314,662
Adjustments for:		
Interest expense	**66,927**	57,248
Interest income	**(9,348)**	(14,188)
Share of results of an associate	**2,128**	(1,371)
Share of results of jointly controlled entities	**(30,309)**	(78,315)
Depreciation and amortisation	**55,528**	42,868
(Reversal of) allowance for doubtful debts	**(15,892)**	10,780
Allowance for inventories	**51,752**	4,501
Loss (gain) on fair value change of financial assets designated at FVTPL	**53**	(2,363)
(Gain) loss on fair value change of financial assets held for trading	**(1,123)**	2,142
Net loss (gain) on embedded derivatives and convertible loan notes	**11,245**	(3,936)
Loss on disposal of property, plant and equipment	**130**	258
Addition of warranty provision	**4,015**	21,418
Gain on deregistration of a subsidiary	**(308)**	–
Operating cash flows before movements in working capital	**(5,598)**	353,704
Decrease (increase) in inventories	**35,326**	(177,998)
Decrease (increase) in trade and other receivables	**156,771**	(81,708)
Decrease (increase) in amounts due from jointly controlled entities	**5,837**	(4,800)
(Decrease) increase in trade and other payables	**(81,374)**	60,921
Increase (decrease) in amount due to a jointly controlled entity	**264**	(1,701)
Utilisation of warranty provision	**(14,605)**	(11,408)
Change in derivative financial instruments	**(828)**	–
Cash generated from operations	**95,793**	137,010
Hong Kong Profits Tax paid	**(24,122)**	(53,362)
Overseas income tax and the People's Republic of China (the "PRC") Enterprise Income Tax paid	**(4,425)**	(5,484)
Hong Kong Profits Tax refunded	**–**	1,077
Overseas income tax and the PRC Enterprise Income Tax refunded	**103**	3,523
NET CASH GENERATED FROM OPERATING ACTIVITIES	**67,349**	82,764

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended December 31, 2008)

	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment and leasehold land	**(54,811)**	(36,282)
Purchases of property, plant and equipment	**(55,522)**	(100,311)
Prepaid lease payments made	**(2,300)**	(1,223)
Decrease in structured deposits	**57,800**	72,400
Dividend received from jointly controlled entities	**50,000**	75,000
Interest received	**9,348**	14,188
Proceeds from disposal of property, plant and equipment	**1,453**	1,569
Dividend received from an associate	**–**	12,374
Purchase of intellectual property rights	**–**	(233)
NET CASH GENERATED FROM INVESTING ACTIVITIES	**5,968**	37,482
FINANCING ACTIVITIES		
Redemption and repurchase of convertible loan notes	**(883,530)**	–
Repayment of bank borrowings	**(163,000)**	(54,613)
Dividends paid	**(94,003)**	(150,397)
Interest paid on bank borrowings	**(30,229)**	(10,570)
Repurchase of shares	**(16,941)**	(15,877)
New bank borrowings raised	**834,172**	103,000
NET CASH USED IN FINANCING ACTIVITIES	**(353,531)**	(128,457)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(280,214)**	(8,211)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**583,060**	580,464
Effect of foreign exchange rate changes	**6,939**	10,807
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances, deposits and cash	**309,785**	583,060

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

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 "Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the "Corporate Information" in the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, 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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009
2 Effective for annual periods beginning on or after January 1, 2009
3 Effective for annual periods beginning on or after July 1, 2009
4 Effective for annual periods ending on or after June 30, 2009
5 Effective for annual periods beginning on or after July 1, 2008
6 Effective for annual periods beginning on or after October 1, 2008
7 Effective for transfers on or after July 1, 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 in 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 an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of the associate are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Interests in an associate *(Continued)*

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after reassessment, is recognised immediately in the consolidated income statement.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in jointly controlled entities

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 net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after reassessment, is recognised immediately in the consolidated income statement.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Intellectual property rights

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

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discount and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Commission income and management fee income are recognised when services are provided.

Interest income from a financial asset including financial assets at fair value through profit or loss 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 including buildings held for use in the production or supply of goods or services or for administrative purposes, other than construction in progress and freehold land, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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.

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).

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 consolidated income statement in the year in which the item is derecognised.

Impairment losses on tangible and intangible assets

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 FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

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.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating 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 the respective 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period.

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 the consolidated income statement in the period in which the foreign operation is disposed of.

Borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 consolidated 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 recognised 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 interest in joint ventures and an associate, 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, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

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

Retirement benefits costs

Payments to defined contribution retirement benefits plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year 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. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 the consolidated income statement.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL and loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial assets (Continued)

Effective interest method *(Continued)*

Financial assets at fair value through profit or loss (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from jointly controlled entities and bank balances and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the probability that the borrower will enter bankruptcy or financial re-organisation.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent 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.

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 Group's financial liabilities are generally classified into financial liabilities held for trading and other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities held for trading

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets held for trading are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement includes any dividend or interest earned on the financial assets.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a jointly controlled entity and borrowings are subsequently measured at amortised cost, using the effective interest method after initial recognition.

Convertible loan notes which contain liability component, conversion option derivatives and early redemption option derivatives

Convertible loan notes issued by the Company that contain liability, conversion option derivative and early redemption option derivative components are classified separately into respective items on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the liability, conversion option derivative and early redemption option derivative components are recognised at their fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative and the early redemption option derivatives are measured at fair value with change in fair values recognised in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Convertible loan notes which contains liability component, conversion option derivative and early redemption option derivatives (Continued)

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability, conversion option derivative and early redemption option derivative components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivatives and early redemption option derivatives are charged to the consolidated income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

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

Repurchase of shares

On repurchase of shares, the issued share capital of the Company is reduced by the nominal value of the repurchased shares and such amount is transferred to capital redemption reserve. The premium paid on the repurchase, after deducting related expenses, is charged to retained profits.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the consolidated income statement.

Hedge accounting

The Group designates certain derivatives as hedges of variable-rate bank borrowings (cash flow hedges).

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity (hedging reserve). The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts deferred in equity are recycled in the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the consolidated income statement.

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised 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 and payable is recognised in the consolidated income statement.

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 FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are 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 discussed below.

Income taxes

A deferred tax asset has been recognised in respect of tax losses of approximately HK$12,331,000 (2007: Nil). No deferred tax asset has been recognised in respect of the remaining HK$276,495,000 (2007: HK$200,503,000) due to the unpredictability of future profit streams. 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 more or less than expected, a material recognition or reversal of deferred tax asset may arise.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. If the market conditions were to deteriorate and more obsolete and slow-moving inventory items being identified, additional allowances may be required. As at December 31, 2008, the carrying amount of inventories is HK$864,689,000 (2007: HK$951,869,000).

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2008, the carrying amount of trade receivable is HK$219,322,000 (2007: HK$260,816,000) (net of allowance for doubtful debts of HK$6,677,000 (2007: HK$27,253,000)).

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 and finishing 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 the consolidated income statement will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to the consolidated income statement will result. As at December 31, 2008, the carrying amount of warranty provision is HK$12,684,000 (2007: HK$23,274,000). The movement of the warranty provision for the year are set out in note 24.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and manufacture and sale of stainless steel casting products. These divisions 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 borrowings, convertible loan notes and derivative financial instruments.

