FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. He Fengxian *(Chairman)*
Mr. Fong Sou Lam *(Honourable Chairman)*
Mr. Ye Maoxin# *(Vice-chairman)*
Mr. Wan Wai Yung *(Chief Executive Officer)*
Mr. Ji Xin
Mr. Fong Kwok Leung, Kevin
Mr. Zhao Chuancong
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Mr. Du Qianyi
Mr. Zhou Yucheng##
Mr. Ying Wei##
Dr. Yuen Ming Fai##
Dr. Keung Wing Ching##

\# *Non-executive Director*
\## *Independent Non-executive Director*

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Ms. He Fengxian
Mr. Zhao Chuancong

AUDIT COMMITTEE

Mr. Ying Wei *(Committee Chairman)*
Mr. Zhou Yucheng
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

REMUNERATION COMMITTEE

Mr. Zhou Yucheng *(Committee Chairman)*
Ms. He Fengxian
Mr. Wan Wai Yung
Mr. Ying Wei
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

NOMINATION COMMITTEE

Ms. He Fengxian *(Committee Chairman)*
Mr. Wan Wai Yung
Mr. Zhou Yucheng
Mr. Ying Wei
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

SOLICITORS

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

AUDITOR

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

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
Tel: (852) 2980 1333
Fax: (852)2810 8185

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" or "Fong's") for the year ended December 31, 2011.

As time passes another year has arrived, and in the past year the Company has undergone significant changes. Following the completion of the acquisition of a majority shareholding in the Company by 中國恒天集團有限公司 (China Hi-Tech Group Corporation) in June 2011, I was honoured to be elected the new Chairman of the Company and Mr. Fong Sou Lam was re-designated as the Honourable Chairman of the Company. Now, with a new team of 14 members on the Board of the Company, Fong's is beginning a new chapter in its history. Thanks to the concerted efforts of all our employees, Fong's has grown into the largest dyeing and finishing machine manufacturer in the world. I would like to take this opportunity to express my sincere gratitude to Mr. Fong for his great contribution in the past years of founding and growing Fong's. I believe Mr. Fong's in-depth experience and expertise in the textile dyeing and finishing machine industry will continue to be valuable to the Board. The Group believes that with the collaboration with 中國恒天集團有限公司 (China Hi-Tech Group Corporation) and expanded capabilities of the combined group, this alliance will accelerate Fong's market penetration in the textile dyeing and finishing machine market and further solidify its market leadership in the world.

The unfavourable business environment that existed for the first half of 2011, namely rising labour and raw material costs and the slowdown in the global economic recovery, continued to persist in the second half of 2011 when concerns about the Euro and the European economic situation intensified. As a result, the Group recorded a decrease in both revenue and net profit. The Group's revenue for the year ended December 31, 2011 declined 15% to approximately HK$2,199 million (2010: HK$2,587 million). The decline in revenue was mainly due to a decrease in sales revenue from the dyeing and finishing machine manufacturing segment during the year, while the net profit decreased significantly to approximately HK$59 million as compared to approximately HK$303 million in 2010.

Moving forward to 2012, even though there are signs of stabilization of the global economy, the road to recovery remains sluggish and uncertainties still prevail, we expect a challenging year for our businesses. However, we are taking proactive steps to manage our businesses and preserve cash flow by exercising tight capital expenditure and expense control during this difficult period. In addition, the Group is in the midst of finalizing its 3-Year Plan (2012-2014) in respect of its core businesses, namely dyeing and finishing machine manufacturing, stainless steel trading, stainless steel casting and waste water treatment and reuse solutions, with the aims of achieving the following objectives, which we believe are critical for our long-term success:

- Offering a variety of products for a broad array of markets
- Making advancements in the state-of-the-art technology in the textile dyeing and finishing machine industry
- Exploring new business opportunities and attracting talents so as to consolidate and fortify our strength
- Maximizing the long-term value to our shareholders

Besides the development of the existing core businesses, the Group will also explore and evaluate other potential investment opportunities which could bring long-term benefits to the Group.

Despite the challenging market conditions, I believe that given Fong's diverse and one-stop portfolio of products supply, strong market leadership, advanced technology development and solid foundation, Fong's is well positioned to enable sustainable growth and continue delivering long-term value to its customers, shareholders and employees. This year is a historical turning point for Fong's, let's work together for a successful future.

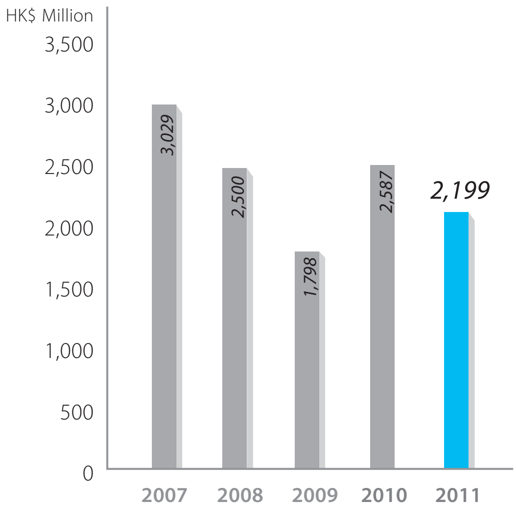
Finally, I would like to thank our customers, suppliers, bankers, business partners, employees and shareholders for the tremendous support and understanding they have extended to us throughout the year.

On behalf of the Board
He Fengxian
Chairman

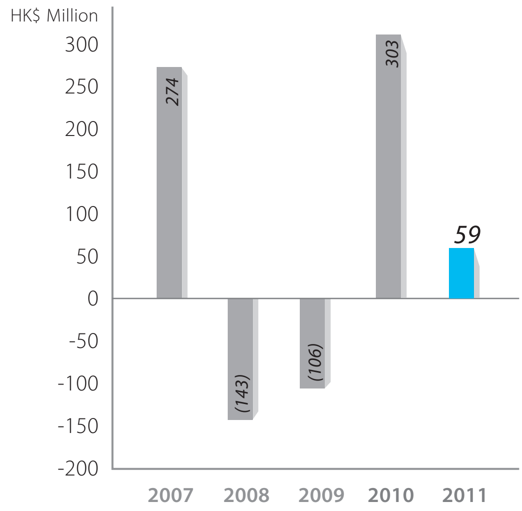
Hong Kong, March 28, 2012

FINANCIAL HIGHLIGHTS

REVENUE

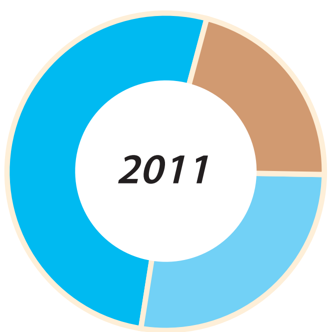


RESULTS



ANALYSIS OF REVENUE FOR THE YEAR

By principal activity

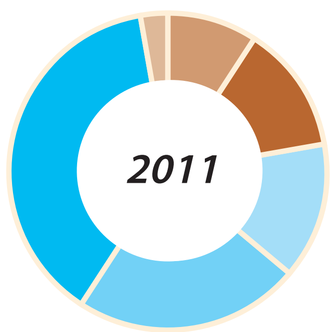


52% Manufacture and sale of dyeing and finishing machines

27% Trading of stainless steel supplies

21% Manufacture and sale of stainless steel casting products

By geographical region



38% The PRC

23% Hong Kong

14% Asia Pacific (other than the PRC & Hong Kong)

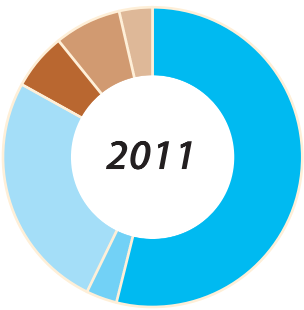
13% Europe

9% North & South America

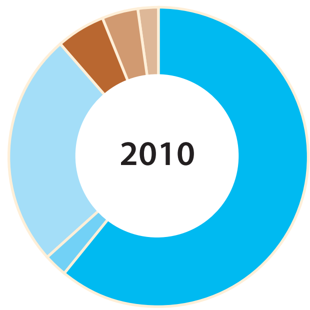
3% Others

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

By geographical region

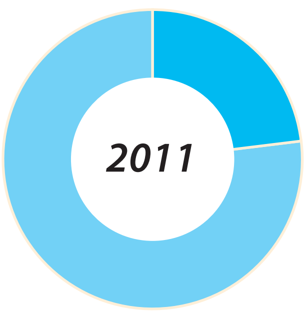


HK$ Million (2011)		HK$ Million (2010)
612	The PRC	989
37	Hong Kong	36
295	Asia Pacific	415
69	Europe	87
80	North & South America	65
40	Others	33
1,133		1,625

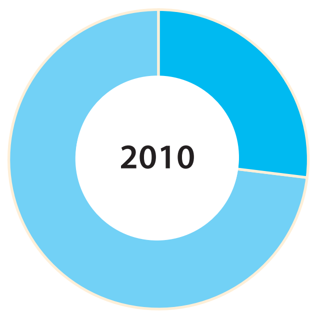


TRADING OF STAINLESS STEEL SUPPLIES

By geographical region

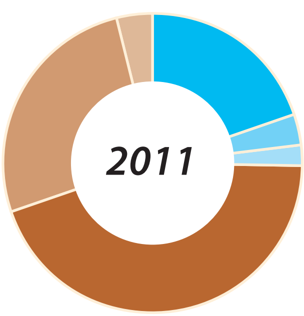


HK$ Million (2011)		HK$ Million (2010)
139	The PRC	167
463	Hong Kong	453
–	Asia Pacific	1
602		621

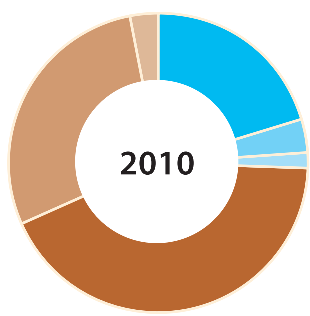


MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

By geographical region



HK$ Million (2011)		HK$ Million (2010)
92	The PRC	70
15	Hong Kong	12
11	Asia Pacific	6
206	Europe	145
121	North & South America	98
18	Others	10
463		341



BOARD OF DIRECTORS

Chairman and Executive Director

Ms. He Fengxian, aged 58, graduated from 華東化工學院 (East China Institute of Chemical Technology), now re-named as 華東理工大學 (East China University of Science and Technology) majoring in organic chemistry in 1977. Ms. He had worked in 國家紡織工業部計劃司和辦公廳 (the Planning Department and General Office of the Ministry of Textile Industry), had been the deputy director of 中國紡織總會辦公廳及規劃發展部 (the General Office and the Planning and Development Department of China General Committee of Textile), the deputy director of 國家紡織工業局企業改革司 (the Department of Enterprise Restructuring of State Bureau of Textile Industry), the deputy general manager, general manager and president of 中國紡織機械和技術進出口有限公司 (China Textile Machinery and Technology Import and Export Corporation), the deputy general manager and general manager of 中國紡織工業對外經濟技術合作公司 (China Textile Industries Corporation for Foreign Economic and Technical Cooperation) and the vice-president of 中國恒天集團有限公司 (China Hi-Tech Group Corporation). Ms. He is currently the director and general manager of China Hi-Tech Holding Company Limited and the president of 中國紡織機械和技術進出口有限公司 (China Textile Machinery and Technology Import and Export Corporation). Ms. He has extensive experience in business management and in particular, is familiar with the development situation of the textile industry, has experience in managing overseas sales of textile machines as well as extensive experience in managing conglomerates. Ms. He has been appointed as an Executive Director and the Chairman of the Company with effect from June 9, 2011, she is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Ms. He is responsible for formulating the overall directions, corporate strategies and policies of the Group. She also keeps a close relationship with all Directors to ensure steady exchanges of information with them in the course of operations and decision-makings.

