FONG'S INDUSTRIES COMPANY LIMITED

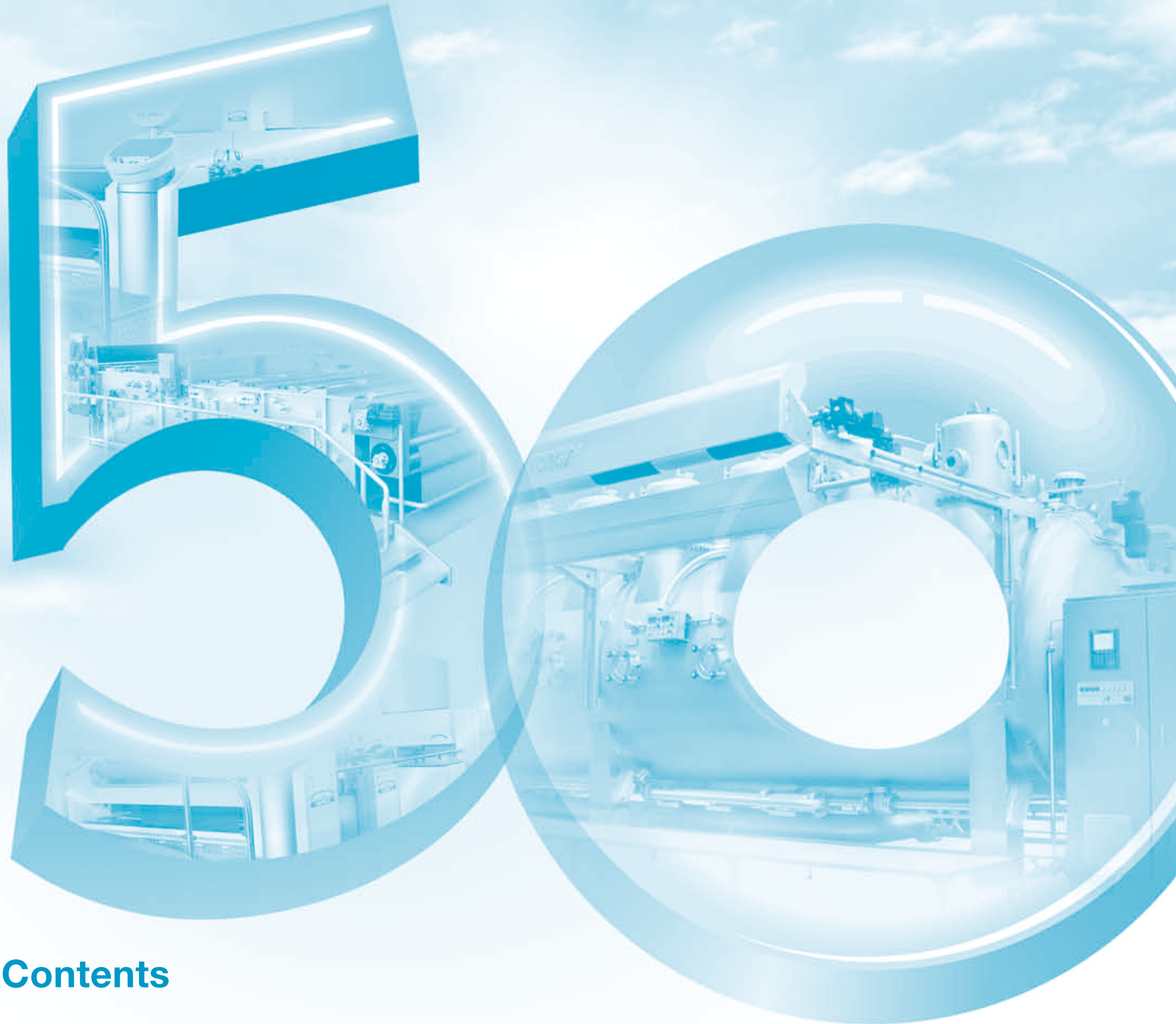
(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

Annual Report 2012

50th ANNIVERSARY

SINCE 1963 | FONG'S INDUSTRIES 立信工業



Contents

Corporate Information

CHAIRMAN EMERITUS

Mr. Fong Sou Lam

BOARD OF DIRECTORS

Ms. He Fengxian *(Chairman)*
Mr. Ye Maoxin# *(Vice-chairman)*
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Wan Wai Yung
Mr. Fong Kwok Leung, Kevin
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. Lee Che Keung

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. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

NOMINATION COMMITTEE

Ms. He Fengxian *(Committee Chairman)*
Mr. Ji Xin
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

Baker Tilly Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG

Hang Seng Bank Limited
China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
Citibank N.A.
Chinatrust Commercial Bank, 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
26 Burnaby Street
Hamilton HM11
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

On behalf of the Board of Directors (the "Board") of Fong's Industries Company Limited (the "Company"), I am pleased to present the audited annual consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

The past year was the first year of operation under the management of the newly formed Board after the acquisition of the Company by China Hi-Tech Group Corporation (中國恒天集團有限公司) ("China Hi-Tech Group") on 3 June 2011. China Hi-Tech Group is a state-owned enterprise directly supervised and beneficially owned by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

During the year under review, the Group's core businesses continued to be dyeing and finishing machine manufacturing, stainless steel trading and stainless steel product casting. After undergoing significant changes in the past year, the Group continued to develop its existing core businesses by implementing the following strategic measures:

1) On 3 June 2012, the Group entered into an acquisition agreement to acquire the German Monforts Group and such acquisition was completed on 30 November 2012 at a consideration of approximately EUR46 million. After the completion of the acquisition, the German Monforts Group and Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's"), originally the jointly controlled entities of the Group, became subsidiaries of the Group. The German Monforts Group is a German textile finishing equipment manufacturer with over a hundred years of history that enjoys a global reputation for its innovative technology. Through this acquisition, the Group's competitiveness is further strengthened and enhanced as the Group's resources in respect of technology, product types and markets in the dyeing and finishing machine industry are perfectly complemented.

2) In July 2012, Monforts Fong's relocated its production and operational facilities in Buji, Shenzhen to the Linhai Industrial Park in the Zhongshan Torch Industrial Development Zone (中山市火炬開發區臨海工業園) in Guangdong Province, the PRC. The plant has a site area of 200 mu (approximately 133,000 m^2) and approximately 70,000 m^2 of established factory space. The second phase of the Group's relocation project involves approximately 600 mu (approximately 400,000 m^2) of adjacent land lots. The construction project with a total floor area of approximately 330,000 m^2 has already commenced and it is expected that the relocation of the existing production facilities of all business sectors of the Group in Buji, Shenzhen to Zhongshan will be completed in 2015.

3) On 31 December 2012, the Group implemented a new management structure with a view to enhancing efficiency and capitalizing on the strong synergy within the Group. The number of Board members of the Company has reduced from 14 to 9. Mr. Fong Sou Lam resigned as an Executive Director of the Company, but still serves as the Chairman Emeritus of the Company and a director of several subsidiaries of the Group. Mr. Fong has made outstanding achievements in the dyeing and finishing machine industry and is also a successful entrepreneur. He can certainly provide assistance to the Board and contribute his ideas when the Board formulates the Group's development strategies.

   Mr. Zhao Chuancong, Mr. Du Qianyi, Mr. Tou Kit Vai and Dr. Tsui Tak Ming, William also resigned as Executive Directors, but still serve as directors of several subsidiaries of the Group and members of the new management team under the direct supervision of the Chief Executive Officer, and are focused on their responsible functions and departments.

   Mr. Wan Wai Yung, Executive Director of the Company, ceased to act as Chief Executive Officer with effect from 1 January 2013 in order to focus on the follow-up work of the acquisition of the German Monforts Group. Mr. Wan is the only person that is qualified for the position. Mr. Wan gained years of valuable experience when he was responsible for the operations of Monforts Fong's. As such, he developed unique insights and professional knowledge in the operations of the German Monforts Group, which can help to enhance the synergy of the acquisition and allow the Group's world-leading dyeing and finishing machines to be sold to various markets in the world in the most efficient manner.

   Mr. Ji Xin, Executive Director of the Company, joined the Group in March 2012 and has assumed the role of Chief Executive Officer with effect from 1 January 2013. He is responsible for the daily management of the Group and reports to the Board. Mr. Ji is also the Chairman (and previously was also the General Manager) of Qingdao Textile Machinery Co., Ltd. (青島紡織機械股份有限公司), a corporation affiliated with China Hi-Tech Group. He has over 20 years of experience in the textile machinery industry. The Board believes that with Mr. Ji's experience in the textile machinery industry, he can lead the Group to achieve further development and bring its operations to new heights.

The Group's management team adopted various cost control measures in recent years in an effort to improve the Group's operational conditions. There were clear signs that the Group's costs had been held within a more reasonable level, and the turnover of the Group's dyeing and finishing machine business for the year was maintained at a level similar to last year under the tireless efforts of the management and staff. However, amid negative factors such as the global economic downturn, rising labour costs and the appreciation of Renminbi, coupled with the acquisition of the German Monforts Group which involved expenses amounting to approximately HK$22 million, the Group's segment results recorded a loss of approximately HK$112 million. Nevertheless, as the acquisition of German Monforts Group brought a one-off gain of approximately HK$288 million under the item "gain on remeasurement of previously held interests in jointly controlled entities" to the Group during the year, the Group recorded a profit of HK$152 million for the year.

2013 is also the year that the Group celebrates its 50th anniversary. In order to explore new business development and create a better future, besides setting cost control as the main target for future operations, the Group also injected a series of new elements into its business development, such as (1) speeding up the commencement of the water recycling system and equipment business to form a new aspect of growth in its results; (2) launching more dyeing and finishing machines that fulfill market demand, conserve energy and are more environmental-friendly to form a new sales highlight, in bid to seize a greater market share in the fastest and most economical way.

Despite the challenging conditions of the Group's business and the market, the Board will continue to strive to expand our markets. In respect of the dyeing and finishing machine business market, there are signs that the macroeconomic environment in this year is better than last year. Therefore, the number of orders received by the Group is expected to increase. I believe that given the Group's diverse and one-stop portfolio of product supply, strong market leadership, advanced technology development and solid foundation, together with the strong support from various parties, the Group is well positioned to achieve sustainable growth and a brighter future.

Finally, on behalf of the Board, I would like to express my deepest gratitude to the staff for their commitment and dedication through these difficult times. I would also like to thank our shareholders, customers, suppliers, bankers and business partners for their tremendous support and trust.

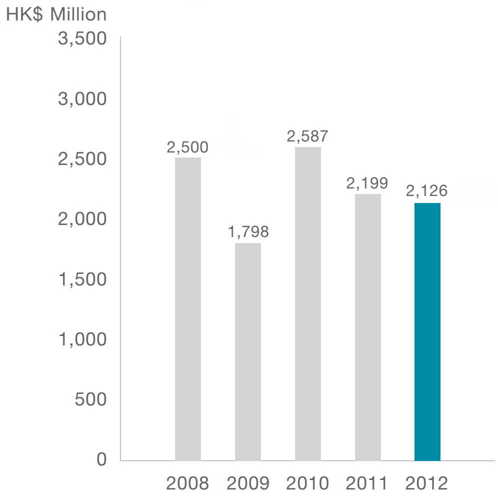
On behalf of the Board

He Fengxian
Chairman

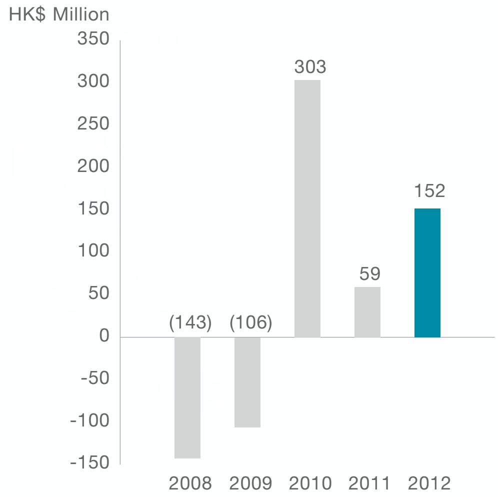
Hong Kong, 27 March 2013

Financial Highlights

REVENUE

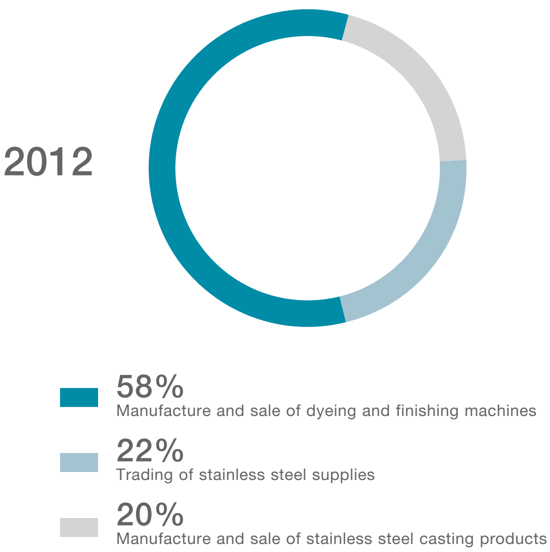


RESULTS

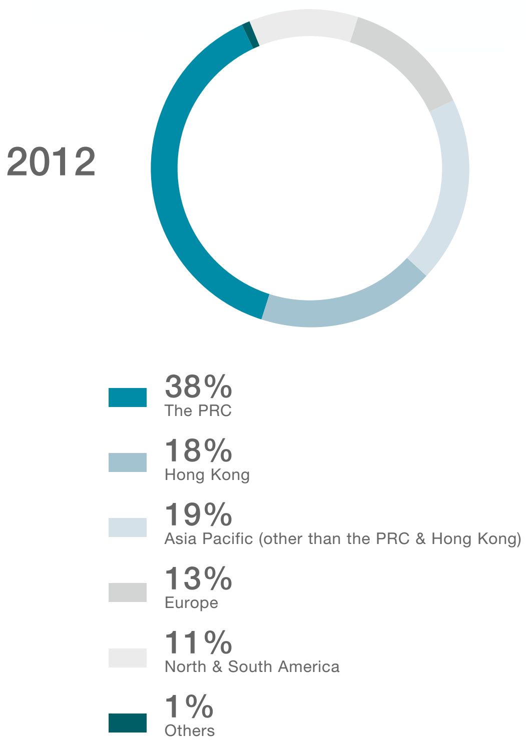


ANALYSIS OF REVENUE FOR THE YEAR

By principal activity



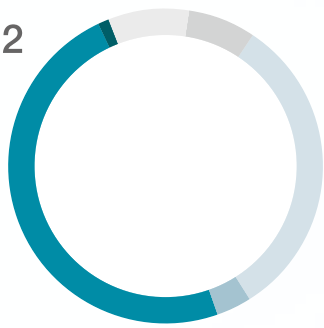
By geographical region



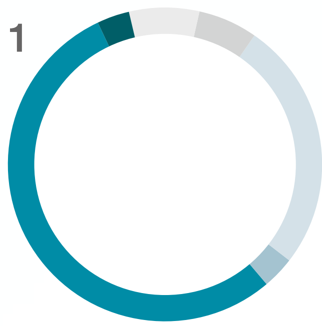
MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