Segment information about these divisions is presented below:

2008

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,387,146	623,034	489,676	–	2,499,856
Inter-segment sales	87,986	400,741	28,217	(516,944)	–
Total	1,475,132	1,023,775	517,893	(516,944)	2,499,856
RESULTS					
Segment results	(104,008)	16,903	438	–	(86,667)
Interest income					9,348
Net loss on embedded derivatives and convertible loan notes					(11,245)
Gain on fair value change of financial assets held for trading					1,123
Loss on fair value change of financial assets designated at FVTPL					(53)
Finance costs					(81,083)
Share of results of an associate					(2,128)
Share of results of jointly controlled entities	30,309	–	–	–	30,309
Loss before tax					(140,396)
Income tax expense					(2,383)
Loss for the year					(142,779)

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

2008 *(Continued)*

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	1,192,749	206,951	345,348	1,745,048
Interests in an associate				34,131
Interests in jointly controlled entities	73,299	–	–	73,299
Unallocated corporate assets				332,413
Consolidated total assets				2,184,891
LIABILITIES				
Segment liabilities	287,191	15,150	47,071	349,412
Unallocated corporate liabilities				935,375
Consolidated total liabilities				1,284,787

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
Capital additions	61,875	1,659	14,519	78,053
Depreciation and amortisation	47,162	1,048	7,318	55,528
(Gain) loss on disposal of property, plant and equipment	(80)	(75)	285	130
Allowance for (reversal of allowance for) inventories	7,837	46,181	(2,266)	51,752
Allowance for (reversal of allowance for) doubtful debts	971	(16,175)	(688)	(15,892)
Addition of warranty provision	4,015	–	–	4,015

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

2007

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,615,387	902,650	511,152	–	3,029,189
Inter-segment sales	94,875	549,011	36,004	(679,890)	–
Total	1,710,262	1,451,661	547,156	(679,890)	3,029,189
RESULTS					
Segment results	134,588	100,395	46,132	–	281,115
Interest income					14,188
Net gain on embedded derivatives and convertible loan notes					3,936
Loss on fair value change of financial assets held for trading					(2,142)
Gain on fair value change of financial assets designated at FVTPL					2,363
Finance costs					(64,484)
Share of results of an associate					1,371
Share of results of jointly controlled entities	78,315	–	–	–	78,315
Profit before tax					314,662
Income tax expense					(40,257)
Profit for the year					274,405

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

2007 *(Continued)*

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	1,190,608	325,299	380,449	1,896,356
Interests in an associate				34,385
Interests in jointly controlled entities	89,275	–	–	89,275
Unallocated corporate assets				651,176
Consolidated total assets				2,671,192
LIABILITIES				
Segment liabilities	333,305	35,283	64,334	432,922
Unallocated corporate liabilities				1,078,449
Consolidated total liabilities				1,511,371

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Consolidated HK$'000
Capital additions	87,176	489	22,837	110,502
Depreciation and amortisation	37,186	1,011	4,671	42,868
(Gain) loss on disposal of property, plant and equipment	(15)	7	266	258
Allowance for inventories	4,501	–	–	4,501
Allowance for doubtful debts	358	9,897	525	10,780
Addition of warranty provision	21,418	–	–	21,418

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Geographical segments

The Group's operations are located mainly in Hong Kong, the PRC, Germany and Switzerland.

The following table provides an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods:

	Revenue by geographical markets	
	2008	2007
	HK$'000	HK$'000
The PRC	**765,753**	1,239,662
Hong Kong	**586,048**	666,943
Asia Pacific (other than the PRC and Hong Kong)	**473,082**	461,198
Europe	**396,170**	380,900
North and South America	**199,577**	237,263
Others	**79,226**	43,223
	2,499,856	3,029,189

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, leasehold land and intellectual property rights, analysed by geographical areas in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**1,193,250**	955,956	**66,912**	92,622
Hong Kong	**258,003**	656,765	**8,400**	13,830
Europe	**233,132**	250,516	**2,671**	3,963
Asia Pacific (other than the PRC and Hong Kong)	**41,662**	7,869	**70**	87
North and South America	**11,658**	21,743	**–**	–
Others	**7,343**	3,507	**–**	–
	1,745,048	1,896,356	**78,053**	110,502

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

6. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on bank borrowings wholly repayable within five years	**30,229**	10,570
Effective interest expense on convertible loan notes	**36,698**	46,678
Bank charges	**14,156**	7,236
	81,083	64,484

7. DEREGISTRATION OF A SUBSIDIARY

In 2008, a PRC subsidiary of the Company, which had been inactive for many years, was deregistered by The State Administration for Industry and Commerce in the PRC. The gain on deregistration of the subsidiary amounting to approximately HK$308,000 is included in other income in the consolidated income statement.

8. (LOSS) PROFIT BEFORE TAX

	2008 HK$'000	2007 HK$'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Amortisation of intellectual property rights (included in cost of sales)	**2,916**	2,896
Amortisation of prepaid lease payments	**418**	362
Depreciation of property, plant and equipment	**52,194**	39,610
Total depreciation and amortisation	**55,528**	42,868
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**229,876**	217,468
Retirement benefits scheme contributions	**30,591**	20,321
Total staff costs	**260,467**	237,789
Allowance for inventories (included in cost of sales)	**51,752**	4,501
(Reversal of) allowance for doubtful debts	**(15,892)**	10,780
Auditor's remuneration	**2,640**	2,397
Cost of inventories recognised as an expense	**2,021,355**	2,242,378
Loss on disposal of property, plant and equipment	**130**	258
Net foreign exchange gain	**(29,904)**	(53,618)
Research and development costs	**6,233**	1,089

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2007: eleven) Directors were as follows:

	Executive directors								Independent non-executive directors			
	Fong Sou Lam HK$'000	**Wan Wai Yung HK$'000**	**Fong Kwok Leung, Kevin HK$'000**	**Fong Kwok Chung, Bill HK$'000**	**Tou Kit Vai HK$'000**	**Tsui Wai Keung HK$'000**	**Tsui Tak Ming, William HK$'000**	**Poon Hang Sim, Blanche HK$'000**	**Cheung Chiu Fan HK$'000**	**Keung Wing Ching HK$'000**	**Yuen Ming Fai HK$'000**	**Total HK$'000**
2008												
Fees	**–**	**–**	**–**	**–**	**–**	**370**	**–**	**–**	**75**	**75**	**75**	**595**
Other emoluments:												
Salaries and other benefits	**4,550**	**4,008**	**2,040**	**2,103**	**1,820**	**1,440**	**1,560**	**1,243**	**–**	**–**	**–**	**18,764**
Performance related incentive payments	**–**	**–**	**1,000**	**300**	**600**	**250**	**500**	**200**	**–**	**–**	**–**	**2,850**
Retirement benefits scheme contributions	**336**	**263**	**115**	**151**	**12**	**115**	**106**	**94**	**–**	**–**	**–**	**1,192**
Total emoluments	**4,886**	**4,271**	**3,155**	**2,554**	**2,432**	**2,175**	**2,166**	**1,537**	**75**	**75**	**75**	**23,401**

	Executive directors								Independent non-executive directors			
	Fong Sou Lam HK$'000	Wan Wai Yung HK$'000	Fong Kwok Leung, Kevin HK$'000	Fong Kwok Chung, Bill HK$'000	Tou Kit Vai HK$'000	Tsui Wai Keung HK$'000	Tsui Tak Ming, William HK$'000	Poon Hang Sim, Blanche HK$'000	Cheung Ching HK$'000	Keung Wing Ming Fai HK$'000	Yuen Chiu Fan HK$'000	Total HK$'000
2007												
Fees	–	–	–	–	–	360	–	–	75	75	75	585
Other emoluments:												
Salaries and other benefits	3,900	4,008	1,910	2,103	1,560	1,320	1,430	999	–	–	–	17,230
Performance related incentive payments	–	1,000	1,000	400	560	250	500	360	–	–	–	4,070
Retirement benefits scheme contributions	288	253	106	146	12	106	94	86	–	–	–	1,091
Total emoluments	4,188	5,261	3,016	2,649	2,132	2,036	2,024	1,445	75	75	75	22,976

Note: The performance related incentive payments are determined with reference to the operating results of the Group for the years ended December 31, 2008 and 2007.

