



FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

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C o r p o r a t e I n f o r m a t i o n

EXECUTIVE DIRECTORS

Mr. Fong Sou Lam (*Chairman*)
Mr. Lee Che Chiu (*Managing Director*)
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Mo Yiu Leung, Jerry
(appointed on November 28, 2003)
Mr. Cheuk Hon Kin, Kelvin
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis

COMPANY SECRETARY

Mr. Lee Che Keung

SOLICITORS

Woo, Kwan, Lee & Lo
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

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

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
11 Rosebank Centre,
Bermudiana Road,
Hamilton,
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
28th Floor, BEA Harbour View Centre,
56 Gloucester Road,
Wanchai,
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE ADDRESS

<http://www.fongs.com>

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Fong's Industries Company Limited (the "Company") will be held at Ching Room, 4th Floor, Sheraton Hong Kong Hotel and Towers, 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Tuesday, May 25, 2004 at 11:30 a.m. for the following purposes:

1. To receive and adopt the audited Financial Statements and Reports of the Directors and Auditors for the year ended December 31, 2003.
2. To declare a final dividend/special dividend.
3. To re-elect Directors and to fix a maximum number of Directors.
4. To re-appoint Messrs. Deloitte Touche Tohmatsu as Auditors and authorise the Directors to fix their remuneration.
5. To transact any other ordinary business(es).

By order of the Board

C.K. Lee

Company Secretary

Hong Kong, April 13, 2004

Notes:

- (a) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, the proxy form and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's principal place of business at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong not less than 48 hours before the time fixed for holding the Annual General Meeting or any adjourned meeting.
- (b) In order to determine who are entitled to attend and vote at the Annual General Meeting, the register of members will be closed from May 17, 2004 to May 25, 2004, both days inclusive, during which period no transfer of shares can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Secretaries Limited, at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, May 14, 2004.

C h a i r m a n ' s S t a t e m e n t



2003 marked the Group's 40th anniversary and has also been a financially rewarding year. I am pleased to announce that for the year ended December 31, 2003, the Group achieved a consolidated turnover of approximately HK\$1,350 million, a growth of 18% as compared to last year and the resulting net profit rose to approximately HK\$277 million, an increase of 60% over last year.

Throughout its 40 years of operation, the Group has successfully established the **fong's**® brand name as a world-class dyeing and finishing equipment manufacturer. The Group currently employs approximately 3,000 personnel, serving over 4,000 customers worldwide, overseeing the production of approximately 2,000 sets of dyeing and finishing equipment annually at its own 60,000 square-metre production facilities in Shenzhen, China.

As a result of the world's economic growth, there has come a profound improvement in people's quality of life. To respond to the increasingly stringent quality requirements of discriminating buyers, our customers are finding that they have to equip themselves with dyeing and finishing equipment of superior performance that will allow them to enhance their competitiveness.

With our strong foothold in China and Asia, the Group will continue to focus on its research and development capabilities in order to bring new products to the market place and to maintain its leading position in the industry.

In addition, as part of its business diversification and growth strategy, the Group is actively seeking good investment opportunities that will offer synergetic value to complement its existing businesses. Accordingly, the Group will explore new market opportunities and new income sources which are compatible with its long-term growth strategy and will continue to seek potential acquisitions and alliances. With its solid foundation and healthy financial position, the Group possesses both the confidence and the capabilities to continue on the path towards a world-class corporation.

C h a i r m a n ' s S t a t e m e n t



• Press Conference at Fong's 40th Anniversary Celebration



• Fong's 40th Anniversary Lighting Ceremony

APPRECIATION

Lastly, on behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to our customers, suppliers, bankers, investors and business partners for their continuous co-operation, support, patronage and confidence in the Group. Moreover, I would also like to thank all our colleagues for their efforts and hard work over the past year. They have all made significant contributions to this past year's results.

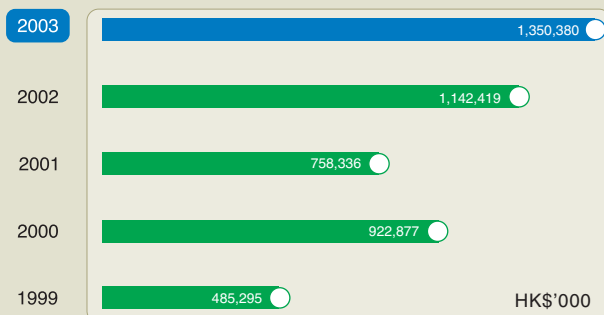
Fong Sou Lam

Chairman

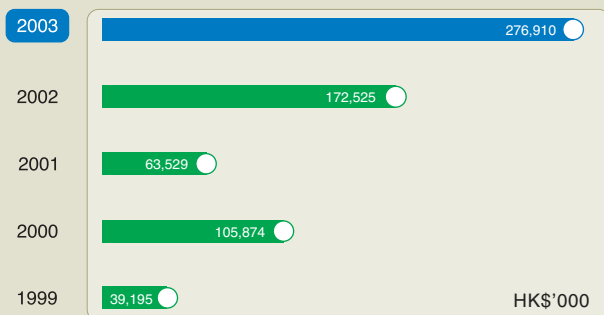
Hong Kong, April 13, 2004

Financial Highlights

Turnover



Net Profit

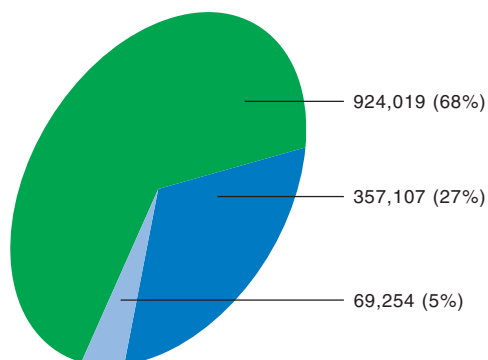


Analysis of Turnover for the year

(HK\$'000)

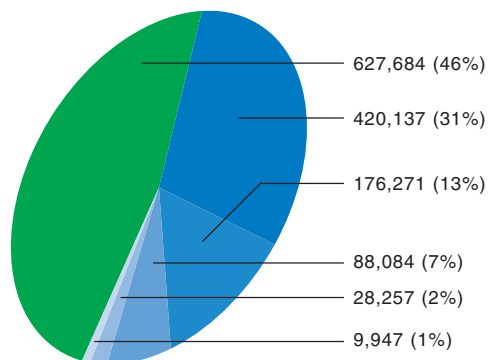
By principal activity

- Manufacture and sale of dyeing and finishing machines
- Trading of stainless steel supplies
- Manufacture and sale of stainless steel casting products