Honourable Chairman and Executive Director

Mr. Fong Sou Lam, aged 77, is the founder of the Group and the Honourable Chairman of the Company. 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 of the overall corporate directions, corporate strategies and policies of the Group. Mr. Fong is the father of Mr. Fong Kwok Leung, Kevin.

Vice Chairman and Non-executive Director

Mr. Ye Maoxin, aged 49, holds a Bachelor of Engineering degree in machinery manufacturing from 西安交通大學 (Xian Jiaotong University) and an Executive Master of Business Administration degree from 北京大學光華管理學院 (Guanghua School of Management, Beijing University), he has about 30 years of experience in business management in the textile machinery industry and is one of the influential figures in the industry. Mr. Ye is currently the deputy general manager of 中國紡織機械(集團)有限公司 (China Textile Machinery (Group) Company Limited), the president of China Hi-Tech Holding Company Limited and the vice-president of 中國恒天集團有限公司 (China Hi-Tech Group Corporation). Mr. Ye is also the Chairman of 經緯紡織機械股份有限公司 (Jingwei Textile Machinery Company Limited (a company listed on The Stock Exchange of Hong Kong Limited, H-share stock code: 00350 and on the Shenzhen Stock Exchange, A-share stock code: 00666). Mr. Ye has been appointed as a Non-executive Director and the Vice-Chairman of the Company with effect from June 9, 2011. Mr. Ye is in possession of solid experience in the business of the textile machinery industry, he can provide valuable advice and contribution to the development of the Company.

Other Executive Directors

Mr. Wan Wai Yung, aged 60, is the Chief Executive Officer and a member of the Nomination Committee and 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Ji Xin, aged 42, is the Chief Operation Officer of the Group. Mr. Ji received his Bachelor of Engineering in Mechanical Designs from 天津工業大學 (Tianjin Polytechnic University) in 1991 and Executive Master of Business Administration from the School of Economics and Management of 清華大學 (Tsinghua University) in 2008, he is a senior engineer and has been appointed as a visiting professor by 天津工業大學 (Tianjin Polytechnic University) since 2008. Mr. Ji has been holding positions as the chairman and general manager of 青島紡織機械股份有限公司 (Qingdao Textile Machinery Co., Ltd.) and as the chairman of 青島宏大紡織機械有限責任公司 (Qingdao Hongda Textile Machinery Co. Ltd.), being corporations affiliated with 中國恒天集團有限公司 (China Hi-Tech Group Corporation). In addition, Mr. Ji is currently a director of 中國紡織工業聯合會 (China Textile Industry Association), the vice-president of 中國紡織機械器材工業協會 (China Textile Machinery Association) and the vice-president of 中國產業用紡織品行業協會 (China Nonwovens & Industrial Textiles Association). Mr. Ji was accredited as 青島市優秀企業家 (Qingdao City Excellent Entrepreneur), 青島市勞動模範 (Qingdao City Labour Model), 全國紡織工業勞動模範 (Labour Model in China Textile Industry) and 2007 年中國紡織行業十大創新人物 (Top Ten Innovative Figure in China Textile Industry in 2007). Mr. Ji has rich experience in areas ranging from operation management, sales and marketing, capital operations and strategic planning. Mr. Ji has been appointed as an Executive Director of the Company with effect from March 15, 2012.

Mr. Fong Kwok Leung, Kevin, aged 50, is the eldest son of Mr. Fong Sou Lam, 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. Zhao Chuancong, aged 38, joined China Hi-Tech Group in 2000. He is at present the Vice-President of China Hi-Tech Holding Company Limited. Mr. Zhao holds a Bachelor's degree of economics in international enterprises management from 中國安徽大學 (China Anhui University) and a Master of Engineering in software engineering from 北京航空航天大學 (the Beihang University), he also finished the part-time master degree studies in respect of the course in investment project management at 中國社會科學院 (the Chinese Academy of Social Sciences), the CFO training course at the School of Economics of 北京大學 (the Peking University) and a part-time doctorate degree course in finance at 中國社會科學院 (the Chinese Academy of Social Sciences). In 2010, Mr. Zhao obtained the qualification for independent directors of listed companies issued by Shenzhen Stock Exchange of the China Securities Regulatory Commission. Mr. Zhao has been appointed as an Executive Director of the Company with effect from May 19, 2011. Currently, Mr. Zhao's major job duties in the Group are to assist the Chairman of the Company in formulating policies as well as business development directions and strategies.

Mr. Tou Kit Vai, aged 49, joined the Group in October, 2005 and is responsible for the financial management, ERP system, MIS function and taxation of the Group as well as in charge of the 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 53, is a chartered engineer and chartered I.T. professional, and he is in charge of the research & development team of the Group. Dr. Tsui holds a bachelor of science degree and a doctorate degree in Aeronautical Engineering and is a fellow member of the Hong Kong Institution of Engineers, 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 Computer Society and the British Computer Society. Dr. Tsui joined the Group in 1989 and has over 25 years of experience in research and development on mechanical engineering and information technology.

Mr. Du Qianyi, aged 46, is the Treasurer of the Group. Mr. Du attended on-the-job postgraduate courses for engineering management at 湖南大學 (Hunan University) and on-the-job postgraduate courses for economic management at 吉林大學 (Jilin University), he is currently studying for an Executive Master of Business Administration degree course at 東華大學 (Donghua University). Mr. Du has been working for corporations affiliated with 中國恒天集團有限公司 (China Hi-Tech Group Corporation) since 1986, he held positions as finance director, chief accountant and financial controller of 邵陽紡織機械有限責任公司 (Shaoyang Textile Machinery Co., Ltd.) during period from 1997 to 2003, and has held the positions as deputy finance director and finance director of 中國紡織機械（集團）有限公司 (China Textile Machinery (Group) Co., Ltd.) since 2003 and as the finance director of 中國恒天集團有限公司 (China Hi-Tech Group Corporation) since 2006. Mr. Du had ever got excellent scores in 全國首屆財會知識大賽 (the First National Financial and Accounting Knowledge Competition) and 全國首屆稅法知識大賽 (the First National Taxation Knowledge Competition). Mr. Du has been working in the textile machinery industry for a prolonged period, knowing the traits in the markets and operations of the textile machinery industry, having extensive experience in corporate management as well as solid theoretical foundation and rich practical experience in the areas of capital operations, operation management and financial management. Mr. Du has been appointed as an Executive Director of the Company with effect from March 15, 2012.

Independent Non-Executive Directors

Mr. Zhou Yucheng, aged 66, has been appointed as an Independent Non-executive Director of the Company since 9 June, 2011. Mr. Zhou is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Zhou graduated from 合肥工業大學 (Hefei University of Technology) majoring in mechanical engineering. Mr. Zhou was the deputy director of 中國安徽省紡織工業廳 (the General Office of Textile Industry, Anhui Province, China), the director of 國家紡織工業部政策法規司 (the Department of Policies and Regulations of Ministry of Textile Industry), the chief executive officer and president of 中國華源集團有限公司 (China Huayuan Group Limited) and the president of 上海醫藥（集團）有限公司 (Shanghai Pharmaceutical (Group) Co., Ltd.). Mr. Zhou had been the vice-president of 中國集團公司促進會 (the China Group Companies Promotion Association), 中國上海市工業經濟聯合會 (the Federation of Industrial Economy, Shanghai, China), 中國上海市貿促會 (Trade Promotion Committee, Shanghai, China) and 中國上海市國際商會 (the Chamber of International Commerce, Shanghai, China), the president of 中華全國工商業聯合會醫藥業商會 (Pharmaceutical Chamber of All-China Federation of Industry & Commerce) and the representative of 中國上海市第十一屆及第十二屆人民代表大會 (the 11th and 12th Shanghai People's Congress). Mr. Zhou has extensive experience in business management, capital operations and broad industry management in conglomerates.

Mr. Ying Wei, aged 45, has been appointed as an Independent Non-executive Director of the Company since September 1, 2011. Mr. Ying is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Ying holds a Master of Business Administration degree from the University of San Francisco and a bachelor degree of Economics from 浙江工商大學 (the Zhejiang Gongshang University) (formerly known as 杭州商學院 (Hangzhou Institute of Commerce)) and is a non-practicing member of 中國註冊會計師協會 (the China Institute of Certified Public Accountants). Mr. Yang had worked for 華潤紡織（集團）有限公司 (China Resources Textiles (Holdings) Company Limited) as executive director and vice president for 18 years during the period from 1989 to 2007. Mr. Ying had also worked for China Water Affairs Group Limited (Stock Code: 855) as vice president responsible for merger and acquisition activities and financial management during the period from 2007 to 2009, and worked for China Botanic Development Holdings Limited (now re-named as China Water Property Group Limited) (Stock Code: 2349) as an executive director and president during the period from 21 July 2008 to 30 July 2009. Currently, Mr. Ying is the operating partner of CDH Investments.

Dr. Yuen Ming Fai, aged 61, has been appointed as an Independent Non-executive Director of the Company since 1 September, 2004, he is also a member of the Audit Committee, Nomination 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 60, has been appointed as an Independent Non-executive Director with effect from 1 June, 2006, he is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Keung holds a Ph.D. in Mechanical Engineering from the University of Birmingham (the United Kingdom). Dr. Keung is a fellow member of the Hong Kong Institution of Engineers and a professional member and chartered engineer of the Institute of Materials, Minerals and Mining (United Kingdom). Dr. Keung has served and presently still serves on various public and community bodies including Permanent Honorary Chairman of the Hong Kong Diecasting 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 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 54, is a Joint Managing Director of Fong's Europe 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 50, is the company secretary of the Company. 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 45, 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. He is also a Chartered Member of the Textile Institute and has been admitted an Associate of the Textile Institute. Mr. Leung joined the Group in 1997.

Mr. Heinz Scheungraber, aged 55, is the Chief Financial Officer of Fong's Europe 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 50, 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 47, 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 54, 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 an Associate 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.