No director waived any emoluments in the years ended December 31, 2008 and 2007.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2008 and 2007 were all Directors of the Company and details of their emoluments are included above.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

10. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
Hong Kong Profits Tax:		
Current year	**2,636**	36,669
(Over)underprovision in prior years	**(327)**	686
PRC Enterprise Income Tax ("EIT"):		
Current year	**158**	6,191
Overprovision in prior years	**(410)**	(3,523)
Overseas income tax:		
Current year	**8**	942
Underprovision for prior years	**20**	–
	2,085	40,965
Deferred tax (Note 28):		
Current year	**194**	(708)
Attributable to a change in tax rate	**104**	–
	2,383	40,257

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Income tax from regions/countries outside Hong Kong is calculated at rates prevailing in the respective jurisdictions.

On March 16, 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the EIT of the Group's subsidiaries in the PRC was increased from 15% to 25% progressively from January 1, 2008 onwards. The relevant tax rate for the Group's subsidiaries in the PRC for the year ended December 31, 2008 is 18% (2007: 10% to 15%).

In 2007, a subsidiary obtained approval from the PRC tax authority for granting a concessionary tax rate on taxable profits in 2005. The PRC EIT of approximately HK$3,500,000 paid in prior year was refunded in 2007.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

10. INCOME TAX EXPENSE *(CONTINUED)*

The income tax expense for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	2008 **HK$'000**	2007 HK$'000
(Loss) profit before tax	**(140,396)**	314,662
Tax at the Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	**(23,165)**	55,066
Tax effect of:		
– expenses that is not deductible for tax purpose	**24,790**	8,272
– income that are not taxable for tax purpose	**(6,677)**	(11,283)
– tax losses not recognised	**12,539**	7,788
– share of results of an associate	**351**	(240)
– share of results of jointly controlled entities	**(5,001)**	(13,705)
– decrease in opening deferred tax asset resulting from a decrease in applicable tax rate	**104**	–
Income tax on concessionary rate	**–**	(2,180)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**374**	(1,020)
Overprovision in prior years	**(717)**	(2,837)
Others	**(215)**	396
Income tax expense for the year	**2,383**	40,257

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

11. DIVIDENDS/SPECIAL DIVIDEND

	2008 **HK$'000**	2007 HK$'000
Dividends recognised as distribution during the year:		
2008 Interim dividend of 2 HK cents (2007: 9 HK cents) per share	**11,029**	49,988
2007 Final dividend of 8 HK cents (2006: 8 HK cents) per share	**44,253**	44,665
	55,282	94,653
2008 Interim special dividend of Nil (2007: 3 HK cents) per share	**–**	16,662
2007 Final special dividend of 7 HK cents (2006: 7 HK cents) per share	**38,721**	39,082
	38,721	55,744

The Board of Directors does not recommend the payment of a final dividend for the year ended December 31, 2008 (2007: a final dividend of 8 HK cents per share plus a final special dividend of 7 HK cents per share).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to equity holders of the Company is based on the following data:

2007

	HK$'000
Earnings	
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	274,405
Effect of dilutive potential ordinary shares:	
Interest on convertible loan notes	46,678
Gain on fair value change on convertible loan notes	(3,936)
Earnings for the purposes of diluted earnings per share	317,147

	'000
Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	557,409
Effect of dilutive potential ordinary shares:	
Convertible loan notes	104,987
Weighted average number of ordinary shares for the purposes of diluted earnings per share	662,396

2008

	HK$'000
Loss for the year attributable to equity holders of the Company for the purposes of basic loss per share	**(142,779)**

	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	**552,797**

Diluted loss per share for the year ended December 31, 2008 has not been presented as the convertible loan notes had an anti-dilutive effect on the basic loss per share for the year.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

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$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST									
At January 1, 2007	9,563	238,150	8,783	170,796	64,245	20,178	6,849	7,798	526,362
Currency realignment	–	19,788	232	13,446	3,217	599	378	587	38,247
Reclassification	–	7,608	–	3,799	–	–	–	(11,407)	–
Additions	–	822	1,967	72,883	19,713	3,214	295	11,375	110,269
Disposals	–	–	(51)	(5,734)	(1,903)	(336)	(98)	–	(8,122)
At December 31, 2007 and January 1, 2008	9,563	266,368	10,931	255,190	85,272	23,655	7,424	8,353	666,756
Currency realignment	1,521	10,826	168	15,583	724	191	302	455	29,770
Reclassification	–	2,537	446	4,474	3,362	–	3,556	(14,375)	–
Additions	–	8,616	14,218	21,777	15,666	3,376	4,400	7,700	75,753
Disposals	(809)	–	(439)	(4,589)	(9,996)	(5,095)	(2)	(36)	(20,966)
At December 31, 2008	10,275	288,347	25,324	292,435	95,028	22,127	15,680	2,097	751,313
DEPRECIATION AND AMORTISATION									
At January 1, 2007	–	96,896	3,760	75,629	42,942	13,828	5,305	–	238,360
Currency realignment	–	7,354	143	6,001	1,968	324	351	–	16,141
Provided for the year	–	11,284	1,247	16,425	8,034	2,335	285	–	39,610
Eliminated on disposals	–	–	(41)	(3,322)	(1,817)	(1,017)	(98)	–	(6,295)
At December 31, 2007 and January 1, 2008	–	115,534	5,109	94,733	51,127	15,470	5,843	–	287,816
Currency realignment	–	7,351	141	4,086	430	270	346	–	12,624
Reclassification	–	–	(84)	–	84	–	–	–	–
Provided for the year	–	12,199	3,182	21,832	11,932	2,193	856	–	52,194
Eliminated on disposals	–	–	(439)	(4,049)	(9,904)	(4,991)	–	–	(19,383)
At December 31, 2008	–	135,084	7,909	116,602	53,669	12,942	7,045	–	333,251
NET BOOK VALUES									
At December 31, 2008	10,275	153,263	17,415	175,833	41,359	9,185	8,635	2,097	418,062
At December 31, 2007	9,563	150,834	5,822	160,457	34,145	8,185	1,581	8,353	378,940

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

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

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

	2008	2007
	HK$'000	HK$'000
Buildings on land under long leases located in the PRC	**973**	88
Buildings on land under medium-term leases located in the PRC	**140,557**	135,882
Buildings on land under medium-term leases located in Hong Kong	**63**	65
Freehold land and buildings in Europe	**21,945**	24,362
	163,538	160,397

14. PREPAID LEASE PAYMENTS

	2008	2007
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term leases	**387**	399
Leasehold land in the PRC:		
Long leases	**1,631**	375
Medium-term leases	**13,927**	12,687
	15,945	13,461
Analysed for reporting purposes as:		
Current asset	**460**	362
Non-current asset	**15,485**	13,099
	15,945	13,461