By geographical region

- The People's Republic of China (the "PRC")
- Hong Kong
- Asia Pacific (other than the PRC and Hong Kong)
- Europe
- North and South America
- Others



Directors and Senior Management Profile

EXECUTIVE DIRECTORS

1. Mr. Fong Sou Lam, aged 69, is the founder and chairman of the Group. Mr. Fong established the dyeing and finishing machinery manufacturing business in 1963 and has over 40 years' experience in that industry.
2. Mr. Lee Che Chiu, aged 57, is a chartered engineer and holds a master degree in business administration from the Cranfield School of Management, U.K.. Mr. Lee has extensive experience in industrial and business management as well as in strategic management training and consultancy. Mr. Lee was appointed as a non-executive director in 1990 and redesignated to Managing Director of the Company on July 10, 2000.
3. Mr. Fong Kwok Leung, Kevin, aged 42, is the eldest son of Mr. Fong Sou Lam and joined the Group in 1986. Mr. Kevin Fong is also the general manager and director of Fong's Steels Supplies Company Limited and has been involved in the business of stainless steel trading since 1988. Mr. Kevin Fong holds a bachelor degree in business administration from the Simon Fraser University, Canada.
4. Mr. Fong Kwok Chung, Bill, aged 34, is the second son of Mr. Fong Sou Lam. Mr. Bill Fong joined the Group in 1994 and had been working as project manager dealing with various inter-departmental coordination prior to his appointment as an executive director in May 1997. Mr. Bill Fong studied at the Simon Fraser University, Canada with concentrations in accounting and finance. Prior to joining the Group, Mr. Bill Fong spent approximately two years articling at a Chartered Accountants' firm and held the position as the treasurer for one of the oldest rugby football clubs, both in Vancouver, Canada.
5. Mr. Mo Yiu Leung, Jerry, aged 45, joined the Group as Chief Financial Officer in July, 2003 and is responsible for the overall corporate financial management of the Group. Mr. Mo has over 20 years' experience in financial management, accounting and auditing in the manufacturing sector including a NASDAQ listed company with a manufacturing base in China and a major industrial conglomerate in Australia. Mr. Mo holds a bachelor of science degree in accounting and data processing from Leeds University in the U.K.. Mr. Mo is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Institute of Chartered Accountants in Australia and the Hong Kong Society of Accountants. Mr. Mo was appointed as an executive director of the Company on November 28, 2003.
6. Mr. Cheuk Hon Kin, Kelvin, aged 44, joined the Group in 1986. He is in charge of the sales and marketing department of the Group. Mr. Cheuk graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a higher diploma in textile chemistry and has a master of science degree in polymer science and technology from the Queen's University of Belfast, U.K.. He also holds a master degree in business administration from the Monash University of Australia. Mr. Cheuk is also a member of the Textile Institute and the Society of Dyers and Colourists and obtains Royal Charter status. He is also a corporate member of the Institute of Management and the Hong Kong Institution of Textile and Apparel.

Directors and Senior Management Profile

7. Dr. Tsui Tak Ming, William, aged 45, is a chartered engineer and is in charge of the research & development department, control & automation department and mechanical design department of the Group. Before joining the Group in 1989, he worked in the U.K. for eight years in research & design on mechanical engineering and digital processing. Dr. Tsui holds a bachelor of science degree in aeronautical engineering and a doctorate degree in aeronautical engineering. Dr. Tsui is a corporate member of the British Royal Aeronautical Society, the British Institution of Mechanical Engineers, the Hong Kong Institution of Engineers and the Hong Kong Computer Society. Dr. Tsui has been appointed as the Head of Office for Scheme "A" training in Fong's National Engineering Company, Limited (electrical and mechanical engineering disciplines) by Hong Kong Institution of Engineers since 1998. Dr. Tsui has been appointed as a member of the Departmental Advisory Committee by the Manufacturing Engineering and Engineering Management Department of City University of Hong Kong since 2002. Dr. Tsui has also been nominated by Hong Kong Institution of Engineers since 1998 as a professional assessment assessor with specialism in the fields of industrial, power and process plant. Dr. Tsui was appointed as an executive director of the Company on July 10, 2000.
8. Ms. Poon Hang Sim, Blanche, is the financial controller of the Group. Ms. Poon joined the Group in 1995 and holds a bachelor degree in commerce from the University of New South Wales, Australia. She is an associate member of the Hong Kong Society of Accountants and a CPA, Australia. Ms. Poon was appointed as an executive director of the Company on July 10, 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

1. Mr. Cheung Chiu Fan, aged 50, is a professional accountant with extensive experience in public accounting and professional management. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Company Secretaries, a member of the British Institute of Management in the U.K. and has a master degree in business administration from the Chinese University of Hong Kong. Mr. Cheung was appointed as a non-executive director of the Company in 1996.
2. Mr. Lui Chi Lung, Louis, aged 50, is an experienced and well-trained corporate and private banker for over 20 years and has worked as a senior marketing manager for a number of well-known international banks both in Hong Kong and in California, U.S.A.. Mr. Lui holds a master degree in business administration from State University of New York at Buffalo, U.S.A. and graduated from the University of Wisconsin at Madison, U.S.A.. Mr. Lui was appointed as an independent non-executive director of the Company on September 9, 2000.

Directors and Senior Management Profile

SENIOR MANAGEMENT

1. Mr. Wan Wai Yung, aged 53, is the joint managing director of Fong's National Engineering Company, Limited. Mr. Wan is responsible for the overall supervision of the Group's operations and assisting the chairman in strategic planning and business development. Mr. Wan has over 20 years' experience with excellent customer relationships in the textile & dyeing industry. Mr. Wan first joined the Group in 1978 and has held various key positions in the Group.
2. Mr. Tsui Wai Keung, aged 46, is a director of Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Company, Limited. Since joining the Group in 1980, Mr. Tsui has been involved in the production of the Group's dyeing and finishing machinery which he is now in charge of.
3. Mr. Fu Hoi Kam, aged 67, is a director of Fong's National Engineering Company, Limited. He joined the Group in 1981 and is responsible for technical support towards customers. Mr. Fu graduated from the Beijing College of Mineralogy and is also a mechanical design engineer. He has extensive experience in dyeing process and production and often conducts seminars periodically at various international textile conferences and exhibitions.
4. Mr. Lee Bo Shing, Alfred, aged 48, is a senior manager of Fong's National Engineering Company, Limited. Mr. Lee got an endorsement to higher certificate in mechanical engineering from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) in 1978 and is a member of the American Welding Society and the Chinese Mechanical Engineering Society. He joined the Group in 1979 and is responsible for the technical department and participates in product development of the Group.
5. Mr. Wong Tak Man, Francis, aged 40, is a senior manager of the sales and marketing department. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a higher diploma in marine engineering and joined the Group in 1987. Mr. Wong is responsible for the sales and administration of the sales and marketing department in our China headquarters.
6. Mr. Wong Ching Chuen, Patrick, aged 42, is a senior manager of the sales and marketing department and is responsible for the sales work of part of our China market. Mr. Wong has been respectively educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for mechanical engineering and Griffith University in Australia for Law. He has over 15 years' experience in China trade for industrial equipment supplies and engineering work. He joined the Group in July 2000.
7. Dr. Dawood Jackson, aged 38, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the technical service and spare parts sales. Dr. Jackson graduated from Warwick University, U.K. and received a bachelor degree in electrical engineering. He also obtained a doctorate degree in electronic engineering from London University, U.K.. He has extensive experience in engineering industry and research field. He joined the Group in June, 2001.