OPERATING RESULTS

For the year ended December 31, 2011, the Group's consolidated revenue amounted to approximately HK$2,199 million (2010: HK$2,587 million), a decrease of 15% as compared with the previous year. The profit for the year was approximately HK$59 million (2010: HK$303 million), a decrease of 81% and basic earnings per share was 10.7 HK cents for the year under review (2010: 54.9 HK cents).

3

1.ShanghaiTex 2011
Fong's Press Conference - Shanghai
2.ITMA Barcelona 2011 - Spain
3.ShanghaiTex 2011 - Shanghai

1

2

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) Ltd, Goller (HK) Limited, Goller Textile Machinery (Shenzhen) Co., Ltd., Xorella AG and Xorella Hong Kong Limited

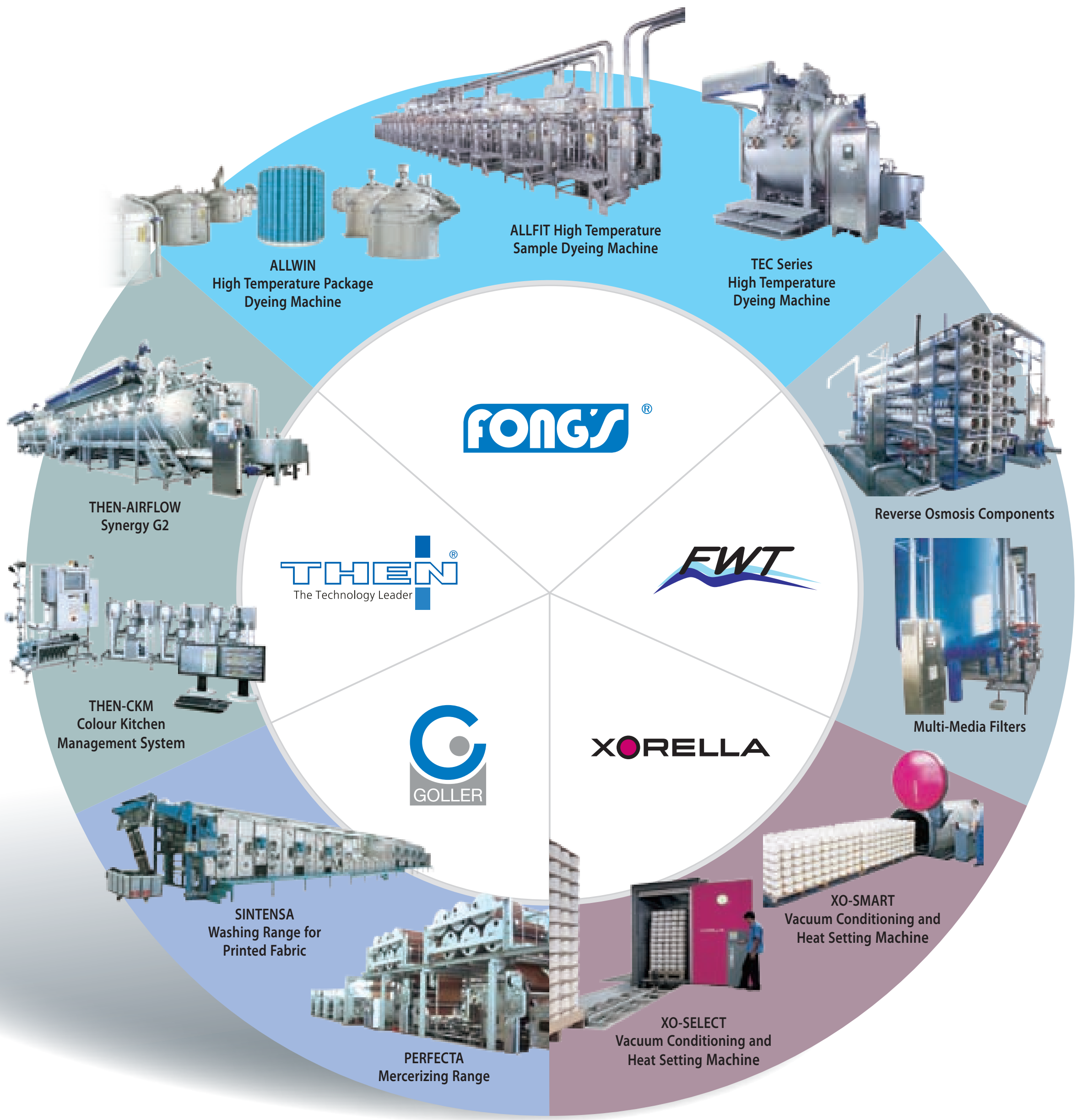
With parts of Europe and North America continuing to be affected by economic uncertainties leading to the waning of consumer confidence and investment sentiment, these invariably created a challenging environment for many manufacturers, which was compounded by tightening credit. As a result, certain customers elected to postpone their projects until a later time leading to a slowdown in our sales of dyeing and finishing machines.

For the year ended December 31, 2011, revenue of this manufacturing segment reduced by 30% to approximately HK$1,133 million (2010: HK$1,625 million), accounting for 52% of the Group's revenue. This segment recorded an operating loss of approximately HK$2 million in contrast of an operating profit of approximately HK$242 million in 2010, which was mainly due to the significant decrease in sales volume, the escalating production costs in the PRC and volatility in raw material prices during the year under review.

Moving forward to 2012, uncertainties associated with the lingering European debt crisis will continue to affect the demand for our products. Volatile raw material prices, rising labour cost in the PRC and appreciating Renminbi will continue to exert pressures on the Group's profitability. In view of the rising operating costs, the Group will strive to maintain tight cost control and continue to implement lean manufacturing, standardization and automation policies as well as enhancement and optimization of its operating procedures so as to bolster the operation efficiency of this segment in order to maintain a satisfactory margin level, which remains a prime objective.

The Group will also continue its strategy to invest in product innovation, its brands and its global distribution. Recently, a new generation of products, namely **TEC** hydraulic Dyeing Machines and **SYNERGY** airflow Dyeing Machines, have been launched. These new machine models have made great improvements on reducing emission and energy consumption, they are well received by the customers and will gradually supersede the older models. We anticipate receiving more orders as a result.

According to the "12th Five-Year Plan" recently announced by the PRC government, it is the policy of the government to further develop the textile industry. With the continuous effort and support by the PRC government in promoting the economies and development of the textile industry, the Group believes that our dyeing and finishing machine manufacturing business will continue to grow and contribute positively to the Group's performance in the coming years.



Given that we possess a well diversified product portfolio and loyal support from customers, we anticipate the overall sales of dyeing and finishing machines to pick up significantly once market uncertainty dissipates and the global economy returns to a healthier state.

The management will continue employing a holistic strategy that examines, refines and coordinates all aspects of operation so that the Group is constantly evolving, raising its competitiveness and fortifying its position as a leading dyeing and finishing machine manufacturer in the world.

1.Coil Centre

2.Stainless steel pipes and tubes

FONG'S STEELS

STAINLESS STEEL TRADING

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

For the year ended December 31, 2011, sales of stainless steel products amounted to approximately HK$602 million (2010: HK$621 million), representing a slight drop of 3% as compared to the previous year and accounted for 27% of the Group's total revenue. Its operating profit was approximately HK$13 million as compared to approximately HK$34 million last year. The decrease in profitability was mainly attributable to the modest reduction in the average selling price of our stainless steel stocks during the year under review.

Starting from 2012, the Group has also engaged in the business of slitting and processing of stainless steel materials, which is complementary to the stainless steel trading business. The management believes that this will bring in additional sales orders from existing and new customers.

Due to the prevailing global macro economic environment that is mixed and difficult to predict, the outlook for stainless steel prices is still uncertain. The Group will continue to adopt a prudent approach in running this business 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

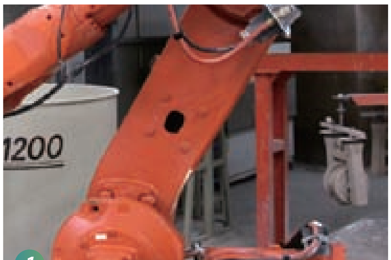
Tycon Alloy Industries (Hong Kong) Co., Ltd. and Tycon Alloy Industries (Shenzhen) Co., Ltd.

For the year ended December 31, 2011, this segment recorded a steady growth with revenue of approximately HK$463 million (2010: HK$341 million), representing an increase of 36% over last year and accounting for 21% of the Group's revenue. The operating profit for the year was approximately HK$53 million as compared to approximately HK$45 million last year.

1.Automatic Production Line – ABB Robot

2.Sand Casting Workshop

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



1

2

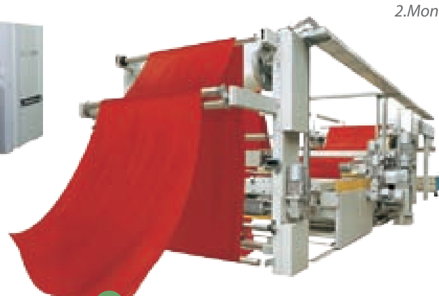
The management is fully aware that sound foundations are needed to underpin growth. Hence, ongoing enhancement of operations, including further automation and less reliance on human labour will be pursued. The management is optimistic about this business segment to maintain a steady growth in revenue in the mid to long term.

JOINTLY CONTROLLED ENTITY

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

For the year ended December 31, 2011, Monforts Fong's recorded a revenue of approximately HK$665 million (2010: HK$952 million), representing a decrease of 30%. The decrease in revenue was mainly caused by the reduction in the sales orders due to the credit austerity measures in the PRC and the worse off of the Europe's sovereign debt crisis.

1



2

1.Montex 6500 Stenter

2.Monfongtex 868 Shrinking Range

monforts FONG'S

The Group's share of profit after tax amounted to approximately HK$42 million (2010: HK$90 million), representing a decrease of 53% as compared to last year. Apart from the reduction in sales orders volume as mentioned above, the increase in the production overheads during the year due to the appreciation of the Renminbi currency, the rise of the minimum wages level in the PRC and the higher operation costs in running productions in Shenzhen and Zhongshan simultaneously in a transition period before completion of plant relocation to Zhongshan also caused the lower profitability.

Under the current business environment, Monforts Fong's will continue its focus on maintaining excellent customer relations, strengthening its product portfolio, exploring new market, while continuing to develop advanced technology and reduce costs, in an effort to position itself as a strong and more competitive player in the industry when the global economy recovers. Although the road ahead may be full of challenges, Monforts Fong's as equipped with healthy financial position and ample experience in the manufacture of quality machines is ready to confront these challenges.

As reported in previous reports, 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 consideration of RMB51,200,000 in July 2010 for production relocation purpose. The construction of the new production plant is on progress and scheduled to be completed by mid-2012. The operations in the existing Shenzhen plant will be relocated once the construction is completed, The management is of the view that the new production plant will achieve cost-effectiveness for Monforts Fong's and increase its competitiveness in the long-run. In order to ensure smooth operations of the new production plant and to minimize the possible impacts during the relocation period in the new year, Monforts Fong's is providing various trainings to its staff to enhance their technical and product knowledge.