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

15. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At January 1, 2007	28,923
Additions	233
At December 31, 2007, January 1, 2008 and December 31, 2008	29,156
AMORTISATION	
At January 1, 2007	6,989
Provided for the year	2,896
At December 31, 2007 and January 1, 2008	9,885
Provided for the year	2,916
At December 31, 2008	12,801
CARRYING AMOUNTS	
At December 31, 2008	16,355
At December 31, 2007	19,271

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

16. INTERESTS IN AN ASSOCIATE

	2008 **HK$'000**	2007 HK$'000
Cost of unlisted investments in an associate and share of net assets	**34,131**	34,385

At the balance sheet date, the principal associate of the Group represented a 30% interest in Foshan East Asia Company Limited, a sino-foreign equity enterprise registered and operated in the PRC. It acts as a holding company and its subsidiaries are engaged in the manufacture of colour woven fabrics.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

16. INTERESTS IN AN ASSOCIATE *(CONTINUED)*

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

	2008 **HK$'000**	2007 HK$'000
Revenue	**220,404**	231,600
(Loss) profit for the year	**(7,094)**	4,570
(Loss) profit attributable to the Group	**(2,128)**	1,371
Financial position:		
Total non-current assets	**99,698**	103,121
Total current assets	**163,480**	204,044
Total non-current liabilities	**(64,880)**	(52,636)
Total current liabilities	**(84,528)**	(139,912)
	113,770	114,617
Share of net assets attributable to the Group	**34,131**	34,385

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008 **HK$'000**	2007 HK$'000
Cost of unlisted investments in jointly controlled entities	**10,779**	10,779
Share of post-acquisition profits, net of dividends received	**62,520**	78,496
Share of net assets	**73,299**	89,275

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(CONTINUED)*

At the balance sheet date, the Group had interests in the following significant jointly controlled entities:

Name of entity	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital/ attributable to the Group	Principal activities
Monforts Fong's Textile Machinery Co., Ltd.	Hong Kong/ The PRC	HK$18,400,000	50%	Manufacture and trading of textile machinery
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	50%	Trading of textile machinery
Plexxor Co., Limited	Hong Kong	HK$3,000,000	51%	Trading of textile machinery

The Group holds 51% of the share capital of Plexxor Co., Limited and controls 51% of the voting power at general meetings. However, Plexxor Co., Limited is jointly controlled by the Group and the other significant shareholder pursuant to a shareholders' agreement which states that each of the shareholders shall be entitled to nominate equal number of directors to the board and no business shall be transacted at any meeting of the board unless such business is agreed by equal number of directors nominated by each of the shareholders. Therefore, Plexxor Co., Limited is classified as a jointly controlled entity of the Group.

The summarised financial information in respect of the Group's interests in jointly controlled entities which are accounted for using the equity method is set out below:

	2008 HK$'000	2007 HK$'000
Income	**221,022**	351,907
Expense	**190,713**	273,592
Profit attributable to the Group	**30,309**	78,315
Financial position:		
Total non-current assets	**26,638**	28,953
Total current assets	**96,422**	131,319
Total non-current liabilities	**(3,587)**	(18)
Total current liabilities	**(46,174)**	(70,979)
	73,299	89,275

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

18. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**524,771**	565,954
Work in progress	**159,959**	241,348
Finished goods	**179,959**	144,567
	864,689	951,869

19. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**225,999**	288,069
Less: Allowance for doubtful debts	**(6,677)**	(27,253)
	219,322	260,816
Bills receivables	**60,141**	135,644
	279,463	396,460
Other receivables	**78,285**	92,798
Total trade and other receivables	**357,748**	489,258

The Group allows an average credit period of 60 days (2007: 60 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts and bills receivables based on their due dates at the balance sheet date:

	2008 HK$'000	2007 HK$'000
0-30 days	**258,303**	366,356
31-60 days	**19,093**	24,432
Over 60 days	**2,067**	5,672
	279,463	396,460

Before accepting any new customer, the Group has assessed the credit quality of each potential customer and defined credit rating and limit for each customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$66,094,000 (2007: HK$235,693,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is 87 days (2007: 80 days). For those past due but not impaired receivables, although no collateral is hold, the Group has assessed the creditworthiness, past payment history and substantial settlement after the balance sheet date, and considered that the credit quality is satisfactory, and accordingly no impairment has been provided.

Ageing of trade receivables which are past due but not impaired

	2008 **HK$'000**	2007 HK$'000
Overdue by:		
1 – 30 days	**44,934**	205,499
31 – 60 days	**19,093**	24,432
Over 60 days	**2,067**	5,762
Total	**66,094**	235,693

The Group has provided fully for all receivables aged over 180 days because historical experience is such that receivables that are past due beyond 180 days are generally difficult to recover.

Movement in the allowance for doubtful debts

	2008 **HK$'000**	2007 HK$'000
Balance at beginning of the year	**27,253**	17,339
Impairment losses recognised on receivables	**4,264**	13,434
Amounts written off as uncollectible	**(4,684)**	(866)
Amounts recovered during the year	**(20,156)**	(2,654)
Balance at end of the year	**6,677**	27,253

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$6,677,000 (2007: HK$27,253,000). The Group does not hold any collateral over these balances.

During the year, the Group discounted certain export bills to financial institutions with recourse. The Group continues to recognize the full carrying amount of the receivables as the Group is still exposed to credit risk on these receivables. At December 31, 2008, the carrying amount of the bills discounted is HK$14,747,000 (2007: Nil). The carrying amount of the associated liability which represented cash received from discounted bills (see Note 26) is HK$14,747,000 (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

20. AMOUNTS DUE FROM AND TO JOINTLY CONTROLLED ENTITIES

The amount is unsecured and interest-free. The average credit period is 60 days. All the outstanding balances are within the credit period at the balance sheet date.

21. STRUCTURED DEPOSITS

Structured deposits in 2007 were stated at fair value and represented two deposits placed in a bank. The deposit with balance of US$1,000,000 bear interest of 6.25% per annum in the first 3 months of the contract period and 10 times of London Interbank Offered Rate ("LIBOR") minus 4.93% (the "Rate") in the subsequent contracted period. No interest will be received if the Rate became negative. Another deposit with balance of HK$50,000,000 bear interest of 5.1% per annum if the LIBOR was ranging from 5.1% to 5.4% per annum in the first 3 months of the contracted period and 4.8% to 5.4% per annum in the subsequent contract period. No interest will be received if the interest rate fell outside the range. Both of the structured deposits were matured in 2008. The Group did not enter into any structured deposit contract in 2008.

The Company designated the structured deposits as at FVTPL. The fair value of the structured deposits has been determined based on the present value of estimated future cash flows discounted at the effective interest rate of 4.8% to 5.0% per annum provided by the bank at December 31, 2007.

22. BANK BALANCES, DEPOSITS AND CASH

The amount includes short-term fixed deposits which carry fixed interest rate ranging from 0.1% to 3.93% per annum (2007: 1.8% to 3.5% per annum).

23. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables based on their due dates at the balance sheet date:

	2008	2007
	HK$'000	HK$'000
0-30 days	**60,202**	160,263
31-60 days	**10,529**	9,882
Over 60 days	**939**	5,559
	71,670	175,704

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

24. WARRANTY PROVISION

	2008 HK$'000	2007 HK$'000
At January 1	**23,274**	13,264
Additional provision in the year	**4,015**	21,418
Utilisation of provision	**(14,605)**	(11,408)
At December 31	**12,684**	23,274

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.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 HK$'000	2007 HK$'000
Derivative under hedge accounting		
Interest rate swaps	**36,862**	–
Other derivative (not under hedge accounting)		
Foreign currency forward contracts	**408**	2,359
	37,270	2,359
Analysed as:		
Non-current	**36,862**	–
Current	**408**	2,359
	37,270	2,359

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

25. DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms and the Directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

2008 Notional amount	Contract date	Repayment term	Maturity date	Swaps
HK$300,000,000	June 23, 2008	10 equal quarterly installments, commencing 2 years and a quarter after drawdown	December 24, 2012	From Hong Kong Interbank Offered Rate ("HIBOR") +1% to 5.28%
HK$400,000,000	September 4, 2008	20 equal quarterly installments, commencing a quarter after drawdown	September 4, 2013	From HIBOR to 3.56%

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges and the fair values of HK$36,862,000 have been deferred in equity as at December 31, 2008 and are expected to be recognised in the consolidated income statement at various dates during the lives of the swaps when the hedged interest expense is recognised and impacts the consolidated income statement.

Foreign currency forward contracts

At the balance sheet date, the Group had the following foreign currency forward contracts dominated in United States Dollars ("USD") and Euro ("EUR"), the major terms of these contracts are as follows:

Notional amount	Maturity date	Exchange rate
2008		
Purchase EUR1,000,000 and sell USD1,460,500 at the date of settlement	January 29, 2009	EUR1 to USD1.4605
2007		
Sell EUR500,000 (if market rate for the contracted period is above EUR1 to USD1.27 and below EUR1 to USD1.359 at the date of settlement) or sell EUR1,000,000 (if market rate for the contracted period is above EUR1 to USD1.27 and equal or above EUR1 to USD1.359 at the date of settlement)	March 17, 2008	EUR1 to USD1.27 or EUR1 to USD1.359

The fair values of the foreign currency forward contracts are measured based on a valuation technique which uses the prevailing forward exchange rates as an input. All fair value changes are recognised in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

26. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Unsecured bank borrowings comprise the following:		
– bank borrowings	**781,666**	225,500
– trust receipts loans	**100,259**	–
– discounted bills with recourse	**14,747**	–
	896,672	225,500

The above amounts are repayable as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**240,010**	143,000
In the second year	**185,004**	40,000
In the third to fifth years inclusive	**471,658**	42,500
	896,672	225,500
Less: Amount due within one year shown under current liabilities	**(240,010)**	(143,000)
Amount due after one year	**656,662**	82,500

In 2008, the Group had four bank borrowings amounting to HK$781,666,000 which carry floating interest rates ranging from HIBOR plus 0.75% per annum to HIBOR plus 1.9% per annum, including borrowings of HK$125,004,000 being repayable within one year. The remaining bank borrowings amounting to HK$115,006,000 which are repayable within one year and carry floating interest rates ranging from LIBOR plus 0.75% to LIBOR plus 1.7% per annum.

In 2007, the Group had three bank borrowings amounting to HK$103,000,000 which was repayable within one year and carried fixed interest rates ranging from 4.64% to 5.35% per annum. The remaining bank borrowings amounting to HK$122,500,000 which carried floating interest rate of HIBOR plus 0.75% per annum, including borrowings of HK$40,000,000 being repayable within one year.

The effective interest rates on the Group's borrowings is 2.01% as at December 31, 2008 (2007: 4.57%).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

27. CONVERTIBLE LOAN NOTES

The Company issued zero coupon convertible loan notes (the "Notes") in the aggregate principal amount of HK$800,000,000 at a par value of HK$10,000 each on May 10, 2006. Details of the Notes are set out in the Company's circular dated May 8, 2006. The features of the Notes are as follows:

(i) Conversion option:

– The Notes are denominated in Hong Kong dollars. The Notes entitle the holders to convert them into ordinary shares of the Company (the "Share") at any time from and including May 25, 2006 to April 25, 2011 at an initial conversion price of HK$8.37 per Share. The conversion price was adjusted to HK$8.18 per Share, HK$8.02 per Share, HK$7.81 per Share, HK$7.62 per Share and HK$7.34 per Share on May 25, 2006, October 20, 2006, May 25, 2007 and October 26, 2007 and May 28, 2008, respectively.

If the arithmetic average of the closing price of the Share on the Stock Exchange for each day during the 15 consecutive trading days ending 60 days before each anniversary of the issue date of the Notes is less than the conversion price then in effect, the conversion price may be adjusted downwards at the discretion and option of the Company, such that the adjusted conversion price in no event shall be less than 80% of the initial conversion price pursuant to the terms and conditions of the Notes. If the Notes have not been converted, they will be redeemed at 124.01% of the principal amount on May 10, 2011 (the "maturity date").

(ii) Holder early redemption option:

– All or some of the Notes may be redeemed at the option of the holders at 111.36% of the principal amount on November 10, 2008.

(iii) Issuer early redemption option:

– On or at any time after November 10, 2008, the Company may redeem all, but not some only, of the Notes at any time prior to the maturity date, at a pre-determined amount (the "Early Redemption Amount") if (i) the closing price of the Share for each of the 30 consecutive trading days, the last which falls within five trading days prior to the date upon which notice of such redemption is given was at least 130% of the applicable Early Redemption Amount in effect on such trading day divided by the conversion ratio or (ii) at least 90% in principal amount of the Notes has already been converted, redeemed or purchased and cancelled.

– The Early Redemption Amount of the Notes, for each HK$10,000 principal amount of the Notes, is determined so that it represents a gross yield of 4.35% per annum for the holder, calculated on a semi-annual basis.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

27. CONVERTIBLE LOAN NOTES *(CONTINUED)*

The Notes contain liability component, conversion option derivative and two early redemption option derivatives. The conversion option derivative is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of Share in settlement of a fixed amount of the liability component. The issuer early redemption option derivative is not closely related to the host contract as the early redemption amount is not closed to the amortised cost of the liability on the redemption date. Both the conversion option derivative and issuer early redemption option derivative are measured at fair value with change in fair value recognised in profit or loss. The holder early redemption option derivative is not separately recognised from the liability component as the early redemption amount approximates the amortised cost of the liability on the redemption date and it is considered as closely related to the economic characteristics and risks of the host contract.

The fair value of the Notes with embedded derivatives were determined by the Directors with reference to a valuation report carried out by Vigers Appraisal & Consulting Limited, independent and recognised international business valuers, on May 10, 2006 at HK$774,757,000, comprising the liability component of the Notes and the derivative components amounting to HK$737,958,000 and HK$36,799,000, respectively.

During 2008, the Company repurchased the Notes in the market with principal amount of HK$165,450,000 at aggregate consideration of HK$176,895,000, including transaction cost of HK$413,000. A loss on repurchase of the Notes of HK$123,000, including the embedded derivatives, has been recognised in the consolidated income statement for the year ended December 31, 2008.

On November 10, 2008, the Company early redeemed the remaining Notes from the bondholders with principal amount of HK$634,550,000 at aggregate consideration of HK$706,635,000. On November 10, 2008, the liability component of the Notes is HK$677,748,000 which is stated at amortised cost using the effective interest method and the fair value of the derivative components of the Notes is HK$430,000. Moreover, a loss on redemption of the Notes, including the embedded derivatives, of HK$28,457,000 has also been recognised in the consolidated income statement for the year ended December 31, 2008.