By geographical region

2012



2011

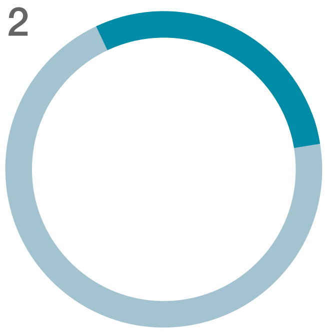


HK$ Million (2012)		HK$ Million (2011)
600	The PRC	612
46	Hong Kong	37
394	Asia Pacific	295
87	Europe	69
105	North & South America	80
14	Others	40
1,246		1,133

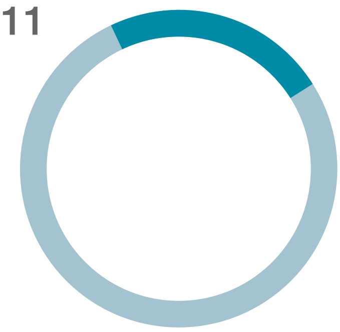
TRADING OF STAINLESS STEEL SUPPLIES

By geographical region

2012



2011

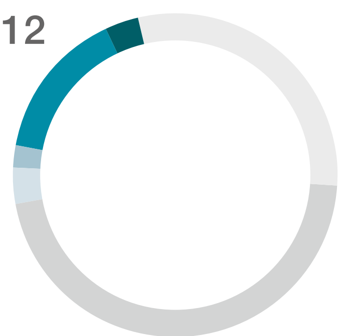


HK$ Million (2012)		HK$ Million (2011)
138	The PRC	139
327	Hong Kong	463
465		602

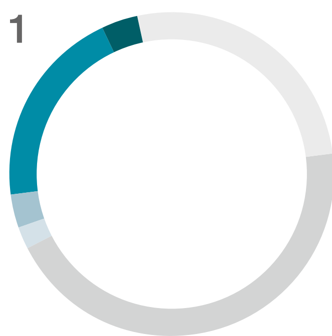
MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

By geographical region

2012



2011



HK$ Million (2012)		HK$ Million (2011)
62	The PRC	92
9	Hong Kong	15
15	Asia Pacific	11
191	Europe	206
124	North & South America	121
14	Others	18
415		463

Chairman Emeritus

Mr. Fong Sou Lam, aged 78, is the founder of the Group and the Chairman Emeritus of the Company. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has over 50 years of business experience in that industry.

MEMBERS OF THE BOARD OF DIRECTORS

Chairman and Executive Director

Ms. He Fengxian, aged 59, 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 a director 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 9 June 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-making.

Vice-Chairman and Non-executive Director

Mr. Ye Maoxin, aged 50, 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 9 June 2011. Mr. Ye is in possession of solid experience in the business of the textile machinery industry and can provide valuable advice and contribution to the development of the Company.

Other Executive Directors

Mr. Ji Xin, aged 43. Mr. Ji has been appointed as an Executive Director of the Company with effect from 15 March 2012, and is the Chief Executive Officer with effect from 1 January 2013. Mr.Ji is also a member of the Nomination Committee and the Remuneration Committee of the Company. 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 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. Wan Wai Yung, aged 61, is mainly responsible for the overall management of Monforts Fong's Textile Machinery Co. Limited and the recently acquired German Monforts Group of companies (德國門富士集團公司), which are engaged in the manufacture and sale of textile finishing machines. Mr. Wan first joined the Group in 1978 and has over 30 years of experience with excellent customer relationships in the textile and dyeing industry.

Mr. Fong Kwok Leung, Kevin, aged 51, 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.

Independent Non-Executive Directors

Mr. Zhou Yucheng, aged 67, 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 46, has been appointed as an Independent Non-executive Director of the Company since 1 September 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's 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-practising member of 中國註冊會計師協會 (the China Institute of Certified Public Accountants). Mr. Ying 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 (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 855) as vice-president during the period from 2007 to 2009, and had worked for China Botanic Development Holdings Limited (now re-named as China Water Property Group Limited) (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 2349) as an executive director and president during the period from 21 July 2008 to 30 July 2009. Mr. Ying has been appointed as an independent non-executive director of China Public Procurement Limited (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 1094) as from 28 December 2012. Currently, Mr. Ying is the operating partner of CDH Investments.

Dr. Yuen Ming Fai, aged 62, 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 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. Yuen is also an independent non-executive director of UDL Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited, Stock Code: 620).

Dr. Keung Wing Ching, aged 61, 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 (a company listed on The Stock Exchange of Hong Kong Limited, stock code: 822) 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. Zhao Chuancong, aged 39, joined China Hi-Tech Group Corporation in 2000. He is at present the deputy general manager and the secretary of the board of directors 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 (Beihang University). He also completed 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 (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). Mr. Zhao joined the Group on 19 May 2011. Currently, Mr. Zhao is a vice-president of the Company and his major responsibilities in the Group are to manage the investment and strategic development division of the Group, as well as the water treatment business.

Mr. Du Qianyi, aged 47, is the Chief Financial Officer of the Group. Mr. Du had 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 and had 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. He has also 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 achieved 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 joined the Group on 15 March 2012.

Dr. Tsui Tak Ming, William, aged 54, is a vice-president of the Company. Dr. Tsui 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 of philosophy degree in Aeronautical Engineering and is a fellow member of the Hong Kong Institution of Engineers and the Institution of Mechanical Engineers in the United Kingdom, a corporate member of the British Royal Aeronautical Society, the Hong Kong Computer Society and the British Computer Society. Dr. Tsui is an expert in Physics, Computing, Automation Control and Management issues. Dr. Tsui joined the Group in 1989 and has over 30 years of experience in research and development on mechanical engineering and information technology Dr. Tsui is the inventor of 28 inventions of the Group with patent applied. He has been a member of the advisory committee in various universities including the University of Hong Kong, the Hong Kong Polytechnic University and the Chinese University of Hong Kong.

Mr. Yang Xiaojian, aged 55, is a director of Fong's Group Management Limited (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. He studied business administration courses in California State University in the USA and holds a Master's degree in Business Administration from Suffield University in the USA. Mr. Yang joined the Group in January 2011.

Mr. Leung Sheung Wai, Walter, aged 46, is a sales director of Fong's National Engineering Company, Limited (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 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 a Fellow of the Society of Dyers and Colourists. Mr. Leung joined the Group in 1997.

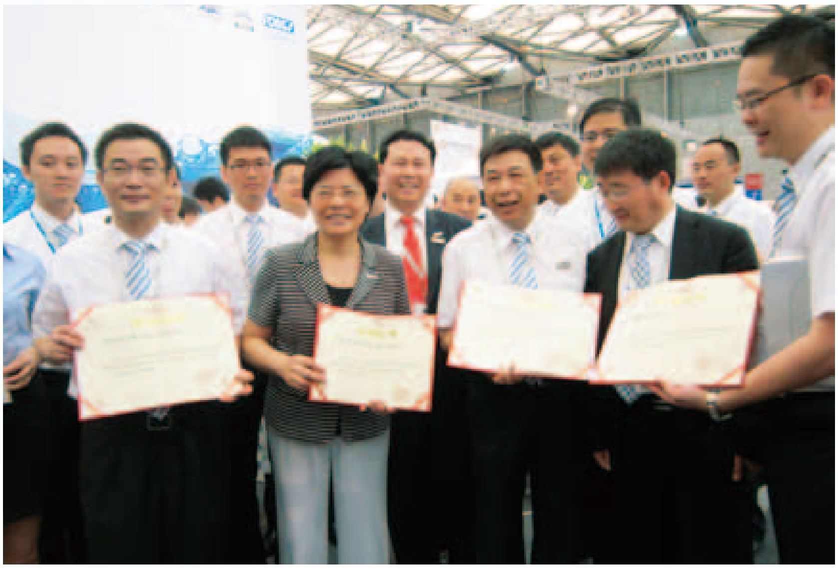
Mr. Thomas Archner, aged 55, is a Joint Managing Director of Fong's Europe GmbH (a wholly-owned subsidiary of the Group). Mr. Archner graduated from the University of Hamburg with a Diploma in Economics. He has more than 20 years' senior and executive management experience in industrial companies, including in the textile machinery business. Mr. Archner joined the Group in January 2008.

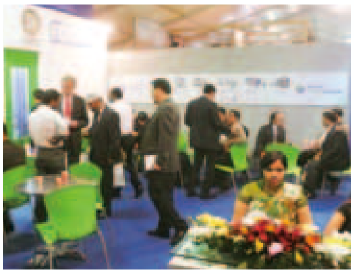
Mr. Wong Ching Chuen, Patrick, aged 51, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Group) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the woven market in China. 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. Heinz Scheungraber, aged 56, is the Chief Financial Officer of Fong's Europe GmbH (a wholly-owned subsidiary 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. Roland Hampel, aged 58, is the Joint Managing Director of A. Monforts Textilmaschinen GmbH & Co. KG in Mönchengladbach, Germany. Mr. Hampel graduated from Aachen Technical High School with a Diploma in Engineering. He is an engineer with more than 30 years' experience as an executive manager in the design of textile machines especially driers and thermo treatment machines. Mr. Hampel joined the group in 1999 and since 2007 has been heading all administrative, technical and financial issues of the company including the manufacturing company "Montex Maschinenfabrik Ges. m. b. H" in Austria. Mr. Hampel is a board member of Monforts Fong's and of the technical advisory committee of the German machine builder's guild VDMA (German Engineering Federation).

Mr. Lee Che Keung, aged 51, 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.





1. ITMA Asia 2012 – Shanghai, the PRC
2. ITME 2012 – Mumbai, India
3. DTG 2013 – Dhaka, Bangladesh

OPERATING RESULTS

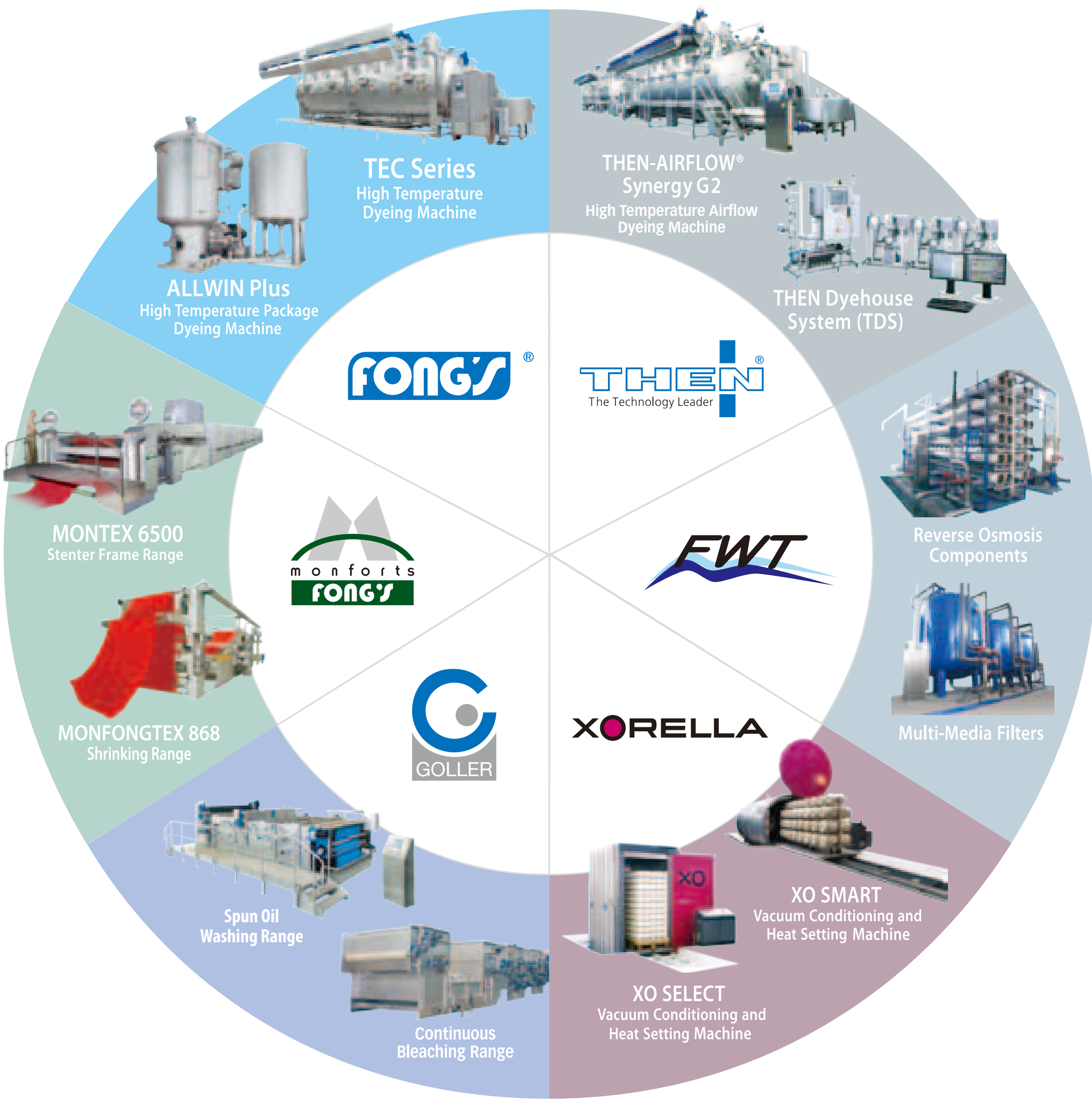
For the year ended 31 December 2012, the Group's consolidated revenue amounted to approximately HK$2,126 million (2011: HK$2,199 million), a decrease of 3% as compared to the previous year. The profit for the year was approximately HK$152 million (2011: HK$59 million), an increase of 158%. The significant increase in profit was due to the one-off gain of approximately HK$288 million on "gain on remeasurement of previously held interests in jointly controlled entities" from the acquisition of the German Monforts Group during the year (which will be explained in subsequent section). Basic earnings per share was 27.6 HK cents for the year under review (2011: 10.7 HK cents).

DYEING AND FINISHING MACHINE MANUFACTURING

Fong's National Engineering Company, Limited, Fong's National Engineering (Shenzhen) Co., Ltd., Fong's Europe GmbH and Xorella Hong Kong Limited

Since the second half of 2011, the global economy has started to deteriorate rapidly, and market demand has remained low, resulting in an extremely difficult business environment for manufacturers. In particular, the textile and garment manufacturing companies have weathered a great impact. Affected by the Euro debt crisis and uncertain global economic outlook, customers' sentiment for investing in equipment is poor, while some customers have reduced their investment scale or have delayed their projects, resulting in a slowdown in sales in the Group's dyeing and finishing machines. For the year ended 31 December 2012, revenue from this segment increased by 10% to approximately HK$1,246 million (2011: HK$1,133 million), accounting for 58% of the Group's revenue. This segment recorded an operating loss of approximately HK$112 million as compared to an operating loss of approximately HK$2 million in 2011. The increase in revenue from this segment was mainly due to the inclusion of share of the revenue of the German Monforts Group of approximately HK$124 million upon the completion of the acquisition of the German Monforts Group. Excluding this effect, this year's revenue was lower than last year by approximately HK$11 million.