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, 2011, the Group had a total of approximately 3,760 employees (December 31, 2010: 3,920 employees) spreading among the PRC, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey, and Central and South America. Staff costs, including directors' remuneration, were approximately HK$260 million (2010: HK$216 million). The increase in staff costs was mainly attributable to the appreciation of Renminbi and other foreign currencies where the Group operated, the increases in minimum wages in the PRC which led to increase in general wages level of the employees of the Group, the implementation of additional social security benefits and performance-related incentive payments during the year. The continuing appreciation of Renminbi further intensified the impact of the rise of minimum wages and other operating costs for the Group's production in the PRC. To alleviate the above unfavourable operating environment, the Group will monitor the market situation constantly and to adjust the labour force and labour structure in enhancing the operation efficiency with better staff mix.

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 the Remuneration Committee of the Company on a regular basis. Bonuses 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.

During the year ended December 31, 2011, the net cash outflow used in operating activities was approximately HK$24 million. As at December 31, 2011, the Group's inventory level decreased to approximately HK$777 million as compared to approximately HK$828 million as at December 31, 2010.

As at December 31, 2011, bank borrowings amounted to approximately HK$756 million. Most bank borrowings were sourced from Hong Kong, of which 70% were denominated in Hong Kong dollars, 24% were denominated in United States dollars and 6% were denominated in Renminbi. 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$260 million to hedge interest rate fluctuation.

As at December 31, 2011, the bank balances and cash amounted to approximately HK$278 million of which 42% were denominated in United States dollars, 33% in Renminbi, 19% in Hong Kong dollars, 5% in Euro and 1% in Indian Rupees and other currencies.

As at December 31, 2011, the gearing ratio, defined as net borrowings (other than payables in ordinary course of business) over total equity, was increased to 48% (December 31, 2010: 25%) and the current ratio was 1.3 (December 31, 2010: 1.4). The Board considers these ratios were still at healthy and adequate levels. The Group continued to maintain prudent financial management policies during the year under review.

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 was introduced to Appendix 14 to 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 to the Listing Rules (the "CG Code") during the year ended December 31, 2011, save for the deviation from the code provision A.4.1. Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. However, Mr. Ye Maoxin, an Non-executive Director and the Vice-Chairman of the Company, is not appointed for a specific term but he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company, which stipulates that one-third of the Directors for the time being, or, if their number is not a multiple of three, then the number nearest to one-third shall retire from the office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less than those in the CG Code in this respect.

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 to 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, 2011.

To comply with the code provision A. 5.4 of the CG 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 2011.

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 nine Executive Directors, one Non-executive Director and four Independent Non-executive Directors. The Directors during the year and up to the date of this Annual Report were:

Executive Directors

Ms. He Fengxian *(Chairman)* (appointed on June 9, 2011)
Mr. Fong Sou Lam *(Honourable Chairman)*
Mr. Wan Wai Yung *(Chief Executive Officer)*
Mr. Ji Xin (appointed on March 15, 2012)
Mr. Fong Kwok Leung, Kevin
Mr. Zhao Chuancong (appointed on May 19, 2011)
Mr. Tou Kit Vai
Dr. Tsui Tak Ming, William
Mr. Du Qianyi (appointed on March 15, 2012)
Mr. Fong Kwok Chung, Bill (resigned on July 1, 2011)
Ms. Poon Hang Sim, Blanche (resigned on January 1, 2012)

Non-executive Director

Mr. Ye Maoxin *(Vice-chairman)* (appointed on June 9, 2011)

Independent Non-executive Directors

Mr. Zhou Yucheng (appointed on June 9, 2011)
Mr. Ying Wei (appointed on September 1, 2011)
Dr. Yuen Ming Fai
Dr. Keung Wing Ching
Mr. Cheung Chiu Fan (resigned on September 1, 2011)

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

Save as Mr. Fong Kwok Leung, Kevin is the son 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. The Non-executive Director and Independent Non-executive Directors are experienced professionals in their respective fields. These Non-executive Director and Independent Non-executive Directors provided significant advice and contribution to the development of the Company during the year 2011.

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, Ms. He Fengxian, 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. Ying Wei, one of the Independent Non-executive Directors, is a non-practicing member of 中國註冊會計師協會 (the China Institute of Certified Public Accountants) 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 is scheduled to meet regularly at least four times a year at approximately quarterly intervals to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board Meetings will be held when necessary. 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. As some of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of the PRC, it may, in practice, be inconvenient to convene a full Board Meeting on a frequent basis. Hence, the Board may approve certain issues in form of a written resolution. With a view to facilitating Directors' attendance at Board Meetings and committee meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board. The Board held a total of 14 Board Meetings (including two meetings by way of circulation of written resolutions and five meetings which were held regarding matters involving the attendance of Executive Directors only) 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 prior notice by any Directors.

NOMINATION OF DIRECTORS

During the year, the Board was responsible for considering the suitability of a candidate to act as a Director, and approving and terminating the appointment of a Director.

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

On March 28, 2012, the Board has established a Nomination Committee pursuant to the requirements of the CG Code. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s). The terms of reference of the Nomination Committee, which are closely aligned with the CG Code, will be available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http//www.hkex.com.hk on or before April 1, 2012. The Nomination Committee comprises Mr. Zhou Yucheng, Mr. Ying Wei, Dr. Yuen Ming Fai and Dr. Keung Wing Ching, all being Independent Non-executive Directors, and Mr. Wan Wai Yung, being an Executive Director, with Ms. He Fengxian as the chairman of the Nomination Committee.

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, Ms. He Fengxian who is the Chairman of the Board of the Company, will voluntarily retire from her office by rotation at the relevant annual general meetings of the Company notwithstanding that she is not required by the Bye-laws to do so.

Ms. He Fengxian, Mr. Ye Maoxin, Mr. Ji Xin, Mr. Zhao Chuancong, Dr. Tsui Tak Ming, William, Mr. Du Qianyi, Mr. Zhou Yucheng, Mr. Ying Wei and Dr. Keung Wing Ching will retire from office by rotation under the Bye-laws of the Company at the forthcoming annual general meeting, but all of them will be offering themselves for re-election at the same meeting.

REMUNERATION COMMITTEE

In order to comply with the code provision B.1.1. of the CG 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 of the Remuneration Committee were revised by the Board on March 28, 2012. The revised terms of reference, which are closely aligned with the CG Code, will be available on the Company's website (www.fongs.com) and the Stock Exchange's website (www.hkex.com.hk) on or before April 1, 2012.

The members of the Remuneration Committee, the majority of which are the Independent Non-executive Directors, are as follows:

Mr. Zhou Yucheng *(Committee Chairman)* (appointed on June 9, 2011)
Ms. He Fengxian (appointed on June 9, 2011)
Mr. Wan Wai Yung
Mr. Ying Wei (appointed on September 1, 2011)
Dr. Yuen Ming Fai
Dr. Keung Wing Ching
Mr. Fong Sou Lam (resigned on June 9, 2011)
Mr. Cheung Chiu Fan (resigned on September 1, 2011)

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 bonuses 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. During the year, the Remuneration Committee convened two meetings (including a meeting held by way of circulating written resolutions for adoption) 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 CG Code, the terms of reference of the Audit Committee were revised by the Board on March 28, 2012 in terms substantially the same as the provisions set out in the CG Code. The revised terms of reference of the Audit Committee will be available on the Company's website (www.fongs.com) and the Stock Exchange's website (www.hkex.com.hk) on or before April 1, 2012.

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 members of the Audit Committee, all being the Independent Non-executive Directors, are as follows:

Mr. Ying Wei (Committee Chairman) (appointed on September 1, 2011)
Mr. Zhou Yucheng (appointed on June 9, 2011)
Dr. Yuen Ming Fai
Dr. Keung Wing Ching
Mr. Cheung Chiu Fan (resigned on September 1, 2011)

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 2011 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 2011:

(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 of 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, Baker Tilly Hong Kong Limited be appointed as the new auditor of the Company to fill the vacancy arising from the retirement of Deloitte Touche Tohmatsu and to hold office until the conclusion of the next annual general meeting of the Company.

ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2011

	Number of attendance/number of possible attendance		
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Executive Directors			
Ms. He Fengxian (appointed on June 9, 2011)	6/7	2/2	1/1
Mr. Fong Sou Lam	14/14	2/3	1/1
Mr. Wan Wai Yung	14/14	3/3	2/2
Mr. Fong Kwok Leung, Kevin	14/14	3/3	
Mr. Zhao Chuancong (appointed on May 19, 2011)	7/8	1/2	
Mr. Tou Kit Vai	14/14	3/3	
Dr. Tsui Tak Ming, William	14/14	3/3	
Mr. Fong Kwok Chung, Bill (resigned on July 1, 2011)	6/7	0/1	
Ms. Poon Hang Sim, Blanche (resigned on January 1, 2012)	14/14	3/3	
Non-executive Director			
Mr. Ye Maoxin (appointed on June 9, 2011)	1/2	1/2	
Independent Non-executive Directors			
Mr. Zhou Yucheng (appointed on June 9, 2011)	2/2	2/2	1/1
Mr. Ying Wei (appointed on September 1, 2011)	1/1	1/1	1/1
Dr. Yuen Ming Fai	8/9	3/3	1/2
Dr. Keung Wing Ching	7/9	2/3	2/2
Mr. Cheung Chiu Fan (resigned on September 1, 2011)	8/8	2/2	1/1

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

AUDITOR'S REMUNERATION

During the year, Messrs. Deloitte Touche Tohmatsu, the 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$2,505,000 and approximately HK$467,000 respectively.

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$447,000.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended December 31, 2011 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 external 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

He Fengxian
Chairman

Hong Kong, March 28, 2012

DIRECTORS' REPORT

The Board of Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2011.

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, 2011 are set out in the consolidated statement of comprehensive income on page 36.

An interim dividend of 5 HK cents per share amounting to approximately HK$28 million was paid to the shareholders during the year. The Board of Directors resolved not to recommend the payment of a final dividend for the year ended December 31, 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, 2011, 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 38% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 21% of the total purchases.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2011 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	267,760
	290,793

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:

Ms. He Fengxian *(Chairman)*	(appointed on June 9, 2011)
Mr. Fong Sou Lam *(Honourable Chairman)*	
Mr. Wan Wai Yung *(Chief Executive Officer)*	
Mr. Ji Xin	(appointed on March 15, 2012)
Mr. Fong Kwok Leung, Kevin	
Mr. Zhao Chuancong	(appointed on May 19, 2011)
Mr. Tou Kit Vai	
Dr. Tsui Tak Ming, William	
Mr. Du Qianyi	(appointed on March 15, 2012)
Mr. Fong Kwok Chung, Bill	(resigned on July 1, 2011)
Ms. Poon Hang Sim, Blanche	(resigned on January 1, 2012)

Non-executive Director:

Mr. Ye Maoxin *(Vice-chairman)*	(appointed on June 9, 2011)

Independent Non-executive Directors:

Mr. Zhou Yucheng	(appointed on June 9, 2011)
Mr. Ying Wei	(appointed on September 1, 2011)
Dr. Yuen Ming Fai	
Dr. Keung Wing Ching	
Mr. Cheung Chiu Fan	(resigned on September 1, 2011)

Mr. Zhou Yucheng was appointed under a contract for a term of 2 years commencing on June 9, 2011 and expiring on June 8, 2013.

