FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNUAL REPORT 2010

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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

Reed Smith Richards Butler
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS IN HONG KONG

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

PRINCIPAL BANKERS IN THE PRC

Bank of China Limited
Bank of Communications Co., Ltd.
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited

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 am pleased to present the audited annual consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2010.

With the rebounding economy and actions taken by management on the sales and cost sides, the Group achieved strong performance and growth in revenue and profitability. For the year ended December 31, 2010, the Group's revenue reached approximately HK$2,587 million (2009: HK$1,798 million), representing a 44% growth, while the Group recorded a turnaround to a profit of approximately HK$303 million as compared to a loss of approximately HK$106 million last year. The strong profit recovery was mainly attributable to (i) the growth of the Group's revenue; (ii) improvement of gross profit margins due to the decrease of moving average material costs; and (iii) the active management actions taken to streamline operations, improve production efficiency and reduce costs across our businesses.

Since the second half of 2009, there have been signs of gradual recovery of the global economy, the Group has adopted the strategy to encourage each of its core businesses to promote sales growth. The results now show that this strategy has been as decisive as it was effective. The expanding domestic demand in the Mainland China, coupled with the consolidation in the markets as weaker competitors have been weeded out in the course of the financial crisis, have all benefited the Group, as its competitive advantages have become even more evident during the tougher times. The fact that the Group's businesses were able to quickly rebound and get back on the growth trail is a testimony to the robustness of this strategy.

As a necessary step to address the expansionary credit growth and hence fears of overheating, the Chinese government will continue to implement a host of credit tightening and austerity measures which would marginally weaken the Chinese economy in 2011. Against this backdrop, it is anticipated that after the rapid growth in 2010, the market condition will cool down slightly in 2011 and there might be a softening in sales volumes in respect of our machinery manufacturing business in 2011. With appreciating Renminbi together with the increasing labour costs and fluctuating raw material prices (in particular stainless steels), the Group will encounter certain uncertainty and challenges in its future operations. The Group will continue to increase the level of automation in its manufacturing process in order to soften the impact of cost increases and will also continue to invest in the development of new products and the strengthening of its global sales network. The Board is confident in the Group's future development in coming years.

With the increasing importance of environmental protection, there are enormous opportunities for growth of the waste water treatment and re-use industry. Up to date, the Group has participated in several waste water treatment projects in the People's Republic of China (the "PRC") for the construction of waste water treatment facilities in dye-houses which have shown encouraging progress. Riding on the success of these projects and backed by extensive R&D and technical expertise, it is believed that the Group will become one of the leading turnkey waste water treatment solutions providers in the market, especially in the textile sector. This new business segment will also have synergy effects with the Group's dyeing and finishing machine manufacturing business.

Plans are already underway to strengthen our management team structure, capacity expansions and new plant development. As disclosed in the Interim Report 2010, the Group will speed up the acquisition of lands at Zhongshan Torch Hi-tech Industrial Development Zone Linhai Industrial Park, Guangdong Province, the PRC. Up till now, the Group has entered into land-use rights sale and purchase agreements to acquire two parcels of land with an aggregate area of approximately 322 mu (215,000m^2) at an aggregate consideration of RMB82,497,000. It is expected that a further lot of land with an area of approximately 280 mu may be available for acquisition in the second half of 2011. As previously disclosed, the Group intends to use the land for the construction and setting up a manufacturing complex for its group companies, which will provide the Group with additional space for future operational expansion to further enhance the Group's manufacturing capability to cope with business development. The Board believes that the relocation of production base to Zhongshan will provide rooms for the Group to promote the optimal process flow and further upgrade the automation of production so as to ease the pressure of increasing labour costs and to minimize the extent of relying on production workforces.

As disclosed in the joint announcement dated 14 January 2011 made by the Company and China Hengtian Group Co., Ltd. ("China Hengtian"), an independent third party, China Hengtian will make a possible unconditional mandatory cash offer to acquire a majority shareholding in the Company at HK$5 per share upon obtaining all necessary authorizations, approvals and consents of the relevant government or regulatory authorities in the PRC by May 7, 2011. China Hengtian is a major state-owned enterprise under the supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Committee of the State Council of the PRC. The principal business activities of China Hengtian and its subsidiaries include textile machinery, cargo truck, textile production and trade, and other strategic investments, among which the textile machinery business is one of the core sectors of its businesses. The Board is of the opinion that the introduction of China Hengtian as a major shareholder of the Company will be a joining up of two strong groups, capitalizing on the complementary advantages, resources and synergetic effect, it will enable the Group to further enhance its market position and brand effect in the long term. China Hengtian will also offer strong support to the Group for its further business development, facilitating it to achieve better economies of scale and to further strengthening its competitiveness in the field of dyeing and finishing machinery in both China and abroad.

APPRECIATION

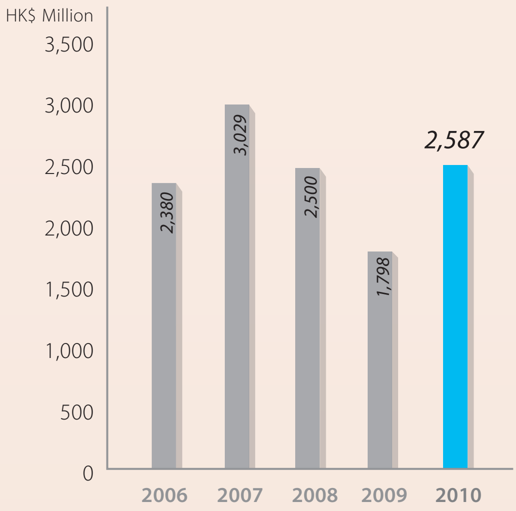
On behalf of the Board, I would like to take this opportunity to express my appreciation to all our loyal staff, customers, shareholders, suppliers, bankers and business partners for their continuous support and encouragement to the Group during the recent difficult operating environment. I believe, with your support, encouragement and assistance, the Group will be able to continue to grasp every opportunity for business development and march towards in strides.

On behalf of the Board
Fong Sou Lam
Chairman

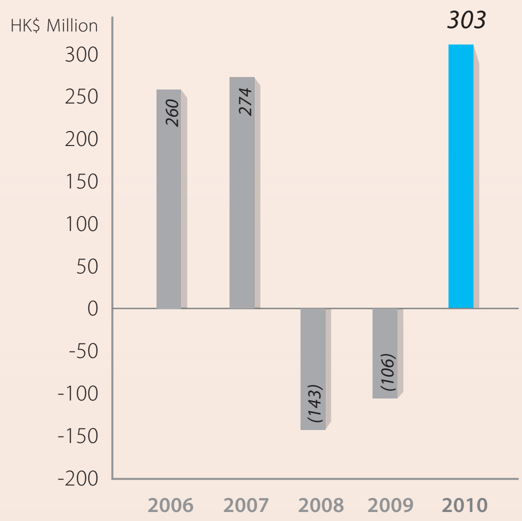
Hong Kong, March 28, 2011

FINANCIAL HIGHLIGHTS

REVENUE

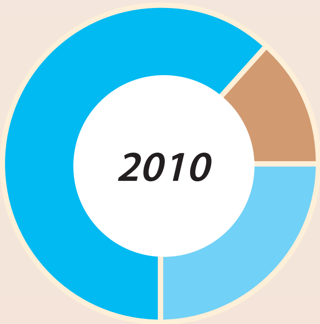


RESULTS



ANALYSIS OF REVENUE FOR THE YEAR

By principal activity

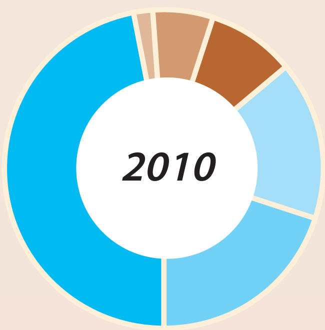


63% Manufacture and sale of dyeing and finishing machines

24% Trading of stainless steel supplies

13% Manufacture and sale of stainless steel casting products

By geographical region



47% The PRC

20% Hong Kong

16% Asia Pacific (other than the PRC & Hong Kong)

9% Europe

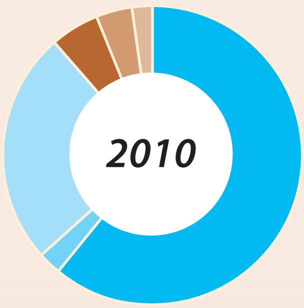
6% North & South America

2% Others

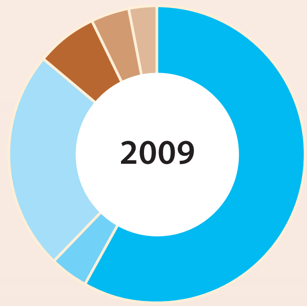
FINANCIAL HIGHLIGHTS

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

By geographical region

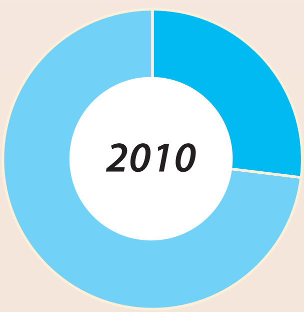


2010 HK$ Million		2009 HK$ Million
989	The PRC	716
36	Hong Kong	53
415	Asia Pacific	291
87	Europe	84
65	North & South America	48
33	Others	36
1,625		**1,228**

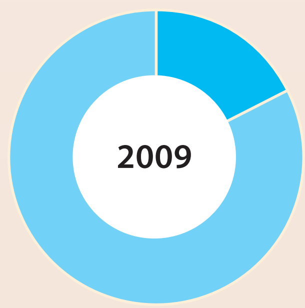


TRADING OF STAINLESS STEEL SUPPLIES

By geographical region

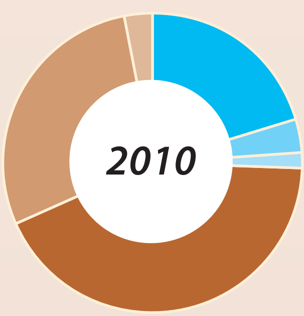


2010 HK$ Million		2009 HK$ Million
167	The PRC	64
453	Hong Kong	300
1	Asia Pacific	–
621		**364**

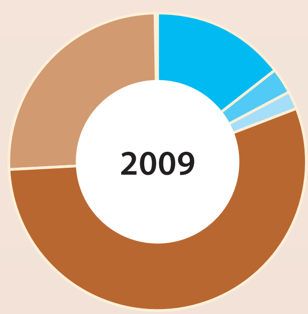


MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

By geographical region



2010 HK$ Million		2009 HK$ Million
70	The PRC	30
12	Hong Kong	6
6	Asia Pacific	4
145	Europe	113
98	North & South America	53
10	Others	–
341		**206**



DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam, aged 76, 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. Fong is a director and the sole shareholder of GBOGH Assets Limited which, through its six wholly-owned subsidiaries, beneficially owns an aggregate of 287,397,360 shares, representing approximately 52.12% of the issued share capital of the Company.

Mr. Wan Wai Yung, aged 59, 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 30 years of experience with excellent customer relationships in the textile and dyeing industry.