Facing increasing operating costs in the PRC, certain textile buyers have shifted their orders to other countries in the Asia-Pacific region. As a result, the Group's new overseas order intake showed a significant rebound during the year under review. Both FONG'S and THEN brands have continued to see stable development and recorded an impressive performance in emerging markets such as Bangladesh, India, Indonesia and Turkey. Following the restructuring of its sales and marketing strategy in the previous year, the Group successfully re-established key referential and impressive orders for the GOLLER brand in India, Thailand and Malaysia, highlighting customers' confidence in the Group's products. Building on an established base with years of overseas market development experience, the Group will continue to enhance its competitive edge and to explore and capture the overseas market with its cost advantages. The Group has the confidence that the overseas market will continue to increase steadily.



Member companies engaging in this manufacturing segment have been restructured so that production bases in various locations and related products and brands can be centrally managed for maximizing resources and making room for expanding the Group's dyeing and finishing machine business.

Our core strategy is to continue to create value for our customers. The Group has undergone new model upgrades and product design optimization, including the areas of operating efficiency, level of automation, energy saving and environmental protection. Such optimization is to enhance the performance of our dyeing and finishing machines, so as to help our customers in reducing their overall production cost. Our newly launched products, namely TEC series of hydraulic dyeing machines and SYNERGY series of airflow dyeing machines continue to be well received by the market and will gradually supersede the older models. Despite the dim outlook of the market, the corresponding orders of the Group are still relatively satisfactory and are expected to become a new sales growth point.

As the global community has placed greater importance on environmental protection, many old and new customers plan to upgrade their existing dyeing and finishing machines, and set up additional sewage treatment facilities in the near future in order to improve their product quality and capacity standards, as well as to be prepared for compliance with new emission standards that are more demanding, which provides enormous business opportunities for the Group. In 2007, the Group already took the initiative to successfully develop a wastewater reuse system and equipment mainly designed for dye factories through its own R&D team, which is entering the harvest stage now. The Group will actively seek projects to make it become a new profit growth point of the Group in the near future.

By leveraging its understanding of customers' need for cash in their investments in new equipment, during the year, the Group has entered into an agreement with a leading financial service company specializing in equipment-based financial leasing, which will provide its customers in the PRC with a commercial arrangement for financing their purchase of dyeing and finishing machines from the Group. The Group believes that through this arrangement, the machinery replacement momentum from its customers will pick up gradually and thus will help sustain the Group's market share within the industry.

On 30 November 2012, the Group completed the acquisition of the German Monforts Group, which will expand the whole industry chain of weaving, dyeing and finishing of the Group, and allow both parties to share their sales network with each other. The Group believes that the synergies generated by the acquisition will gradually take effect next year.

In addition, the Group commenced the construction of phase II of the Zhongshan plant during the year, which is expected to be completed by 2015, upon which all production facilities of the Group will be relocated to Zhongshan from Shenzhen. As a result, the Group's production capacity will double as compared to the current level.

Looking ahead, the global economy will continue to be unstable. Operating costs will continue to rise and labor cost will remain at a high level. As the management has fully realized the difficulties and challenges, the Group will (1) in respect of marketing, continue the current marketing strategy, that is to say, be committed to the development of high-end products to provide customers with one-stop product supply mix, and adjust pricing to mitigate certain pressures arising from higher production costs by passing them onto the customers; (2) regarding production, continue to take measures to improve production and human resource efficiency; (3) in terms of production facilities, invest more resources to improve productivity and production capacity; (4) as for research and development, develop dyeing and finishing equipment which is more efficient, more energy saving and environmental-friendly, in light of market changes and requirements; and (5) in the aspect of financial management, maintain a conservative financial policy and maintain a healthy cash flow.

Given that the Group possesses a well diversified product portfolio and enjoys strong support from customers, the Group anticipates 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 operations 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.

STAINLESS STEEL TRADING

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

For the year ended 31 December 2012, sales of stainless steel of the Group amounted to approximately HK$465 million (2011: HK$602 million), representing a drop of 23% as compared to the previous year and accounted for 22% of the Group's total revenue. Its operating loss was approximately HK$4 million in contrast of an operating profit of approximately HK$13 million last year. The decrease in profitability was mainly attributable to the impact of the macro economic environment during the year, leading to a continuous drop in stainless steel price and resulting in a decline in gross profit.

Since 2012, the Group has also been 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 for the Group from existing and new customers.

1. Coil Centre
2. Stainless steel pipes and tubes

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. At the same time, the Group will strengthen the management of accounts receivables in order to lower the risk of bad debt and to maintain a sufficient level of operating cash.

Following the approval of a large number of infrastructure projects from the National Development and Reform Commission of the PRC, which is responsible for domestic government planning, coupled with the gradual recovery of the global economy, the Group expects a significant upward market demand for stainless steels in the mid to long term. Therefore, business for the stainless steel trading segment will continue to be promising and will deliver a healthy growth in the coming years.

STAINLESS STEEL CASTING

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

During the year under review, despite the downturn of the European economy, the Group secured support from customers under the leadership of its dedicated management team as well as its stable supply capacity and good product quality. As a result, the revenue from this business segment maintained a similar level as of last year. For the year ended 31 December 2012, this business segment recorded a revenue of approximately HK$415 million (2011: HK$463 million), representing a decrease of 10% as compared to the corresponding period last year, and accounted for 20% of the Group's revenue. Although the Group already strengthened its operational management, the drop in revenue and increase in manufacturing costs caused the operating profit to decline from approximately HK$53 million last year to approximately HK$21 million this year.

The management believes that the market demand for high-quality stainless steel castings will continue to grow. In order to further increase its market share, the Group is required to have a solid foundation. Therefore, the Group will (1) increase its production capacity and reduce the scrappage rate of our products, including further automation and reducing its reliance on manpower; (2) purchase advanced computerized design system and mold manufacturing equipment to further improve its molding capabilities to reduce development time for customers, and to better control the quality of metal molds manufactured by the Group; and (3) purchase equipment for the computerized digital-control machine center, and enhance machining and surface treatment service capability, thus providing customers with higher value-added services.

Due to the economic uncertainties in Europe and the United States, the management maintains prudent in the turnover and profit growth for this business segment in the coming year. The management is, however, confident that this business segment will maintain a steady growth in revenue in the mid to long term.

1 2

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.

JOINTLY CONTROLLED ENTITIES

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

Upon the completion of the acquisition of the German Monforts Group on 30 November 2012, the Group's interest in Monforts Fong's increased from 50% to 90.1%. Therefore, the status of Monforts Fong's has changed from jointly controlled entities to subsidiaries of the Group. According to the terms and conditions of the acquisition, the seller can exercise a put option within 3 months commencing from and including the third anniversary after the completion date of the acquisition, to sell its remaining 9.9% interest in the German Monforts Group (including Monforts Fong's) to the Group. If the put option is not exercised before the expiry date, the Group has the right to exercise a call option within the subsequent month to purchase the remaining 9.9% interest in the German Monforts Group (including Monforts Fong's).

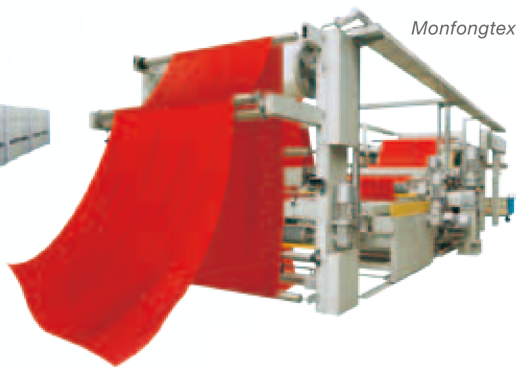
Textile markets across the world continued to slow down due to the lingering Eurozone debt crisis and the credit austerity measures in the PRC. Coupled with the significant decline in cotton prices in overseas markets, textile manufacturers in the PRC faced competitive pressure on prices, causing the growth of the entire textile industry to slow down and the profitability to decrease. As such, some customers deferred their investment on dyeing and finishing machines. As of the year ended 31 December 2012, Monforts Fong's recorded a revenue of approximately HK$508 million (2011: HK$665 million), representing a decrease of 24%.

As the status of Monforts Fong's has changed, the Group's share of Monforts Fong's profit after tax before the acquisition of the German Monforts Group amounted to approximately HK$6.7 million (2011: HK$42 million) and was reflected under the item "share of results of jointly controlled entities" in the consolidated statement of comprehensive income. After the acquisition of the German Monforts Group by the Group, the revenue and operating results of Monforts Fong's have been included in the operating segment "manufacture and sale of dyeing and finishing machines". The acquisition generated gain on remeasurement of previously held interests in jointly controlled entities of approximately HK$288 million for the Group. The relevant deemed gain was calculated based on the difference between the fair value of the Group's original investment in the jointly controlled entities and the carrying amount of the investment as at the date on which the acquisition was completed.

During the year under review, the Group's share of profit after tax decreased significantly. Apart from the decline in revenue as mentioned above, the Group's operating costs increased and profitability decreased as a result of the increase in the production overheads during the year due to the appreciation of the Renminbi, the rise of the minimum wages level in the PRC and the adjustment made as a result of running productions in Shenzhen and Zhongshan simultaneously in the transition period before completing the relocation of the plant to Zhongshan.

Montex 6500 Stenter

Monfongtex 868 Shrinking Range



The new production plant in Zhongshan, which is in excellent condition, has commenced full production since September 2012. Together with the synergy generated from the acquisition of the German Monforts Group, the production and operation of Monforts Fong's is on track as its overall productivity is gradually increasing. It is expected that the business will achieve greater improvement. Furthermore, the product range and market coverage of Monforts Fong's will be further expanded through the acquisition, and its competitiveness in the market will be further enhanced. In the future, the Group will be able to provide the German Monforts Group with components purchased or produced with lower production costs in the PRC. The Group will continue to produce high-end MONFORTS brand textile machinery in Austria, so as to provide better service to customers that prefer machines to be manufactured in Europe. Meanwhile, with lower production costs and the Group's sales network, MONFORTS brand textile machinery will be able to quickly enter into traditional textile markets such as India, Bangladesh, Turkey and Indonesia, thereby facilitating the future profit growth for these markets.

Under the current business environment, Monforts Fong's will continue its focus on maintaining excellent customer relations, strengthening its product portfolio, exploring new markets, 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.

HUMAN RESOURCES

To maintain and boost its competitiveness in the long run, the Group continues to implement tight control on operating expenses and cash flows through the reduction of headcount and rationalization of its production facilities.

As at 31 December 2012, the Group had a total of approximately 4,620 employees (31 December 2011: 3,760 employees) spreading across the PRC, Hong Kong, Macau, Germany, Switzerland, Thailand, India, Turkey and Central-South America. The increase in the number of employees is mainly due to the addition of approximately 940 employees from the acquisition of the German Monforts Group. Staff costs, including directors' remuneration, were approximately HK$294 million (2011: HK$260 million). The increase in staff costs was mainly attributable to the appreciation of Renminbi and other foreign currencies in countries where the Group operates, the increase in minimum wages in the PRC which led to an increase in the general wages level of the employees of the Group, and the increase in related expenses such as the implementation of additional social security benefits by the PRC government. 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 unfavourable operating environment as mentioned above, the Group will continue to monitor the market situation on a regular basis and will adjust the labour force and labour structure accordingly in order to enhance the operational efficiency with better staff mix.

The Group believes the success of its business hinges on employee commitment. Thus it strives to provide a harmonious working environment for its 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 are reviewed by its management on a regular basis. Bonus and rewards may also be awarded to employees based on performance evaluation, with an aim to encourage and reward staff to achieve better performance. Other employee benefits available for eligible employees from the Group include medical insurance, retirement benefits scheme and share option scheme.

The Group recognizes the importance of having high caliber and competent staff. Hence, in order to prepare the workforces to face the challenges ahead, the Group will continue to offer training programs to staff at different levels and positions on an ongoing basis. The aim of these programs 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 good performance from employees.

LIQUIDITY AND CAPITAL RESOURCES

The Group met its funding requirements in its usual course of business by cash flows generated from operations and existing banking facilities. The Board believes that the Group is in a healthy financial position and has sufficient resources to support its operational requirements.

During the year ended 31 December 2012, the Group's net cash inflow generated from operating activities was approximately HK$147 million. As at 31 December 2012, the Group's inventory level decreased to approximately HK$760 million as compared to approximately HK$777 million as at 31 December 2011.

As at 31 December 2012, bank borrowings from the Group amounted to approximately HK$1,165 million. Most bank borrowings were sourced from Hong Kong of which 53% was denominated in Hong Kong dollars, 42% was denominated in United States dollars, 2% was denominated in Euro and 3% was 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$60 million to hedge interest rate fluctuation.

As at 31 December 2012, the bank balances and cash of the Group amounted to approximately HK$413 million of which 43% was denominated in Renminbi, 33% in United States dollars, 17% in Hong Kong dollars, 5% in Euro and 2% in Indian rupees and other currencies.

As at 31 December 2012, the gearing ratio of the Group, defined as bank's net borrowings (other than payables in the ordinary course of business) over total equity, increased to 66% (31 December 2011: 48%) and the current ratio was 0.93 (31 December 2011: 1.3). The Board considers these ratios to be still at acceptable levels as the Group continued to maintain prudent financial management policies during the period 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 continue to monitor the Group's overall foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arise.

The Board of Directors (the "Board") hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2012.

CORPORATE GOVERNANCE PRACTICES

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability. We are committed to achieving a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Company has applied the principles set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code (the "CG Code") during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the period from 1 January 2012 to 31 March 2012, the Company has complied with the code provisions of the former Codes on Corporate Governance Practices set out in Appendix 14 to the Listing Rules; and during the period from 1 April 2012 to 31 December 2012, the Company has complied with the code provisions set out in the CG Code, save and except for the deviations from code provisions A.4.1 and A.6.7. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviations are summarized below.

The Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest developments.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted 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 31 December 2012.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees on terms no less exacting 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 subsidiaries. No incident of non-compliance was noted by the Company in 2012.

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.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and management. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board.

The Board reserves the right to decide on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The Board has delegated a number of responsibilities to the Executive Directors and the management team of the Company. The management team under the Chief Executive Officer is responsible for formulating the strategic plans and operation goals of the Group, The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board will also review the management structure of the Group from time to time and will adopt appropriate measures as may be desirable for future development of the operating activities or business of the Group.

The Company has also arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against them arising from corporate activities. During the year, no claim was made against any Directors and officers of the Company.

As at 31 December 2012, the Board met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors (representing at least one-third of the Board), with at least one Independent Non-executive Director possessing appropriate professional qualifications and accounting and related financial management expertise.