Mr. Ying Wei was appointed under a contract for a term of 2 years commencing on September 1, 2011 and expiring on August 31, 2013.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on September 1, 2010 and expiring on August 31, 2012.

Dr. Keung Wing Ching was appointed under a contract for a term of 2 years commencing on June 1, 2010 and expiring on 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 and 102 of the Company's Bye-laws, the following Directors, namely Ms. He Fengxian, Mr. Ye Maoxin, Mr. Ji Xin, Mr. Zhao Chuancong, Dr. Tsui Taki Ming, William, Mr. Du Qianyi, Mr. Zhou Yucheng, Mr. Ying Wei and Dr. Keung Wing Ching will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Other than as disclosed above, no Director has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at December 31, 2011, 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	38,900,000	7.05%
	Corporate interests (Note 1(a))	82,052,110	14.88%
		120,952,110	21.93%
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 1(b))	5,000,000	0.91%
		6,650,000	1.21%
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%

Note 1: (a) Mr. Fong Sou Lam is deemed to be interested in 82,052,110 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 79,502,110 shares as follows:

1. Bristol Investments Limited – 18,000,000 shares
2. Polar Bear Holdings Limited – 48,000,000 shares
3. Sheffield Holdings Company Limited – 13,502,110 shares

(b) The 5,000,000 shares are owned by a discretionary trust, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin and other Fong's family members.

(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.

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, 2011.

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, 2011, 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.

The Group entered into operating lease agreements with Sou Lam Company, Limited ("Sou Lam"). Sou Lam is beneficially owned by Mr. Fong Sou Lam solely.

On December 28, 2010, 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, 2011 to December 31, 2013. On November 1, 2011, FNECL also entered into a surrender agreement with Sou Lam in respect of a portion of the same factory building as from December 1, 2011. Details of these transactions were set out in the announcements of the Company dated December 28, 2010 and November 1, 2011. Due to delay in decoration works, it was mutually agreed by the parties to postpone the surrender to December 31, 2011. The total rentals paid by the Group to Sou Lam for the year ended December 31, 2011 amounted to HK$7,902,456.

On November 1, 2011, FNECL further entered into an operating lease agreement with Sou Lam for the use of an additional portion of the same factory building as godown for a term of two years and two months from November 1, 2011 to December 31, 2013. The total rentals paid by the Group to Sou Lam for the year ended December 31, 2011 amounted to HK$134,400.

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) have been entered into in accordance with the relevant agreements governing the relevant transactions and (iii) the aggregate amounts incurred in 2011 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, 2011.

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.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at December 31, 2011, 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 as follows:

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
中國恒天集團有限公司 (China Hengtian Group Co., Ltd.)	Corporate interests (Note A)	329,304,070	59.72%
GBOGH Assets Limited	Corporate interests (Note B)	79,502,110	14.42%

Note A: By virtue of the SFO, 中國恒天集團有限公司 (China Hengtian Group Co., Ltd.) is deemed to be interested in 329,304,070 shares held by its two wholly-owned subsidiaries as follows:

(i) Newish Trading Limited – 128,808,820 shares

(ii) China Hi-Tech Holding Co., Ltd. – 200,495,250 shares

Note B: 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 79,502,110 shares as follows:

(i) Bristol Investments Limited – 18,000,000 shares

(ii) Polar Bear Holdings Limited – 48,000,000 shares

(iii) Sheffield Holdings Company Limited – 13,502,110 shares

Short position in shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued ordinary share of the Company
中國恒天集團有限公司 (China Hengtian Group Co., Ltd.)	Corporate interests	21,105,483	3.85%

Pursuant to an irrevocable undertaking dated January 7, 2011 whereby in the event the shares of the Company held by the public following the close of the unconditional mandatory cash offer (the "Offer") to acquire all the issued shares in the share capital of the Company (other than those shares already owned or agreed to be acquired by 中國恒天集團有限公司 (China Hengtian Group Co., Ltd.) ("China Hengtian") or parties acting in concert with it (other than Mr. Fong Sou Lam) is less than the minimum public float requirement under the Listing Rules, both Mr. Fong Sou Lam and China Hengtian shall dispose of the same number of shares owned by them for the restoration of the public float of the Company as soon as practicable. The short position indicated the outstanding number of shares China Hengtian intends to dispose of pursuant to the above-mentioned irrevocable undertaking.

Save as disclosed above, as at December 31, 2011, 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$1,772,000.

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 OR 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, 2011.

PUBLIC FLOAT

Based on the information after close of the Offer on June 3, 2011, 80,850,605 shares representing approximately 14.66% of the issued share capital of the Company, were in the hands of the public. Accordingly, the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules was not satisfied. The Company has applied, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.08 of the Listing Rules for the period up to June 30, 2012. The Company will take appropriate steps to restore the minimum public float as required under Rule 8.08(1)(a) of the Listing Rules as soon as practicable. Trading of the shares in the Company was suspended on June 7, 2011 at the request of the Company pending the restoration of the public float of the Company.

EVENTS AFTER THE REPORTING PERIOD

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

AUDITOR

Messrs. Deloitte Touche Tohmatsu, the Company's auditor, will retire at the forthcoming annual general meeting and will not seek for re-appointment. For the purpose of maintaining good corporate governance, the Board also considers that the Company's auditor should be changed after an appropriate time. Deloitte Touche Tohmatsu has been the auditor of the Company since 1990, the Board considers that it is an appropriate time to change the Company's auditor for the year ended December 31, 2012.

An ordinary resolution will be proposed at the forthcoming annual general meeting for appointing Baker Tilly Hong Kong Limited as the new auditor of the Company to fill the vacancy arising from the retirement of Deloitte Touche Tohmatsu and to hold office until the conclusion of the next annual general meeting of the Company.

On behalf of the Board

Wan Wai Yung
Director

Hong Kong, March 28, 2012

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 36 to 103, which comprise the consolidated statement of financial position as at December 31, 2011, 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 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, 2011, 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, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(For the year ended December 31, 2011)

	NOTES	2011 HK$'000	2010 HK$'000
Revenue	5	**2,198,608**	2,587,182
Cost of sales		**(1,615,710)**	(1,784,134)
Gross profit		**582,898**	803,048
Interest income		**2,340**	2,667
Other income	8	**46,468**	59,482
Other gains and losses	8	**(3,984)**	13,127
Selling and distribution costs		**(114,305)**	(161,984)
General and administrative expenses		**(373,225)**	(329,590)
Other expenses		**(73,396)**	(62,540)
Finance costs	6	**(35,200)**	(42,142)
Share of results of an associate		**(325)**	(477)
Share of results of jointly controlled entities		**41,888**	89,555
Profit before tax		**73,159**	371,146
Income tax expense	7	**(14,102)**	(68,181)
Profit for the year	8	**59,057**	302,965
Other comprehensive income			
Exchange difference arising on translation		**30,241**	17,067
Share of changes in translation reserve of an associate		**1,732**	1,454
Share of changes in translation reserve of jointly controlled entities		**6,048**	4,381
Gain on cash flow hedge		**12,194**	9,694
Other comprehensive income for the year		**50,215**	32,596
Total comprehensive income for the year		**109,272**	335,561
Earnings per share			
Basic	11	**10.7 HK cents**	54.9 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(At December 31, 2011)

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	12	**346,129**	362,799
Prepaid lease payments	13	**95,983**	15,584
Intellectual property rights	14	**7,672**	10,595
Interest in an associate	15	**36,420**	35,013
Interests in jointly controlled entities	16	**119,701**	112,222
Deposits for acquisition of property, plant and equipment		**3,068**	2,368
Deposits for acquisition of leasehold land		**7,953**	24,072
Deferred tax assets	17	**14,133**	12,929
		631,059	575,582
Current assets			
Inventories	18	**777,064**	828,129
Trade and other receivables	19	**416,576**	332,832
Prepaid lease payments	13	**2,168**	484
Amounts due from jointly controlled entities	20	**4,086**	13,323
Tax recoverable		**4,249**	3,431
Bank balances and cash	21	**278,164**	394,829
		1,482,307	1,573,028
Current liabilities			
Trade and other payables	22	**322,919**	406,946
Warranty provision	23	**12,108**	18,632
Derivative financial instruments	24	**2,882**	–
Tax liabilities		**12,730**	25,869
Bank borrowings	25	**756,410**	646,259
		1,107,049	1,097,706
Net current assets		**375,258**	475,322
Total assets less current liabilities		**1,006,317**	1,050,904
Non-current liabilities			
Derivative financial instruments	24	**4,254**	19,330
Deferred tax liabilities	17	**9,368**	10,290
		13,622	29,620
		992,695	1,021,284

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(At December 31, 2011)

	NOTE	**2011** **HK$'000**	2010 HK$'000
Capital and reserves			
Share capital	26	**55,145**	55,145
Share premium and reserves		**937,550**	966,139
		992,695	1,021,284

The financial statements on pages 36 to 103 were approved and authorised for issue by the Board of Directors on March 28, 2012 and are signed on its behalf by:

Tou Kit Vai
Director

Wan Wai Yung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended December 31, 2011)

	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$'000 (Note)	**Hedging reserve** HK$'000	**Total** HK$'000
At 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
Exchange difference arising on translation	–	–	–	–	17,067	–	–	–	17,067
Share of changes in translation reserve of an associate	–	–	–	–	1,454	–	–	–	1,454
Share of changes in translation reserve of jointly controlled entities	–	–	–	–	4,381	–	–	–	4,381
Gain on cash flow hedge	–	–	–	–	–	–	–	9,694	9,694
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 and January 1, 2011	55,145	157,261	–	2,370	96,860	703,396	25,582	(19,330)	1,021,284
Profit for the year	–	–	–	–	–	59,057	–	–	59,057
Exchange difference arising on translation	–	–	–	–	30,241	–	–	–	30,241
Share of changes in translation reserve of an associate	–	–	–	–	1,732	–	–	–	1,732
Share of changes in translation reserve of jointly controlled entities	–	–	–	–	6,048	–	–	–	6,048
Gain on cash flow hedge	–	–	–	–	–	–	–	12,194	12,194
Other comprehensive income for the year	–	–	–	–	38,021	–	–	12,194	50,215
Total comprehensive income for the year	–	–	–	–	38,021	59,057	–	12,194	109,272
Interim special dividend for 2010 paid (Note 10)	–	–	–	–	–	(110,289)	–	–	(110,289)
Interim dividend for 2011 paid (Note 10)	–	–	–	–	–	(27,572)	–	–	(27,572)
At December 31, 2011	55,145	157,261	–	2,370	134,881	624,592	25,582	(7,136)	992,695