Mr. Fong Kwok Leung, Kevin, aged 49, is the eldest son of Mr. Fong Sou Lam and the elder brother of Mr. Fong Kwok Chung, Bill, he 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. Kevin Fong is a director of GBOGH Assets Limited which, through its six wholly-owned subsidiaries, beneficially owns an aggregate of 287,397,360 shares, representing approximately 52.12% of the issued share capital of the Company.

Mr. Fong Kwok Chung, Bill, aged 41, is the second son of Mr. Fong Sou Lam and the younger brother of Mr. Fong Kowk Leung, Kevin, he joined the Group in 1994. Mr. Bill Fong is responsible for overseeing business development projects of the Group. In addition, Mr. Bill Fong had held various operational positions within the Group including the general manager of Monforts Fong's Textile Machinery Co. Limited, a jointly controlled entity of the Group and was responsible for the European operations of the overseas subsidiaries of the Group from 2006-2008. Mr. Bill Fong studied at the Simon Fraser University, Canada with concentration on Accounting and Finance. Mr. Bill Fong is a director of GBOGH Assets Limited which, through its six wholly-owned subsidiaries, beneficially owns an aggregate of 287,397,360 shares, representing approximately 52.12% of the issued share capital of the Company.

Mr. Tou Kit Vai, aged 48, joined the Group in October, 2005 and is responsible for the internal audit, ERP system and taxation of the Group as well as in charge of accounting operations and material supply management of Fong's National Engineering Company, Limited, a wholly-owned subsidiary 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 52, is a chartered engineer and chartered I.T. professional, and he is in charge of the engineering technology 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 is a Co-Director of the Fong's Institute of Advanced Materials and Processing (FIAMP) in the Hong Kong University of Science and Technology and a Co-Director of Fong's Research Centre for Advanced Mechanical Systems (FRCAMS) in the University of Hong Kong. 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 44, is the Finance Director and Qualified Accountant of the Company. Ms. Poon is responsible for overseeing the Group's treasury, taxation and investor relation affairs. 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 57, 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 60, has 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 Acting Vice-President for Research & Development 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 59, 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. degree 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 (the 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 and Foundry Association, Committee Member of the Hong Kong Q Mark Council and Member of Shandong 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 and plastic 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 53, is a Joint Managing Director of Fong's Europe GmbH (formerly known as THEN Maschinen GmbH) and Xorella AG, both being wholly-owned subsidiaries of the Group. 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. Lee Che Keung, aged 49, 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 44, is a sales director of Fong's National Engineering Company, Limited being a wholly-owned subsidiary of the Group and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the Overseas (EAST) market. 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. Heinz Scheungraber, aged 54, is the Chief Financial Officer of Fong's Europe GmbH (formerly known as THEN Maschinen GmbH) and Xorella AG, both being wholly-owned subsidiaries of the Group. 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 49, is a sales director of Fong's National Engineering Company, Limited being a wholly-owned subsidiary of the Group 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 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 respectively. 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 46, is a sales director of Fong's National Engineering Company, Limited being a wholly-owned subsidiary of the Group 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.

Mr. Yang Xiao Jian, aged 53, is a director of Fong's Group Management Limited being a wholly-owned subsidiary of the Group and is responsible for the Group's human resources, administration and external affairs. Mr. Yang Graduated from Santa Monica College in the USA with a Bachelor's degree in Business Administration, studied business administration courses in California State University in the USA and got a master's degree in Business Administration from Suffield University in the USA. Mr. Yang joined the Group in January 2011.

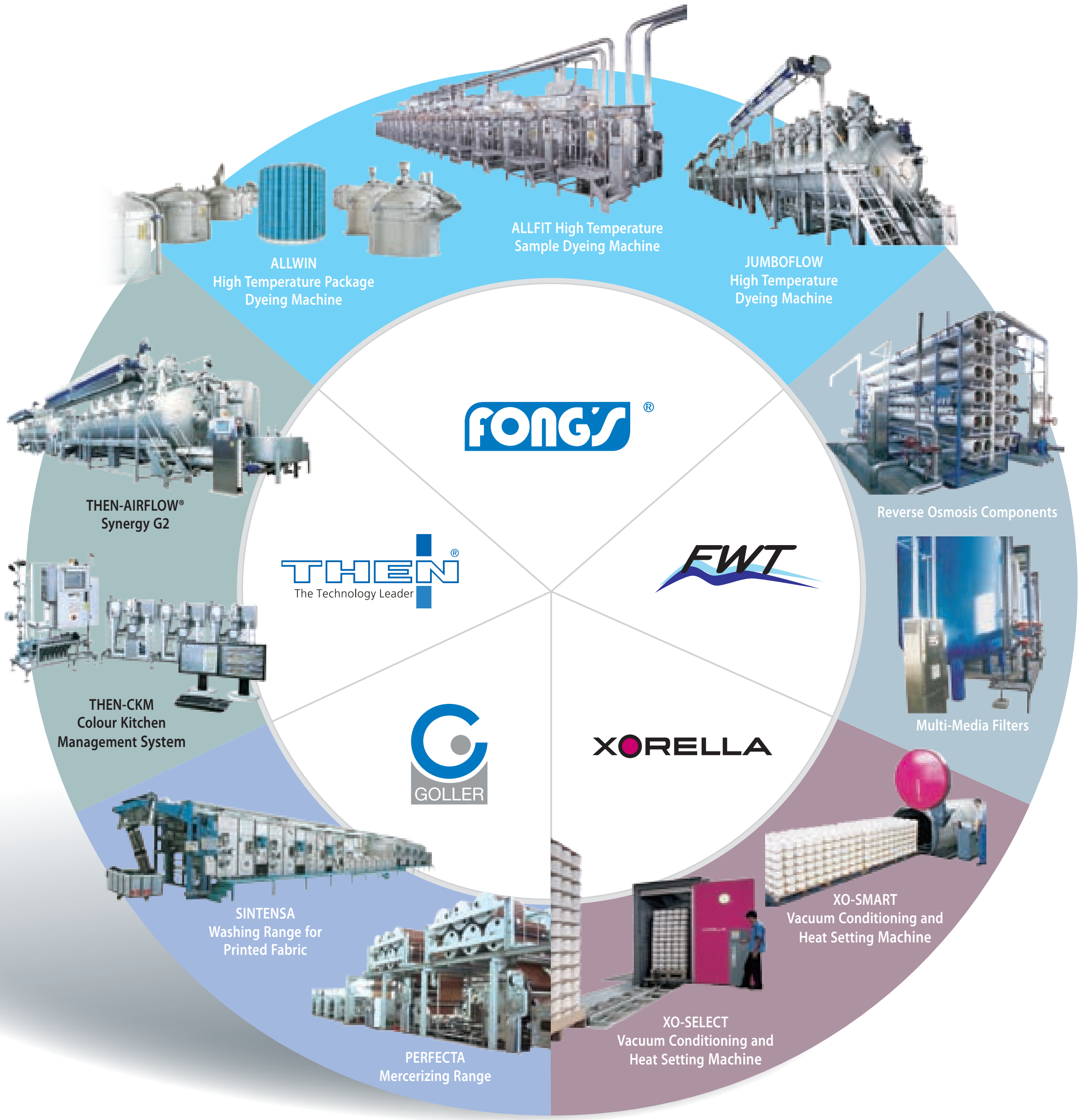
MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended December 31, 2010, the Group's consolidated revenue amounted to approximately HK$2,587 million (2009: HK$1,798 million), an increase of 44% as compared with the previous year. Profit for the year was approximately HK$303 million (2009: loss of HK$106 million) and basic earnings per share was 54.9 HK cents for the year under review (2009: basic loss per share was 19.3 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

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



1. *DTG 2010 – Bangladesh*
2. *ITMA Asia 2010 – Shanghai, China*
3. *ITMA Asia 2010 – Shanghai, China*

For the year ended December 31, 2010, this segment remained the major source of revenue for the Group and accounted for 63% of the Group's revenue. It recorded a revenue of approximately HK$1,625 million (2009: HK$1,228 million) representing an increase of 32% as compared to last year, which indicated a strong turnaround in business to its pre-crisis level. This segment recorded an operating profit of approximately HK$242 million, which demonstrated a remarkable improvement as compared to an operating loss of approximately HK$61 million last year. The turnaround from loss-making to profit-making was mainly due to (i) increase in sales volume driven by the gradual recovery of the global economy; (ii) the increase in the gross profit margin of the products primarily attributable to decrease in the costs of raw materials (in particular the stainless steels) as compared to 2009; and (iii) the decrease in operating costs as a result of stringent cost controls and improvement on production efficiency.

In retrospect, during the global financial crisis that broke out in the fourth quarter of 2008, the Group, like many other equipment manufacturers, experienced a drop in orders or postponement in deliveries leading to a slump in sales. However, against the various economic stimulus measures taken by the PRC government subsequent to the financial crisis, delivery of the postponed orders have resumed gradually and new orders also have increased rapidly since the second half of 2009. The growth momentum in the Mainland China market, which is regarded as our major market, was encouraging. The sales volume of the Group's dyeing and finishing machines products from the China market increased by 38% over last year. In addition, despite the European economy were suffering and recovering slowly, the sales of our dyeing and finishing machines products from overseas markets, particularly in Bangladesh, India and Latin America, also recorded a satisfactory performance and have showed notable sign of improvements. The revenue of this segment from the overseas markets for the year amounted to approximately HK$600 million, which increased by 31% over last year.

With the gradual recovery of the global economy, the demand in the textile industry continues to grow this year. The anticipated continued upsurge in the prices of raw materials, in particular cotton and cotton yarn, has driven up cost of products substantially in the textile and apparel supply chain, which will in turn benefit the textile machinery industry. Foreseeing a brighter and ascertained prospect, our customers will be eager to make investments in advanced and more efficient equipment in order to reduce their production costs and expand their manufacturing capacity to cope with the growing demand for their products.

During the year under review, the Group has, as mentioned in the Interim Report 2010, undergone a reorganization of its sales teams whereby the Group's sales teams will visit the customers and potential customers on a more frequent and regular basis to promote its comprehensive product portfolio in respect of the three brands of dyeing and finishing machines, namely "**FONG'S**", "**THEN**" and "**Goller**" with a view to fostering closer business relationships with its customers, capturing business opportunities with potential customers and obtaining the latest market information. As the Group offers a one-stop shop supply chain with a comprehensive portfolio of dying and finishing machines, our products have good reception from the customers.

In 2010, we achieved remarkable results through a variety of measures on cost control. The most important measures were leveraging economies of scale, improving production techniques and workflow, implementing better cost control on raw materials and inventory.

As a global trend, more stringent environmental rules and regulations on the textile industry will be imposed by many governments worldwide, which in turn will facilitate another round of equipment investment by customers on more advanced and environmentally friendly dyeing and finishing machines.

Looking ahead, the Group will also face same challenges as other manufacturers in China - the fluctuation of stainless steel raw material prices, the rise of the labour costs and the uncertain economic environment. Against the backdrop of such challenges, the Group will endeavor to further strengthen its marketing teams and sales network through maintaining good and close relationship with distribution agents and valuable customers, and to improve our operational efficiency by optimizing our production process with an aim to better control our operating costs. The Group also keeps putting effort in research and development of new products and improvement of existing products in order to meet the needs of the dynamic textile industry. The Board believes that our Group enjoys its significant advantage in brandname and comprehensive product portfolio, our Group is confident to encounter those challenges ahead.