The Board is led by the Chairman and currently comprises four 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)*
Mr. Fong Sou Lam *(Chairman Emeritus)* (resigned on 31 December 2012)
Mr. Ji Xin *(Chief Executive Officer)* (appointed on 15 March 2012)
Mr. Wan Wai Yung
Mr. Fong Kwok Leung, Kevin
Mr. Zhao Chuancong (resigned on 31 December 2012)
Mr. Du Qianyi (appointed on 15 March 2012 and resigned on 31 December 2012)
Mr. Tou Kit Vai (resigned on 31 December 2012)
Dr. Tsui Tak Ming, William (resigned on 31 December 2012)

Non-executive Director

Mr. Ye Maoxin *(Vice-chairman)*

Independent Non-executive Directors

Mr. Zhou Yucheng
Mr. Ying Wei
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

The biographical details of the current 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 Directors have 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 2012.

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 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.

During the year ended 31 December 2012, the Chief Executive Officer was Mr. Wan Wai Yung. On 1 January 2013, Mr. Wan Wai Yung resigned as Chief Executive Officer, but remains as Executive Director of the Company. Mr. Ji Xin was appointed as the Chief Executive Officer with effect from 1 January 2013.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. However, Mr. Ye Maoxin was appointed an Non-executive Director and the Vice-Chairman of the Company on 9 June 2011 without a specific term but he was 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. To comply with code provision A.4.1, on 18 May 2012, the Company entered into a service contract with Mr. Ye Maoxin for a term of two years commencing on 18 May 2012 and expiring on 17 May 2014, subject to re-election in accordance with the provisions of the Bye-laws of the Company.

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.

In compliance with Rule 3.10(2) of the Listing Rules, Mr. Ying Wei, one of the Independent Non-executive Directors, is a non-practising 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 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 the 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 13 Board Meetings (including 4 meetings by way of circulation of written resolutions and 5 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.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions set out in code provision D3.1 of the CG Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices; (b) training and continuous professional development of Directors and senior management; (c) the Company's policies and practices on compliance with legal and regulatory requirements; (d) the Company's code of conduct and (e) the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website "www.fongs.com" and the Stock Exchange's website and are available to shareholders upon request. All Board committees report to the Board on their decisions or recommendations.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

NOMINATION COMMITTEE

On 28 March 2012, the Board 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, are available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkex.com.hk. As at the date of this Annual Report, 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. Ji Xin, being an Executive Director, with Ms. He Fengxian as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee are mainly to (i) review the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors; (ii) make recommendations to the Board on the appointment and succession planning of Directors; and (iii) assess the independence of Independent Non-executive Directors.

In 2012, the Nomination Committee met once and the attendance record of individual member is set out in this report. During the year, the Nomination Committee reviewed the structure, size and component (including the skills, knowledge, experience and length of service) of the Board and made recommendation on proposed changes to the Board and Chief Executive Officer to complement the Company's corporate strategy.

Before the establishment of the Nomination Committee, 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.

Mr. Ji Xin and Mr. Du Qianyi were appointed by the Board as Executive Directors of the Company on 15 March 2012. Mr. Ji and Mr. Du were subsequently re-elected as Executive Directors by shareholders at the annual general meeting of the Company held on 18 May 2012.

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.

Mr. Wan Wai Yung, Mr. Fong Kwok Leung, Kevin and Dr. Yuen Ming Fai will retire from office by rotation under the Bye-laws of the Company at the forthcoming annual general meeting, and all of them will be offering themselves for re-election at the same meeting.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction is normally supplemented with visits to the Group's key business sites and/or meetings with the senior management of the Company.

With effect from 1 April 2012, management provides all Directors with monthly updates which give a balanced and understandable assessment of the Company's performance, financial position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties under the Listing Rules.

Under code provision A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expense.

The Company Secretary of the Company provides the Directors with regular updates on the amendments to the Listing Rules and implementation of new applicable laws. An in-house seminar was also organized for Directors in August 2012 to keep them abreast of the latest regulatory changes including the requirements under the Securities and Futures Ordinance on disclosure of inside information and the requirements under the Listing Rules on connected parties and connected transactions. Individual Director had also attended seminars and/or conferences or workshops or forums relevant to his profession and duties as directors.

The Company has prepared a training record in order to assist the Directors to record the training that have undertaken. According to the records maintained by the Company, the training undertaken by each of the Directors during the period from 1 April 2012 (being the date the CG Code became effective) to 31 December 2012 is summarized as follows:

	Trainings undertaken by Director		
Name of Director	**A**	**B**	**C**
Ms. He Fengxian	✓	✓	
Mr. Fong Sou Lam	✓	✓	
Mr. Ye Maoxin	✓	✓	
Mr. Ji Xin	✓	✓	
Mr. Wan Wai Yung	✓	✓	
Mr. Fong Kwok Leung, Kevin	✓	✓	
Mr. Zhao Chuancong	✓	✓	
Mr. Du Qianyi	✓	✓	
Mr. Tou Kit Vai	✓	✓	✓
Dr. Tsui Tak Ming, William	✓	✓	
Mr. Zhou Yucheng	✓	✓	
Mr. Ying Wei	✓	✓	
Dr. Yuen Ming Fai		✓	
Dr. Keung Wing Ching	✓	✓	

A – Attending seminar(s)/forum(s)
B – Reading materials relating to corporate governance, directors' duties and responsibilities
C – Traing relevant to directors' profession and other relevant topics

REMUNERATION COMMITTEE

The Board 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 28 March 2012. The revised terms of reference, which are closely aligned with the CG Code, are available on the Company's website (www.fongs.com) and the Stock Exchange's website (www.hkex.com.hk).

During the year and up to the date of this Annual Report, the members of the Remuneration Committee, the majority of which are the Independent Non-executive Directors, are as follows:

Mr. Zhou Yucheng *(Committee Chairman)*
Ms. He Fengxian
Mr. Ji Xin (appointed on 1 January 2013)
Mr. Ying Wei
Dr. Yuen Ming Fai
Dr. Keung Wing Ching
Mr. Wan Wai Yung (resigned on 1 January 2013)

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 held by way of circulating written resolutions for adoption and the individual attendance of the members are set out in this report.

During the year, the Remuneration Committee approved the salary adjustments and performance-related incentive payments to the Executive Directors, and the remuneration packages of Mr. Ji Xin and Mr. Du Qianyi who were appointed as Executive Directors on 15 March 2012.

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 28 March 2012 in terms substantially the same as the provisions set out in the CG Code. The revised terms of reference of the Audit Committee are available on the Company's website (www.fongs.com) and the Stock Exchange's website (www.hkex.com.hk).

The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

As at the date of this Annual Report, the members of the Audit Committee, all being the Independent Non-executive Directors, are as follows:

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

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year ended 31 December 2012.

The Audit Committee held three meetings in 2012 and the attendance record of individual member is set out in this report. In discharging its responsibilities, the Audit Committee has performed the following works during the year of 2012:

(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 change of external auditors and re-appointment of the external auditors, and approved their terms of engagement.

The Audit Committee has recommended to the Board (and the Board agrees) that, subject to shareholders' approval at the forthcoming annual general meeting, Baker Tilly Hong Kong Limited be re-appointed as the auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company.

ATTENDANCE RECORD OF INDIVIDUAL DIRECTORS AT MEETINGS IN 2012

	Number of attendance/number of possible attendance					
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting	Special General Meeting
Executive Directors						
Ms. He Fengxian	13/13	3/3	1/1	2/2	1/1	1/1
Mr. Fong Sou Lam (resigned on 31 December 2012)	10/13	3/3			0/1	0/1
Mr. Ji Xin (appointed on 15 March 2012)	9/11	3/3	1/1		1/1	0/1
Mr. Wan Wai Yung	13/13	3/3		2/2	1/1	0/1
Mr. Fong Kwok Leung, Kevin	12/13	3/3			1/1	0/1
Mr. Zhao Chuancong (resigned on 31 December 2012)	10/13	3/3			1/1	0/1
Mr. Du Qianyi (appointed on 15 March 2012 and resigned on 31 December 2012)	9/11	3/3			1/1	1/1
Mr. Tou Kit Vai (resigned on 31 December 2012)	13/13	3/3			1/1	0/1
Dr. Tsui Tak Ming, William (resigned on 31 December 2012)	11/13	3/3			1/1	0/1
Non-executive Director						
Mr. Ye Maoxin	8/8	3/3			1/1	0/1
Independent Non-executive Directors						
Mr. Zhou Yucheng	8/8	3/3	1/1	2/2	1/1	0/1
Mr. Ying Wei	7/8	2/3	1/1	2/2	1/1	0/1
Dr. Yuen Ming Fai	7/8	2/3	1/1	2/2	1/1	1/1
Dr. Keung Wing Ching	8/8	3/3	1/1	2/2	1/1	0/1

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, Baker Tilly Hong Kong Limited, the current 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$3,613,000 and approximately HK$787,000 respectively.

During the year ended 31 December 2012, the remuneration in respect of non-audit services provided by the Company's former auditor, Deloitte Touche Tohmatsu, amounted to approximately HK$7,474,000. This was mainly related to the services to act as the reporting accountants of the Company in connection with a very substantial acquisition transaction.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended 31 December 2012 have been reviewed by the Audit Committee and audited by the external auditor, Baker Tilly Hong Kong Limited. 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.

In December 2012, the Company established a policy relating to price-sensitive information and setting out the preventive controls and reporting mechanism.

The Company has an independent internal audit team, which plays a major role in monitoring the corporate governance of the Group and providing objective assurance to the Board that a sound internal control system is maintained and operated by the management. The head of the internal audit team directly reports to the Chairman of the Board and the Audit Committee on audit matters.

By adopting a risk-based approach to evaluate risk level on control environment, the internal audit team plans internal audit schedules annually in consultation with, but independent of, the management, and the audit plan is submitted to the Audit Committee for approval. The annual audit work plan covers major activities and processes of the Group's operating business. Moreover, ad hoc reviews will be performed on specific areas of concern identified by the Audit Committee and the management.

The Board has reviewed and considers 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 has reviewed 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.

COMPANY SECRETARY

The Company Secretary, Mr. Lee Che Keung, is a full time employee of the Company and reports to the Chairman of the Board. He is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The biography of Mr. Lee is set out on page 13 of this annual report.

Mr. Lee confirmed that he has taken no less than 15 hours of relevant professional training to update his skills and knowledge in 2012.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

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.

Shareholders and investors may also write directly to the Company's principal place of business in Hong Kong at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong.

Enquiries are dealt with in an informative and timely manner. The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

The Company's notice to Shareholders for the 2012 Annual General Meeting was sent to Shareholders at least 20 clear business days before such meeting and notices of special general meetings will be sent to Shareholders at least 10 clear business days before such meetings. The Chairman of the Annual General Meeting, the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee, and the external auditors were available at the last Annual General Meeting held on 18 May 2012 to answer questions from the Shareholders. The Chairman of the Annual General Meeting had explained the procedures for conducting a poll during the meeting.

Code provision A.6.7 of the CG Code stipulates that Independent Non-executive Directors and other Non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, Mr. Ye Maoxin (the Vice-Chairman and Non-executive Director) and Mr. Zhou Yucheng, Mr. Ying Wei and Dr. Keung Wing Ching (each an Independent Non-executive Director), were unable to attend the special general meeting of the Company held on 6 August 2012 due to their respective unavoidable business engagement.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Bye-laws, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the rights of voting at general meetings may request the Company to convene a special general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address: 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong
(For the attention of the Board of Directors)

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) at the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Bye-laws. An up to date version of the Bye-laws is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Bye-laws for further details on their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules. The Chairman of the meeting will ensure that an explanation is provided regarding the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. The poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fongs.com) as soon as practicable after the relevant general meetings.

On behalf of the Board

He Fengxian
Chairman

Hong Kong, 27 March 2013

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

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 the then jointly controlled entities are set out in notes 36, 16 and 17 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 53.

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2012.

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 31 December 2012, 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 31 December 2012 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	264,562
	287,595

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)*	
Mr. Fong Sou Lam *(Chairman Emeritus)*	(resigned on 31 December 2012)
Mr. Ji Xin *(Chief Executive Officer)*	(appointed on 15 March 2012)
Mr. Wan Wai Yung	
Mr. Fong Kwok Leung, Kevin	
Mr. Zhao Chuancong	(resigned on 31 December 2012)
Mr. Du Qianyi	(appointed on 15 March 2012 and resigned on 31 December 2012)
Mr. Tou Kit Vai	(resigned on 31 December 2012)
Dr. Tsui Tak Ming, William	(resigned on 31 December 2012)

Non-executive Director:

Mr. Ye Maoxin *(Vice-chairman)*

Independent Non-executive Directors:

Mr. Zhou Yucheng
Mr. Ying Wei
Dr. Yuen Ming Fai
Dr. Keung Wing Ching

The Company entered into a service contract with Mr. Ye Maoxin for a term of 2 years commencing on 18 May 2012 and expiring on 17 May 2014.

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

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

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on 1 September 2010 and expiring on 31 August 2012. Upon expiry, his term of office has been extended to 31 August 2014.

Dr. Keung Wing Ching was appointed under a contract for a term of 2 years commencing on 1 June 2010 and expiring on 31 May 2012. Upon expiry, his term of office has been extended to 31 May 2014.

The Company has also entered into service contracts with each of the other Executive Directors.

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 Clause 99 of the Company's Bye-Laws, the following Directors, namely Mr. Wan Wai Yung, Mr. Fong Kwok Leung, Kevin and Dr. Yuen Ming Fai will retire from office at the forthcoming annual general meeting and, being eligible, will 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 31 December 2012, 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 Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	100,000	0.02%
		1,650,000	0.30%
Mr. Wan Wai Yung	Beneficial owner	2,018,000	0.36%
	Corporate interest (Note 1)	1,313,500	0.24%
		3,331,500	0.60%

Note 1: 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 31 December 2012.

SHARE OPTIONS

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2012, 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 (unless specified otherwise) the independent shareholders' approval requirements, but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

The Group entered into the following tenancy agreements with Sou Lam Company, Limited ("Sou Lam"). Sou Lam is wholly beneficially owned by Mr. Fong Sou Lam who was a director of the Company until 31 December 2012 and is a substantial shareholder of the Company.

On 28 December 2010, Fong's National Engineering Company, Limited. ("FNECL"), a wholly-owned subsidiary of the Company, entered into a tenancy 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 1 January 2011 to 31 December 2013. On 1 November 2011, FNECL entered into a surrender agreement with Sou Lam in respect of a portion of the same factory building as from 1 December 2011. Details of these transactions are set out in the announcements of the Company dated 28 December 2010 and 1 November 2011. The total rentals paid by the Group to Sou Lam for the year ended 31 December 2012 amounted to HK$6,510,456.

On 1 November 2011, FNECL further entered into a tenancy 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 1 November 2011 to 31 December 2013. The total rentals paid by the Group to Sou Lam for the year ended 31 December 2012 amounted to HK$1,612,800. Notwithstanding that this transaction is exempted from Rule 14A.33 of the Listing Rules, the Company has made a voluntary announcement regarding this transaction on 1 November 2011.