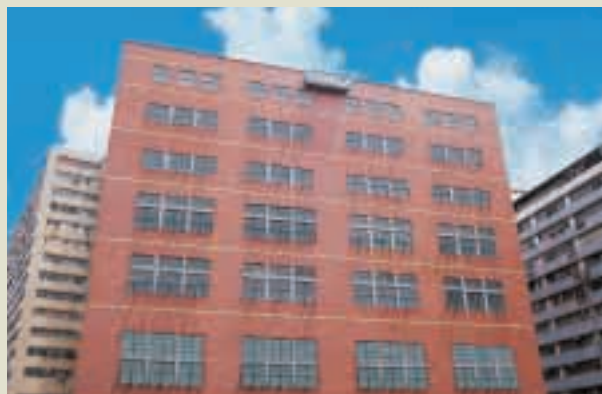
Directors and Senior Management Profile

8. Mr. Wong Tuh Hoe, Philip, aged 51, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the personnel and administration functions of the Group. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for human resources management studies. He has over 20 years' experience in human resources management, administration, staff career development and planning. Mr. Wong joined the Group in February, 2002.
9. Mr. Yan Tak Kuen, aged 57, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the production operations of the Group's dyeing and finishing machinery manufacturing business. Mr. Yan graduated from Guangzhou Marine Engineering Technical School with a secondary technical diploma and has extensive experience in mechanics and sheet metal working. He joined the Group in September 1984.
10. Mr. Leung Sheung Wai, Walter, aged 37, is a senior manager of the sales and marketing department and is responsible for the sales activities of overseas markets. Mr. Leung graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a higher diploma in textile chemistry and has over 13 years' experience in overseas trade for dyeing and finishing equipment. Mr. Leung joined the Group in June, 1997.
11. Mr. Chan Sze Hei, Byron, aged 41, is a senior manager of Fong's National Engineering Company Limited and is responsible for the corporate and legal services of the Group. Mr. Chan graduated from the Law School of Hong Kong University and is a qualified solicitor having extensive experience in legal practice. Mr. Chan is a holder of a bachelor of arts degree in English language and literature from Guangzhou Jinan University, a LL.B from Hong Kong University and Peking University respectively, a PCLL from Hong Kong University and a LL.M in Chinese and Comparative Law from the City University of Hong Kong. Mr. Chan joined the Group in December, 2003.
12. Mr. Lee Che Keung, aged 43, is the company secretary of the Group. He 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 Company Secretaries and the Institute of Chartered Secretaries and Administrators in the U.K.. Prior to his joining the Group in 1990, Mr. Lee had extensive experience in company secretarial practice in a number of accounting firms. He is responsible for the corporate secretarial matters of the Group.

Management Discussion and Analysis



• China Headquarters



• Hong Kong Headquarters

OPERATING RESULTS

For the year ended December 31, 2003, the Group's consolidated turnover was approximately HK\$1,350 million (2002: HK\$1,142 million) and the net profit amounted to approximately HK\$277 million (2002: HK\$173 million), representing an increase of 18% and 60% respectively as compared with that of last year. Basic earnings per share was 49.2 cents (2002: 30.7 cents). The surge in profit from operations was mainly attributable to two factors: increase in sales turnover and improvement in cost effectiveness via efficient cost control and operational leverage.

DYEING AND FINISHING MACHINERY MANUFACTURING

Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Co., Ltd.

During the year under review, this business segment recorded a turnover of approximately HK\$924 million (2002: HK\$781 million) or 68% of the Group's consolidated turnover, generating an operating profit of approximately HK\$226 million (2002: HK\$179 million). This core business remains the largest income contributor to the Group with the PRC as its major market.

Management Discussion and Analysis



Research and Development

The Group's research and development ("R&D") capability is always one of our key competitive strength in an industry in which businesses are always competing for the best design and functions as well as the quickest response to customers' needs. During the year under review, the Group successfully launched the ALLWIN High Temperature Package Dyeing Machine and the LABWIN Laboratory Package Dyeing Machine. These machines were well received in the market as they satisfy users' need for an excellent performance in terms of quality and cost savings achieved at a reasonable price.

With their innovative and environmentally friendly designs, the ALLWIN and the LABWIN were honored with the "Machinery and Equipment Design Award" and the "Machinery and Equipment Design Certificate of Merit" respectively in the 2003 Hong Kong Awards for Industry. These awards represent a formal recognition of the achievements made by the Group's R&D team.

Sales and Marketing

Apart from focusing on R&D, the Group will continue to expand its sales force and intensify its marketing and promotion efforts. In order to diversify its customer base and to tap into new potential markets, the Group is prepared to further explore textile markets in South America and in the Asia Pacific region. The Group intends to expand its sales network, on one hand, by establishing sales offices or appointing sales agents in new locations, and on the other hand, by strengthening its existing sales and marketing team to further promote the Group's products. In 2003, the Group participated in the largest textile machinery exhibitions held in Birmingham, the U.K. and Shanghai, the PRC and received favourable responses therefrom. The Group sees participating in such exhibitions as an opportunity to further expand its customer base and to strengthen our brand and market position.

Management Discussion and Analysis



• ITMA 2003 in Birmingham, the U.K.



• ShanghaiTex 2003, the PRC

In 2002, the Group acquired an 80% interest in Xorella AG, a Swiss company which is the technology and market leader in yarn steam setting and conditioning systems. Through this alliance, the Group has extended its product range into the yarn conditioning equipment sector. Although the initial market feedback in the PRC appears to be very encouraging, the performance of this division during 2003 was somewhat below management's expectation as the demand from the conventional overseas markets for European machines was poor. However, the Group anticipates that the performance of this division in 2004 will make up the minor setback of 2003.