Note: 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, 2011)

	2011	2010
	HK$'000	HK$'000
OPERATING ACTIVITIES		
Profit before tax	**73,159**	371,146
Adjustments for:		
Interest expense	**30,256**	35,534
Interest income	**(2,340)**	(2,667)
Share of results of an associate	**325**	477
Share of results of jointly controlled entities	**(41,888)**	(89,555)
Depreciation and amortisation	**71,269**	70,311
(Reversal of allowance for) allowance for doubtful debts	**(3,257)**	3,648
Allowance for (reversal of allowance for) inventories	**1,883**	(967)
Gain on fair value change of financial assets held for trading	**–**	(172)
Loss (gain) on disposal of property, plant and equipment	**159**	(616)
Warranty provision expense	**11,189**	18,713
Operating cash flows before movements in working capital	**140,755**	405,852
Decrease (increase) in inventories	**49,182**	(84,246)
Increase in trade and other receivables	**(75,525)**	(49,238)
Decrease in amounts due from jointly controlled entities	**9,237**	972
Decrease in trade and other payables	**(100,134)**	(69,219)
Utilisation of warranty provision	**(17,713)**	(11,766)
Change in derivative financial instruments	**–**	(38)
Cash generated from operations	**5,802**	192,317
Hong Kong Profits Tax paid	**(7,822)**	(54)
Overseas income tax and the PRC Enterprise Income Tax paid	**(22,363)**	(39,795)
Hong Kong Profits Tax refunded	**–**	393
Overseas income tax and the PRC Enterprise Income Tax refunded	**–**	666
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(24,383)**	153,527

CONSOLIDATED STATEMENT OF CASH FLOWS

(For the year ended December 31, 2011)

	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES		
Dividend received from jointly controlled entities	**40,000**	60,000
Proceeds from liquidation of a jointly controlled entity	**457**	–
Refund of deposits from acquisition of leasehold land	**6,077**	55,903
Deposits paid for acquisition of leasehold land	**–**	(10,605)
Deposits paid for acquisition of property, plant and equipment	**(700)**	–
Proceeds from disposal of property, plant and equipment	**6,884**	5,031
Interest received	**2,340**	2,667
Prepaid lease payments made	**(72,363)**	–
Purchases of intellectual property rights	**–**	(78)
Purchases of property, plant and equipment	**(43,439)**	(24,949)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(60,744)**	87,969
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(962,515)**	(815,794)
Dividends paid	**(137,861)**	(110,289)
Interest paid on bank borrowings	**(30,256)**	(35,534)
New bank borrowings raised	**1,072,666**	786,007
NET CASH USED IN FINANCING ACTIVITIES	**(57,966)**	(175,610)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(143,093)**	65,886
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**394,829**	328,364
Effect of foreign exchange rate changes	**26,428**	579
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**278,164**	394,829

(For the year ended December 31, 2011)

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 中國恒天集團有限公司 (China Hi-Tech Group Corporation.), a company incorporated in the People's Republic of China (the "PRC"). 中國恒天集團有限公司 (China Hi-Tech Group Corporation) is a state-owned enterprise under the direct 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 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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements
(as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

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

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects:

a) HKAS 24 (as revised in 2009) has changed the definition of a related party. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous standard.

b) In addition, HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. The Company and its subsidiaries are PRC government-related entities as defined in HKAS 24 (as revised in 2009). Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the PRC government that ultimately has significant influence over the Group and (b) other entities that are controlled, jointly controlled, or significantly influenced by the PRC government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group's financial performance and positions for the current and prior years. However, the related party disclosures set out in note 33 to the consolidated financial statements have been changed to reflect the application of HKAS 24 (as revised in 2009).

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[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, 2011.

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

[3] Effective for annual periods beginning on or after January 1, 2015.

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

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

[6] Effective for annual periods beginning on or after January 1, 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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.

The Directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the financial year ending December 31, 2015 and 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.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on January 1, 2013. The Directors are in the process of assessing and quantifying the potential financial impact on the application of these five standards on the Group.

(For the year ended December 31, 2011)

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on January 1, 2013 and that the application of the new Standard may not affect the amounts reported in the consolidated financial statements but result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The Directors of the Company anticipate that the application of the other new and revised HKFRSs 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 of Hong Kong Limited 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 principal 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 and 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 an associate 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.

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.

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 jointly controlled entity 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's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

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.

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.

(For the year ended December 31, 2011)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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 income can be measured reliably. Interest income 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 in the consolidated statement of financial position 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 immediately in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation 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) using exchange rate prevailing at the end of each reporting period. 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 under the heading of the translation reserve.

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.

(For the year ended December 31, 2011)

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 base 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. Current and 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 current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Retirement benefits costs

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

Financial instruments

Financial assets and financial liabilities are recognised in 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 liabilities, at fair value through profit or loss "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 FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 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.

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).

(For the year ended December 31, 2011)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered and the definitions of a financial liability and an equity instrument. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its 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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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.

Financial liabilities at FVTPL

Financial liabilities and classified as at FVTPL when the financial liabilities are either held for trading or it is those designated at FVTPL on initial recognition.

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
- on initial recognition it is a part of a portfolio of identified 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Other financial liabilities

Other financial liabilities including trade and other payables 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. 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, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and 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 gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. 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, and a reliable estimate can be made of the amount of the 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 of the time value of money 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, 2011, a deferred tax asset of HK$1,490,000 (2010: HK$1,161,000) in relation to unused tax losses of HK$9,030,000 (2010: HK$7,036,000) 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$509,267,000 (2010: HK$444,308,000) 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, 2011, the carrying amount of inventories is HK$777,064,000 (2010: HK$828,129,000).

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2011, the carrying amount of trade receivable is HK$236,316,000 (2010: HK$211,035,000) (net of allowance for doubtful debts of HK$1,504,000 (2010: HK$5,048,000).

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, 2011, the carrying amount of warranty provision is HK$12,108,000 (2010: HK$18,632,000). The movement of the warranty provision for the year are set out in note 23.

(For the year ended December 31, 2011)

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the performance of each group companies. 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 aggregation of operating segments based on types of goods or services delivered or provided, 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

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, 2011

	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	**1,133,152**	**602,276**	**463,180**	**2,198,608**
Inter-segment sales	**4,890**	**212,382**	**27,550**	**244,822**
Segment revenue	**1,138,042**	**814,658**	**490,730**	**2,443,430**
Elimination				**(244,822)**
Group revenue				**2,198,608**
Segment (loss) profit	**(1,819)**	**12,866**	**53,409**	**64,456**
Interest income				**2,340**
Finance costs				**(35,200)**
Share of results of an associate				**(325)**
Share of results of jointly controlled entities				**41,888**
Profit before tax				**73,159**

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

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

The accounting policies of the operating 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 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.

(For the year ended December 31, 2011)

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, 2011

	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	**999,541**	**314,036**	**347,122**	**1,660,699**
Interest in an associate				**36,420**
Interests in jointly controlled entities				**119,701**
Unallocated corporate assets				**296,546**
Consolidated total assets				**2,113,366**
LIABILITIES				
Segment liabilities	**264,004**	**14,640**	**56,383**	**335,027**
Unallocated corporate liabilities				**785,644**
Consolidated total liabilities				**1,120,671**

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

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

- all assets are allocated to operating 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 operating 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, 2011

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	**74,912**	**2,010**	**49,930**	**126,852**
Depreciation and amortisation	**57,401**	**917**	**12,951**	**71,269**
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	**(596)**	**(45)**	**800**	**159**
(Reversal of allowance) allowance for inventories	**(1,164)**	**5,782**	**(2,735)**	**1,883**
(Reversal of allowance) allowance for doubtful debts	**(854)**	**(2,603)**	**200**	**(3,257)**

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, 2011)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

Information about the Group's revenue from external customers is presented based on location of customers and information about its non-current assets is presented based on the geographical location of the assets, they are detailed below:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**843,283**	1,225,429	**572,574**	515,672
Hong Kong	**515,697**	501,414	**13,766**	12,255
Asia Pacific (other than the PRC and Hong Kong)	**306,350**	422,666	**129**	146
Europe	**274,581**	231,803	**30,418**	34,580
North and South America	**201,169**	162,788	**39**	–
Others	**57,528**	43,082	**–**	–
	2,198,608	2,587,182	**616,926**	562,653

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 years ended December 31, 2011 and 2010.

6. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**30,256**	35,534
Bank charges	**4,944**	6,608
	35,200	42,142

(For the year ended December 31, 2011)

7. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Hong Kong Profits Tax:		
Current year	**7,586**	8,362
Overprovision in prior years	**–**	(25)
PRC Enterprise Income Tax ("EIT"):		
Current year	**6,852**	45,403
Underprovision in prior years	**1,542**	343
PRC EIT for the capital gain on share transfer between intercompany:		
Current year	**–**	6,485
Overseas income tax:		
Current year	**243**	–
Under(over)provision in prior years	**5**	(895)
	16,228	59,673
Deferred tax (Note 17):		
Current year	**(2,126)**	8,508
	14,102	68,181

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 24% for the year ended December 31, 2011 (2010: 22%).

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

(For the year ended December 31, 2011)

7. INCOME TAX EXPENSE *(Continued)*

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

	2011	2010
	HK$'000	HK$'000
Profit before tax	**73,159**	371,146
Tax at the Hong Kong Profits Tax rate of 16.5%	**12,071**	61,239
Tax effect of:		
– expenses that are not deductible for tax purpose	**3,902**	4,273
– income that are not taxable for tax purpose	**(6,601)**	(11,557)
– tax losses not recognised	**16,030**	14,499
– share of results of an associate	**54**	79
– share of results of jointly controlled entities	**(6,912)**	(14,777)
– different tax rates of subsidiaries operating in other jurisdictions	**1,185**	9,108
– utilisation of tax losses previously not recognised	**(5,312)**	(10,241)
Under(over)provision in prior years	**1,547**	(577)
Withholding tax on distributable profits of subsidiaries	**(1,674)**	9,700
PRC EIT for the capital gain on share transfer between intercompany	**–**	6,485
Others	**(188)**	(50)
Income tax expense for the year	**14,102**	68,181

(For the year ended December 31, 2011)

8. PROFIT FOR THE YEAR

	2011 HK$'000	2010 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Other income:		
Sales commission and management fee income	(35,252)	(47,167)
Others	(11,216)	(12,315)
	(46,468)	(59,482)
Other gains and losses:		
Loss (gain) on disposal of property, plant and equipment	159	(616)
Foreign exchange gain	(2,405)	(15,419)
Foreign exchange loss	6,230	3,080
Gain on fair value change of financial assets held for trading	–	(172)
Total other gains and losses	3,984	(13,127)
Amortisation of intellectual property rights (included in cost of sales)	2,923	2,922
Amortisation of prepaid lease payments	1,890	484
Depreciation of property, plant and equipment	66,456	66,905
Total depreciation and amortisation	71,269	70,311
Allowance for (reversal of allowance for) inventories (included in cost of sales)	1,883	(967)
(Reversal of allowance for) allowance for doubtful debts, net	(3,257)	3,648
Auditor's remuneration	2,952	2,358
Cost of inventories recognised as an expense	1,232,419	1,398,744
Research and development costs recognised as an expense	4,730	3,968
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	229,777	189,156
Retirement benefits scheme contributions	30,317	26,648
Total staff costs	260,094	215,804