On 30 April 2012, FNECL further entered into a tenancy agreement with Sou Lam for the use of an additional portion of the same factory building as godown for a term of one year and eight months from 1 May 2012 to 31 December 2013. The total rentals paid by the Group to Sou Lam for the year ended 31 December 2012 amounted to HK$143,500. This transaction is exempted under Rule 14A.33 of the Listing Rules and therefore no announcement was made by the Company in connection therewith.

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 conducted in accordance with the relevant agreements governing the relevant transactions and (iii) the aggregate amounts incurred in 2012 have not exceeded the respective annual cap disclosed in the previous announcements. The auditor issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.38 of the Listing Rules. The Company provided a copy of the said letter to the Stock Exchange.

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 interests 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 31 December 2012.

MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2012, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in note 35 to the consolidated financial statements.

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 ended 31 December 2012 or at any time during that year.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Board reported below details of loan facilities which exist at any time during the year ended 31 December 2012 and include conditions relating to specific performance of the controlling shareholder of the Company.

(i) On 17 March 2012, certain indirect wholly-owned subsidiaries of the Company accepted the renewal of the banking facilities letter offered by a bank 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 million (the "Term Fixed Loan"). The facilities are subject to periodic review by 31 May 2013. The terms and conditions of the 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, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

(ii) On 5 November 2012, Fong's National Engineering Company, Limited (as borrower), an indirect wholly-owned subsidiary of the Company, the Company (as guarantor) and a bank (as lender) entered into a 3-year term loan facility agreement of up to a principal amount of HK$75 million. The term fixed loan will be used for capital expenditures and general corporate funding requirements of the Group. The terms and conditions of the term fixed loan include, inter alia, a condition that 中國恒天集團有限公司 (China Hi-Tech Group Corporation), a controlling shareholder of the Company, undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

(iii) On 19 November 2012, Fong's National Engineering Company, Limited (as borrower), an indirect wholly-owned subsidiary of the Company, accepted the banking facilities offered by a bank (as lender) in relation to a new 3-year term loan facility of up to a principal amount of HK$300 million. The term fixed loan is to be repaid by one lump sum on the maturity date. The term fixed loan is utilized by the Group for the acquisition of the Monforts Group (as defined in the Company's announcement dated 8 June 2012) The terms and conditions of the term fixed loan include, inter alia, a condition that 中國恒天集團有限公司 (China Hi-Tech Group Corporation), a controlling shareholder of the Company, shall at all times provide and maintain a standby letter of credit for an amount of HK$310 million (or its equivalence in Renminbi) in favour of the bank to secure the term fixed loan throughout the life of the term fixed loan. On 21 November 2012, the Company was informed by the bank that the standby letter of credit was issued and received by the bank.

Save as disclosed above, the directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2012.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2012, 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)	307,704,070	55.80%
Mr. Fong Sou Lam	Beneficial owner	29,400,000	5.33%
	Held by spouse	5,000,000	0.91%
	Corporate interests (Note B)	63,052,110	11.43%
		97,452,110	17.67%

Note A: By virtue of the SFO, China Hengtian Group Co., Ltd. is deemed to be interested in 307,704,070 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. – 178,895,250 shares

Note B: Mr. Fong Sou Lam is deemed to be interested in 63,052,110 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 60,502,110 shares as follows:

(i) Bristol Investments Limited – 8,000,000 shares
(ii) Polar Bear Holdings Limited – 39,000,000 shares
(iii) Sheffield Holdings Company Limited – 13,502,110 shares

Save as disclosed above, as at 31 December 2012, 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$155,000.

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 26 May 2003 to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Details of the share option scheme are set out in note 31 to the consolidated financial statements. No option has been granted by the Company under the share option scheme since its adoption.

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

PUBLIC FLOAT

Based on the information after close of an unconditional mandatory cash offer by China Hengtian Group Co., Ltd (中國恒天集團有限公司) on 3 June 2011 (as announced by the Company previously), 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 30 September 2012. Trading of the shares in the Company was suspended with effect from 9:00 a.m. on 7 June 2011 pending the restoration of the public float of the Company.

On 3 October 2012, the number of shares in public hands (within the meaning of Rule 8.24 of the Listing Rules) was 137,970,605 shares, representing approximately 25.02% of the issued shares of the Company. Accordingly, the public float of the Company as required under the Listing Rules was restored and trading of the shares in the Company was resumed with effect from 9:00 a.m. on 4 October 2012.

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the period from 4 October 2012 to 31 December 2012 and as at the date of this report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued shares being held by the public as required under the Listing Rules.

AUDITOR

Deloitte Touche Tohmatsu ("Deloitte"), the former auditor of the Company, retired as the auditor of the Company upon expiration of its term of office at the conclusion of the annual general meeting of the Company held on 18 May 2012. The Company had received a confirmation letter from Deloitte on 20 April 2012, confirming that there were no matters connected with its retirement that need to be brought to the attention of the shareholders of the Company. The Board had also confirmed that there were no matters in respect of the change of auditor that need to be brought to the attention of the shareholders of the Company.

At the annual general meeting held on 18 May 2012, the shareholders approved the appointment of Baker Tilly Hong Kong Limited as the new auditor of the Company to fill the vacancy following the retirement of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company.

An ordinary resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Baker Tilly Hong Kong Limited as the independent auditor of the Company.

On behalf of the Board

Ji Xin
Director

Hong Kong, 27 March 2013

BAKER TILLY
HONG KONG | 天職香港

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 53 to 145, which comprise the consolidated statement of financial position as at 31 December 2012, 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.

AUDITOR'S RESPONSIBILITY *(Continued)*

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 31 December 2012, 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.

Baker Tilly Hong Kong Limited
Certified Public Accountants

Lo Wing See
Practising Certificate Number P04607

Hong Kong, 27 March 2013

Consolidated Statement of Comprehensive Income

(For the year ended 31 December 2012)

	NOTE	2012 HK$'000	2011 HK$'000
Revenue	5	**2,126,467**	2,198,608
Cost of sales		**(1,608,311)**	(1,615,710)
Gross profit		**518,156**	582,898
Interest income		**2,693**	2,340
Other income	8	**32,972**	46,468
Other gains and losses	8	**(10,424)**	(3,984)
Selling and distribution costs		**(140,231)**	(114,305)
General and administrative expenses		**(420,361)**	(373,225)
Other expenses		**(74,862)**	(73,396)
Finance costs	6	**(47,204)**	(35,200)
Share of results of an associate		**231**	(325)
Share of results of jointly controlled entities		**6,707**	41,888
Gain on remeasurement of previously held interests in jointly controlled entities	17	**288,399**	–
Profit before tax		**156,076**	73,159
Income tax expense	7	**(4,049)**	(14,102)
Profit for the year	8	**152,027**	59,057
Other comprehensive (expense) income, net of nil tax			
Exchange difference arising on translation		**9,148**	30,241
Share of changes in translation reserve of an associate		**513**	1,732
Share of changes in translation reserve of jointly controlled entities		**2,093**	6,048
Reclassification adjustment of translation reserve upon deemed disposal of jointly controlled entities		**(24,308)**	–
Gain on cash flow hedge		**6,192**	12,194
Other comprehensive (expense) income for the year		**(6,362)**	50,215
Total comprehensive income for the year		**145,665**	109,272
Earnings per share Basic and diluted	11	**27.6 HK cents**	10.7 HK cents

The accompanying notes form part of the consolidated financial statements.

Consolidated Statement of Financial Position

(At 31 December 2012)

	NOTE	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	12	**554,775**	346,129
Prepaid lease payments	13	**158,398**	95,983
Goodwill	14	**533,515**	–
Intangible assets	15	**102,617**	7,672
Interest in an associate	16	**37,164**	36,420
Interests in jointly controlled entities	17	**–**	119,701
Deposits for acquisition of property, plant and equipment		**21,123**	3,068
Deposits for acquisition of leasehold land		**29,195**	7,953
Deferred tax assets	18	**20,222**	14,133
		1,457,009	631,059
Current assets			
Inventories	19	**760,437**	777,064
Trade and other receivables	20	**561,317**	416,576
Prepaid lease payments	13	**3,541**	2,168
Amounts due from jointly controlled entities	21	**–**	4,086
Tax recoverable		**5,048**	4,249
Cash and cash equivalents	22	**412,870**	278,164
		1,743,213	1,482,307
Current liabilities			
Trade and other payables	23	**661,738**	322,919
Warranty provision	24	**13,328**	12,108
Derivative financial instruments	25	**944**	2,882
Tax liabilities		**17,378**	12,730
Borrowings	26	**1,185,845**	756,410
		1,879,233	1,107,049
Net current (liabilities) assets		**(136,020)**	375,258
Total assets less current liabilities		**1,320,989**	1,006,317

(At 31 December 2012)

	NOTE	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Derivative financial instruments	25	**–**	4,254
Deferred tax liabilities	18	**13,274**	9,368
Borrowings	26	**169,355**	–
		182,629	13,622
		1,138,360	992,695
Capital and reserves			
Share capital	27(b)	**55,145**	55,145
Share premium and reserves		**1,083,215**	937,550
		1,138,360	992,695

The accompanying notes form part of the consolidated financial statements.

The consolidated financial statements on pages 53 to 145 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

Wan Wai Yung
Director

Ji Xin
Director

Consolidated Statement of Changes in Equity

(For the year ended 31 December 2012)

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'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 1 January 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, net of tax	–	–	–	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 31 December 2011	55,145	157,261	2,370	134,881	624,592	25,582	(7,136)	992,695

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'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 1 January 2012	55,145	157,261	2,370	134,881	624,592	25,582	(7,136)	992,695
Profit for the year	–	–	–	–	152,027	–	–	152,027
Exchange difference arising on translation	–	–	–	9,148	–	–	–	9,148
Share of changes in translation reserve of an associate	–	–	–	513	–	–	–	513
Share of changes in translation reserve of jointly controlled entities	–	–	–	2,093	–	–	–	2,093
Reclassification adjustment of translation reserve upon deemed disposal of jointly controlled entities	–	–	–	(24,308)	–	–	–	(24,308)
Gain on cash flow hedge	–	–	–	–	–	–	6,192	6,192
Other comprehensive (expense) income for the year, net of tax	–	–	–	(12,554)	–	–	6,192	(6,362)
Total comprehensive (expense) income for the year	–	–	–	(12,554)	152,027	–	6,192	145,665
At 31 December 2012	55,145	157,261	2,370	122,327	776,619	25,582	(944)	1,138,360

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 13 September 1990.

The accompanying notes form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(For the year ended 31 December 2012)

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**156,076**	73,159
Adjustments for:		
Interest expense	**40,575**	30,256
Interest income	**(2,693)**	(2,340)
Share of results of an associate	**(231)**	325
Share of results of jointly controlled entities	**(6,707)**	(41,888)
Gain on remeasurement of previously held interests in jointly controlled entities	**(288,399)**	–
Depreciation and amortisation	**72,403**	71,269
Allowance (reversal of allowance) for doubtful debts	**289**	(3,257)
Allowance for inventories	**19,547**	1,883
Loss on disposal of property, plant and equipment	**4,304**	159
Warranty provision expense	**11,028**	11,189
Operating cash flows before movements in working capital	**6,192**	140,755
Decrease in inventories	**159,018**	49,182
Increase in trade and other receivables	**(1,798)**	(75,525)
(Increase) decrease in amounts due from jointly controlled entities	**(4,086)**	9,237
Increase (decrease) in trade and other payables	**6,997**	(100,134)
Utilisation of warranty provision	**(12,981)**	(17,713)
Cash generated from operations	**153,342**	5,802
Hong Kong Profits Tax paid	**(3,739)**	(7,822)
Overseas income tax and the PRC Corporate Income Tax paid	**(5,904)**	(22,363)
Hong Kong Profits Tax refunded	**3,114**	–
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**146,813**	(24,383)

(For the year ended 31 December 2012)

	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES		
Dividend received from jointly controlled entities	–	40,000
Proceeds from liquidation of a jointly controlled entity	–	457
Refund of part of land cost from government	4,490	–
Refund of deposits from acquisition of leasehold land	–	6,077
Deposits paid for acquisition of leasehold land	(21,140)	–
Deposits paid for acquisition of property, plant and equipment	(6,047)	(700)
Proceeds from disposal of property, plant and equipment	3,313	6,884
Payments for acquisition of subsidiaries, net of cash and cash equivalent acquired	(230,944)	–
Interest received	2,693	2,340
Prepaid lease payments made	(693)	(72,363)
Purchases of property, plant and equipment	(63,858)	(43,439)
NET CASH USED IN INVESTING ACTIVITIES	(312,186)	(60,744)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(1,328,987)	(962,515)
Dividends paid	–	(137,861)
Interest paid on borrowings	(40,575)	(30,256)
New bank borrowings raised	1,659,108	1,072,666
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	289,546	(57,966)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	124,173	(143,093)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	278,164	394,829
Effect of foreign exchange rate changes	10,533	26,428
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	412,870	278,164

The accompanying notes form part of the consolidated financial statements.

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's parent company is China Hi-Tech Holding Company Limited, a company incorporated in Hong Kong and its ultimate holding company is China Hi-Tech Group Corporation (中國恒天集團有限公司), a company established in the People's Republic of China (the "PRC"). 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 ("HK$"), 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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are effective for the current period of the Group and the Company. Of these, the following developments are relevant to the Group:

HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The adoption of these amendments has no significant impact on the Group's financial statements for the years presented.

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

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
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]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the Amendments HKAS 1[2]
HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
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]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transaction Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[3]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another HKFRS.

When the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

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's 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.

Trademarks and licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses have an indefinite useful life and is thus not subject to amortisation. Trademarks and licenses are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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.

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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 *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables and 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 instruments *(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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).

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a); and

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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 31 December 2012, a deferred tax asset of approximately HK$18,446,000 (2011: approximately HK$1,490,000) in relation to unused tax losses of approximately HK$111,795,000 (2011: approximately HK$9,030,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of approximately HK$707,365,000 (2011: approximately HK$509,267,000) 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.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2012 is approximately HK$554,775,000 (2011: approximately HK$346,129,000). More details are given in note 12.

Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of future cash flows expected to arise from the products developed and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of goodwill and other intangible assets at 31 December 2012 are approximately HK$533,515,000 (2011: Nil) and approximately HK$102,617,000 (2011: approximately HK$7,672,000) respectively with no impairment loss recognised.

Allowances for inventories

The management reviews the condition of the inventories of the Group 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 31 December 2012, the carrying amount of inventories is approximately HK$760,437,000 (2011: approximately HK$777,064,000).

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

Estimated impairment of trade receivables

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 31 December 2012, the carrying amount of trade receivables is approximately HK$286,900,000 (2011: approximately HK$236,316,000) (net of allowance for doubtful debts of approximately HK$2,933,000 (2011: approximately HK$1,504,000)). More details are given in note 20.

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 31 December 2012, the carrying amount of warranty provision is approximately HK$13,328,000 (2011: approximately HK$12,108,000). The movement of the warranty provision for the year is set out in note 24.