To cater for the anticipated business growth, the Group, as mentioned in the Chairman Statement, has entered into land-use rights sale and purchase agreements to acquire two parcels of land in Zhongshan, one of which with a site area of approximately 172 mu (115,000m^2) will be for use by this business segment. The construction of the new production plant is expected to commence within this year and will be completed by the end of 2012.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited and Leefull Metal (Shenzhen) Co., Ltd.

In 2010, the performance of this trading segment was satisfactory. For the year ended December 31, 2010, the sales volume amounted to approximately HK$621 million (2009: HK$364 million), representing an increase of 71% as compared to the previous year and accounted for 24% of the Group's total revenue. Its operating profit was approximately HK$34 million as compared to approximately HK$7 million last year. The increase in profitability was mainly attributable to the increase in sales volume and selling price of stainless steel products.

This segment's stainless steel materials are sold to customers mainly in the Mainland China and Hong Kong in the sectors of construction, houseware, machinery, chemical processes, watch and kitchen equipment, the high growth in sales volume was due to the strong demand in the relevant industries driven by the recovery of global economy in 2010. In addition, the stainless steel prices have reversed the decline since the second quarter of 2009 and the prices are anticipated to be on a moderate upward trend in line with the rising commodity prices. As the sales volume and profit margin were boosted by the increasing demand and stainless steel prices, this trading segment recorded a remarkable improvement in profit in 2010.

Coil Centre

Stainless steel pipes and tubes

The Group will continue to adopt a prudent approach and take appropriate actions in relation to market risk control via timely and appropriate adjustments to prices and inventory based on market analysis and judgment in order to accelerate the turnover ratio of the inventory and to minimize the risk on price fluctuation.

STAINLESS STEEL CASTING

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

With the gradual recovery of the global economy and the tremendous efforts contributed in the past years to the improvement on production efficiency and cost cutting, this business segment managed to sustain growth during the first half of the year and even achieved rapid growth during the second half of the year, driven by restocking and even with sustained demand from developing markets.

For the year ended December 31, 2010, this business segment recorded a revenue of approximately HK$341 million (2009: HK$206 million), representing an increase of 66% over last year and accounting for 13% of the Group's revenue. The operating profit for the year was approximately HK$45 million as compared to an operating loss of approximately HK$50 million last year.

Through our strong efforts in operations management coupled with production process improvement and automation, we have enhanced our productivity and yield rate to minimize the overall production and energy costs. The total shipments amounted to approximately 4,200 tons in 2010 with an increase of 35% as compared to 2009. Besides, during the year, the European economy enjoyed a modest recovery, the Group actively explored and opened up new overseas markets leading to the increase in overall sales orders. Currently, our order book is satisfactory and increases on a month-to-month basis. With a satisfactory order condition, it is anticipated that the business of this segment can maintain to grow in a steady manner.

泰钢合金有限公司
TYCON ALLOY INDUSTRIES (HONG KONG) CO. LTD.

Automatic Production Line – ABB Robot

Sand Casting Workshop

To cater for the anticipated business growth, the Group, as mentioned in the Chairman Statement, has entered into land-use rights sale and purchase agreements to acquire two parcels of land in Zhongshan, one of which with a site area of approximately 150 mu (100,000m^2) will be for use by this business segment. The construction of the new production plant is expected to commence within this year and will be completed by the end of 2012.

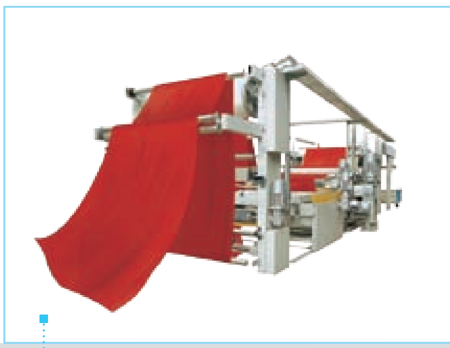
JOINTLY CONTROLLED ENTITY

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

Following the general recovery of the global economy since the second half of 2009, the textile industry especially in the mainland China has recovered gradually. Benefiting from such recovery and introduction of new products, the revenue of Monforts Fong's during the year under review reached a record high of approximately HK$952 million (2009: HK$494 million), an increase of 93% as compared to last year, while the Group's share of profit after tax also reached a record high of approximately HK$90 million (2009: HK$45 million), representing an increase of 100% over last year. The proportionate increase in profitability was mainly due to its strict cost controls and sustained efforts in exploring new markets in the 14 designated Asian countries.

After gaining access to sell its products in the designated Asian countries in 2009, the sales in such overseas markets have grown faster than our expectations and reached approximately HK$128 million during the past year, representing 13% of the total sales of Monforts Fong's. Benefiting from China's sustained economic growth and the enormous business opportunities in the new Asian markets, the management expects the business of Monforts Fong's to continue to grow in a steady manner.

Montex 6500 Stenter



Monfongtex 868 Shrinking Range

To meet its capacity needs, Monforts Fong's, through one of its subsidiaries, acquired a piece of land of approximately 200 mu (133,000m^2) in Zhongshan, Guangdong Province, the PRC at a cost of RMB51,200,000 in July 2010 and the construction of the new factory plant on that piece of land is on progress and scheduled to be completed by mid-2012. Meanwhile, the existing production facilities have been expanded by leasing a four-storey factory premises with a floor area of approximately 7,000m^2 in Zhongshan City and commercial operations have commenced since the fourth quarter of 2010 in order to meet the requirements of its expanding delivery schedule.

HUMAN RESOURCES

To maintain and boost its competitiveness in the long run, the Group has been implementing tight control on operating expenses and cash flow through reduction of headcount and rationalization of its production facilities.

As at December 31, 2010, the Group had a total of approximately 3,920 employees (December 31, 2009: 3,800 employees) spreading among mainland China, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central-South America. Staff costs, including directors' remuneration were approximately HK$216 million (2009: HK$225 million).

The Group believes the success of its business hinges on employee commitment, thus it spares for providing a harmonious working environment to employees to encourage dedication to work. Employees are remunerated according to remuneration benchmarks in the industry as well as prevailing market conditions and their experience and performance. 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.

The Group recognizes the importance of having a high caliber and competent staff; hence, in order 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

The Group met its funding requirements in its usual course of business by cash flows generated from its operations and existing banking facilities. The Board is in the opinion that the Group is in a healthy financial position and has sufficient resources in support of its working capital requirements and meeting its foreseeable capital expenditures.

During the year ended December 31, 2010, the net cash inflow generated from operating activities was approximately HK$154 million. At December 31, 2010, the Group's inventory level was increased to approximately HK$828 million as compared to approximately HK$743 million at December 31, 2009.

At December 31, 2010, bank borrowings amounted to approximately HK$646 million. Most bank borrowings were sourced from Hong Kong, of which 77% were denominated in Hong Kong dollars, 22% were denominated in United States dollars and 1% was denominated in Euro. The Group's bank borrowings are predominantly subject to floating interest rates. The Group adopted interest rate swaps for the interest payables on the aggregate principal amount of HK$460 million to hedge interest rate fluctuation.

At December 31, 2010, the bank balances, deposits and cash amounted to approximately HK$395 million of which 41% were denominated in Renminbi, 31% in United States dollars, 17% in Hong Kong dollars, 10% in Euro and 1% in Indian Rupees.

At December 31, 2010, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was reduced to 25% (December 31, 2009: 44%) and the current ratio was 1.4 (December 31, 2009: 1.2). These ratios were at reasonable and adequate levels.

As the Group's sales were principally denominated in Renminbi or United States dollars, while purchases were transacted mainly in United States dollars, Renminbi or Hong Kong dollars, the Group does not foresee significant exposure to exchange rate risk and 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.

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 on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the year ended December 31, 2010.

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 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 ended December 31, 2010.

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 2010.

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 during the year and up to the date of this Annual 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

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 Group, the role of the Chairman is separate from that of the Chief Executive Officer. The Chairman, Mr. Fong Sou Lam, 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, Mr. Wan Wai Yung, 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 are disclosed.

BOARD MEETINGS

The Board meets regularly throughout the year to review the overall strategy and to monitor the operations as well as the financial performance of the Group. Senior executives are from time to time invited to attend board meetings to make presentations or answer the Board's enquiries.

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 video conference 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 (including one meeting by way of circulation of written resolutions) 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. Wan Wai Yung, Ms. Poon Hang Sim, Blanche and Dr. Yuen Ming Fai 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 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. There were two meetings held to approve a performance-related incentive payment to Mr. Fong Sou Lam and the increase in salaries of certain Directors during the year under review and the individual attendance of the members are set out 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. 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 2010 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 2010:

(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 2011.

ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2010

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

Remunerations paid for the above audit services and non-audit services were approximately HK$2,128,000 and approximately HK$582,000 respectively.

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$230,000.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended December 31, 2010 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.

The Board has reviewed that the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are adequate during the year under review.

The Board is satisfied with the effectiveness of the Group's internal controls and considers that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

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, March 28, 2011

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2010.

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 set out in notes 34, 15 and 16 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2010 are set out in the consolidated statement of comprehensive income on page 33.

An interim dividend of 9 HK cents per share plus a special dividend of 6 HK cents per share, amounting to a total of approximately HK$83 million, were paid to the shareholders during the year. A special dividend of HK$0.2 per share amounting to approximately HK$110 million was declared to the shareholders on February 11, 2011 and to be paid on or about April 8, 2011.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2010, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 10% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 37% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 17% 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, 2010 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	303,797
	326,830

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 dividend, or make 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

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, 2009 and expiring on December 31, 2010. Upon expiry, his term of office has been extended to December 31, 2012.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on September 1, 2008 and expiring on August 31, 2010. Upon expiry, his term of office has been extended to August 31, 2012.

Dr. Keung Wing Ching was appointed under a contract for a term of 2 years commencing on June 1, 2008 and expiring on May 31, 2010. Upon expiry, his term of office has been extended to May 31, 2012.

The Company has received the annual confirmations of independence from all Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The company considers them to be independent.

In accordance with Clauses 99 of the Company's Bye-Laws, the following Directors, namely Mr. Wan Wai Yung, Ms. Poon Hang Sim, Blanche and Dr. Yuen Ming Fai 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, 2010, 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	39,900,000	7.24%
	Corporate interests (note 1(a))	289,947,360	52.58%
		329,847,360	59.82%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	100,000	0.02%
	Held by a discretionary trust (note 2)	17,478,241	3.17%
		19,128,241	3.47%
Mr. Fong Kwok Chung, Bill	Beneficial owner	2,988,000	0.54%
	Corporate interest (note 1(b))	4,444,000	0.81%
	Held by a discretionary trust (note 2)	17,478,241	3.17%
		24,910,241	4.52%
Mr. Wan Wai Yung	Beneficial owner	2,018,000	0.36%
	Corporate interest (note 1(c))	1,313,500	0.24%
		3,331,500	0.60%
Mr. Tou Kit Vai	Beneficial owner	488,000	0.09%
Ms. Poon Hang Sim, Blanche	Beneficial owner	120,000	0.02%

Note 1: (a) Mr. Fong Sou Lam is deemed to be interested in 289,947,360 shares by virtue of him being beneficially interested in (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 2,550,000 shares and (ii) the entire issued share capital of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 287,397,360 shares as follows:

1. Bristol Investments Limited – 18,000,000 shares
2. Derby Holdings Company Limited – 48,000,000 shares
3. Polar Bear Holdings Limited – 48,000,000 shares
4. Reeds Limited – 57,600,000 shares
5. Runaway Holdings Limited – 57,600,000 shares
6. Sheffield Holdings Company Limited – 58,197,360 shares

(b) Mr. 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.