(For the year ended December 31, 2011)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the fourteen (2010: ten) Directors were as follows:

	Executive directors									Independent non-executive directors					
	He Fengxian (appointed on June 9, 2011)	Fong Sou Lam	Wan Wai Yung	Fong Kwok Leung, Kevin	Tou Kit Vai	Tsui Tak Ming, William	Zhao Chuancong (appointed on May 19, 2011)	Fong Kwok Chung, Bill (resigned on July 1, 2011)	Poon Hang Sim, Blanche (resigned on January 1, 2012)	Zhou Yucheng (appointed on June 9, 2011)	Ying Wei (appointed on September 1, 2011)	Yuen Ming Fai	Keung Wing Ching	Cheung Chiu Fan (resigned on September 1, 2011)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2011															
Fees	-	-	-	-	-	-	-	-	-	42	25	75	75	50	267
Other emoluments															
Salaries and other benefits	1,308	4,940	4,940	2,235	1,885	1,625	806	1,780	1,404	-	-	-	-	-	20,923
Performance related incentive payments	-	-	334	1,200	700	520	-	-	312	-	-	-	-	-	3,066
Retirement benefits scheme contributions	-	365	333	130	12	120	-	77	104	-	-	-	-	-	1,141
Total emoluments	1,308	5,305	5,607	3,565	2,597	2,265	806	1,857	1,820	42	25	75	75	50	25,397

	Executive directors							Independent non-executive directors			
	Fong Sou Lam	Wan Wai Yung	Fong Kwok Leung, Kevin	Fong Kwok Chung, Bill	Tou Kit Vai	Tsui Tak Ming, William	Poon Hang Sim, Blanche	Cheung Chiu Fan	Yuen Ming Fai	Keung Wing Ching	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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	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

(For the year ended December 31, 2011)

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

(a) Directors' emoluments *(Continued)*

For the years ended December 31, 2011 and 2010, no Director waived any emoluments and no incentive was paid to any Directors as an induction to join the Company.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2011 and 2010 were all Directors of the Company and details of their emoluments are included above.

10. DIVIDENDS

Dividends recognised as distribution during the year:

	2011 **HK$'000**	2010 HK$'000
2010 interim special – 20 HK cents (2010: 2010 interim special dividend 6 HK cents) per share	**110,289**	33,087
2011 interim – 5 HK cents (2010: 2010 interim dividend 9 HK cents) per share	**27,572**	49,630
2009 final dividend – 5 HK cents per share	**–**	27,572
	137,861	110,289

An interim special dividend of HK$0.20 per share, amounting to approximately HK$110 million, was declared on February 11, 2011 and paid on April 8, 2011.

The Board of Directors resolved not to recommend the payment of a final dividend for the year ended December 31, 2011.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2011 **HK$'000**	2010 HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**59,057**	302,965
	'000	'000
Number of ordinary shares for the purpose of basic earnings per share	**551,446**	551,446

The Group has no outstanding potential ordinary shares as at December 31, 2011 and 2010 and during the years ended December 31, 2011 and 2010.

(For the year ended December 31, 2011)

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 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 and January 1, 2011	9,693	298,888	25,893	321,378	111,249	24,220	31,373	1,993	824,687
Currency realignment	(94)	11,898	794	13,121	2,492	533	1,230	89	30,063
Reclassification	–	–	–	1,500	–	–	929	(2,429)	–
Additions	–	3,282	684	13,592	10,630	4,979	4,652	5,620	43,439
Disposals	–	–	–	(11,948)	(1,352)	(2,489)	(363)	(833)	(16,985)
At December 31, 2011	9,599	314,068	27,371	337,643	123,019	27,243	37,821	4,440	881,204
DEPRECIATION									
At 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 and January 1, 2011	–	166,955	16,801	167,591	74,770	16,886	18,885	–	461,888
Currency realignment	–	6,885	511	6,664	1,515	322	776	–	16,673
Reclassification	–	–	–	–	–	–	–	–	–
Provided for the year	–	14,099	4,060	27,127	13,661	3,006	4,503	–	66,456
Eliminated on disposals	–	–	–	(6,412)	(1,131)	(2,209)	(190)	–	(9,942)
At December 31, 2011	–	187,939	21,372	194,970	88,815	18,005	23,974	–	535,075
CARRYING VALUES									
At December 31, 2011	9,599	126,129	5,999	142,673	34,204	9,238	13,847	4,440	346,129
At December 31, 2010	9,693	131,933	9,092	153,787	36,479	7,334	12,488	1,993	362,799

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:

	2011 **HK$'000**	2010 HK$'000
Buildings on land under long leases located in the PRC	**715**	785
Buildings on land under medium-term leases located in the PRC	**115,371**	120,618
Freehold land and buildings in Europe	**19,642**	20,223
	135,728	141,626

13. PREPAID LEASE PAYMENTS

	2011 **HK$'000**	2010 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Long leases	**1,683**	1,642
Medium-term leases	**96,468**	14,426
	98,151	16,068
Analysed for reporting purposes as:		
Current asset	**2,168**	484
Non-current asset	**95,983**	15,584
	98,151	16,068

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14. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At January 1, 2010	29,156
Addition	78
At December 31, 2010, January 1, 2011 and December 31, 2011	29,234
AMORTISATION	
At January 1, 2010	15,717
Provided for the year	2,922
At December 31, 2010 and January 1, 2011	18,639
Provided for the year	2,923
At December 31, 2011	21,562
CARRYING AMOUNTS	
At December 31, 2011	7,672
At December 31, 2010	10,595

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

	2011 HK$'000	2010 HK$'000
Cost of unlisted investment in an associate	**46,469**	46,469
Share of post-acquisition losses and other comprehensive income	**(10,049)**	(11,456)
	36,420	35,013

As at December 31, 2010 and 2011, 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 years ended December 31, 2011 and 2010, the management of the Group considers that the value in use of the associate based on a discounted future cash flow approach is higher than the carrying amount of interest in an associate. Hence, no impairment is required for the carrying amount of interest in an associate.

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

	2011 HK$'000	2010 HK$'000
Total assets	**249,145**	250,228
Total liabilities	**(127,745)**	(133,517)
Net assets	**121,400**	116,711
Group's share of net assets of the associate	**36,420**	35,013
Revenue	**284,202**	272,321
Loss for the year	**(1,082)**	(1,589)
Other comprehensive income	**5,773**	4,847
Group's share of losses and other comprehensive income of the associate for the year	**1,407**	977

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2011 HK$'000	2010 HK$'000
Cost of unlisted investments in jointly controlled entities	**9,249**	10,779
Share of post-acquisition profits and other comprehensive income, net of dividends received	**110,452**	101,443
	119,701	112,222

As at December 31, 2010 and 2011, 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%	Manufacturing and trading of textile machinery
立信門富士紡織機械(中山)有限公司	The PRC	US$12,700,000	50%	Manufacturing and trading of textile machinery
Plexxor Co., Limited	Hong Kong	HK$3,000,000	51%	Liquidated

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)*

During the year, the liquidation of Plexxor Co., Limited was completed. The proceeds from liquidation was approximately HK$457,000 and there is no gain or loss on liquidation.

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:

	2011	2010
	HK$'000	HK$'000
Non-current assets	**98,230**	58,238
Current assets	**143,015**	224,419
Non-current liabilities	**(11,494)**	(13,409)
Current liabilities	**(110,050)**	(157,026)
	119,701	112,222
Income recognised in profit or loss	**335,820**	479,666
Expense recognised in profit or loss	**293,932**	390,111
Other comprehensive income	**6,048**	4,381
Profit and other comprehensive income attributable to the Group	**47,936**	93,936

17. DEFERRED TAXATION

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

	2011	2010
	HK$'000	HK$'000
Deferred tax assets	**14,133**	12,929
Deferred tax liabilities	**(9,368)**	(10,290)
	4,765	2,639

(For the year ended December 31, 2011)

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	Distributable profit of PRC subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 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 and January 1, 2011	(9,497)	(2,271)	(1,161)	590	9,700	(2,639)
(Credit) charge to profit or loss	(652)	(223)	(329)	752	(1,674)	(2,126)
At December 31, 2011	(10,149)	(2,494)	(1,490)	1,342	8,026	(4,765)

At the end of the reporting period, the Group had unused tax losses of approximately HK$518,297,000 (2010: HK$451,344,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$9,030,000 (2010: HK$7,036,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$509,267,000 (2010: HK$444,308,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$5,400,000 (2010: HK$5,400,000), HK$6,700,000 (2010: HK$6,700,000), HK$6,997,000 (2010: HK$6,997,000), HK$4,385,000 (2010: HK$4,385,000), HK$11,966,000 (2010: HK$11,966,000), HK$6,163,000 (2010: HK$6,163,000) and HK$26,301,000 (2010: Nil) that will expire in 2012, 2013, 2014, 2015, 2016, 2017 and 2018, respectively. Other losses may be carried forward indefinitely.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. A deferred tax liability of HK$8,026,000 (2010: HK$9,700,000) has been provided for in the consolidated financial statements in respect of such temporary differences.

(For the year ended December 31, 2011)

18. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**575,694**	630,441
Work in progress	**135,180**	141,883
Finished goods	**66,190**	55,805
	777,064	828,129

19. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	**237,820**	216,083
Less: Allowance for doubtful debts	**(1,504)**	(5,048)
	236,316	211,035
Bills receivables	**115,454**	65,246
	351,770	276,281
Other receivables	**64,806**	56,551
Total trade and other receivables	**416,576**	332,832

The Group allows an average credit period of 60 days (2010: 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:

	2011 HK$'000	2010 HK$'000
0 – 60 days	**280,759**	194,526
61 – 90 days	**50,596**	63,641
Over 90 days	**20,415**	18,114
	351,770	276,281

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. For trade receivables that are neither past due nor impaired as at the end of the reporting period, the directors consider that trade receivables which are neither past nor yet impaired are of good credit quality and there are continuous subsequent settlements from these customers.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately HK$71,011,000 (2010: HK$81,755,000) 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. 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

	2011 **HK$'000**	2010 HK$'000
Overdue by:		
1 – 30 days	**50,596**	63,641
31 – 60 days	**17,689**	14,072
Over 60 days	**2,726**	4,042
Total	**71,011**	81,755

The Group has provided fully for all receivables past due 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

	2011	2010
	HK$'000	HK$'000
At beginning of the year	**5,048**	2,454
Impairment losses recognised on receivables	**298**	4,125
Amounts written off as uncollectible	**(287)**	(1,054)
Amounts recovered during the year	**(3,555)**	(477)
At end of the year	**1,504**	5,048

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$1,504,000 (2010: HK$5,048,000) 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, 2011, the carrying amount of the bills discounted is approximately HK$21,942,000 (2010: HK$10,600,000). The carrying amount of the associated liability which represented the cash received from discounted bills (see note 25) is approximately HK$21,942,000 (2010: HK$10,600,000).