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 company. 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 sale of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

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

For the year ended 31 December 2012

	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	1,246,153	465,242	415,072	2,126,467
Inter-segment sales	5,849	175,749	31,383	212,981
Segment revenue	1,252,002	640,991	446,455	2,339,448
Elimination				(212,981)
Group revenue				2,126,467
Segment (loss) profit	(112,313)	(3,653)	21,216	(94,750)
Interest income				2,693
Finance costs				(47,204)
Share of results of an associate				231
Share of results of jointly controlled entities				6,707
Gain on remeasurement of previously held interests in jointly controlled entities				288,399
Profit before tax				156,076

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 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

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, finance costs, share of results of an associate, share of results of jointly controlled entities and gain on remeasurement of previously held interests in jointly controlled entities. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

As at 31 December 2012

	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	2,149,137	210,887	364,894	2,724,918
Interest in an associate				37,164
Unallocated corporate assets				438,140
Consolidated total assets				3,200,222
LIABILITIES				
Segment liabilities	614,252	7,438	53,376	675,066
Unallocated corporate liabilities				1,386,796
Consolidated total liabilities				2,061,862

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at 31 December 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

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, cash and cash equivalents; and

- all liabilities are allocated to operating segments other than tax liabilities, derivative financial instruments, deferred tax liabilities and borrowings.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2012

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	**583,688**	**2,779**	**11,599**	**598,066**
Depreciation and amortisation	**57,171**	**1,128**	**14,104**	**72,403**
Loss on disposal of property, plant and equipment	**2,152**	**22**	**2,130**	**4,304**
Allowance (reversal of allowance) for inventories	**20,243**	**–**	**(696)**	**19,547**
Allowance (reversal of allowance) for doubtful debts	**168**	**471**	**(350)**	**289**

For the year ended 31 December 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	(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)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Reconciliation for (loss) earnings before interest, tax, depreciation and amortisation to profit before tax is as follows:

	2012 HK$'000	2011 HK$'000
(Loss) earnings before interest, tax, depreciation and amortisation of business segments	**(22,347)**	135,725
Depreciation of property, plant and equipment	**(67,176)**	(66,456)
Amortisation of prepaid lease payments	**(2,244)**	(1,890)
Amortisation of intangible assets	**(2,983)**	(2,923)
Operating (loss) profit	**(94,750)**	64,456
Interest income	**2,693**	2,340
Finance costs	**(47,204)**	(35,200)
Share of results of an associate	**231**	(325)
Share of results of jointly controlled entities	**6,707**	41,888
Gain on remeasurement of previously held interests in jointly controlled entities	**288,399**	–
Profit before tax	**156,076**	73,159

Assets are attributed to the segments based on the operations of each segment and the location of the assets.

Segment assets are summarised as below:

	2012 HK$'000	2011 HK$'000
Segment assets as allocated by business segments	**2,724,918**	1,660,699
Unallocated assets:		
Interest in an associate	**37,164**	36,420
Interests in jointly controlled entities	**–**	119,701
Deferred tax assets	**20,222**	14,133
Tax recoverable	**5,048**	4,249
Cash and cash equivalents	**412,870**	278,164
Total assets as per consolidated statement of financial position	**3,200,222**	2,113,366

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Liabilities are attributed to the segments based on the operations of each segment. The Group's borrowings are not recognised as segment liabilities, as they are managed by treasury departments responsible for the Group's finance.

Segment liabilities are summarised as below:

	2012	2011
	HK$'000	HK$'000
Segment liabilities as allocated by business segments	**675,066**	335,027
Unallocated liabilities:		
Derivative financial instruments	**944**	7,136
Tax liabilities	**17,378**	12,730
Deferred tax liabilities	**13,274**	9,368
Borrowings	**1,355,200**	756,410
Total liabilities as per consolidated statement of financial position	**2,061,862**	1,120,671

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**800,562**	843,283	**1,261,453**	572,574
Hong Kong	**382,098**	515,697	**11,132**	13,766
Asia Pacific (other than the PRC and Hong Kong)	**408,642**	306,350	**104**	129
Europe	**278,332**	274,581	**164,056**	30,418
North and South America	**228,793**	201,169	**42**	39
Others	**28,040**	57,528	**–**	–
	2,126,467	2,198,608	**1,436,787**	616,926

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 31 December 2012 and 2011.

6. FINANCE COSTS

	2012	2011
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years	**40,575**	30,256
Bank charges	**6,629**	4,944
	47,204	35,200

7. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
Hong Kong Profits Tax:		
Current year	**2,812**	7,586
PRC Corporate Income Tax ("CIT"):		
Current year	**4,061**	6,852
Underprovision in prior years	**1,275**	1,542
Overseas income tax:		
Current year	**611**	243
(Over) underprovision in prior years	**(19)**	5
	8,740	16,228
Deferred tax (Note 18):		
Current year	**(4,691)**	(2,126)
	4,049	14,102

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

Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and Implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 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 25% for the year ended 31 December 2012 (2011: 24%).

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

7. INCOME TAX EXPENSE *(Continued)*

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

	2012 HK$'000	2011 HK$'000
Profit before tax	**156,076**	73,159
Tax at the Hong Kong Profits Tax rate of 16.5%	**25,753**	12,071
Tax effect of:		
– expenses that are not deductible for tax purpose	**3,807**	3,902
– income that are not taxable for tax purpose	**(53,781)**	(6,601)
– tax losses not recognised	**32,686**	16,030
– share of results of an associate	**(38)**	54
– share of results of jointly controlled entities	**(1,107)**	(6,912)
– different tax rates of subsidiaries operating in other jurisdictions	**(2,466)**	1,185
– utilisation of tax losses previously not recognised	**–**	(5,312)
Underprovision in prior years	**1,256**	1,547
Withholding tax on distributable profits of subsidiaries	**(1,281)**	(1,674)
Others	**(780)**	(188)
Income tax expense for the year	**4,049**	14,102

8. PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Other income:		
Sales commission and management fee income	**(25,570)**	(35,252)
Others	**(7,402)**	(11,216)
	(32,972)	(46,468)
Other gains and losses:		
Loss on disposal of property, plant and equipment	**4,304**	159
Foreign exchange loss, net	**6,120**	3,825
Total other gains and losses, net	**10,424**	3,984
Amortisation of intangible assets	**2,983**	2,923
Amortisation of prepaid lease payments	**2,244**	1,890
Depreciation of property, plant and equipment	**67,176**	66,456
Total depreciation and amortisation	**72,403**	71,269
Allowance for inventories (included in cost of sales)	**19,547**	1,883
Allowance (reversal of allowance) for doubtful debts, net	**289**	(3,257)
Auditor's remuneration	**3,613**	2,952
Cost of inventories recognised as an expense	**1,112,778**	1,232,419
Research and development costs recognised as an expense	**4,163**	4,730
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**262,624**	229,777
Retirement benefits scheme contributions	**31,307**	30,317
Total staff costs	**293,931**	260,094

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each Director were as follows:

2012	Note	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors						
He Fengxian		–	4,446	84	18	4,548
Fong Sou Lam	(iii)	–	1,950	190	144	2,284
Wan Wai Yung		–	4,546	1,573	345	6,464
Fong Kwok Leung, Kevin		–	1,990	350	144	2,484
Tou Kit Vai	(iii)	–	1,983	73	14	2,070
Tsui Tak Ming, William	(iii)	–	1,723	136	127	1,986
Zhao Chuancong	(iii)	–	1,723	28	20	1,771
Poon Hang Sim, Blanche	(i)	–	–	–	–	–
Du Qian Yi	(ii) & (iii)	–	1,289	–	11	1,300
Ji Xin	(ii)	–	1,457	–	11	1,468
Independent non-executive directors						
Zhou Yucheng		100	–	–	–	100
Ying Wei		100	–	–	–	100
Yuen Ming Fai		100	–	–	–	100
Keung Wing Ching		100	–	–	–	100
Total		400	21,107	2,434	834	24,775

Note:

(i) Resigned on 1 January 2012

(ii) Appointed on 15 March 2012

(iii) Resigned on 31 December 2012

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

(a) Directors' emoluments *(Continued)*

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

Note:

(i) Appointed on 19 May 2011
(ii) Appointed on 9 June 2011
(iii) Resigned on 1 July 2011
(iv) Appointed on 1 September 2011
(v) Resigned on 1 September 2011
(vi) Resigned on 1 January 2012

For the years ended 31 December 2012 and 2011, no Director waived any emoluments and no incentive was paid to any Directors as an induction to join the Company.

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

(b) Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include four (2011: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2011: one) individual during the year are as follows:

	2012	2011
	HK$'000	HK$'000
Salaries and other benefits	**1,373**	2,576
Performance related incentive payments	**1,000**	–
Retirement benefits scheme contribution	**14**	12
	2,387	2,588

The emoluments of the remaining highest paid individual fell within the following bands:

Emoluments band	**Number of the individual**	
	2012	2011
HK$		
2,000,001 – 2,500,000	**1**	–
2,500,001 – 3,000,000	**–**	1

10. DIVIDENDS

Dividends recognised as distribution during the year:

	2012 HK$'000	2011 HK$'000
2010 interim special dividend 20 HK cents per share	–	110,289
2011 interim dividend 5 HK cents per share	–	27,572
	–	137,861

An interim special dividend of 20 HK cents per share, amounting to approximately HK$110 million, was declared on 11 February 2011 and paid on 8 April 2011.

The Board of Directors resolved not to recommend the payment of a final dividend for the year ended 31 December 2012.

11. EARNINGS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**152,027**	59,057
	'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 31 December 2012 and 2011 and during the years ended 31 December 2012 and 2011.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Moulds and tools	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST									
At 1 January 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 31 December 2011 and 1 January 2012	9,599	314,068	27,371	337,643	123,019	27,243	37,821	4,440	881,204
Currency realignment	14	3,113	248	4,902	1,814	213	458	59	10,821
Reclassification	–	–	27	501	(36)	–	2,101	(2,593)	–
Additions	–	–	4,247	19,311	11,375	3,804	20,112	5,009	63,858
Acquisition of subsidiaries (Note 28)	–	144,914	–	54,064	8,417	3,385	5,384	–	216,164
Disposals	–	(472)	(15,076)	(13,880)	(16,940)	(1,308)	(7,464)	(1,185)	(56,325)
At 31 December 2012	9,613	461,623	16,817	402,541	127,649	33,337	58,412	5,730	1,115,722
ACCUMULATED DEPRECIATION									
At 1 January 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
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 31 December 2011 and 1 January 2012	–	187,939	21,372	194,970	88,815	18,005	23,974	–	535,075
Currency realignment	–	2,394	200	2,963	1,408	139	300	–	7,404
Reclassification	–	–	11	498	(12)	–	(497)	–	–
Provided for the year	–	14,281	2,833	28,193	13,345	3,404	5,120	–	67,176
Eliminated on disposals	–	(411)	(14,613)	(12,719)	(14,757)	(557)	(5,651)	–	(48,708)
At 31 December 2012	–	204,203	9,803	213,905	88,799	20,991	23,246	–	560,947
CARRYING VALUE									
At 31 December 2012	9,613	257,420	7,014	188,636	38,850	12,346	35,166	5,730	554,775
At 31 December 2011	9,599	126,129	5,999	142,673	34,204	9,238	13,847	4,440	346,129

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:

	2012 **HK$'000**	2011 HK$'000
Buildings on land under long leases located in the PRC	**628**	715
Buildings on land under medium-term leases located in the PRC	**247,120**	115,371
Freehold land and buildings in Europe	**19,285**	19,642
	267,033	135,728

None of property, plant and equipment is pledged as at 31 December 2012 and 2011.

13. PREPAID LEASE PAYMENTS

	2012 HK$'000	2011 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Long leases	**1,677**	1,683
Medium-term leases	**160,262**	96,468
	161,939	98,151
Analysed for reporting purposes as:		
Current asset	**3,541**	2,168
Non-current asset	**158,398**	95,983
	161,939	98,151

Movement in prepaid lease payments

	2012 HK$'000	2011 HK$'000
At beginning of the year	**98,151**	16,068
Currency realignment	**1,195**	561
Additions	**693**	83,412
Acquisition of subsidiaries (Note 28)	**68,634**	–
Refund of part of land cost from government	**(4,490)**	–
Amortisation of prepaid lease payments	**(2,244)**	(1,890)
At end of the year	**161,939**	98,151

None of prepaid lease payments is pledged as at 31 December 2012 and 2011.

14. GOODWILL

	2012 HK$'000	2011 HK$'000
At beginning of the year	–	–
Arising from acquisition of subsidiaries (Note 28)	533,515	–
At end of the year	533,515	–

Goodwill acquired through business combination has been allocated to dyeing and finishing machines cash-generating units ("CGUs") for impairment testing.

The Group tests goodwill annually for impairment or more frequently, if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumption for the value-in-use calculations of the above CGUs are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the most recent financial budgets of 5 years and extrapolates cash flows for the following five years with growth rate of 5% assuming the existing level of sales and production remaining the same and a discount rate of 10.73% per annum. Cash flows beyond the 5-year period are extrapolated using estimated growth rates which are consistent with prior year and the forecasts in same industry. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

15. INTANGIBLE ASSETS

	Intellectual property rights HK$'000	Trademarks and licenses HK$'000	Total HK$'000
COST			
At 1 January 2011, 31 December 2011 and 1 January 2012	29,234	–	29,234
Acquisition of subsidiaries (Note 28)	7,201	90,727	97,928
At 31 December 2012	36,435	90,727	127,162
ACCUMULATED AMORTISATION			
At 1 January 2011	18,639	–	18,639
Provided for the year	2,923	–	2,923
At 31 December 2011 and 1 January 2012	21,562	–	21,562
Provided for the year	2,983	–	2,983
At 31 December 2012	24,545	–	24,545
CARRYING VALUE			
At 31 December 2012	11,890	90,727	102,617
At 31 December 2011	7,672	–	7,672

Intellectual property rights above have finite useful lives, over which the assets are amortised. The amortisation rates of intellectual property rights range from 6% to 16.67% per annum.

Impairment test for intangible assets with indefinite useful lives

The useful lives of the trademarks and licenses are assessed to be indefinite. The factors considered in the assessment of the useful lives of the trademarks and licenses include analysis of the market and competitive trends, product life cycles and management's long-term strategic development. Overall, these factors provided evidence that the trademarks and licenses are expected to generate long-term net cash inflows to the Group indefinitely.

15. INTANGIBLE ASSETS *(Continued)*

Impairment test for intangible assets with indefinite useful lives *(Continued)*

The recoverable amounts of the trademarks and licenses are estimated based on value-in-use calculations by discounting future cash flows of the cash-generating unit for which the trademarks and licenses are allocated. This method considers cash flows of the subsidiaries (cash-generating unit) for the 5 years ending 31 December 2017 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 5% to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow using a pre-tax interest rate of approximately 10.73% per annum.