(c) Mr. Wan Wai Yung is deemed to be interested in 1,313,500 shares held by Campbell and Company Limited as he wholly owns Campbell and Company Limited.

Note 2: The 17,478,241 shares are owned by a 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 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, 2010.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 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, 2010, 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 Sou Lam, Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests. Sou Lam is beneficially owned as to 89.55% by Mr. Fong Sou Lam and as to 10.45% by a discretionary trust of which Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill and other Fong's family members are beneficiaries.*

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 ended December 31, 2010 amounted to HK$6,243,192. Details of the transaction were set out in the announcement of the Company dated December 27, 2007.

On April 23, 2008, FNECL further entered into an operating lease arrangement 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 ended December 31, 2010 amounted to HK$1,380,000.

On December 28, 2010, FNECL renewed the tenancy with Sou Lam for a term of three years from January 1, 2011 to December 31, 2013. Details of the transaction were set out in the announcement of the Company dated December 28, 2010.

(2) *The Group, through its six wholly-owned 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%, respectively, by Mr. Peter Rainer Philipp who was an ex-director of certain operating subsidiaries of the Group and had ceased to hold any directorship in the Group since April 8, 2009.*

Details of these transactions were set out in the announcements of the Company dated, December 3, 2007, July 2, 2008, January 16, 2009 and February 2, 2009.

(i) 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 United States of America (the "USA") for a term of three years with effect from January 1, 2008.

(ii) 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.

(iii) On December 3, 2007, a sales agency agreement was entered into between PSP Marketing and THEN Maschinen GmbH (having been renamed as Fong's Europe GmbH) whereby PSP Marketing was appointed as the exclusive sales agent for the sales of "THEN" 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 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 for a term of three years with effect from January 1, 2008.

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

(vi) On January 16, 2009, 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 of the "FONG'S" branded products of the Group in Central and South America for a term of one year with effect from January 1, 2009. Upon expiry, the regional sales coordination agreement was extended on a monthly basis and was terminated by the Group with effect from June 30, 2009.

(vii) On February 1, 2009, 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 USA, Canada and Mexico for a term of two years and eleven months from February 1, 2009 to December 31, 2011. The sales agency agreement was early terminated by the Group with effect from February 28, 2010 by servicing a three-month prior notice to PSP International.

The aggregate amounts paid and payable to PSP Marketing and PSP International under the above-mentioned agreements for the period from January 1, 2010 to April 7, 2010 (during which period PSP Marketing and PSP International were deemed to be connected persons under the Listing Rules) were HK$1,220,286 and HK$156,000 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 Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Board has received a letter of confirmation from the auditor stating that the above continuing connected transactions (i) have been approved by the Board; (ii) were conducted in accordance with the pricing policies of the Company for those transactions that involving provision of goods or services; (iii) have been entered into in accordance with the relevant agreements governing the relevant transactions and (iv) the aggregate amounts incurred in 2010 have not exceeded the respective annual cap disclosed in the previous announcements.

In the opinion of the Independent Non-executive Directors of the Company, the above continuing connected transactions (i) are in the usual and ordinary course of businesses of the Group; (ii) were conducted on normal commercial terms: (iii) were conducted on the terms of the relevant agreements governing those transactions, which are fair and reasonable and in the interest of the shareholders of the Company as a whole; and (iv) did not exceed the annual cap amounts disclosed in the previous announcements during the year ended December 31, 2010.

CONTRACTS OF SIGNIFICANCE

Other than the continuing connected transactions as disclosed above, no other contracts of significance to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director 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, 2010, 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 held	Percentage of the issued share capital of the Company
GBOGH Assets Limited	Corporate (Note A)	287,397,360	52.12%
Mondrian Investment Partners Ltd.	Investment Manager	40,918,000	7.42%
Li Tin Sang, Adam	Beneficial Owner	27,746,000	5.03%

Note A: Mr. Fong Sou Lam is the sole shareholder of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 287,397,360 shares as follows:

1. Bristol Investment Limited – 18,000,000 shares
2. Derby Holdings Company Limited – 48,000,000 shares
3. Polar Bear Holdings Limited – 48,000,000 shares
4. Reeds Limited – 57,600,000 shares
5. Runaway Holdings Limited – 57,600,000 shares
6. Sheffield Holdings Company Limited – 58,197,360 shares

Save as disclosed above, as at December 31, 2010, 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 approximately HK$2,441,000.

EMOLUMENT POLICY

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

The emolument packages of the Directors 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 29 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 OF REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2010.

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, 2010, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 36 to the consolidated financial statements.

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, March 28, 2011

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 33 to 99, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 of the consolidated financial statements that give a true and fair view 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, 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 affairs of the Group as at December 31, 2010 and of the Group's profit 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

March 28, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(For the year ended December 31, 2010)

	NOTES	2010 HK$'000	2009 HK$'000
Revenue	5	**2,587,182**	1,797,695
Cost of sales		**(1,784,134)**	(1,446,032)
Gross profit		**803,048**	351,663
Interest income		**2,667**	2,782
Other income		**59,482**	44,818
Other gains and losses	8	**13,127**	(330)
Selling and distribution costs		**(161,984)**	(127,373)
General and administrative expenses		**(335,999)**	(320,819)
Other expenses		**(56,131)**	(52,196)
Finance costs	6	**(42,142)**	(48,992)
Share of results of an associate		**(477)**	(178)
Share of results of jointly controlled entities		**89,555**	44,817
Profit (loss) before tax		**371,146**	(105,808)
Income tax expense	7	**(68,181)**	(527)
Profit (loss) for the year	8	**302,965**	(106,335)
Other comprehensive income (expense)			
Exchange difference arising on translation		**17,067**	(5,848)
Share of changes in translation reserve of an associate		**1,454**	83
Share of changes in translation reserve of jointly controlled entities		**4,381**	170
Gain on cash flow hedge		**9,694**	7,838
Other comprehensive income for the year		**32,596**	2,243
Total comprehensive income and expense for the year		**335,561**	(104,092)
Earning (loss) per share			
Basic	11	**54.9 HK cents**	(19.3) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(At December 31, 2010)

	NOTES	12.31.2010 HK$'000	12.31.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	12	**362,799**	399,441	418,062
Prepaid lease payments	13	**15,584**	15,586	15,485
Intellectual property rights	14	**10,595**	13,439	16,355
Interest in an associate	15	**35,013**	34,036	34,131
Interests in jointly controlled entities	16	**112,222**	78,286	73,299
Deposits for acquisition of property, plant and equipment		**2,368**	1,154	4,067
Deposits for acquisition of leasehold land		**24,072**	66,886	66,744
Deferred tax assets	17	**12,929**	11,147	4,745
		575,582	619,975	632,888
Current assets				
Inventories	18	**828,129**	742,916	864,689
Trade and other receivables	19	**332,832**	279,884	357,748
Prepaid lease payments	13	**484**	469	460
Amounts due from jointly controlled entities	20	**13,323**	14,295	1,438
Tax recoverable		**3,431**	5,392	17,883
Bank balances and cash	21	**394,829**	328,364	309,785
		1,573,028	1,371,320	1,552,003
Current liabilities				
Trade and other payables	22	**406,946**	471,371	336,464
Amount due to a jointly controlled entity	20	**–**	–	264
Warranty provision	23	**18,632**	11,685	12,684
Derivative financial instruments	24	**–**	210	408
Tax liabilities		**25,869**	6,947	1,433
Bank borrowings	25	**646,259**	676,046	896,672
		1,097,706	1,166,259	1,247,925
Net current assets		**475,322**	205,061	304,078
Total assets less current liabilities		**1,050,904**	825,036	936,966
Non-current liabilities				
Derivative financial instruments	24	**19,330**	29,024	36,862
Deferred tax liabilities	17	**10,290**	–	–
		29,620	29,024	36,862
		1,021,284	796,012	900,104

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(At December 31, 2010)

	NOTE	**12.31.2010**	12.31.2009	1.1.2009
		HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)
Capital and reserves				
Share capital	26	**55,145**	55,145	55,145
Share premium and reserves		**966,139**	740,867	844,959
		1,021,284	796,012	900,104

The financial statements on pages 33 to 99 were approved and authorised for issue by the Board of Directors on March 28, 2011 and are signed on its behalf by:

Fong Kwok Chung, Bill	**Fong Sou Lam**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended December 31, 2010)

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Dividend reserve** HK$'000	**Capital redemption reserve** HK$'000	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Contributed surplus** HK$'000 (Note a)	**Hedging reserve** HK$'000	**Total** HK$'000
At January 1, 2009	55,145	157,261	–	2,370	79,553	617,055	25,582	(36,862)	900,104
Loss for the year	–	–	–	–	–	(106,335)	–	–	(106,335)
Other comprehensive expense and income for the year	–	–	–	–	(5,595)	–	–	7,838	2,243
Total comprehensive expense and income for the year	–	–	–	–	(5,595)	(106,335)	–	7,838	(104,092)
Proposed final dividend for 2009	–	–	27,572	–	–	(27,572)	–	–	–
At December 31, 2009 and January 1, 2010	55,145	157,261	27,572	2,370	73,958	483,148	25,582	(29,024)	796,012
Profit for the year	–	–	–	–	–	302,965	–	–	302,965
Other comprehensive income for the year	–	–	–	–	22,902	–	–	9,694	32,596
Total comprehensive income for the year	–	–	–	–	22,902	302,965	–	9,694	335,561
Final dividend for 2009 paid (Note 10)	–	–	(27,572)	–	–	–	–	–	(27,572)
Interim dividends (Note 10)	–	–	–	–	–	(82,717)	–	–	(82,717)
At December 31, 2010	55,145	157,261	–	2,370	96,860	703,396	25,582	(19,330)	1,021,284

Note:

(a) 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

(For the year ended December 31, 2010)