As disclosed in a press announcement dated September 26, 2002, being part of the consideration for the acquisition of Xorella AG by Xorella Hong Kong Limited (the "Purchaser"), a subsidiary of the Company, the Purchaser issued 700,000 shares of US\$1.00 each in the Purchaser (the "Consideration Shares") to Mr. Freddy Wanger, the vendor of Xorella AG (the "Vendor"), representing 20% of the issued share capital of the Purchaser and 20% of the total consideration for the acquisition. On completion of the acquisition on September 25, 2002, the Purchaser granted a put option to the Vendor exercisable within a period of six months after the second anniversary of September 25, 2002 whereby, upon the exercise of such option, the Vendor shall have the right to sell the Consideration Shares to the other shareholder of the Purchaser, which is a wholly-owned subsidiary of the Company, for a purchase price of US\$700,000. Since the Vendor has, on completion of the acquisition, become a substantial shareholder holding



• CONTEXXOR® Plus Vacuum Yarn Conditioning and Steaming Machine

20% of the issued share capital of the Purchaser, the Vendor is a connected person of the Company. Accordingly, the granting of the put option constituted a connected transaction of the Company under the Listing Rules. Upon the exercise of the put option by the Vendor, the Group will be able to pay the purchase price out of internal resources.

M a n a g e m e n t D i s c u s s i o n a n d A n a l y s i s



• Sheet and Plate



• Coil Sheet

Looking ahead, while the world economy is on the road to recovery, the overall operating environment will still be very challenging and competitive in the coming years. In particular, we have experienced a significant increase in stainless steel prices, a major component of the Group's production cost, towards the end of 2003 and this increase appears to be sustainable in the foreseeable future. And despite the Group's efforts to hedge the costs of our major raw material and to take appropriate cost control measures, we anticipate that we may raise our average selling prices in the second half of this year. Furthermore, we will continue to concentrate our expertise and experience in providing high standard machines and better services. Being one of the leading manufacturers with the widest range of textile machinery and equipment in this field, we remain confident of reinforcing and to further establish ourselves as a leader in the market.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

For the year under review, the turnover of this business segment amounted to approximately HK\$357 million, an increase of 15% over last year, while the operating profit remained at approximately HK\$22 million, same as that of last year due to the impact of SARS epidemic during the second and third quarters of the year.

Stainless steel prices are expected to remain high in the near future due to the imbalance between supply and demand of nickel, one of the major raw materials for the production of stainless steels. The Group has been actively managing the inventory level based on its forecasts of stainless steel prices and demand in order to maximize profitability.

As the PRC continues to report strong economic growth, it is expected that the demand for a large variety of stainless steel products in the PRC will be sustainable in the foreseeable future, which means this trading business will be able to grow along with this demand trend.

Management Discussion and Analysis



• Assorted Casting Products

STAINLESS STEEL CASTING

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

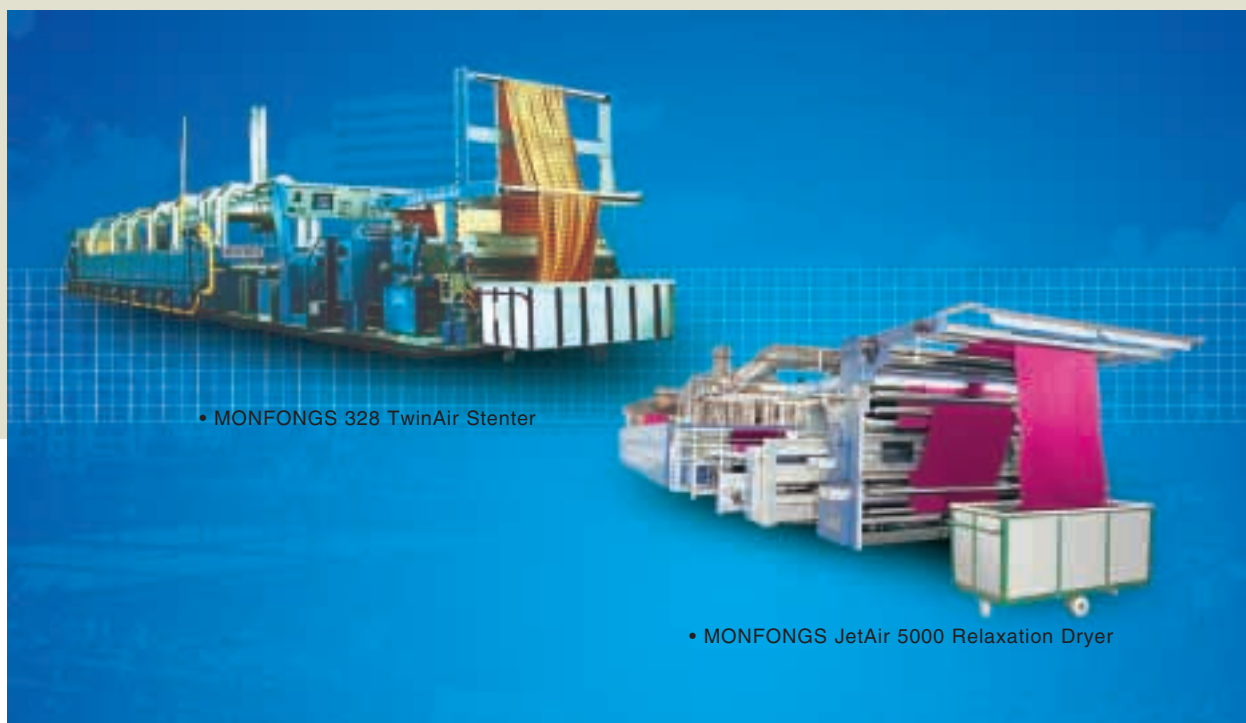


• Tycon's Foundry Workshop

During the year under review, this stainless steel casting business managed to report an increase in sales and profit. The turnover increased by 35% to approximately HK\$69 million (2002: HK\$51 million), net of inter-segment sales of approximately HK\$24 million (2002: HK\$18 million) and the operating profit increased by 284% to approximately HK\$26 million (2002: HK\$7 million). These encouraging results were mainly attributable to management restructuring in this division. Besides, the Group will also focus on maintaining effective measures in controlling expenses and costs in order to maximize operational efficiency.

To cope with the increased demand from overseas customers in respect of both quantity and quality, the Group has invested in new equipment to enhance productivity. The Group expects this casting business to have steady growth in turnover and operating profit in the coming years.

Management Discussion and Analysis



• MONFONGS 328 TwinAir Stenter

• MONFONGS JetAir 5000 Relaxation Dryer

JOINTLY CONTROLLED ENTITY

Monforts Fong's Textile Machinery Co. Limited (“Monforts Fong's”)

For the year under review, Monforts Fong's recorded a turnover of approximately HK\$306 million (2002: HK\$245 million), representing an increase of approximately 25% in comparison to last year. The increase in turnover was attributable to the continuing demand for Stenters and other new products, namely the JetAir Relaxation Dryers and the Levelling and Stretching Machines. These new products are gaining increasing acceptance in the PRC market where demand is expected to grow further in the years to come. For the year ended December 31, 2003, the Group's share of profit amounted to approximately HK\$50 million (2002: HK\$25 million).