16. INTEREST IN AN ASSOCIATE

	2012 HK$'000	2011 HK$'000
Cost of unlisted investment in an associate	**46,469**	46,469
Share of post-acquisition losses and other comprehensive income	**(9,305)**	(10,049)
	37,164	36,420

As at 31 December 2012 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 31 December 2012 and 2011, 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.

16. INTEREST IN AN ASSOCIATE *(Continued)*

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

	2012 HK$'000	2011 HK$'000
Total assets	**258,737**	249,145
Total liabilities	**(134,857)**	(127,745)
Net assets	**123,880**	121,400
Group's share of net assets of the associate	**37,164**	36,420
Revenue	**271,041**	284,202
Profit (loss) for the year	**769**	(1,082)
Other comprehensive income	**1,711**	5,773
Group's share of profit (loss) and other comprehensive income of the associate for the year	**744**	1,407

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2012 HK$'000	2011 HK$'000
Cost of unlisted investments in jointly controlled entities	**–**	9,249
Share of post-acquisition profits and other comprehensive income, net of dividends received	**–**	110,452
	–	119,701

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

As at 31 December 2012 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
			2012	2011	
Monforts Fong's Textile Machinery Co. Limited *	Hong Kong	HK$18,400,000	–	50%	Manufacture and trading of textile machinery
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd. *	Macau	MOP100,000	–	50%	Trading of textile machinery
Monforts Fong's Textile Machinery (Shenzhen) Co., Ltd. *	The PRC	HK$43,500,000	–	50%	Manufacture and trading of textile machinery
立信門富士紡織機械(中山)有限公司*	The PRC	US$12,700,000	–	50%	Manufacture and trading of textile machinery

* During the year, the Group obtained the control on these jointly controlled entities that it did not previously own. As a result, those companies are now accounted for as subsidiaries undertaking and not as jointly controlled entities undertaking (see note 28). This gave rise to a gain of approximately HK$288,399,000 being the difference between the fair value of the previously held interests in those companies and its carrying value which has been included in profit or loss.

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

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

	2012 HK$'000	2011 HK$'000
Non-current assets	–	98,230
Current assets	–	143,015
Non-current liabilities	–	(11,494)
Current liabilities	–	(110,050)
	–	119,701
Income recognised in profit or loss	**214,263**	335,820
Expense recognised in profit or loss	**207,556**	293,932
Other comprehensive income	**2,093**	6,048
Profit and other comprehensive income attributable to the Group	**8,800**	47,936

18. DEFERRED TAXATION

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

	2012 HK$'000	2011 HK$'000
Deferred tax assets	**20,222**	14,133
Deferred tax liabilities	**(13,274)**	(9,368)
	6,948	4,765

18. DEFERRED TAXATION *(Continued)*

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

	(Accelerated) decelerated tax depreciation HK$'000	Allowance for doubtful debts HK$'000	Tax losses HK$'000	Unrealised profit for inventories HK$'000	Distributable profit of PRC subsidiaries HK$'000	Total HK$'000
At 1 January 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 31 December 2011 and 1 January 2012	(10,149)	(2,494)	(1,490)	1,342	8,026	(4,765)
Acquisition of subsidiaries (Note 28)	15,078	–	(11,441)	–	(1,129)	2,508
Charge (credit) to profit or loss	295	718	(5,515)	1,092	(1,281)	(4,691)
At 31 December 2012	5,224	(1,776)	(18,446)	2,434	5,616	(6,948)

At the end of the reporting period, the Group had unused tax losses of approximately HK$819,160,000 (2011: approximately HK$518,297,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$111,795,000 (2011: approximately HK$9,030,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately HK$707,365,000 (2011: approximately HK$509,267,000) due to unpredictability of future profit streams.

The Group has tax losses arising in Switzerland of approximately HK$63,987,000 (2011: approximately HK$67,912,000) that will expire in one to seven years for offsetting against future taxable profits. The Group also has tax losses arising in the PRC of approximately HK$82,157,000 (2011: approximately HK$6,626,000) that will expire in one to five years for offsetting against future taxable profits. Other losses may be carried forward indefinitely.

Under the CIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. A deferred tax liability of approximately HK$5,616,000 (2011: approximately HK$8,026,000) has been provided for in the consolidated financial statements in respect of such temporary differences.

19. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**539,927**	575,694
Work in progress	**150,665**	135,180
Finished goods	**69,845**	66,190
	760,437	777,064

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to approximately HK$1,112,778,000 (2011: approximately HK$1,232,419,000) (see note 8). Allowance for inventories recognised during the year, as included in 'cost of sales', amounted to approximately HK$19,547,000 (2011: approximately HK$1,883,000) (see note 8).

20. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**289,833**	237,820
Less: Allowance for doubtful debts	**(2,933)**	(1,504)
	286,900	236,316
Bills receivables	**112,090**	115,454
	398,990	351,770
Other receivables	**162,327**	64,806
Total trade and other receivables	**561,317**	416,576

The Group allows an average credit period of 60 days (2011: 60 days) to its trade customers.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

The following is an ageing 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:

	2012	2011
	HK$'000	HK$'000
0 – 60 days	**322,816**	280,759
61 – 90 days	**49,555**	50,596
Over 90 days	**26,619**	20,415
	398,990	351,770

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$76,174,000 (2011: approximately HK$71,011,000) which are past due at the end of the reporting period 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.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2012 HK$'000	2011 HK$'000
Overdue by:		
1 – 30 days	**49,555**	50,596
31 – 60 days	**8,608**	17,689
Over 60 days	**18,011**	2,726
Total	**76,174**	71,011

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.

Movement in the allowance for doubtful debts

	2012 HK$'000	2011 HK$'000
At beginning of the year	**1,504**	5,048
Impairment losses recognised on receivables	**296**	298
Acquisition of subsidiaries	**1,140**	–
Amounts written off as uncollectible	**–**	(287)
Amounts recovered during the year	**(7)**	(3,555)
At end of the year	**2,933**	1,504

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$2,933,000 (2011: approximately HK$1,504,000) 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. As at 31 December 2012, there are no bills discounted. As at 31 December 2011, the carrying amount of the bills discounted was approximately HK$21,942,000 and the carrying amount of the associated liability which represented the cash received from discounted bills (see note 26) was approximately HK$21,942,000.

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

Carrying amounts of trade and bills receivables are denominated in the following currencies:

	2012 HK$'000	2011 HK$'000
HKD	**57,277**	69,867
USD	**150,348**	132,795
EUR	**145,487**	101,591
RMB	**45,696**	44,637
Others	**182**	2,880
	398,990	351,770

21. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts were unsecured, interest-free and trade in nature. All the outstanding balances as at 31 December 2011 were aged within the average credit period of 60 days based on the invoice date at the end of the reporting period.

22. CASH AND CASH EQUIVALENTS

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.01% to 4% (2011: 0.01% to 3.59%) per annum.

Carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2012	2011
	HK$'000	HK$'000
HKD	**70,314**	53,310
USD	**137,818**	115,681
EUR	**21,583**	13,551
RMB	**178,981**	90,948
INR	**2,320**	1,902
Others	**1,854**	2,772
	412,870	278,164

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

23. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	HK$'000
Trade payables	**119,704**	39,110
Accrued salaries and bonus	**50,621**	34,115
Receipts in advance	**177,459**	102,185
Accrued commission expenses	**27,740**	26,954
Others	**286,214**	120,555
	661,738	322,919

23. TRADE AND OTHER PAYABLES *(Continued)*

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

	2012 **HK$'000**	2011 HK$'000
0 – 90 days	**82,381**	23,851
91 – 120 days	**18,367**	13,081
Over 120 days	**18,956**	2,178
	119,704	39,110

The average credit period on purchase of goods is 90 days (2011: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

Carrying amounts of trade payables are denominated in the following currencies:

	2012 **HK$'000**	2011 HK$'000
HKD	**13,656**	7,368
USD	**3,110**	2,678
EUR	**30,882**	8,505
RMB	**69,520**	18,743
CHF	**1,552**	1,356
Others	**984**	460
	119,704	39,110

24. WARRANTY PROVISION

	2012 HK$'000	2011 HK$'000
At beginning of the year	**12,108**	18,632
Acquisition of subsidiaries (Note 28)	**3,173**	–
Additional provision in the year	**11,028**	11,189
Utilisation of provision	**(12,981)**	(17,713)
At end of the year	**13,328**	12,108

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.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2012 HK$'000 Liabilities	2011 HK$'000 Liabilities
Derivative under hedge accounting		
Cash flow hedges – Interest rate swaps	**944**	7,136
Analysed as:		
Non-current	**–**	4,254
Current	**944**	2,882
	944	7,136

25. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms, 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 31 December 2012 and 2011 are set out below:

Initial notional amount	Contract date	Maturity date	Swaps
HK$300,000,000 (reduced by 10 equal quarterly installments)	23 June 2008	24 December 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% **With effect from 19 December 2011** From HIBOR to 4.28%
HK$400,000,000 (reduced by 20 equal quarterly installments)	4 September 2008	4 September 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 31 December 2012, the fair value changes of approximately HK$944,000 (2011: approximately HK$7,136,000) 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.

26. BORROWINGS

	2012 HK$'000	2011 HK$'000
Unsecured bank borrowings comprise the following:		
– Unsecured bank borrowings (Note i)	**1,067,172**	573,262
– Trust receipts loans	**97,405**	161,206
– Discounted bills with recourse	**–**	21,942
	1,164,577	756,410
Other borrowings (Note ii)	**190,623**	–
	1,355,200	756,410
Analysed for reporting purpose:		
– Non-current	**169,355**	–
– Current	**1,185,845**	756,410
	1,355,200	756,410

Note:

(i) As at 31 December 2012, the Group's borrowings are hedged by interest rate swap amounting to approximately HK$60,000,000 (2011: approximately HK$260,000,000).

(ii) Pursuant to the terms of the conditional acquisition agreement (see note 28) for the acquisition of a number of companies entered with L. Possehl & Co. mbH ("Possehl") dated on 3 June 2012, part of the consideration EUR10,250,000 (equivalent to approximately HK$104,806,000) are taken the form of an interest-free and unsecured loan from Possehl. Interest will, however, be payable if there is default in timely repayment of the loan in accordance with the terms thereof. The Group shall repay Possehl in three equal instalments of approximately EUR3,417,000 (equivalent to approximately HK$34,935,000) in cash by the first, second and third anniversary of the completion date of acquisition. In the case of a default of any repayment of this loan, the default amount shall bear interest at a rate of 8% per annum above the base rate according to the German Civil Code. A prolonged default of more than 20 business days shall allow Possehl to demand full repayment within 5 business days thereof.

The fair value of the loan from Possehl with principal amount of EUR10,250,000 (equivalent to approximately HK$104,806,000) is estimated to be approximately HK$98,599,000. The fair value has been arrived using effective interest method by discounting future repayment at a discount rate of 3.2%.

And, a conditional share subscription agreement (see note 28) dated 3 June 2012 entered with Possehl, a shareholder's loan is advanced by Possehl in the principal amount of approximately EUR9,000,000 (equivalent to approximately HK$92,024,000) which shall accrue interest at a simple rate of 2% per annum and is repayable upon the exercise of the option described in the subscription agreement. The shareholder's loan from Possehl is treated as financial liability in accordance with HKAS 32 "Financial Instruments: Presentation".

Details on the other borrowings have been disclosed in the Company's circular dated 30 June 2012.

26. BORROWINGS *(Continued)*

The contractual maturity dates of the borrowings are as follows:

	2012 HK$'000	2011 HK$'000
Carrying amount repayable*:		
Within one year	**312,845**	302,256
More than one year, but not exceeding two years	**40,332**	–
More than two years, but not exceeding five years	**129,023**	–
	482,200	302,256
Carrying amount of bank borrowings contain a repayment on demand clause, that are repayable (shown under current liabilities)*:		
Within one year	**282,507**	394,154
More than one year, but not exceeding two years	**139,110**	60,000
More than two years, but not exceeding five years	**451,383**	–
	873,000	454,154
	1,355,200	756,410
Less: Amounts due within one year shown under current liabilities	**(1,185,845)**	(756,410)
Amounts shown under non-current liabilities	**169,355**	–

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

26. BORROWINGS *(Continued)*

The effective interest rates at the end of reporting date were as follows:

	2012 %	2011 %
Unsecured bank borrowings and trust receipts loan	**3.49%**	2.94%
Discounted bills with recourse	**–**	2.58%
Other borrowings	**2.62%**	–

The carrying amounts of the borrowings are denominated in the following currencies:

	2012 HK$'000	2011 HK$'000
HKD	**621,514**	524,154
USD	**490,420**	183,148
EUR	**205,961**	–
RMB	**37,305**	49,108
	1,355,200	756,410

27. SHARE CAPITAL AND RESERVES

a. Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000	Total HK$'000
At 1 January 2011	55,145	157,261	2,370	303,797	23,033	541,606
Profit and total comprehensive income for the year	–	–	–	101,824	–	101,824
Interim special dividend for 2010 paid	–	–	–	(110,289)	–	(110,289)
Interim dividend for 2011 paid	–	–	–	(27,572)	–	(27,572)
At 31 December 2011 and 1 January 2012	55,145	157,261	2,370	267,760	23,033	505,569
Loss and total comprehensive expense for the year	–	–	–	(3,198)	–	(3,198)
At 31 December 2012	55,145	157,261	2,370	264,562	23,033	502,371

b. Share capital of the Company

	2012 HK$'000	2011 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
551,446,285 ordinary shares of HK$0.10 each	**55,145**	55,145

c. (Loss) profit for the year

Loss for the year dealt with in the financial statements of the Company was approximately HK$3,198,000 (2011: profit of approximately HK$101,824,000).

28. ACQUISITION OF SUBSIDIARIES

On 30 November 2012, the Company, through its subsidiary, acquired 100% of the equity interests in ABT Vermögensverwaltungs-Gesellschaft mbH ("ABT"), A. Monforts Textilmaschinen-Verwaltungs-GmbH ("AMTV") and A. Monforts Textilmaschinen GmbH & Co KG ("AMT") from L. Possehl & Co. mbH (the "Seller") so as to enlarge the Group's business scope. Each of ABT, AMTV and AMT, in turn, holds equity interests in other companies so that they became subsidiaries of the Company. The jointly controlled entities, Monforts Fong's Textile Machinery Co. Limited, Monforts Fong's Textile Machinery (Shenzhen) Co. Ltd., 立信門富士紡織機械(中山)有限公司 and Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd., are also part of the transactions. The acquired subsidiaries are principally engaged in the manufacture and trading of textile machinery.

In addition, the Seller has agreed to subscribe for a 9.9% shareholding in a subsidiary of the Company, which holds the above subsidiaries at a subscription price of US$1.00 (equivalent to approximately HK$7.80) per subscription share. With regard to the 9.9% shareholding subscribed, the Seller holds a put option and the Group holds a call option. The put option may be exercised by the Seller within three months commencing from and including the third anniversary after the date of acquisition. If the put option is not exercised, the call option may be exercised by the Group within one month of the expiration of the period in which the put option may be exercised.

These acquisitions have been accounted for using the purchase method.