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**371,146**	(105,808)
Adjustments for:		
Interest expense	**35,534**	43,421
Interest income	**(2,667)**	(2,782)
Share of results of an associate	**477**	178
Share of results of jointly controlled entities	**(89,555)**	(44,817)
Depreciation and amortisation	**70,311**	66,978
Allowance for (reversal of allowance for) doubtful debts	**3,648**	(2,348)
Reversal of allowance for inventories	**(967)**	(3,682)
(Gain) loss on fair value change of financial assets held for trading	**(172)**	264
(Gain) loss on disposal of property, plant and equipment	**(616)**	743
Gain on disposal of prepaid lease payments	**–**	(2,032)
Warranty provision expense	**18,713**	7,233
Operating cash flows before movements in working capital	**405,852**	(42,652)
(Increase) decrease in inventories	**(84,246)**	125,455
(Increase) decrease in trade and other receivables	**(49,238)**	80,813
Decrease (increase) in amounts due from jointly controlled entities	**972**	(12,857)
(Decrease) increase in trade and other payables	**(69,219)**	133,257
Decrease in amount due to a jointly controlled entity	**–**	(264)
Utilisation of warranty provision	**(11,766)**	(8,232)
Change in derivative financial instruments	**(38)**	(462)
Cash generated from operations	**192,317**	275,058
Hong Kong Profits Tax paid	**(54)**	(526)
Overseas income tax and the People's Republic of China (the "PRC") Enterprise Income Tax paid	**(39,795)**	(695)
Hong Kong Profits Tax refunded	**393**	11,898
Overseas income tax and the PRC Enterprise Income Tax refunded	**666**	399
NET CASH FROM OPERATING ACTIVITIES	**153,527**	286,134

CONSOLIDATED STATEMENT OF CASH FLOWS

(For the year ended December 31, 2010)

	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES		
Dividend received from jointly controlled entities	**60,000**	40,000
Refund of deposits from acquisition of leasehold land	**55,903**	–
Deposits paid for acquisition of leasehold land	**(10,605)**	–
Proceeds from disposal of property, plant and equipment	**5,031**	1,919
Interest received	**2,667**	2,782
Proceeds from disposal of prepaid lease payments	**–**	2,418
Prepaid lease payments made	**–**	(921)
Purchases of intellectual property rights	**(78)**	–
Purchases of property, plant and equipment	**(24,949)**	(43,556)
NET CASH FROM INVESTING ACTIVITIES	**87,969**	2,642
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(815,794)**	(698,644)
Dividends paid	**(110,289)**	–
Interest paid on bank borrowings	**(35,534)**	(43,421)
New bank borrowings raised	**786,007**	478,018
NET CASH USED IN FINANCING ACTIVITIES	**(175,610)**	(264,047)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**65,886**	24,729
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**328,364**	309,785
Effect of foreign exchange rate changes	**579**	(6,150)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**394,829**	328,364

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"). Its ultimate and immediate parent is GBOGH Assets Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Fong Sou Lam. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" in the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, which is also 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 new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$469,158,000 and HK$656,662,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009 respectively.

As at December 31, 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$264,154,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 28 for details).

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 issued in 2010[1]
HKAS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKAS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Date for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

[1] Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.

[2] Effective for annual periods beginning on or after July 1, 2010.

[3] Effective for annual periods beginning on or after July 1, 2011.

[4] Effective for annual periods beginning on or after January 1, 2013.

[5] Effective for annual periods beginning on or after January 1, 2012.

[6] Effective for annual periods beginning on or after January 1, 2011.

[7] Effective for annual periods beginning on or after February 1, 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that the application of the new Standard may not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods. The principle accounting policies are set out below.

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 statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Investment 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From January 1, 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in jointly controlled entities *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From January 1, 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Intangible assets

Intellectual property rights

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

Gains or losses arising from derecognition of intellectual property rights are measured at the difference between net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intellectual property rights (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation of internally generated intangible assets with finite useful lives is provided on straight line basis over their estimated useful lives.

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 discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

Property, plant and equipment including land and 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 as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction and freehold land, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Freehold land and properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets other than freehold land, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid operating lease payments and are charged to profit or loss over the lease terms.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets

At the end of each reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

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.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

From January 1, 2010 onwards, on the disposal of a foreign operation (i. e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or 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 associated with investments in subsidiaries and an associate, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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 FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of the financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified 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 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
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss 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. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from jointly controlled entities and bank balances and cash) 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 the end of each reporting period. 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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 profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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 profit or loss. 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 profit or loss.

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 profit or loss 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 a group entity 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 at FVTPL and other financial liabilities.

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 other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at FVTPL

Financial liabilities at FVTPL represent 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.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a jointly controlled entity and bank borrowings are subsequently measured at amortised cost, 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 the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss 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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

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 accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that accumulated in equity is recognised immediately in profit or loss.

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 in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition (Continued)

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 profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income taxes

As at December 31, 2010, a deferred tax asset of HK$1,161,000 (2009: HK$2,117,000) in relation to unused tax losses of HK$7,036,000 (2009: HK$12,830,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK$444,308,000 (2009: HK$418,499,000) 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, which would be recognised in profit or loss for the period in which such a recognition or reversal takes places.

Allowances for inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale and use in production. The management estimates the net realisable value for such inventories 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 the end of each reporting period 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, 2010, the carrying amount of inventories is HK$828,129,000 (2009: HK$742,916,000).

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

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, 2010, the carrying amount of trade receivable is HK$211,035,000 (2009: HK$191,927,000) (net of allowance for doubtful debts of HK$5,048,000 (2009: HK$2,454,000).

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 profit or loss will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to profit or loss will result. As at December 31, 2010, the carrying amount of warranty provision is HK$18,632,000 (2009: HK$11,685,000). The movement of the warranty provision for the year are set out in note 23.

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The CODM reviews operating results and financial information on a group company by company basis. Each company is identified as an operating segment in accordance with HKFRS 8. When the group company is operating in similar business model with similar target group of customers, the Group's operating segments are aggregated.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Manufacture and sales of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended December 31, 2010

	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$'000	Total HK$'000
REVENUE				
External sales	**1,624,704**	**621,028**	**341,450**	**2,587,182**
Inter-segment sales	**6,714**	**310,790**	**46,922**	**364,426**
Segment revenue	**1,631,418**	**931,818**	**388,372**	**2,951,608**
Elimination				**(364,426)**
Group revenue				**2,587,182**
Segment profit	**242,396**	**33,507**	**45,468**	**321,371**
Interest income				**2,667**
Gain on fair value change of financial assets held for trading				**172**
Finance costs				**(42,142)**
Share of results of an associate				**(477)**
Share of results of jointly controlled entities				**89,555**
Profit before tax				**371,146**

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended December 31, 2009

	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$'000	Total HK$'000
REVENUE				
External sales	1,228,043	363,693	205,959	1,797,695
Inter-segment sales	9,372	186,717	43,660	239,749
Segment revenue	1,237,415	550,410	249,619	2,037,444
Elimination				(239,749)
Group revenue				1,797,695
Segment (loss) profit	(61,059)	7,367	(50,281)	(103,973)
Interest income				2,782
Loss on fair value change of financial assets held for trading				(264)
Finance costs				(48,992)
Share of results of an associate				(178)
Share of results of jointly controlled entities				44,817
Loss before tax				(105,808)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the results of each segment excluding interest income, gain (loss) on fair value change of financial assets held for trading, finance costs, share of results of an associate and share of results of jointly controlled entities. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment.

As at December 31, 2010

	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$'000	Total HK$'000
ASSETS				
Segment assets	**932,095**	**368,172**	**289,919**	**1,590,186**
Interest in an associate				**35,013**
Interests in jointly controlled entities				**112,222**
Unallocated corporate assets				**411,189**
Consolidated total assets				**2,148,610**
LIABILITIES				
Segment liabilities	**354,260**	**18,875**	**52,443**	**425,578**
Unallocated corporate liabilities				**701,748**
Consolidated total liabilities				**1,127,326**

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at December 31, 2009

	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$'000	Total HK$'000
ASSETS				
Segment assets	953,257	313,523	267,290	1,534,070
Interest in an associate				34,036
Interests in jointly controlled entities				78,286
Unallocated corporate assets				344,903
Consolidated total assets				1,991,295
LIABILITIES				
Segment liabilities	413,801	18,658	50,597	483,056
Unallocated corporate liabilities				712,227
Consolidated total liabilities				1,195,283

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interest in an associate, interests in jointly controlled entities, deferred tax assets, tax recoverable, bank balances and cash; and
- all liabilities are allocated to reportable segments other than tax liabilities, derivative financial instruments, deferred tax liabilities and bank borrowings.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended December 31, 2010

Amounts included in the measure of segment results or segment assets:

	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$'000**	**Total HK$'000**
Additions to non-current assets excluding deferred tax assets	**20,096**	**747**	**2,970**	**23,813**
Depreciation and amortisation	**57,570**	**947**	**11,794**	**70,311**
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	**(563)**	**5**	**(58)**	**(616)**
(Reversal of allowance) allowance for inventories	**(3,086)**	**–**	**2,119**	**(967)**
Allowance for doubtful debts	**667**	**2,833**	**148**	**3,648**

For the year ended December 31, 2009

Amounts included in the measure of segment results or segment assets:

	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$'000	Total HK$'000
Additions to non-current assets excluding deferred tax assets	31,933	188	15,127	47,248
Depreciation and amortisation	54,533	984	11,461	66,978
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	(1,356)	20	47	(1,289)
(Reversal of allowance) allowance for inventories	(5,563)	–	1,881	(3,682)
Reversal of allowance for doubtful debts	(68)	(2,205)	(75)	(2,348)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

The Group's revenue from external customers by location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**1,225,429**	809,518	**515,672**	547,189
Hong Kong	**501,414**	359,560	**12,255**	19,945
Asia Pacific (other than the PRC and Hong Kong)	**422,666**	294,588	**146**	166
Europe	**231,803**	197,462	**34,580**	41,528
North and South America	**162,788**	100,939	**–**	–
Others	**43,082**	35,628	**–**	–
	2,587,182	1,797,695	**562,653**	608,828

Non-current assets excluded deferred tax assets. The management considered that the cost to develop the revenue by individual countries for "Asia Pacific", "Europe", "North and South America" and "Others" are excessive and revenue included in these areas attributed to each individual country is not material.

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the year ended December 31, 2010 and 2009.

6. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**35,534**	43,421
Bank charges	**6,608**	5,571
	42,142	48,992

7. INCOME TAX EXPENSE

	2010 HK$'000	2009 HK$'000
Hong Kong Profits Tax:		
Current year	**8,362**	326
Overprovision in prior years	**(25)**	(87)
PRC Enterprise Income Tax ("EIT"):		
Current year	**45,403**	4,510
Underprovision in prior years	**343**	815
PRC EIT for the capital gain on share transfer between intercompany:		
Current year	**6,485**	–
Overseas income tax:		
Current year	**–**	1,281
(Over)underprovision in prior years	**(895)**	84
	59,673	6,929
Deferred tax (note 17):		
Current year	**8,508**	(6,402)
	68,181	527

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guafa [2007] No. 39), the applicable tax rate for those entities that previously enjoyed tax incentive rate at 15% would increase progressively to 25% over a five-year transitional period. Accordingly, the relevant tax rate for the Group's subsidiaries in the PRC is 22% for the year ended December 31, 2010 (2009: 20%).

Taxation arising in other jurisdictions is calculated at rates prevailing in the respective jurisdictions.