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

20. AMOUNTS DUE FROM 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 3.59% (2010: 0.01% to 4.75%) per annum.

(For the year ended December 31, 2011)

22. TRADE AND OTHER PAYABLES

	2011 HK$'000	2010 HK$'000
Trade payables	**39,110**	44,210
Accrued salary and bonus	**34,115**	42,542
Receipt in advance	**102,185**	161,503
Accrued commission expenses	**26,954**	28,088
Others	**120,555**	130,603
	322,919	406,946

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

	2011 HK$'000	2010 HK$'000
0 – 90 days	**23,851**	30,788
91 – 120 days	**13,081**	5,661
Over 120 days	**2,178**	7,761
	39,110	44,210

The average credit period on purchase of goods is 90 days (2010: 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

	2011 HK$'000	2010 HK$'000
At beginning of the year	**18,632**	11,685
Additional provision in the year	**11,189**	18,713
Utilisation of provision	**(17,713)**	(11,766)
At end of the year	**12,108**	18,632

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.

(For the year ended December 31, 2011)

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2011 HK$'000 Liabilities	2010 HK$'000 Liabilities
Derivative under hedge accounting		
Cash flow hedges – Interest rate swaps	**7,136**	19,330
Analysed as:		
Non-current	**4,254**	19,330
Current	**2,882**	–
	7,136	19,330

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, 2011 and 2010 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%

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, 2011, the fair value changes of approximately HK$7,136,000 (2010: HK$19,330,000) 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.

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25. BANK BORROWINGS

	2011 HK$'000	2010 HK$'000
Unsecured bank borrowings comprise the following:		
– Unsecured bank borrowings	**573,262**	499,158
– Trust receipts loans	**161,206**	136,501
– Discounted bills with recourse	**21,942**	10,600
	756,410	646,259
Carrying amount repayable*:		
Within one year	**302,256**	177,101
Carrying amount of bank loans contain a repayment on demand clause, that are repayable (shown under current liabilities)*:		
Within one year	**394,154**	205,004
More than one year, but not exceeding two years	**60,000**	204,154
More than two years, but not exceeding five years	**–**	60,000
	454,154	469,158
	756,410	646,259
Less: Amounts due within one year shown under current liabilities	**(756,410)**	(646,259)
Amounts shown under non-current liabilities	**–**	–

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

In 2011, the Group had fifteen bank borrowings amounting to HK$573,262,000 (of which HK$260,000,000 are hedged by interest rate swaps), of which HK$99,108,000 carries fixed interest rates ranging from 4.54% to 7.87% per annum and the remaining carry floating interest rates ranging from HIBOR plus 0.75% per annum to HIBOR plus 2.6% per annum. The remaining bank borrowings included HK$161,206,000 trust receipts loans and HK$21,942,000 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 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 2011, the effective interest rate (which is also equal to the contractual interest rate) on the Group's bank borrowings is 2.94% (2010: 2.25%).

26. SHARE CAPITAL OF THE COMPANY

	2011 HK$'000	2010 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
At December 31, 2010 and 2011:		
551,446,285 ordinary shares of HK$0.10 each	**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 covenants that require the maintenance of certain financial ratios. As at December 31, 2011, 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 associated 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 debts or the redemption of existing debts.

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**647,323**	713,910
Financial liabilities		
Amortised cost	**831,443**	718,396
Derivative instruments in designated hedge accounting relationships	**7,136**	19,330

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from 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. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will further consider hedging significant foreign currency exposure should the need arises.

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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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**189,490**	151,476	**248,682**	253,798
EUR	**4,565**	8,347	**62,452**	45,330
RMB	**237**	13	**25,367**	25,696

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 (2010: an increase) in post-tax profit (2010: profit) 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 (2010: profit), and the balances below would be negative.

	USD		RMB		EUR	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit for the year*	**5,489**	4,394	**1,049**	1,072	**2,417**	1,544

* 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.

(For the year ended December 31, 2011)

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 is exposed to fair value interest rate risk in relation to fixed-rate bank 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, 2011 would decrease/increase by approximately HK$900,000 (2010: profit for the year would increase/decrease by approximately HK$240,000). 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$844,000 (2010: HK$2,639,000).

(For the year ended December 31, 2011)

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

At December 31, 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to a failure to discharge an 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.

(For the year ended December 31, 2011)

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
2011							
Non-derivative financial liabilities							
Trade and other payables	–	28,967	45,367	699	–	75,033	75,033
Bank borrowings							
– fixed rate	4.54 – 7.87	–	30,302	71,297	–	101,599	99,108
– variable rate	1.08 – 3.25	468,749	170,015	20,326	–	659,090	657,302
		497,716	245,684	92,322	–	835,722	831,443
Derivatives – net settlement							
Interest rate swaps		–	2,315	4,200	865	7,380	7,136
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

(For the year ended December 31, 2011)

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

Liquidity tables *(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 2011 and 31 December 2010, the aggregate undiscounted principal amounts of these bank loans amounted to HK$454,154,000 and HK$469,158,000 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 as set out in this table below:

	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
Bank borrowings – variable rate							
2011	2.27	792	203,098	195,798	60,757	460,445	454,154
2010	2.18	422	52,852	159,796	269,177	482,247	469,158

At that time, the aggregate principal and interest cash outflows will amount to HK$460,445,000 (2010: HK$482,247,000).

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 interest rate swaps 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, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities at FVTPL				
Derivative under hedge accounting				
– Interest rate swaps	–	7,136	–	7,136

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

There were no transfers between Level 1 and 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

	2011 HK$'000	2010 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**1,225**	1,320
Leasehold land	**220,771**	292,682
	221,996	294,002

In addition to the above, the Group's share of the capital commitments of its jointly controlled entities are as follows:

	2011 HK$'000	2010 HK$'000
Capital expenditure contracted for but not provided in respect of the acquisition of plant and equipment	**25,256**	1,213

31. OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$12,420,000 (2010: HK$12,292,000).

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:

	2011 HK$'000	2010 HK$'000
Within one year	**11,124**	11,062
In the second to fifth year inclusive	**9,700**	16,252
	20,824	27,314

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.

(For the year ended December 31, 2011)

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$4,442,000 (2010: HK$4,495,000).

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

(For the year ended December 31, 2011)

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$18,385,000 (2010: HK$15,191,000).

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$5,824,000 (2010: HK$5,844,000).

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$1,666,000 (2010: HK$1,118,000).

33. RELATED PARTY DISCLOSURES

The Company is a subsidiary of 中國恒天集團有限公司 (China Hi-Tech Group Corporation), a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the State-Owned Assets Supervision and Administration Committee of the State Council of the PRC. Accordingly, the Company and the Group are ultimately controlled by the PRC government.

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position on pages 37 and 38 and note 20, the Group has also entered into the following transactions with related parties during the year:

	2011 HK$'000	2010 HK$'000
Related parties in which a Director of certain operating subsidiaries of the Group has significant influence		
Sale of goods	–	637
Sales commission and agency fee paid	–	1,376
Related parties in which Directors of the Company have control		
Sales of goods	–	999
Management fee received	297	266
Rental paid	8,547	8,133
Jointly controlled entities		
Sale of goods	19,973	24,190
Purchase of materials	5,771	13,214
Sales commission and management fee received	35,252	47,167
Sub-contracting fee paid	164	564

The Group entered into operating lease agreements with a related party which a Director of the Company has control. At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	8,123	7,902
In the second to fifth year inclusive	8,123	15,805
	16,246	23,707

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:

	2011 HK$'000	2010 HK$'000
Short-term benefits	**49,985**	40,413
Post-employment benefits	**1,854**	1,846
	51,839	42,259

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.

Government – related entities operated in the PRC

During the year, the Group acquired land use rights amounted to approximately RMB67,942,000 (equivalent to HK$83,412,000) (2010: nil) from 中山市國土資源局 (Zhongshan Bureau of Land Resources), an entity controlled by the PRC government. The consideration was determined by reference to the market price.

The Group has entered into various banking transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. About 25% of its bank deposits and borrowings are with government–related entities. In view of the nature of those banking transactions, the Directors of the Company are of the opinion that separate disclosure would not be meaningful.

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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, 2010 and 2011	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
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

(For the year ended December 31, 2011)

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, 2010 and 2011	Principal activities
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	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
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

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, 2010 and 2011	Principal activities
立信染整機械(廣東)有限公司*	The PRC	US$15,000,000	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$12,750,000	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.

(For the year ended December 31, 2011)

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:

	2011 **HK$'000**	2010 HK$'000
Unlisted investments in subsidiaries	**36,585**	36,585
Bank balances and cash	**251**	552
Amounts due from subsidiaries	**468,279**	505,134
Other receivables	**975**	95
Tax recoverable	**275**	–
Total assets	**506,365**	542,366
Current liabilities	**797**	760
Total net assets	**505,568**	541,606
Share capital (note 26)	**55,145**	55,145
Reserves	**450,423**	486,461
Total equity	**505,568**	541,606

36. EVENTS AFTER THE REPORTING PERIOD

On March 17, 2012, certain indirect wholly-owned subsidiaries of the Company accepted the renewal of the banking facilities letter offered by Hang Seng Bank Limited in relation to various banking facilities being made available to the Group, such facilities include a new 4-year term fixed loan of US$40,000,000 and the facilities are subject to periodic review by May 31, 2012.

The terms and conditions of the 4-year term fixed loan include, inter alia, a condition to the effect that it will be an event of default if 中國恒天集團有限公司 (China Hi-Tech Group Corporation), a controlling shareholder of the Company who beneficially holds approximately 59% in the issued share capital of the Company, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

FINANCIAL SUMMARY

RESULTS

	Year ended December 31,				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	3,029,189	2,499,856	1,797,695	2,587,182	**2,198,608**
Profit (loss) before tax	314,662	(140,396)	(105,808)	371,146	**73,159**
Income tax expense	(40,257)	(2,383)	(527)	(68,181)	**(14,102)**
Profit (loss) for the year attributable to owners of the Company	274,405	(142,779)	(106,335)	302,965	**59,057**

ASSETS AND LIABILITIES

	As at December 31,				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	2,671,192	2,184,891	1,991,295	2,148,610	**2,113,366**
Total liabilities	(1,511,371)	(1,284,787)	(1,195,283)	(1,127,326)	**(1,120,671)**
	1,159,821	900,104	796,012	1,021,284	**992,695**
Equity attributable to owners of the Company	1,158,531	900,104	796,012	1,021,284	**992,695**
Non-controlling interests	1,290	–	–	–	**–**
	1,159,821	900,104	796,012	1,021,284	**992,695**