The effective interest expense of the Notes and net loss on embedded derivatives and convertible loan notes including gain arising on change in fair value of the embedded derivatives of HK$17,335,000 and loss on redemption of HK$28,580,000 amounting to HK$36,698,000 (2007: HK$46,678,000) and HK$11,245,000 (2007: gain on embedded derivatives of HK$3,936,000), respectively, have been recognized in the consolidated income statement for the year ended December 31, 2008.

The methods and assumptions applied for the valuation of the convertible loan notes are as follows:

(1) Valuation of liability component

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is 6.1%.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

27. CONVERTIBLE LOAN NOTES *(CONTINUED)*

(2) Valuation of conversion option derivative

Binomial model is used for valuation of conversion option derivative. The inputs into the model were as follows:

	May 10, 2006	December 31, 2006	December 31, 2007	**November 10, 2008**
Stock price	HK$6.2	HK$5.25	HK$4.74	**HK$1.3**
Exercise price	HK$8.37	HK$8.02	HK$7.62	**HK$7.34**
Volatility	35%	35%	30%	**47%**
Dividend yield	4%	4%	1.3%	**1.3%**
Option life	5 years	4.36 years	3.36 years	**2.5 years**
Risk free rate	4.54%	3.69%	2.84%	**0.98%**

(3) Valuation of issuer early redemption option derivative

Binomial model is used for valuation of issuer early redemption option derivative. The inputs into the model were as follows:

	May 10, 2006	December 31, 2006	December 31, 2007	**November 10, 2008**
Stock price	HK$6.2	HK$5.25	HK$4.74	**HK$1.3**
Exercise price	HK$10.881	HK$10.426	HK$9.906	**HK$9.54**
Volatility	35%	35%	30%	**47%**
Dividend yield	4%	4%	1.3%	**1.3%**
Option life	5 years	4.36 years	3.36 years	**2.5 years**
Risk free rate	4.54%	3.69%	2.84%	**0.98%**

The movement of the liability component, and the derivative component (including conversion option derivative and issuer redemption option derivative) of the Notes is set out as follows:

	Liability component HK$'000	**Derivative component** HK$'000
Carrying amount at January 1, 2007	767,047	25,798
Changes in fair value	–	(3,936)
Effective interest expenses	46,678	–
Carrying amount at December 31, 2007	813,725	21,862
Changes in fair value	–	(17,335)
Effective interest expenses	36,698	–
Repurchase of the Notes during 2008	(172,675)	(4,097)
Redemption of the Notes at November 10, 2008	(677,748)	(430)
Carrying amount at December 31, 2008	–	–

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(For the year ended December 31, 2008)

27. CONVERTIBLE LOAN NOTES *(CONTINUED)*

As at December 31, 2007, the fair value of derivative component comprises of conversion option derivative of HK$40,180,000 and issuer early redemption option derivative of HK$18,318,000, which are presented on a net basis as their terms are inter-related.

28. DEFERRED TAX

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

	Property, plant and equipment	**Allowance for doubtful debts**	**Tax losses**	**Unrealised profit for inventories**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At January 1, 2007	1,107	(2,934)	–	(2,508)	(4,335)
Charge (credit) to the consolidated income statement for the year	1,694	(1,703)	–	(699)	(708)
At December 31, 2007	2,801	(4,637)	–	(3,207)	(5,043)
Effect of change in tax rate	(154)	258	–	–	104
(Credit) charge to the consolidated income statement for the year	(4,040)	3,949	(2,035)	2,320	194
At December 31, 2008	(1,393)	(430)	(2,035)	(887)	(4,745)

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:

	2008	2007
	HK$'000	HK$'000
Deferred tax assets	**(4,745)**	(7,844)
Deferred tax liabilities	**–**	2,801
	(4,745)	(5,043)

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

28. DEFERRED TAX *(CONTINUED)*

At the balance sheet date, the Group had unused tax losses of approximately HK$288,826,000 (2007: HK$200,503,000) available for offsetting against future profits. A deferred tax asset has been recognized in respect of HK$12,331,000 (2007: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$276,495,000 (2007: HK$200,503,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$9,600,000 (2007: HK$9,600,000), HK$2,900,000 (2007: HK$2,900,000), HK$5,400,000 (2007: HK$5,400,000), HK$6,700,000 (2007: HK$6,700,000) and HK$6,997,000 (2007: HK$6,997,000) and HK$4,385,000 (2007: Nil) that will expire in 2010, 2011, 2012, 2013, 2014 and 2015, respectively. Other losses may be carried forward indefinitely.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits caused by PRC subsidiaries from January 1, 2008 onwards. No deferred tax liability has been provided for the consolidated income statement date in respect of the temporary difference attributable to accumulated profits of subsidiaries and an associate in the PRC since the amount involved is insignificant during the year.

29. SHARE CAPITAL OF THE COMPANY

	2008	2007
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At January 1, 2008: 555,420,285 (January 1, 2007: 558,416,285)		
ordinary shares of HK$0.10 each	**55,542**	55,842
Repurchase of 3,974,000 shares (2007: 2,996,000 shares)	**(397)**	(300)
At December 31, 2008: 551,446,285 (December 31, 2007: 555,420,285)		
ordinary shares of HK$0.10 each	**55,145**	55,542

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

29. SHARE CAPITAL OF THE COMPANY *(CONTINUED)*

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

2008

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
April	**2,264,000**	**4.31**	**4.28**	**9,735**
May	**1,710,000**	**4.28**	**4.12**	**7,206**
	3,974,000			**16,941**

2007

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January	100,000	5.20	5.20	520
June	388,000	5.55	5.55	2,153
July	112,000	5.55	5.55	622
August	396,000	5.50	5.30	2,146
September	2,000,000	5.26	5.18	10,436
	2,996,000			15,877

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 approximately HK$16,544,000 (2007: HK$15,577,000) was charged against share premium. An amount of approximately HK$397,000 (2007: HK$300,000) equivalents to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

30. RESERVES AND MINORITY INTERESTS

	Attributable to equity holders of the Company								
	Share premium HK$'000	**Dividend reserve** HK$'000	**Capital redemption reserve** HK$'000	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Contributed surplus** HK$'000	**Hedging reserve** HK$'000	**Total reserves** HK$'000	**Minority interests** HK$'000
At January 1, 2007	189,382	83,747	1,673	12,081	646,779	25,582	–	959,244	1,290
Exchange difference arising on translation of overseas subsidiaries and an associate	–	–	–	30,666	–	–	–	30,666	–
Share of changes in exchange reserve of a jointly controlled entity	–	–	–	4,648	–		–	4,648	–
Net income recognised directly in equity	–	–	–	35,314	–	–	–	35,314	–
Profit for the year	–	–	–	–	274,405	–	–	274,405	–
Total recognised income and expense for the year	–	–	–	35,314	274,405	–	–	309,719	–
Repurchases of shares	(15,577)	–	300	–	(300)	–	–	(15,577)	–
Final dividend for 2006 paid	–	(44,665)	–	–	–	–	–	(44,665)	–
Final special dividend for 2006 paid	–	(39,082)	–	–	–	–	–	(39,082)	–
Interim dividend for 2007 paid	–	–	–	–	(49,988)	–	–	(49,988)	–
Interim special dividend for 2007 paid	–	–	–	–	(16,662)	–	–	(16,662)	–
Proposed final dividend for 2007	–	44,434	–	–	(44,434)	–	–	–	–
Proposed special dividend for 2007	–	38,879	–	–	(38,879)	–	–	–	–
At December 31, 2007	173,805	83,313	1,973	47,395	770,921	25,582	–	1,102,989	1,290