As mentioned in the Interim Report 2003, construction of the 20,000 square metres factory building within the existing production complex of the Group in Shenzhen is progressing smoothly with completion expected within the third quarter of 2004. Upon completion of the new production plant, the production capacity of Monforts Fong's is expected to double in volume.

Management Discussion and Analysis

ASSOCIATES

Foshan East Asia Company Limited (a 30% owned associate)

As mentioned in the Interim Report 2003, the woven colour fabrics trading business conducted by this associate reported a modest growth. For the year under review, the turnover increased 14% to approximately HK\$176 million compared to HK\$154 million in 2002 and the Group's share of profit before taxation was approximately HK\$3 million.

HUMAN RESOURCES

As of December 31, 2003, the Group employed a total of approximately 3,000 employees. They were remunerated according to their performance, working experience and market conditions. Other employee benefits available for eligible employees include retirement benefits scheme, share option scheme, performance bonus and sales commission.

LIQUIDITY AND CAPITAL RESOURCES

The Board considers the Group's financial position as healthy and believes that the Group has adequate financial resources to meet its cash flow requirements.

As at December 31, 2003, net of borrowings, the Group's net cash and bank balance was approximately HK\$175 million. In 2003, there was no gearing ratio shown as the Group had a net cash and bank balance. The current ratio was 2.55 reflecting a healthy liquidity level.

As at December 31, 2003, bank borrowings amounted to approximately HK\$38 million of which approximately 67% were secured by certain assets of the Group. All of the bank borrowings are repayable within one year. Most bank borrowings were sourced from Hong Kong, of which 99% were denominated in US dollars and the remaining were denominated in various foreign currencies. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at December 31, 2003, the cash and bank balance amounted to approximately HK\$217 million of which approximately 33% were denominated in US dollars, 29% in Renminbi, 23% in Euro, 11% in Hong Kong dollars and the remaining were denominated in various other foreign currencies.

| D i r e c t o r s ' R e p o r t

The directors present their annual report and the audited financial statements for the year ended December 31, 2003.

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, manufacture and sale of stainless steel casting products and property holding. The activities of its principal subsidiaries are set out in note 35 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2003 are set out in the consolidated income statement on page 25.

An interim dividend of 9 cents per share plus a special dividend of 3 cents per share, amounting to approximately HK\$68 million, were paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 9 cents per share plus a special dividend of 7 cents per share to the shareholders on the register of members on May 25, 2004, amounting to approximately HK\$90 million, and the retention of the remaining profit for the year of approximately HK\$119 million.

Subject to the approval of the shareholders at the forthcoming annual general meeting, dividend warrants are expected to be despatched to the shareholders on or before June 9, 2004.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2003, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 12% of the Group's total turnover.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 38% of the Group's total purchases and purchases attributable to the Group's largest supplier was approximately 19% 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.

| D i r e c t o r s ' R e p o r t

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Fong Sou Lam (*Chairman*)
Mr. Lee Che Chiu (*Managing Director*)
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Mo Yiu Leung, Jerry (appointed on November 28, 2003)
Mr. Cheuk Hon Kin, Kelvin
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

Independent non-executive directors:

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis

Mr. Cheung Chiu Fan was appointed under a contract for a term of 2 years commencing on January 1, 2003 and expiring on December 31, 2004.

Mr. Lui Chi Lung, Louis was appointed under a contract for a term of 2 years commencing on September 9, 2002 and expiring on September 8, 2004.

In accordance with Clause 99 of the Company's Bye-laws, all directors shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

| D i r e c t o r s ' R e p o r t

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at December 31, 2003, the interests of the directors and their associates in the shares of the Company and its associated corporations as recorded in the register maintained under 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 Companies, were as follows:

Long position in shares of the Company

Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Sou Lam	Beneficial owner	13,486,000	2.40%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.03%
	Held by discretionary trusts (<i>note</i>)	304,875,601	54.15%
		306,625,601	54.46%
Mr. Fong Kwok Chung, Bill	Beneficial owner	4,290,000	0.76%
	Held by discretionary trusts (<i>note</i>)	304,875,601	54.15%
		309,165,601	54.91%
Mr. Cheuk Hon Kin, Kelvin	Beneficial owner	350,000	0.06%
Ms. Poon Hang Sim, Blanche	Beneficial owner	150,000	0.03%

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

Other than as disclosed above, none of the directors, chief executive nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at December 31, 2003.

| Directors' Report

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 26 to the financial statements.

Pursuant to an ordinary resolution passed on June 8, 2000 by the shareholders of the Company, the Company had approved a share option scheme pursuant to which share options might be granted to full-time employees, including executive directors, of the Group to subscribe for shares in the Company.

Termination of the aforementioned share option scheme and adoption of a New Share Option Scheme were approved by the shareholders of the Company at a special general meeting held on May 26, 2003 in order to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") effective from September 1, 2001.

During the years ended December 31, 2003 and 2002, no share option was granted to or exercised by any director of the Company. There are no share options outstanding at December 31, 2003 and 2002.

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

At no time during the year was the Company or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests in Sou Lam Company, Limited ("Sou Lam").

The Group entered into operating lease agreements with Sou Lam for the leasing of a portion of a factory building. The operating lease agreements will expire on December 31, 2004. Total rentals paid by the Group to Sou Lam for the year amounted to HK\$5,731,626.

The above transactions were negotiated at terms agreed between relevant parties.

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

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares of the Company

Ordinary shares of HK\$0.10 each of the Company.

Name of shareholder	Notes	Capacity	Number of issued ordinary shares	Percentage of the issued share capital of the Company
GBOGH Assets Limited	(1) & (2)	Beneficial owner	287,397,360	51.04%
J. P. Morgan Chase & Co.		Beneficial owner	67,300,000	11.95%
The Capital Group Companies Inc.		Beneficial owner	49,831,300	8.85%

Notes:

- (1) GBOGH Assets Limited is owned by a discretionary trust, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members.
- (2) The following companies are wholly-owned by GBOGH Assets Limited and their interests, as listed below, in the shares of the Company are included in the 287,397,360 shares listed under GBOGH Assets Limited:

Name of shareholder	Capacity	Number of issued ordinary shares	Percentage of the issued share capital of the Company
Sheffield Holdings Company Limited	Beneficial owner	58,197,360	10.33%
Reeds limited	Beneficial owner	57,600,000	10.23%
Runaway Holdings Limited	Beneficial owner	57,600,000	10.23%
Derby Holdings Company Limited	Beneficial owner	48,000,000	8.53%
Polar Bear Holdings Limited	Beneficial owner	48,000,000	8.53%
Bristol Investments Limited	Beneficial owner	18,000,000	3.19%

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at December 31, 2003.

| D i r e c t o r s ' R e p o r t

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$525,188.