28. ACQUISITION OF SUBSIDIARIES *(Continued)*

Summary of net assets acquired in the transactions, and the goodwill arising, are as follows:

	Fair value as at date of acquisition HK$'000
Net assets acquired:	
Property, plant and equipment (Note 12)	216,164
Prepaid lease payments (Note 13)	68,634
Intangible assets (Note 15)	97,928
Deposits for acquisition of property, plant and equipment	12,008
Deferred tax assets (Note 18)	12,570
Inventories	161,938
Trade and other receivables	100,784
Cash and cash equivalents	75,634
Trade and other payables	(328,073)
Warranty provision (Note 24)	(3,173)
Tax liabilities	(1,638)
Amounts due to the related parties	(9,360)
Borrowings	(78,045)
Deferred tax liabilities (Note 18)	(15,078)
Net assets acquired	310,293
Interests transferred from jointly controlled entities	(392,592)
Goodwill (Note 14)	533,515
Total consideration	451,216

28. ACQUISITION OF SUBSIDIARIES *(Continued)*

Summary of net assets acquired in the transactions, and the goodwill arising, are as follows: *(Continued)*

	HK$'000
Total consideration satisfied by:	
Cash (Note i)	306,578
Other receivables (Note i)	(41,077)
Other borrowings (Note ii)	185,715
	451,216
Net cash outflow arising on acquisition:	
Cash consideration paid	(306,578)
Less: Cash and cash equivalents acquired	75,634
	(230,944)

Note:

(i) For the acquisition of subsidiaries, the preliminary consideration EUR30,750,000 (equivalent to approximately HK$306,578,000) had paid out, subject to adjustment. The adjustment is made by reference to the difference between the net debt amounts of the subsidiaries as at 31 December 2011 and the date of acquisition. As a result, EUR4,120,000 (equivalent to approximately HK$41,077,000) will be repaid from the Seller.

(ii) Pursuant to the terms of the conditional acquisition agreement for the acquisition of a number of companies entered with the Seller dated on 3 June 2012, part of the consideration EUR10,250,000 are taken the form of an interest-free and unsecured loan from the Seller. The fair value of the unsecured loan is using effective interest method by discounting future repayment at a discount rate of 3.2%. In addition, a conditional share subscription agreement dated 3 June 2012 entered with the Seller, EUR9,000,000 shall be paid by the Group in cash thereby satisfying the subscription price and the shareholder loan pursuant to the subscription agreement. The shareholder loan shall accrue interest at a simple rate of 2% per annum and is repayable upon the exercise of the option described in the subscription agreement. The fair values of the loans from the Seller are estimated to be approximately HK$185,715,000 at the date of acquisition.

The goodwill mainly arising on the acquisition of these companies is attributable to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

The acquisition-related costs of approximately HK$22 million have been recognised in the consolidated statement of comprehensive income.

Included in the revenue and profit for the year are approximately HK$124 million and approximately HK$6 million respectively attributable to the additional business generated by these newly acquired companies.

Had these business combinations been effected at 1 January 2012, the revenue of the Group would be approximately HK$3,052 million, and profit for the year of the Group would be approximately HK$126 million. The Directors of the Company consider these 'pro-forma' an approximate measure of the performance of the combined group on an annualised basis and reference point for comparison in future periods.

29. 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 borrowings disclosed in note 26, 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 31 December 2012, 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.

30. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2012 **HK$'000**	2011 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**885,576**	647,323
Financial liabilities		
Amortised cost	**1,521,654**	831,443
Derivative instruments in designated hedge accounting relationships	**944**	7,136

30. FINANCIAL INSTRUMENTS *(Continued)*

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 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 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.

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**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**497,983**	189,490	**288,945**	248,682
EUR	**208,086**	4,565	**116,109**	62,452
RMB	**–**	237	**33,316**	25,367

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.

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (currency risk) *(Continued)*

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit (2011: an increase in post-tax 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 (2011: profit).

	USD		RMB		EUR	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Increase (decrease) in profit for the year*	**1,562**	5,489	**1,391**	1,049	**(3,840)**	2,417

* 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.

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 25 for details).

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (interest rate risk) *(Continued)*

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 has 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 31 December 2012 would decrease/increase by approximately HK$2,806,000 (2011: profit for the year would decrease/increase by approximately HK$900,000). 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$144,000 (2011: approximately HK$844,000).

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

At 31 December 2012, 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 ensures 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.

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables

	Weighted average interest rate	On demand or within 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2012						
Non-derivative financial liabilities						
Trade and other payables	**–**	**166,454**	**–**	**–**	**166,454**	**166,454**
Borrowings						
– fixed rate	**3.81**	**228,769**	**36,776**	**128,801**	**394,346**	**377,965**
– variable rate	**3.19**	**406,900**	**127,120**	**444,067**	**978,087**	**977,235**
		802,123	**163,896**	**572,868**	**1,538,887**	**1,521,654**
Derivatives – net settlement						
Interest rate swaps		**964**	**–**	**–**	**964**	**944**
2011						
Non-derivative financial liabilities						
Trade and other payables	–	75,033	–	–	75,033	75,033
Borrowings						
– fixed rate	6.04	101,599	–	–	101,599	99,108
– variable rate	2.36	659,090	–	–	659,090	657,302
		835,722	–	–	835,722	831,443
Derivatives – net settlement						
Interest rate swaps		6,515	865	–	7,380	7,136

30. 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 within 1 year" time band in the above maturity analysis. As at 31 December 2012 and 2011, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$873,000,000 and approximately HK$454,154,000 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 within 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2012						
Bank borrowings						
– fixed rate	**5.15**	**15,723**	**–**	**–**	**15,723**	**15,338**
– variable rate	**3.19**	**628,789**	**143,701**	**94,612**	**867,102**	**857,662**
		644,512	**143,701**	**94,612**	**882,825**	**873,000**
2011						
Bank borrowings						
– fixed rate	–	–	–	–	–	–
– variable rate	2.27	399,688	60,757	–	460,445	454,154
		399,688	60,757	–	460,445	454,154

At that time, the aggregate principal and interest cash outflows will amount to approximately HK$882,825,000 (2011: approximately HK$460,445,000).

30. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables (Continued)

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.

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).

30. FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

- 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 31 December 2012			
	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Financial liabilities at FVTPL				
Derivative under hedge accounting				
– Interest rate swaps	–	944	–	944

	As at 31 December 2011			
	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Financial liabilities at FVTPL				
Derivative under hedge accounting				
– Interest rate swaps	–	7,136	–	7,136

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

31. SHARE OPTION SCHEME

A share option scheme (the "Scheme") of the Company was approved and adopted on 26 May 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.

31. SHARE OPTION SCHEME *(Continued)*

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 26 May 2003 and will expire on 25 May 2013.

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

32. CAPITAL COMMITMENTS

	2012 HK$'000	2011 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**48,607**	1,225
Leasehold land	**202,473**	220,771
	251,080	221,996

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

	2012 HK$'000	2011 HK$'000
Capital expenditure contracted for but not provided in respect of the acquisition of plant and equipment	**–**	25,256

33. OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$10,780,000 (2011: approximately HK$12,420,000).

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:

	2012 HK$'000	2011 HK$'000
Within one year	**16,914**	11,124
In the second to fifth year inclusive	**20,991**	9,700
	37,905	20,824

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.

34. 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 of service. The forfeited contributions and related accrued interest are to be used to reduce the employers' contribution.

With effect from 1 December 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 5% of the employees' relevant income subject to a monthly maximum amount of HK$1,000 (HK$1,250 effective from June 2012) per employee and vest fully with employees when contributed into the MPF scheme (as defined in the Mandatory Provident Fund Scheme Ordinance).

The employees entitled to participate in the Group's provident fund scheme before 1 December 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$4,169,000 (2011: approximately HK$4,442,000).

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

34. 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$19,309,000 (2011: approximately HK$18,385,000).

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$7,344,000 (2011: approximately HK$5,824,000).

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$267,000 (2011: approximately HK$1,666,000).

35. 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 54 and 55 and note 21, the Group has also entered into the following transactions with related parties during the year:

	2012 HK$'000	2011 HK$'000
Related parties in which a Director of certain operating subsidiaries of the Group has significant influence		
Other income	**1**	–
Other expenses paid	**6**	–
Related parties in which Directors of the Company have control		
Sales commission and management fee received	**352**	297
Rental paid	**8,777**	8,547
Jointly controlled entities		
Sale of goods	**11,511**	19,973
Purchase of materials	**10,152**	5,771
Sales commission and management fee received	**25,570**	35,252
Sub-contracting fee paid	**64**	164
Fellow subsidiary		
Purchase of materials	**168**	–
Sales commission paid	**87**	–

Except for the transactions with the jointly controlled entities of the Group, all the above transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

35. RELATED PARTY DISCLOSURES *(Continued)*

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:

	2012 **HK$'000**	2011 HK$'000
Within one year	**8,369**	8,123
In the second to fifth year inclusive	**–**	8,123
	8,369	16,246

Compensation of key management personnel

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

	2012 **HK$'000**	2011 HK$'000
Short-term benefits	**54,749**	49,985
Post-employment benefits	**1,613**	1,854
	56,362	51,839

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.

35. RELATED PARTY DISCLOSURES *(Continued)*

Government – related entities operated in the PRC

During the year, the Group acquired land use rights amounted to approximately RMB557,000 (equivalent to approximately HK$693,000) (2011: approximately RMB67,942,000 (equivalent to approximately HK$83,412,000)) 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.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2012	2011	Indirect 2012	2011	Principal activities
Fong's Property Holding Limited	British Virgin Islands	US$1	**100%**	100%	**–**	–	Investment holding
Fong's Manufacturers Company Limited	British Virgin Islands	US$10,000	**100%**	100%	**–**	–	Investment holding
Falmer Investments Ltd.	British Virgin Islands/ Hong Kong	US$1	**–**	–	**100%**	100%	Research and development
Fong's Engineering Services Company Limited	Hong Kong	HK$10,000	**–**	–	**100%**	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%**	100%	Trading of dyeing and finishing machines

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2012	Direct 2011	Indirect 2012	Indirect 2011	Principal activities
Fong's National Engineering (Shenzhen) Co., Ltd. *	The PRC	US$22,500,000	–	–	**100%**	100%	Trading and manufacture of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK$10,000	–	–	**100%**	100%	Trading of stainless steel supplies
立豐行金屬材料（深圳）有限公司*	The PRC	RMB2,500,000	–	–	**100%**	100%	Trading of stainless steel supplies
Goller (HK) Limited	Hong Kong	HK$1	–	–	**100%**	100%	Trading of textile machinery
Goller Textile Machinery (Shenzhen) Co., Ltd. *	The PRC	US$10,000,000	–	–	**100%**	100%	Trading and manufacture of textile machinery
Sunshine Glory Limited	British Virgin Islands/ The PRC	US$10	–	–	**100%**	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Co., Ltd.	Hong Kong	HK$10,000	–	–	**100%**	100%	Trading of stainless steels casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd. *	The PRC	US$16,550,000	–	–	**100%**	100%	Trading and manufacture of stainless steels casting products
THEN Maschinen (HK) Limited	Hong Kong	HK$1	–	–	**100%**	100%	Trading of textile machinery and technical parts
Fong's Europe GmbH	Germany	EUR1,900,000	–	–	**100%**	100%	Trading and manufacture of textile machinery and technical parts
Xorella Hong Kong Limited	Hong Kong	US$3,500,000	–	–	**100%**	100%	Trading of textile machinery and technical parts

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2012	Direct 2011	Indirect 2012	Indirect 2011	Principal activities
Xorella AG	Switzerland	CHF350,000	–	–	**100%**	100%	Trading and manufacture of textile machinery and technical parts
Fong's Water Technology Company Limited	Hong Kong	HK$1,000,000	–	–	**100%**	100%	Providing services on recycling of polluted water
Fong's Water Technology & Conservation Equipment (Shenzhen) Co., Ltd. *	The PRC	US$2,000,000	–	–	**100%**	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%**	100%	Trading of textile machinery
立信染整機械（廣東）有限公司*	The PRC	US$15,000,000	–	–	**100%**	100%	Not yet commenced business
立信鋼材（中山）有限公司*	The PRC	US$100,000	–	–	**100%**	100%	Not yet commenced business
泰鋼合金（中山）有限公司*	The PRC	US$12,750,000	–	–	**100%**	100%	Not yet commenced business
Monforts Fong's Textile Machinery Co. Limited	Hong Kong	HK$18,400,000	–	–	**90.1%**	50%	Manufacture and trading of textile machinery
Fong's Projects Holding Limited	British Virgin Islands	US$1,000	–	–	**90.1%**	100%	Investment holding

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2012	Direct 2011	Indirect 2012	Indirect 2011	Principal activities
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	–	–	**90.1%**	50%	Trading of textile machinery
Monforts Fong's Textile Machinery (Shenzhen) Co., Ltd. *	The PRC	HK$43,500,000	–	–	**90.1%**	50%	Manufacture and trading of textile machinery
立信門富士紡織機械（中山）有限公司*	The PRC	US$23,200,000	–	–	**90.1%**	50%	Manufacture and trading of textile machinery
A. Monforts Textilmaschinen GmbH & Co KG. **	Germany	N/A	–	–	**N/A**	–	Manufacture and trading of textile machinery
Montex Maschinenfabrik Ges.m.b.H	Republic of Austria	EUR1,020,000	–	–	**90.1%**	–	Production of machinery for textile industry and provision of metal forming and assembly services

* A wholly-owned foreign enterprise in the PRC

** A. Monforts Textilmaschinen GmbH & Co KG is a limited partnership of which a wholly-owned subsidiary of the Company is the limited partner.

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.

37. 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:

	2012	2011
	HK$'000	HK$'000
Unlisted investments in subsidiaries	**36,585**	36,585
Cash and cash equivalents	**534**	251
Amounts due from subsidiaries	**466,495**	468,279
Other receivables	**904**	877
Amount due from immediate holding company	**–**	98
Tax recoverable	**–**	275
Total assets	**504,518**	506,365
Current liabilities	**2,147**	796
Total net assets	**502,371**	505,569
Share capital (Note 27(b))	**55,145**	55,145
Reserves	**447,226**	450,424
Total equity	**502,371**	505,569

RESULTS

	Year ended 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
Revenue	2,499,856	1,797,695	2,587,182	2,198,608	**2,126,467**
(Loss) profit before tax	(140,396)	(105,808)	371,146	73,159	**156,076**
Income tax expense	(2,383)	(527)	(68,181)	(14,102)	**(4,049)**
(Loss) profit for the year attributable to owners of the Company	(142,779)	(106,335)	302,965	59,057	**152,027**

ASSETS AND LIABILITIES

	As at 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
Total assets	2,184,891	1,991,295	2,148,610	2,113,366	**3,200,222**
Total liabilities	(1,284,787)	(1,195,283)	(1,127,326)	(1,120,671)	**(2,061,862)**
	900,104	796,012	1,021,284	992,695	**1,138,360**
Equity attributable to owners of the Company	900,104	796,012	1,021,284	992,695	**1,138,360**