7. INCOME TAX EXPENSE *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Profit (loss) before tax	**371,146**	(105,808)
Tax at the Hong Kong Profits Tax rate of 16.5%	**61,239**	(17,458)
Tax effect of:		
– expenses that are not deductible for tax purpose	**4,273**	7,497
– income that are not taxable for tax purpose	**(11,557)**	(6,998)
– tax losses not recognised	**14,499**	23,431
– share of results of an associate	**79**	29
– share of results of jointly controlled entities	**(14,777)**	(7,395)
– different tax rates of subsidiaries operating in other jurisdictions	**9,108**	550
– utilisation of tax losses previously not recognised	**(10,241)**	–
(Over) underprovision in prior years	**(577)**	812
Withholding tax on distributable profits of subsidiaries	**9,700**	–
PRC EIT for the capital gain on share transfer between intercompany	**6,485**	–
Others	**(50)**	59
Income tax expense for the year	**68,181**	527

8. PROFIT (LOSS) FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Other gains and losses:		
(Gain) loss on disposal of property, plant and equipment	**(616)**	743
Gain on disposal of prepaid lease payments	**–**	(2,032)
Net foreign exchange (gain) loss	**(12,339)**	1,355
(Gain) loss on fair value change of financial assets held for trading	**(172)**	264
Total other gains and losses	**(13,127)**	330
Amortisation of intellectual property rights (included in cost of sales)	**2,922**	2,916
Amortisation of prepaid lease payments	**484**	452
Depreciation of property, plant and equipment	**66,905**	63,610
Total depreciation and amortisation	**70,311**	66,978
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**189,156**	197,234
Retirement benefits scheme contributions	**26,648**	27,715
Total staff costs	**215,804**	224,949
Reversal of allowance for inventories (included in cost of sales)	**(967)**	(3,682)
Allowance for (reversal of allowance for) doubtful debts	**3,648**	(2,348)
Auditor's remuneration	**2,358**	2,777
Cost of inventories recognised as an expense	**1,398,744**	1,070,873
Research and development costs recognised as an expense	**3,968**	4,157

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2009: 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$'000	Tsui Tak Ming, William HK$'000	Poon Hang Sim, Blanche HK$'000	Cheung Chiu Fan HK$'000	Yuen Ming Fai HK$'000	Keung Wing Ching HK$'000	Total HK$'000
2010											
Fees	–	–	–	–	–	–	–	75	75	75	225
Other emoluments											
Salaries and other benefits	4,550	4,008	2,040	2,104	1,820	1,560	1,352	–	–	–	17,434
Performance related incentive payments (Note)	1,470	–	–	–	–	–	–	–	–	–	1,470
Retirement benefits scheme contributions	336	283	115	155	12	113	100	–	–	–	1,114
Total emoluments	6,356	4,291	2,155	2,259	1,832	1,673	1,452	75	75	75	20,243

	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$'000	Tsui Tak Ming, William HK$'000	Poon Hang Sim, Blanche HK$'000	Tsui Wai Keung HK$'000	Cheung Chiu Fan HK$'000	Yuen Ming Fai HK$'000	Keung Wing Ching HK$'000	Total HK$'000
2009												
Fees	–	–	–	–	–	–	–	–	75	75	75	225
Other emoluments												
Salaries and other benefits	4,550	4,008	2,040	2,104	1,820	1,560	1,352	1,560	–	–	–	18,994
Retirement benefits scheme contributions	336	273	115	155	12	110	97	115	–	–	–	1,213
Total emoluments	4,886	4,281	2,155	2,259	1,832	1,670	1,449	1,675	75	75	75	20,432

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

(a) Directors' emoluments *(Continued)*

Note: The performance related incentive payments were determined with reference to the operating results of the Group for the year ended December 31, 2010.

No director waived any emoluments for both years.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2010 and 2009 were all Directors of the Company and details of their emoluments are included above.

10. DIVIDENDS

Dividends recognised as distribution during the year ended December 31, 2010:

	HK$'000
2010 interim dividend of 9 HK cents per share	49,630
2010 interim special dividend of 6 HK cents per share	33,087
	82,717
2009 final dividend of 5 HK cents per share	27,572

A special interim dividend of HK$0.2 per share, amounting to approximately HK$110 million, was declared on February 11, 2011 and to be paid on or about April 8, 2011.

11. EARNING (LOSS) PER SHARE

The calculation of the basic earning (loss) per share attributable to owners of the Company is based on the following data:

	2010	2009
	HK$'000	HK$'000
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earning (loss) per share	**302,965**	(106,335)
	'000	'000
Number of ordinary shares for the purpose of basic earning (loss) per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at December 31, 2010 and 2009 and during the year ended December 31, 2010 and 2009.

12. 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, 2009	10,275	288,347	25,324	292,435	95,028	22,127	15,680	2,097	751,313
Currency realignment	188	836	40	771	393	38	31	4	2,301
Reclassification	–	–	–	(8,210)	2,495	2,703	8,634	(5,622)	–
Additions	–	542	118	22,189	15,293	133	2,646	5,406	46,327
Disposals	–	(96)	(219)	(4,127)	(3,932)	(1,548)	(38)	–	(9,960)
At December 31, 2009 and January 1, 2010	10,463	289,629	25,263	303,058	109,277	23,453	26,953	1,885	789,981
Currency realignment	(770)	9,259	606	10,890	1,412	524	930	75	22,926
Reclassification	–	–	–	1,682	(956)	–	1,069	(1,795)	–
Additions	–	–	24	12,424	5,340	1,160	2,959	1,828	23,735
Disposals	–	–	–	(6,676)	(3,824)	(917)	(538)	–	(11,955)
At December 31, 2010	9,693	298,888	25,893	321,378	111,249	24,220	31,373	1,993	824,687
DEPRECIATION									
At January 1, 2009	–	135,084	7,909	116,602	53,669	12,942	7,045	–	333,251
Currency realignment	–	321	13	409	195	24	15	–	977
Reclassification	–	–	–	(3,088)	326	417	2,345	–	–
Provided for the year	–	12,749	3,847	25,864	14,310	2,741	4,099	–	63,610
Eliminated on disposals	–	(33)	(168)	(1,902)	(3,803)	(1,358)	(34)	–	(7,298)
At December 31, 2009 and January 1, 2010	–	148,121	11,601	137,885	64,697	14,766	13,470	–	390,540
Currency realignment	–	5,282	316	4,992	614	285	494	–	11,983
Reclassification	–	–	–	548	(548)	–	–	–	–
Provided for the year	–	13,552	4,884	26,780	13,536	2,748	5,405	–	66,905
Eliminated on disposals	–	–	–	(2,614)	(3,529)	(913)	(484)	–	(7,540)
At December 31, 2010	–	166,955	16,801	167,591	74,770	16,886	18,885	–	461,888
CARRYING VALUES									
At December 31, 2010	9,693	131,933	9,092	153,787	36,479	7,334	12,488	1,993	362,799
At December 31, 2009	10,463	141,508	13,662	165,173	44,580	8,687	13,483	1,885	399,441
At January 1, 2009	10,275	153,263	17,415	175,833	41,359	9,185	8,635	2,097	418,062

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

The above items of property, plant and equipment other than the freehold land and 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%

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

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Buildings on land under long leases located in the PRC	**785**	861	973
Buildings on land under medium-term leases located in the PRC	**120,618**	128,858	140,557
Buildings on land under medium-term leases located in Hong Kong	**–**	–	63
Freehold land and buildings in Europe	**20,223**	22,252	21,945
	141,626	151,971	163,538

13. PREPAID LEASE PAYMENTS

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
The Group's prepaid lease payments comprise:			
Leasehold land in Hong Kong:			
Medium-term leases	**–**	–	387
Leasehold land in the PRC:			
Long leases	**1,642**	1,609	1,631
Medium-term leases	**14,426**	14,446	13,927
	16,068	16,055	15,945
Analysed for reporting purposes as:			
Current asset	**484**	469	460
Non-current asset	**15,584**	15,586	15,485
	16,068	16,055	15,945

14. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At January 1, 2009, December 31, 2009 and January 1, 2010	29,156
Addition	78
At December 31, 2010	29,234
AMORTISATION	
At January 1, 2009	12,801
Provided for the year	2,916
At December 31, 2009 and January 1, 2010	15,717
Provided for the year	2,922
At December 31, 2010	18,639
CARRYING AMOUNTS	
At December 31, 2010	10,595
At December 31, 2009	13,439
At January 1, 2009	16,355

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.

15. INTEREST IN AN ASSOCIATE

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Cost of unlisted investment in an associate	**46,469**	46,469	46,.469
Share of post-acquisition losses and other comprehensive income	**(11,456)**	(12,433)	(12,338)
	35,013	34,036	34,131

As at January 1, 2009, December 31, 2009 and 2010, the 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. Major assets of the associate and its subsidiaries are certain lands located in the district of Chancheng, Foshan, the PRC with manufacturing plants erected on the lands, which are both measured at cost less accumulated depreciation and impairment, if any.

In determining the value in use of the interest in an associate for impairment purpose, the management estimates the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal. During the year ended December 31, 2010 and 2009, the management of the Group determined that there is no impairment on interest in an associate.

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

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Total assets	**250,228**	275,916	263,178
Total liabilities	**(133,517)**	(162,463)	(149,408)
Net assets	**116,711**	113,453	113,770
Group's share of net assets of associate	**35,013**	34,036	34,131
Revenue	**272,321**	200,442	220,404
Loss for the year	**(1,589)**	(595)	(7,094)
Other comprehensive income	**4,847**	277	6,247
Group's share of losses and other comprehensive income of associate for the year	**977**	(95)	(254)

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Cost of unlisted investments in jointly controlled entities	**10,779**	10,779	10,779
Share of post-acquisition profits and other comprehensive income, net of dividends received	**101,443**	67,507	62,520
	112,222	78,286	73,299

As at January 1, 2009, December 31, 2009 and 2010, the Group had interests in the following 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	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
Monforts Fong's Textile Machinery (Shenzhen) Co., Ltd.	The PRC	HK$43,500,000	50%	Manufacture and trading of textile machinery
立信門富士紡織機械（中山）有限公司	The PRC	US$9,700,000	50%	Manufacture and trading of textile machinery
Plexxor Co., Limited	Hong Kong	HK$3,000,000	51%	In liquidation

The Group holds 51% of the share capital of Plexxor Co., Limited. However, Plexxor Co., Limited is jointly controlled by the Group and the other shareholder. Pursuant to a shareholders' agreement which stated 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 meeting is attended by equal number of directors nominated by each of the shareholders. Besides, all board decisions shall be by a majority vote of the directors attending the board meeting. As a result, approval of directors nominated by both shareholders is required to pass all board resolutions and therefore, Plexxor Co., Limited is classified as a jointly controlled entity of the Group.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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:

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Non-current assets	**58,238**	21,155	26,638
Current assets	**224,419**	178,524	96,422
Non-current liabilities	**(13,409)**	(1,499)	(3,587)
Current liabilities	**(157,026)**	(119,894)	(46,174)
	112,222	78,286	73,299
Income recognised in profit or loss	**479,666**	251,658	299,512
Expense recognised in profit or loss	**390,111**	206,841	269,203
Other comprehensive income	**4,381**	170	3,715
Profit and other comprehensive income attributable to the Group	**93,936**	44,987	34,024

17. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Deferred tax assets	**12,929**	11,147	4,745
Deferred tax liabilities	**(10,290)**	–	–
	2,639	11,147	4,745

17. DEFERRED TAXATION *(Continued)*

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Allowance for doubtful debts	Tax losses	Unrealised profit for inventories	Undistributable profit of PRC subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At January 1, 2009	(1,393)	(430)	(2,035)	(887)	–	(4,745)
(Credit) charge to profit or loss	(6,296)	65	(82)	(89)	–	(6,402)
At December 31, 2009 and January 1, 2010	(7,689)	(365)	(2,117)	(976)	–	(11,147)
(Credit) charge to profit or loss	(1,808)	(1,906)	956	1,566	9,700	8,508
At December 31, 2010	(9,497)	(2,271)	(1,161)	590	9,700	(2,639)

At the end of the reporting period, the Group had unused tax losses of approximately HK$451,344,000 (2009: HK$431,329,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$7,036,000 (2009: HK$12,830,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$444,308,000 (2009: HK$418,499,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$2,900,000 (2009: HK$2,900,000), HK$5,400,000 (2009: HK$5,400,000), HK$6,700,000 (2009: HK$6,700,000), HK$6,997,000 (2009: HK$6,997,000), HK$4,385,000 (2009: HK$4,385,000), HK$11,966,000 (2009: HK$11,966,000) and HK$6,163,000 (2009: Nil) that will expire in 2011, 2012, 2013, 2014, 2015, 2016 and 2017, respectively. Other losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. For the year ended December 31, 2009, deferred tax liability had not been provided for in the consolidated financial statements in respect of the temporary differences attributable to accumulated profits of PRC subsidiaries amounting to approximately HK$21,298,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. For the year ended December 31, 2010, deferred tax liabilities of HK$9,700,000 has been provided for in the consolidated financial statement in respect of such temporary differences.