PRE-EMPTIVE RIGHTS

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

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended December 31, 2003 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

AUDITORS

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

On behalf of the Board

Fong Sou Lam
DIRECTOR

April 13, 2004

A u d i t o r s ' R e p o r t

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

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 financial statements on pages 25 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at December 31, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, April 13, 2004

C o n s o l i d a t e d I n c o m e S t a t e m e n t

for the year ended December 31, 2003

	<i>Notes</i>	2003 HK\$	2002 <i>HK\$</i> (Restated)
Turnover		1,350,380,079	1,142,419,206
Cost of sales		(840,405,312)	(730,831,737)
Gross profit		509,974,767	411,587,469
Other operating income		31,296,456	17,970,914
Distribution costs		(54,404,259)	(36,920,222)
Administrative expenses		(169,436,464)	(152,029,654)
Other operating expenses		(44,115,212)	(32,301,409)
Profit from operations	5	273,315,288	208,307,098
Finance costs	7	(4,874,750)	(8,017,464)
Interest income		1,325,762	1,430,910
Share of results of associates		2,667,207	(19,024,333)
Share of results of a jointly controlled entity		50,435,002	24,773,150
Profit before tax		322,868,509	207,469,361
Income tax expense	8	(47,901,247)	(35,909,523)
Profit before minority interests		274,967,262	171,559,838
Minority interests		1,942,872	965,203
Net profit for the year		276,910,134	172,525,041
Earnings per share	10		
Basic		49.2 HKcents	30.7 HKcents
Diluted		49.2 HKcents	30.7 HKcents

C o n s o l i d a t e d B a l a n c e S h e e t

at December 31, 2003

	<i>Notes</i>	2003 HK\$	2002 HK\$ (Restated)
Non-current assets			
Property, plant and equipment	11	257,221,653	243,008,269
Intangible assets	13	–	174,371
Goodwill	14	2,974,379	5,948,759
Interests in associates	15	31,342,135	35,112,174
Interest in a jointly controlled entity	16	56,200,152	32,386,884
Deferred tax assets	24	2,945,113	5,791,372
		350,683,432	322,421,829
Current assets			
Inventories	17	265,382,760	178,034,748
Trade and other receivables	18	124,488,457	139,274,273
Amount due from a jointly controlled entity		980,213	5,641,424
Tax recoverable		4,589,195	–
Bank balances, deposits and cash		217,209,182	216,051,264
		612,649,807	539,001,709
Current liabilities			
Trade and other payables	20	162,904,991	153,841,962
Bills payable		24,236,550	17,883,579
Warranty provision	21	6,300,000	3,766,200
Tax liabilities		6,226,849	29,865,196
Obligations under finance leases			
– due within one year	22	2,231,885	3,502,081
Bank borrowings – due within one year	23	38,257,757	63,468,600
		240,158,032	272,327,618
Net current assets			
		372,491,775	266,674,091
		723,175,207	589,095,920
Capital and reserves			
Share capital	25	56,299,629	56,299,629
Reserves	27	661,644,433	523,926,463
		717,944,062	580,226,092
Minority interests			
		1,611,276	3,554,148
Non-current liabilities			
Obligations under finance leases			
– due after one year	22	1,518,067	3,738,739
Bank borrowings – due after one year	23	–	831,500
Deferred tax liabilities	24	2,101,802	745,441
		3,619,869	5,315,680
		723,175,207	589,095,920

The financial statements on pages 25 to 70 were approved and authorised for issue by the Board of Directors on April 13, 2004 and are signed on its behalf by:

Fong Kwok Chung, Bill
DIRECTOR

Fong Sou Lam
DIRECTOR

B a l a n c e S h e e t

at December 31, 2003

	<i>Notes</i>	2003 HK\$	2002 <i>HK\$</i>
Non-current asset			
Investments in subsidiaries	12	36,584,983	36,584,983
Current assets			
Other receivables		–	217,891
Amounts due from subsidiaries	19	415,785,724	561,397,782
Bank balances		135,820	86,622
		415,921,544	561,702,295
Current liabilities			
Other payables		301,456	255,611
Amounts due to subsidiaries	19	–	227,761,386
Tax liabilities		106,517	444,753
		407,973	228,461,750
Net current assets		415,513,571	333,240,545
		452,098,554	369,825,528
Capital and reserves			
Share capital	25	56,299,629	56,299,629
Reserves	27	395,798,925	313,525,899
		452,098,554	369,825,528

Fong Kwok Chung, Bill
DIRECTOR

Fong Sou Lam
DIRECTOR

C o n s o l i d a t e d S t a t e m e n t o f C h a n g e s i n E q u i t y

for the year ended December 31, 2003

	Total equity <i>HK\$</i>
<hr/>	
At January 1, 2002	
– as previously reported	481,355,774
– adjustment on adoption of SSAP 12 (Revised) (<i>Note 2</i>)	4,338,076
	<hr/>
At January 1, 2002, as restated	485,693,850
Exchange difference arising on translation of overseas subsidiaries not recognised in the consolidated income statement	312,181
Net profit for the year	172,525,041
Dividends	(64,734,073)
Special dividend	(14,074,907)
Premium on issue of shares	399,000
Issue of shares on exercise of share options	105,000
	<hr/>
At December 31, 2002 and January 1, 2003	580,226,092
Exchange difference arising on translation of overseas subsidiaries not recognised in the consolidated income statement	1,556,908
Net profit for the year	276,910,134
Dividends	(87,264,425)
Special dividend	(53,484,647)
	<hr/>
At December 31, 2003	717,944,062
	<hr/>