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

30. RESERVES AND MINORITY INTERESTS *(CONTINUED)*

	Attributable to equity holders of the Company								
	Share premium	**Dividend reserve**	**Capital redemption reserve**	**Translation reserve**	**Retained profits**	**Contributed surplus**	**Hedging reserve**	**Total reserves**	**Minority interests**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Exchange difference arising on translation of overseas subsidiaries and an associate	–	–	–	28,210	–		–	28,210	–
Share of changes in exchange reserve of a jointly controlled entity	–	–	–	3,715	–	–	–	3,715	–
Loss on cash flow hedge	–	–	–	–	–	–	(36,862)	(36,862)	–
Net loss recognised directly in equity	–	–	–	31,925	–	–	(36,862)	(4,937)	–
Loss for the year	–	–	–	–	(142,779)	–	–	(142,779)	–
Deregistration of a subsidiary (Note 7)	–	–	–	233	–	–	–	233	(1,290)
Total recognised income and expense for the year	–	–	–	32,158	(142,779)	–	(36,862)	(147,483)	–
Repurchases of shares	(16,544)	–	397	–	(397)	–	–	(16,544)	–
Final dividend for 2007 paid (Note)	–	(44,434)	–	–	181	–	–	(44,253)	–
Final special dividend for 2007 paid (Note)	–	(38,879)	–	–	158	–	–	(38,721)	–
Interim dividend for 2008 paid	–	–	–	–	(11,029)		–	(11,029)	–
At December 31, 2008	157,261	–	2,370	79,553	617,055	25,582	(36,862)	844,959	–

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.

Note: The Company repurchased 2,264,000 shares through the Stock Exchange before the payment of final dividend and final special dividend for 2007. The proposed dividend for these cancelled shares amounting to HK$339,000 is transferred to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue to operate as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which comprises the convertible loan notes and the borrowings disclosed in Notes 27 and 26 respectively less cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

Certain bank borrowings of the Group include covenants that require the maintenance of certain financial ratios. As at December 31, 2008, no financial ratio covenant was breached.

The Directors of the Company review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2008	2007
	HK$'000	HK$'000
Financial assets		
Financial assets designated as at FVTPL	**–**	57,853
Loans and receivables (including cash and cash equivalents)	**615,249**	1,066,462
Financial liabilities		
Financial liabilities held for trading	**408**	24,221
Amortised cost	**1,017,904**	1,338,498
Derivative instruments in designated hedge accounting relationships	**36,862**	–

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

32. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, structured deposits, bank balances and deposits, trade and other payables, amounts due from and to jointly controlled entities, convertible loan notes 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 denominated in USD and EUR, which expose the Group to foreign currency risk. Approximately 77% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 76% of costs are denominated in the group entity's functional currency. The Group also has bank balances and bank borrowings denominated in foreign currency. During the year, the Group entered into several foreign currency forward contracts with banks to reduce its exposure to currency fluctuations risk of certain sales and purchases that are denominated in other currencies. These derivatives are not accounted for under hedge accounting as the Group currently does not have a fixed and regular foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. No sensitivity analysis was presented on the foreign currency forward contracts as the exposures are insignificant.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**117,764**	18,905	**270,372**	564,486
EUR	**2,319**	7,743	**20,045**	99,368

In the opinion of Directors, since Hong Kong dollars is pegged to USD, no sensitivity analysis in relation to Hong Kong dollars against USD is presented.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

32. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Currency risk (Continued)

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in loss (2007: a decrease in profit) where respective functional currencies strengthen 5% against the relevant foreign currencies. For a 5% weakening of respective functional currencies against the relevant foreign currency, there would be an equal and opposite impact on the (loss) profit for the year.

	USD		EUR	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Increase in loss (2007: Decrease in profit) for the year	**6,338**	7,242[i]	**886**	4,581[ii]

(i) This is mainly attributable to the exposure outstanding on USD receivables, payables, bank balances and borrowings at year end.

(ii) This is mainly attributable to the exposure outstanding on EUR receivables, payables and bank balances at year end.

Interest rate risk

The Group's fair value interest rate risk relates to the Group's zero coupon convertible loan notes and bank borrowings with fixed interest rates. The Group's cash flow interest rate risk relates to the bank balances, deposits and the borrowings with floating interest rates. The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank balances, deposits, borrowings and convertible loan notes. The interest rates and terms of repayment of convertible loan notes and borrowings of the Group are disclosed in notes 27 and 26 respectively.

The Group aims at keeping borrowing at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flow of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rates swaps are designated as effective hedging instruments and hedge accounting is used (see note 25 for details).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's HKD and USD borrowings and the market interest rate on the bank balances and deposits.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

32. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For variable-rate bank borrowings and bank balances and deposits, the analysis is prepared assuming the amount of liability and asset outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 50 basic points higher/lower and all other variables were held constant, the Group's loss for the year ended December 31, 2008 would increase/decrease by HK$465,000 (2007: profit for the year would decrease/increase by HK$2,300,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances, deposits and bank borrowings.

If the expected market interest rate inputted to the valuation model of the derivative instruments designated as hedging instruments has been 50 basic points higher/lower while all other variable were constant, hedging reserve would decrease/increase by HK$5,258,000 (2007: Nil).

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, 2008 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.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

32. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Price risk

The Group was required to estimate the fair value of the conversion option and redemption option of the convertible loan notes at each balance sheet date which therefore exposed the Group to equity price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting dates.

If the share price and volatility of share estimated issued price inputed to the valuation model had been 10% higher while all other variables were held constant, the profit for the year ended December 31, 2007 would decrease by approximately HK$12,977,000 for the Group, principally as a result of the changes in fair value of the convertible option and redemption option of the convertible loan notes.

If the share price and volatility of share estimated issued price inputed to the valuation model had been 10% lower while all other variables were held constant, the profit for the year ended December 31, 2007 would increase by approximately HK$16,342,000 for the Group, principally as a result of the changes in fair value of the convertible option and redemption option of the convertible loan notes.

Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash outflows are presented.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

32. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity risk tables

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 12.31.2008 HK$'000
2008							
Non-derivative financial liabilities							
Trade and other payables	–	44,201	74,151	2,616	–	120,968	120,968
Amount due to a jointly controlled entity	–	–	264	–	–	264	264
Bank loans – variable rate	1.7 – 2.55	61,653	24,931	161,799	684,031	932,414	896,672
		105,854	99,346	164,415	684,031	1,053,646	1,017,904
Derivatives – net settlement							
Foreign exchange forward contracts		550	–	–	–	550	408
Interest rate swaps		–	–	22,795	18,714	41,509	36,862

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

32. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity risk tables *(Continued)*

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 12.31.2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	–	162,967	129,561	6,745	–	299,273	299,273
Bank loans							
– fixed rate	4.64 – 5.35	23,103	–	81,256	–	104,359	103,000
– variable rate	4.33	–	–	44,222	85,991	130,213	122,500
		186,070	129,561	132,223	85,991	533,845	524,773
Derivatives – net settlement							
Foreign exchange forward contracts		900	1,800	–	–	2,700	2,359
Convertible loan notes (Note)		–	–	890,868	–	890,868	835,587

Note: It assumed that the earliest date on which the Group can be required to pay for the convertible loan notes is on November 10, 2008 due to the early redemption option exercised by the holders.

c. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transaction;
- the fair value of foreign currency forward contracts is estimated using quoted forward exchange rates. For interest rate swaps, the fair value is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and
- the fair value of an option-based derivative is estimated using option pricing models (for example, the binomial model).