18. INVENTORIES

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Raw materials	**630,441**	518,258	524,771
Work in progress	**141,883**	124,868	159,959
Finished goods	**55,805**	99,790	179,959
	828,129	742,916	864,689

During the year ended December 31, 2010, aged inventories for over one year provided in previous years were sold in current year. As a result, a reversal of allowance for inventories of approximately HK$967,000 (2009: HK$3,682,000) has been recognised and included in cost of sales.

19. TRADE AND OTHER RECEIVABLES

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Trade receivables	**216,083**	194,381	225,999
Less: Allowance for doubtful debts	**(5,048)**	(2,454)	(6,677)
	211,035	191,927	219,322
Bills receivables	**65,246**	36,407	60,141
	276,281	228,334	279,463
Other receivables	**56,551**	51,550	78,285
Total trade and other receivables	**332,832**	279,884	357,748

The Group allows an average credit period of 60 days (2009: 60 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts and bills receivables presented based on the invoice date at the end of the reporting period:

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
0 – 60 days	**194,526**	165,097	213,369
61 – 90 days	**63,641**	41,423	44,934
Over 90 days	**18,114**	21,814	21,160
	276,281	228,334	279,463

19. TRADE AND OTHER RECEIVABLES *(Continued)*

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.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$81,755,000 (2009: HK$63,237,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 84 days (2009: 91 days). For those past due but not impaired receivables, although no collateral is held, the Group has assessed the creditworthiness, past payment history and substantial settlement after the end of the reporting period, and considered that the credit quality is satisfactory. Accordingly, no impairment has been provided.

Ageing of trade receivables which are past due but not impaired

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Overdue by:			
1 – 30 days	**63,641**	41,423	44,934
31 – 60 days	**14,072**	13,280	19,093
Over 60 days	**4,042**	8,534	2,067
Total	**81,755**	63,237	66,094

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.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts

	2010 HK$'000	2009 HK$'000
At beginning of the year	**2,454**	6,677
Impairment losses recognised on receivables	**4,125**	783
Amounts written off as uncollectible	**(1,054)**	(1,875)
Amounts recovered during the year	**(477)**	(3,131)
At end of the year	**5,048**	2,454

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$5,048,000 (2009: HK$2,454,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

During the year, the Group discounted certain bill receivables to financial institutions with recourse. The Group continues to recognise the full carrying amount of the receivables as the Group is still exposed to credit risk on these receivables. At December 31, 2010, the carrying amount of the bills discounted is approximately HK$10,600,000 (2009: HK$3,752,000). The carrying amount of the associated liability which represented the cash received from discounted bills (see note 25) is approximately HK$10,600,000 (2009: HK$3,752,000).

Other receivables of the Group are unsecured, interest-free and repayable on demand.

20. AMOUNTS DUE FROM AND TO JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and trade in nature. The average credit period is 60 days. All the outstanding balances are aged within 60 days based on the invoice date at the end of the reporting period.

21. BANK BALANCES

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.01% to 4.75% (2009: 0.01% to 0.17%) per annum.

22. TRADE AND OTHER PAYABLES

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Trade payables	**44,210**	63,182	71,670
Accrued salary and bonus	**42,542**	25,529	25,777
Receipt in advance	**161,503**	226,786	129,905
Accrued commission expenses	**28,088**	27,945	27,227
Others	**130,603**	127,929	81,885
	406,946	471,371	336,464

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
0 – 90 days	**30,788**	35,226	37,596
91 – 120 days	**5,661**	21,181	22,606
Over 120 days	**7,761**	6,775	11,468
	44,210	63,182	71,670

The average credit period on purchase of goods is 90 days (2009: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

23. WARRANTY PROVISION

	2010 HK$'000	2009 HK$'000
At beginning of the year	**11,685**	12,684
Additional provision in the year	**18,713**	7,233
Utilisation of provision	**(11,766)**	(8,232)
At end of the year	**18,632**	11,685

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	12.31.2010 HK$'000 Liabilities	12.31.2009 HK$'000 Liabilities	1.1.2009 HK$'000 Liabilities
Derivative under hedge accounting			
Cash flow hedges – Interest rate swaps	**19,330**	29,024	36,862
Other derivatives (not under hedge accounting)			
Foreign currency forward contracts	**–**	210	408
	19,330	29,234	37,270
Analysed as:			
Non-current	**19,330**	29,024	36,862
Current	**–**	210	408
	19,330	29,234	37,270

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, except for those bank borrowings with repayment on demand clause, and the Directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps as at December 31, 2010 and 2009 are set out below:

Initial notional amount	Contract date	Maturity date	Swaps
HK$300,000,000 (reduced by 10 equal quarterly installments)	June 23, 2008	December 24, 2012	**Before 4 May 2009** From Hong Kong Interbank Offered Rate ("HIBOR") +1% to 5.28% **With effect from 4 May 2009** From HIBOR +1.5% to 5.78%
HK$400,000,000 (reduced by 20 equal quarterly installments)	September 4, 2008	September 4, 2013	From HIBOR to 3.56%

24. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Interest rate swaps *(Continued)*

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. As at December 31, 2010, the fair value changes of approximately HK$19,330,000 (2009: HK$29,024,000) have been recognised in other comprehensive income and accumulated in equity and are expected to be released to profit or loss at various dates during the lives of the swaps when the hedged interest expense is recognised in profit or loss.

Foreign currency forward contracts

At December 31, 2009, the Group had the following foreign currency forward contracts denominated in United States dollars ("USD") and Euro ("EUR"). The major terms of these contracts were as follows:

Notional amount	Maturity date	Exchange rate
2009		
Purchase EUR432,756.32 and sell USD650,000 at the date of settlement	April 15, 2010	EUR1 to USD1.502

The fair values of the foreign currency forward contracts were measured based on a valuation technique which used the prevailing forward exchange rates as an input. All fair value changes were recognised in profit or loss.

25. BANK BORROWINGS

	12.31.2010 HK$'000	12.31.2009 HK$'000	1.1.2009 HK$'000
Unsecured bank borrowings comprise the following:			
– bank borrowings	**499,158**	624,162	781,666
– trust receipts loans	**136,501**	48,132	100,259
– discounted bills with recourse	**10,600**	3,752	14,747
	646,259	676,046	896,672
Carrying amount repayable*:			
Within one year	**177,101**	61,884	115,006
Carrying amount of bank loans containing a repayment on demand clause that are repayable (shown under current liabilities)*:			
Within one year	**205,004**	145,004	125,004
More than one year, but not exceeding two years	**204,154**	205,004	185,004
More than two years, but not exceeding five years	**60,000**	264,154	471,658
	469,158	614,162	781,666
	646,259	676,046	896,672
Less: Amounts due within one year shown under current liabilities	**(646,259)**	(676,046)	(896,672)
Amounts shown under non-current liabilities	**–**	–	–

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

In 2010, the Group had four bank borrowings amounting to HK$499,158,000 (of which HK$460,000,000 are hedged by interest rate swaps), of which HK$30,000,000 carries fixed interest rate at 2.02% per annum and the remaining carry floating interest rates ranging from HIBOR plus 1.5% per annum to HIBOR plus 2.6% per annum. The remaining bank borrowings included HK$136,501,000 trust receipts loans and HK$10,600,000 discounted bills with recourse which are repayable within one year and carry floating interest rates ranging from HIBOR or London Interbank Offered Rate ("LIBOR") plus 0.7% per annum to HIBOR or LIBOR plus 2.25% per annum and ranging from HIBOR plus 1% per annum to LIBOR plus 1.75% per annum respectively.

In 2009, the Group had four bank borrowings amounting to HK$624,162,000 (of which HK$600,000,000 were hedged by interest rate swaps) which carry floating interest rates ranging from HIBOR plus 1% per annum to HIBOR plus 3.2% per annum. The remaining bank borrowings included HK$48,132,000 trust receipts loans and HK$3,752,000 discounted bills with recourse which were repayable within one year and carry floating interest rates at HIBOR + 2.25% per annum and ranging from LIBOR + 0.75% to LIBOR + 2.75% per annum.

In 2010, the effective interest rate (which is also equal to the contractual interest rate) on the Group's bank borrowings is 2.25% (2009: 2.04%).

26. SHARE CAPITAL OF THE COMPANY

	12.31.2010	12.31.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Authorised:			
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000	100,000
Issued and fully paid:			
At January 1, 2009, December 31, 2009 and 2010:			
551,446,285 ordinary shares of HK$0.10 each	**55,145**	55,145	55,145

27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue 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 includes bank borrowings disclosed in note 25, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

Certain bank borrowings of the Group include covenant that require the maintenance of certain financial ratios. As at December 31, 2010, 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.

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2010	2009
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**713,910**	592,428
Financial liabilities		
Derivatives classified as held for trading	**–**	210
Amortised cost	**718,396**	783,468
Derivative instruments in designated hedge accounting relationships	**19,330**	29,024

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from and to jointly controlled entities, bank balances, trade and other payables, derivative financial instruments and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

Market risk (currency risk)

Several subsidiaries of the Company have foreign currency sales and purchases in denominated USD, RMB and EUR, which expose the Group to foreign currency risk. The Group also has bank balances, trade and other receivables/payables and bank borrowings denominated in foreign currency. During the year, the Group entered into a foreign currency forward contract with a bank 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 formal currency hedging policy. However, the management monitors foreign exchange exposure and will further consider hedging significant foreign currency exposure should the need arise. No foreign currency contracts were outstanding as at December 31, 2010.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (currency risk) *(Continued)*

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

	Liabilities		Assets	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**151,476**	62,859	**253,798**	148,016
EUR	**8,347**	4,851	**45,330**	9,675
RMB	**13**	745	**25,696**	1,018

In the opinion of the Directors of the Company, since Hong Kong dollars is pegged to USD under the Linked Exchange Rate System, the exposure to USD exchange rate risk is minimal relative to Hong Kong dollars. No sensitivity analysis in relation to Hong Kong dollars against USD is presented.