C o n s o l i d a t e d C a s h F l o w S t a t e m e n t

for the year ended December 31, 2003

<i>Note</i>	2003 HK\$	2002 HK\$
OPERATING ACTIVITIES		
Profit from operations	273,315,288	208,307,098
Adjustments for:		
Depreciation and amortisation on property, plant and equipment	30,546,206	21,960,751
Amortisation of intangible assets	174,371	461,030
Amortisation of goodwill	2,974,380	2,974,380
Impairment loss on property held for redevelopment	1,998,971	5,500,000
Loss on disposal of property, plant and equipment	2,224,304	4,156,159
Operating cash flows before movements in working capital	311,233,520	243,359,418
Increase in inventories	(87,348,012)	(32,311,161)
Decrease (increase) in trade and other receivables	16,413,782	(32,543,497)
Decrease (increase) in amount due from a jointly controlled entity	4,661,211	(1,457,412)
Increase in trade and other payables	6,815,327	38,238,731
Increase (decrease) in bills payable	6,352,971	(7,795,068)
Increase in warranty provision	2,533,800	2,566,200
Cash generated from operations	260,662,599	210,057,211
Overseas income tax paid	(12,367,226)	(6,005,337)
Hong Kong Profits Tax paid	(51,503,875)	(1,847,411)
Hong Kong Profits Tax refunded	–	328,422
Overseas income tax refunded	128,141	106,480
NET CASH GENERATED FROM OPERATING ACTIVITIES	196,919,639	202,639,365
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(51,432,720)	(19,196,633)
Capital injection to a jointly controlled entity	(50,000)	–
Dividend received from a jointly controlled entity	19,032,000	–
Dividends received from associates	5,893,771	2,186,462
Proceeds from disposal of property, plant and equipment	2,628,601	179,726
Interest received	1,325,762	1,430,910
Acquisition of a subsidiary <i>28</i>	–	(6,148,656)
Repayment from a jointly controlled entity	–	6,625,150
Repayment from loan to an officer	–	450,000
NET CASH USED IN INVESTING ACTIVITIES	(22,602,586)	(14,473,041)

C o n s o l i d a t e d C a s h F l o w S t a t e m e n t

for the year ended December 31, 2003 (continued)

	2003 HK\$	2002 HK\$
FINANCING ACTIVITIES		
Dividends paid	(140,749,072)	(78,808,980)
Net cash outflow from trust receipt loans	(15,216,843)	(1,073,545)
Repayment of bank loans	(10,825,500)	(13,332,000)
Bank charges	(4,103,972)	(3,461,329)
Repayment of obligations under finance leases	(3,490,868)	(2,640,526)
Interest paid on bank borrowings	(300,660)	(4,085,547)
Interest paid on finance leases	(235,291)	(251,127)
Factoring charges	(234,827)	(219,461)
Proceeds from issue of shares	-	504,000
NET CASH USED IN FINANCING ACTIVITIES	(175,157,033)	(103,368,515)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(839,980)	84,797,809
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	216,051,264	130,941,274
Effect of foreign exchange rate changes	1,997,898	312,181
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances, deposits and cash	217,209,182	216,051,264

Notes to the Financial Statements

for the year ended December 31, 2003

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 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, manufacture and sale of stainless steel casting products and property holding.

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening retained profits for January 1, 2002 have been increased by HK\$4,338,076 which is the cumulative effect of the change in policy on the results for periods prior to 2002. The effect of the change is a charge to income taxes in the current year of HK\$4,202,620 (2002: a credit of HK\$707,855).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Notes to the Financial Statements

for the year ended December 31, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries prior to January 1, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions of subsidiaries after January 1, 2001 is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the profit and loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

N o t e s t o t h e **F** i n a n c i a l **S** t a t e m e n t s

for the year ended December 31, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Intangible assets**

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

Product development expenditure incurred on developing new products is capitalised and deferred when a product is clearly defined, the expenditure is separately identifiable and there is reasonable certainty that the product is technically feasible and the development costs will be recovered through future commercial activities. Product development expenditure which does not meet all of these criteria is charged to the income statement in the period in which it is incurred.

Product development expenditure is amortised, using the straight-line method, over a period of five years commencing in the year in which the product is first put into commercial use.

Turnover

Turnover represents the net amounts received and receivable, less returns and allowances, for goods sold by the Group to outside customers.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Property, plant and equipment

Property, plant and equipment, other than property held for redevelopment and construction in progress, are stated at cost less depreciation, amortisation and accumulated impairment losses.

Notes to the Financial Statements

for the year ended December 31, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Medium-term leasehold land	Over the terms of the leases
Buildings	Over the estimated useful lives of 50 years or over the terms of the leases, if less than 50 years
Leasehold improvements	10%
Plant and machinery	10%-20%
Furniture and equipment	20%
Motor vehicles	20%
Moulds and tools	20%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

Properties held for redevelopment are stated at cost less any identified impairment loss. No depreciation is provided on properties held for redevelopment until the construction is completed.

Construction in progress represents buildings under construction in the PRC is stated at cost less any identified impairment loss. Cost includes all direct costs attributable to such projects. Construction in progress is not depreciated until the construction or installation is completed and the relevant assets are ready to be put into operation.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

N o t e s t o t h e F i n a n c i a l S t a t e m e n t s

for the year ended December 31, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment** (continued)

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.

Assets held under finance leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the terms of the relevant leases.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation the financial statements of subsidiaries, associates and jointly controlled entities which are denominated in currencies other than Hong Kong dollars are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. All exchange differences arising on consolidation are dealt with in reserves.

Borrowing costs

All borrowing costs are recognised as expenses in the period in which they are incurred.

Notes to the Financial Statements

for the year ended December 31, 2003

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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 arising on investments in subsidiaries and associates, 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

for the year ended December 31, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three principal activities – manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and manufacture and sale of stainless steel casting products. These principal activities are the basis on which the Group reports its primary segment information.

For the year ended December 31, 2002, the Group was organised into four principal activities – manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, trading of machinery parts and service income and manufacture and sale of stainless steel casting products. In the opinion of the directors, all the income generated from the trading of machinery parts and service income segment are related to the dyeing and finishing machines sold by the Group. Accordingly, the manufacture and sale of dyeing and finishing machines business segment is combined with the trading of machinery parts and service income segment in order to give more meaningful information and the comparative figures for 2002 are restated.

The unallocated corporate assets include mainly bank balances, deposits and cash and the unallocated corporate liabilities include mainly bank loans.