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

33. 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 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 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 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 ordinary share capital. 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.

An option is deemed to have been granted and accepted by the grantee upon his or her signing a duplicate letter comprising acceptance of the option and paying HK$1 by way of consideration for the grant thereof on or before the relevant acceptance date being a date within 28 days after the date on which the option is offered.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period after the option has been granted by the board of Directors. An option period is a period to be determined by the board of Directors in its absolute discretion and notified by the Board of Directors to each grantee as being the period during which an option may be exercised, such period shall commence from the date of acceptance of the offer for the grant of the option and shall end not later than 10 years from the date on which the offer for grant of the option is made.

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 FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

34. CAPITAL COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment and leasehold lands	**312,649**	335,349

35. OPERATING LEASE ARRANGEMENTS

As lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK$11,219,000 (2007: HK$7,579,000).

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

	2008 HK$'000	2007 HK$'000
Within one year	**10,374**	8,052
In the second to fifth year inclusive	**9,927**	14,021
	20,301	22,073

Operating lease payments represent rentals payable by the Group for certain of its office premises, factories, godowns and residential units for its employees. Leases are negotiated and rentals are fixed for lease term of an average of two years.

36. 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 pooling fund under the AIA Retirement Fund Scheme (the "Scheme") with AIA Pension and Trustee Co., Ltd. as the trustee of the Scheme.

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.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

36. RETIREMENT BENEFITS SCHEME *(CONTINUED)*

Schemes in Hong Kong *(Continued)*

With effect from December 1, 2000, the Group 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 Mandatory Provident Fund Scheme Ordinance) on a monthly basis.

The employees entitled to participate in the Group's 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 which have been dealt with in the consolidated income statement of the Group amounted to approximately HK$4,782,000 (2007: HK$4,950,000).

At the balance sheet date, there are no significant forfeited contributions available to offset future employers' contributions to the Scheme.

Scheme in the PRC

The employees of the Company'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 10% to 11% 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 approximately HK$15,523,000 (2007: HK$5,630,000).

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% to 9.95% of the employees' gross income. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contribution.

The total cost charged to the consolidated income statement for the scheme in Germany amounted to approximately HK$9,055,000 (2007: HK$8,825,000).

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

36. RETIREMENT BENEFITS SCHEME *(CONTINUED)*

Scheme in Switzerland

In Switzerland, the Group is obliged to contribute to a basic pension plan on a monthly basis at 5.05% of the employees' gross income plus administrative charges.

Besides, the Group also has a mandatory occupational benefit plan ("the Plan") for all its employees as regulated under federal law. The Group is obliged to make contributions to the Plan, calculated at 0% to 10% of the employees' basic annual salary up to a maximum of CHF 79,560, plus a maximum of 2%, depending on employees' age and an individual risk surcharge of about 2%.

The total cost charged to the consolidated income statement for the schemes in Switzerland amounted to approximately HK$1,231,000 (2007: HK$916,000).

37. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated balance sheet on page 38 and Note 20, the Group has also entered into the following transactions with related parties during the year:

	2008 **HK$'000**	2007 HK$'000
Related parties in which a Director of certain operating subsidiaries of the Group has beneficial interests		
Sale of goods	**3,580**	3,136
Service fee paid	**77**	143
Purchase of materials	**24**	227
Commission and agency fee paid	**5,957**	7,979
Management fee paid	**430**	–
Related parties in which Directors of the Company have beneficial interests		
Management fee received	**162**	254
Rental paid	**7,909**	5,928
Jointly controlled entities		
Sale of goods	**14,677**	25,641
Purchase of materials	**10,578**	20,501
Other income		
– Commission and management fee received	**25,881**	36,963
– Royalty fee received	**–**	75
– Engineering fee received	**–**	125
Rental paid	**172**	264
Sub-contracting fee paid	**1,316**	–

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

37. RELATED PARTY DISCLOSURES *(CONTINUED)*

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases with a related party in which Directors of the Company have beneficial interests which fall due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**7,623**	6,388
In the second to fifth year inclusive	**7,623**	12,776
	15,246	19,164

Compensation of key management personnel

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

	2008 HK$'000	2007 HK$'000
Short-term benefits	**50,091**	50,691
Post-employment benefits	**2,049**	1,856
	52,140	52,547

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

38. SUMMARISED BALANCE SHEET OF THE COMPANY

	2008	2007
	HK$'000	HK$'000
Total assets	**282,583**	1,280,289
Total liabilities	**842**	839,432
Net assets	**281,741**	440,857
Capital and reserves		
Share capital	**55,145**	55,542
Reserves	**226,596**	385,315
Total capital and reserves	**281,741**	440,857

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

39. 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 at 31 December 2007 and 2008	Principal activities
Falmer Investments Ltd.	British Virgin Islands/ Hong Kong	US$1	100%	Research and development
Fong's Engineering Services Company Limited	Hong Kong	HK$10,000	100%	Trading in stainless steel products 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 of stainless steel supplies
Goller (HK) Limited	Hong Kong	HK$1	100%	Trading of textile machinery
Goller Textilmaschinen GmbH	Germany *	EUR25,000	100%	Trading and manufacture of textile machinery
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 of stainless steel casting products

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended December 31, 2008)

39. 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 at 31 December 2007 and 2008	Principal activities
Tycon Alloy Industries (Shenzhen) Co. Ltd.	The PRC *	US$16,550,000	100%	Manufacture of stainless steel casting products
THEN Maschinen (HK) Limited	Hong Kong	HK$1	100%	Trading of 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	100%	Trading of textile machinery and technical parts
Xorella AG	Switzerland *	CHF350,000	100%	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.

FINANCIAL SUMMARY

RESULTS

	Year ended December 31,				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	1,743,873	2,012,252	2,380,036	3,029,189	**2,499,856**
Profit (loss) before tax	267,721	240,706	308,939	314,662	**(140,396)**
Income tax expense	(32,473)	(22,510)	(48,906)	(40,257)	**(2,383)**
Profit (loss) for the year	235,248	218,196	260,033	274,405	**(142,779)**
Attributable to:					
Equity holders of the Company	235,112	218,653	260,033	274,405	**(142,779)**
Minority interests	136	(457)	–	–	**–**
	235,248	218,196	260,033	274,405	**(142,779)**

ASSETS AND LIABILITIES

	As at December 31,				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,254,335	1,322,163	2,355,536	2,671,192	**2,184,891**
Total liabilities	(461,689)	(447,606)	(1,339,160)	(1,511,371)	**(1,284,787)**
	792,646	874,557	1,016,376	1,159,821	**900,104**
Equity attributable to equity holders of the Company	790,899	873,267	1,015,086	1,158,531	**900,104**
Minority interests	1,747	1,290	1,290	1,290	**–**
	792,646	874,557	1,016,376	1,159,821	**900,104**