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 (2009: a decrease) in post-tax profit (2009: loss) where respective functional currencies weakening 5% against the relevant foreign currencies. For a 5% strengthen of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit (2009: loss), and the balances below would be negative.

	USD		RMB		EUR	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit (loss) for the year*	**4,394**	3,061	**1,072**	11	**1,544**	198

* This is mainly attributable to the exposure outstanding on USD (against foreign currencies other than Hong Kong dollars), RMB and EUR receivables, payables, bank balances and borrowings at year end.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (interest rate risk)

The Group's cash flow interest rate risk relates to the bank balances and borrowings with floating interest rates. The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank balances and borrowings.

The Group aims at keeping borrowings 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 24 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 Hong Kong dollars and USD borrowings and the market interest rate on the bank balances.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of each reporting period. For variable-rate bank balances (other than deposits placed in Hong Kong) and borrowings which are not hedged by interest rate swaps, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2010 would increase/decrease by approximately HK$240,000 (2009: loss for the year would decrease/increase by approximately HK$648,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings which are not hedged by interest rate swaps.

If the expected market interest rate inputed to the valuation model of the derivative instruments designated as hedging instruments has been 50 basis points higher/lower while all other variables were constant, hedging reserve would decrease/increase by approximately HK$2,639,000 (2009: HK$4,366,000).

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

At December 31, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to a failure to discharge obligation by the counterparties is arising from the carrying amount of the respective recognised assets as stated in the consolidated statement of financial position. 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 the end of the reporting period 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 are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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 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. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

Liquidity tables

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010							
Non-derivative financial liabilities							
Trade and other payables	–	29,931	41,489	717	–	72,137	72,137
Bank borrowings							
– fixed rate	2.02	–	30,134	–	–	30,134	30,000
– variable rate	1.82 – 2.83	479,940	137,381	117	–	617,438	616,259
		509,871	209,004	834	–	719,709	718,396
Derivatives – net settlement							
Interest rate swaps		–	3,439	9,395	6,856	19,690	19,330
2009							
Non-derivative financial liabilities							
Trade and other payables	–	45,231	61,076	1,115	–	107,422	107,422
Bank borrowings							
– variable rate	1.5 – 2.73	618,025	58,481	–	–	676,506	676,046
		663,256	119,557	1,115	–	783,928	783,468
Derivatives – net settlement							
Interest rate swaps		–	4,432	13,049	12,329	29,810	29,024
Derivatives – gross settlement							
Foreign exchange forward contracts							
– inflow		–	–	(4,848)	–	(4,848)	(4,586)
– outflow		–	–	5,070	–	5,070	4,796
		–	–	222	–	222	210

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2010 and 31 December 2009, the aggregate undiscounted principal amounts of these bank loans amounted to HK$469,158,000 and HK$614,162,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within 3 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$482,247,000 (2009: HK$634,386,000).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates are different to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

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; and

- the fair value of foreign currency forward contracts was 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.

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

28. FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities at FVPTL				
Derivative under hedge accounting				
– Interest rate swaps	–	19,330	–	19,330

	As at December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities at FVPTL				
Derivative under hedge accounting				
– Interest rate swaps	–	29,024	–	29,024
Other derivatives				
– Foreign currency forward contracts	–	210	–	210
Total	–	29,234	–	29,234

There were no transfers between Level 1 and Level 2 for both years.

29. SHARE OPTION SCHEME

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

The Board of Directors of the Company may, at their discretion, grant 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.

30. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'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 land	**294,002**	296,698

31. OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$12,292,000 (2009: HK$10,877,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**11,062**	10,012
In the second to fifth year inclusive	**16,252**	630
	27,314	10,642

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 an average lease term of three years.

32. 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.

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 managed by AXA China Region Trustees 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 profit or loss of the Group amounted to approximately HK$4,495,000 (2009: HK$4,576,000).

At the end of the reporting period, there are no significant forfeited contributions available to offset future employer's contributions to the Scheme.

32. RETIREMENT BENEFITS SCHEME *(Continued)*

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 profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to profit or loss for the scheme in the PRC amounted to approximately HK$15,191,000 (2009: HK$13,828,000).

Scheme in Germany

In Germany, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 9.95% 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 profit or loss for the scheme in Germany amounted to approximately HK$5,844,000 (2009: HK$7,879,000).

Scheme in Switzerland

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

Besides, the Group also has a mandatory occupational benefit plan ("the Plan") for all the employee as regulated under federal law. The Group is obligated to make contributions to the Plan, calculated up to 10% of the employees' basic annual salary, plus an individual risk surcharge of about 2%.

The total cost charged to profit or loss for the schemes in Switzerland amounted to approximately HK$1,118,000 (2009: HK$1,432,000).

33. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position on page 34 and note 20, the Group has also entered into the following transactions with related parties during the year:

	2010 HK$'000	2009 HK$'000
Related parties in which a Director of certain operating subsidiaries of the Group has beneficial interests		
Sale of goods	**637**	1,002
Service fee paid	**–**	341
Purchase of materials	**–**	109
Commission and agency fee paid	**1,376**	4,452
Related parties in which Directors of the Company have beneficial interests		
Sales of goods	**999**	–
Management fee received	**266**	267
Rental paid	**8,133**	8,133
Jointly controlled entities		
Sale of goods	**24,190**	12,846
Purchase of materials	**13,214**	8,175
Commission and management fee received	**47,167**	31,117
Sub-contracting fee paid	**564**	1,237

At the end of each reporting period, 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:

	2010 HK$'000	2009 HK$'000
Within one year	**7,902**	7,623
In the second to fifth year inclusive	**15,805**	–
	23,707	7,623

33. RELATED PARTY DISCLOSURES *(Continued)*

Compensation of key management personnel

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

	2010 HK$'000	2009 HK$'000
Short-term benefits	**40,413**	38,843
Post-employment benefits	**1,846**	1,859
	42,259	40,702

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.

34. 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 December 31, 2009 and 2010	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 of 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) Co., Ltd.*	The PRC	US$22,500,000	100%	Trading and Manufacture of dyeing and finishing machines

34. 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 December 31, 2009 and 2010	Principal activities
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 Textile Machinery (Shenzhen) Co., Ltd. *	The PRC	US$10,000,000	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) Co., Ltd.	Hong Kong	HK$10,000	100%	Trading of stainless steels casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd. *	The PRC	US$16,550,000	100%	Trading and manufacture of stainless steels casting products
THEN Maschinen (HK) Limited	Hong Kong	HK$1	100%	Trading of textile machinery and technical parts
Fong's Europe GmbH (formerly known as 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
Fong's Water Technology Company Limited	Hong Kong	HK$1,000,000	100%	Providing services on recycling of polluted water

34. 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 December 31, 2009 and 2010	Principal activities
Fong's Water Technology & Conservation Equipment (Shenzhen) Co., Ltd. *	The PRC	US$2,000,000	100%	Sale of water recycling system and providing services on recycling of polluted water
Fong's National Dyeing and Finishing Machinery (Macao Commercial Offshore) Co. Ltd.	Macau	MOP100,000	100%	Trading of textile machinery
立信染整機械(廣東)有限公司*	The PRC	US$5,200,000	100%	Not yet commenced business
立信鋼材(中山)有限公司*	The PRC	US$1,395,000	100%	Not yet commenced business
泰鋼合金(中山)有限公司*	The PRC	US$6,750,000	100%	Not yet commenced business

* A wholly-owned foreign enterprise in the PRC

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.

35. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2010 **HK$'000**	2009 HK$'000
Unlisted investments in subsidiaries	**36,585**	36,585
Bank balances and cash	**552**	462
Amounts due from subsidiaries	**505,134**	243,192
Other receivables	**95**	245
Total assets	**542,366**	280,484
Current liabilities	**760**	776
Total net assets	**541,606**	279,708
Share capital (note 26)	**55,145**	55,145
Reserves	**486,461**	224,563
Total equity	**541,606**	279,708

36. EVENTS AFTER THE REPORTING PERIOD

(a) On January 7, 2011, China Hengtian Group Co. Ltd., ("the Offeror"), an independent third party, and Mr. Fong Sou Lam ("Mr. Fong"), the Chairman and the controlling shareholder of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which the Offeror agreed to acquire, and Mr. Fong agreed to sell 207,895,250 shares of the Company, representing approximately 37.7% of the issued share capital of the Company as at the date of the Company's announcement dated January 14, 2011, for a cash consideration of HK$1,039,476,250 (equivalent to HK$5 per share) (the "Acquisition"). The consideration was agreed between the Offeror and Mr. Fong after arm's length negotiations with reference to the prevailing market prices of the Company's shares.

Completion of the Acquisition is conditional upon the Offeror having obtained all necessary authorisations, approvals and consents of the relevant governmental or regulatory authorities in the PRC in relation to the Acquisition and the unconditional mandatory cash offer to be made by Citigroup Global Markets Asia Limited on behalf of the Offeror, including the approval of the Ministry of Commerce and the National Development and Reform Commission in relation to the Acquisition and the approval of the State Administration of Foreign Exchange in relation to the conversion of RMB into Hong Kong dollars for the payment of the consideration, and such authorisations, approvals and consents remaining in full force and effect pursuant to the provisions of any laws or regulations in the PRC (the "Condition"). The Condition cannot be waived. If the Condition is not fulfilled on or before May 7, 2011, the Sale and Purchase Agreement will automatically terminate and neither the Offeror nor Mr. Fong will be obliged to complete the Acquisition.

(b) On January 21, 2011, 泰鋼合金(中山)有限公司 ("Tycon Zhongshan"), a wholly-owned subsidiary of the Company, entered into a land-use rights sale and purchase agreement with 中山市國土資源局 (Zhongshan Bureau of Land Resources) to purchase a piece of land located in Zhongshan at a consideration of approximately RMB38.4 million. The consideration has been fully settled subsequently. Tycon Zhongshan is now in the process of applying for the relevant land use rights certificate.

FINANCIAL SUMMARY

RESULTS

	Year ended December 31,				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	2,380,036	3,029,189	2,499,856	1,797,695	**2,587,182**
Profit (loss) before tax	308,939	314,662	(140,396)	(105,808)	**371,146**
Income tax expense	(48,906)	(40,257)	(2,383)	(527)	**(68,181)**
Profit (loss) for the year attributable to owners of the Company	260,033	274,405	(142,779)	(106,335)	**302,965**

ASSETS AND LIABILITIES

	As at December 31,				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	2,355,536	2,671,192	2,184,891	1,991,295	**2,148,610**
Total liabilities	(1,339,160)	(1,511,371)	(1,284,787)	(1,195,283)	**(1,127,326)**
	1,016,376	1,159,821	900,104	796,012	**1,021,284**
Equity attributable to owners of the Company	1,015,086	1,158,531	900,104	796,012	**1,021,284**
Non-controlling interests	1,290	1,290	–	–	**–**
	1,016,376	1,159,821	900,104	796,012	**1,021,284**