Notes to the Financial Statements

for the year ended December 31, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below:

2003

	Manufacture and sale of dyeing and finishing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Eliminations <i>HK\$</i>	Consolidated <i>HK\$</i>
REVENUE					
External sales	924,018,554	357,107,252	69,254,273	–	1,350,380,079
Inter-segment sales	16,839,319	133,261,396	24,157,087	(174,257,802)	–
Total revenue	940,857,873	490,368,648	93,411,360	(174,257,802)	1,350,380,079

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

RESULTS

Segment results	225,530,504	21,998,673	25,786,111	–	273,315,288
Finance costs					(4,874,750)
Interest income					1,325,762
Share of results of associates					2,667,207
Share of results of a jointly controlled entity	50,435,002				50,435,002
Profit before tax					322,868,509
Income tax expense					(47,901,247)
Minority interests					1,942,872
Net profit for the year					276,910,134

Notes to the Financial Statements

for the year ended December 31, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2003 (continued)

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS				
Segment assets	422,310,965	168,161,040	60,575,457	651,047,462
Interests in associates				31,342,135
Interest in a jointly controlled entity	56,200,152			56,200,152
Unallocated corporate assets				224,743,490
				<u>963,333,239</u>
LIABILITIES				
Segment liabilities	137,588,086	38,801,575	17,051,880	193,441,541
Unallocated corporate liabilities				50,336,360
				<u>243,777,901</u>

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	44,428,182	1,150,099	5,854,439	51,432,720
Depreciation and amortisation	26,319,367	738,777	6,636,813	33,694,957
Impairment loss on the property held for redevelopment	1,998,971	–	–	1,998,971
Loss (gain) on disposal of property, plant and equipment	677,448	(39,834)	1,586,690	2,224,304

Notes to the Financial Statements

for the year ended December 31, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2002

	Manufacture and sale of dyeing and finishing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Eliminations <i>HK\$</i>	Consolidated <i>HK\$</i>
REVENUE					
External sales	780,936,224	310,308,959	51,174,023	–	1,142,419,206
Inter-segment sales	8,665,962	143,692,969	18,387,031	(170,745,962)	–
Total revenue	789,602,186	454,001,928	69,561,054	(170,745,962)	1,142,419,206

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

RESULTS

Segment results	179,245,521	22,341,205	6,720,372	–	208,307,098
Finance costs					(8,017,464)
Interest income					1,430,910
Share of results of associates					(19,024,333)
Share of results of a jointly controlled entity	24,773,150				24,773,150
Profit before tax					207,469,361
Income tax expense					(35,909,523)
Minority interests					965,203
Net profit for the year					172,525,041

Notes to the Financial Statements

for the year ended December 31, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2002 (continued)

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing and finishing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS				
Segment assets	419,989,906	100,740,518	48,528,052	569,258,476
Interests in associates				35,112,174
Interest in a jointly controlled entity	32,386,884			32,386,884
Unallocated corporate assets				224,666,004
Consolidated total assets				861,423,538
LIABILITIES				
Segment liabilities	130,662,632	36,048,665	8,780,444	175,491,741
Unallocated corporate liabilities				102,151,557
Consolidated total liabilities				277,643,298

OTHER INFORMATION

	Manufacture and sale of dyeing and finishing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	23,923,244	759,182	710,960	25,393,386
Depreciation and amortisation	21,043,186	626,634	3,726,341	25,396,161
Impairment loss on property held for redevelopment	5,500,000	–	–	5,500,000
Loss on disposal of property, plant and equipment	492,838	46,867	3,616,454	4,156,159

Notes to the Financial Statements

for the year ended December 31, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's trading and manufacture of goods are carried out in Hong Kong and the PRC, respectively.

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

	Revenue by geographical market	
	2003 HK\$	2002 HK\$
The PRC	627,684,244	415,823,275
Hong Kong	420,137,457	515,504,402
Asia Pacific (other than the PRC and Hong Kong)	176,271,396	113,586,921
Europe	88,083,649	68,528,701
North and South America	28,256,638	24,699,491
Others	9,946,695	4,276,416
	1,350,380,079	1,142,419,206

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
The PRC	487,131,158	379,285,511	43,529,804	22,406,938
Hong Kong	467,304,336	456,473,962	7,121,127	1,699,023
Europe	8,897,745	25,664,065	781,789	1,287,425
	963,333,239	861,423,538	51,432,720	25,393,386

Notes to the Financial Statements

for the year ended December 31, 2003

5. PROFIT FROM OPERATIONS

	2003 HK\$	2002 HK\$
Profit from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (included in administrative expenses)	2,974,380	2,974,380
Amortisation of intangible assets (included in administrative expenses)	174,371	461,030
Auditors' remuneration	1,005,939	860,080
Depreciation and amortisation:		
Owned assets	28,509,826	19,674,947
Assets held under finance leases	2,036,380	2,285,804
Impairment loss on property held for redevelopment (included in administrative expenses)	1,998,971	5,500,000
Loss on disposal of property, plant and equipment	2,224,304	4,156,159
Net foreign exchange gain	(7,838,027)	(2,915,161)
Research and development costs	903,266	959,626
Staff costs, including directors' emoluments	124,489,574	100,061,790
Cost of inventories recognised as an expense	753,402,365	662,116,097
Gross rental income net of outgoings of HK\$145,616 (2002: HK\$149,356)	76,825	415,182

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK\$	2002 HK\$
Directors		
Directors fees:		
Executive	–	–
Independent non-executive	100,000	100,000
Other emoluments to executive directors:		
Salaries and other benefits	16,269,755	12,196,400
Retirement benefits scheme contribution	644,112	639,960
	17,013,867	12,936,360

Notes to the Financial Statements

for the year ended December 31, 2003

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	3
HK\$1,500,001 – HK\$2,000,000	3	–
HK\$2,000,001 – HK\$2,500,000	–	2
HK\$2,500,001 – HK\$3,000,000	2	–
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	1	–

Employees

The five highest paid individuals included four directors (2002: four), details of whose emoluments are set out above. The emoluments of the five highest paid individuals for the year were as follows:

	2003 HK\$	2002 HK\$
Salaries and other benefits	16,419,400	12,551,400
Retirement benefits scheme contribution	638,799	562,989
	17,058,199	13,114,389

The emoluments of the employees were within the following bands:

	Number of employees	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	2
HK\$2,500,001 – HK\$3,000,000	2	–
HK\$3,000,001 – HK\$3,500,000	–	2
HK\$4,500,001 – HK\$5,000,000	1	–
HK\$5,000,001 – HK\$5,500,000	1	–

Notes to the Financial Statements

for the year ended December 31, 2003

7. FINANCE COSTS

	2003 HK\$	2002 HK\$
Interest on:		
Bank borrowings wholly repayable within five years	300,660	4,085,547
Obligations under finance leases	235,291	251,127
Bank charges	4,103,972	3,461,329
Factoring charges	234,827	219,461
	4,874,750	8,017,464

No interest was capitalised by the Group during the year.

8. INCOME TAX EXPENSE

	2003 HK\$	2002 HK\$
The charge comprises:		
Hong Kong Profits Tax		
Current year	26,275,757	25,470,969
(Over)underprovision in prior years	(1,378,353)	318,805
Overseas taxation		
Current year	13,934,787	9,098,780
Overprovision in prior years	(3,316,773)	(1,992,806)
Deferred tax (<i>note 24</i>)		
Current year	4,675,676	(707,855)
Attributable to a change in tax rate in Hong Kong	(473,056)	-
Taxation attributable to the Company and its subsidiaries	39,718,038	32,187,893
Share of income tax attributable to associates	543,475	421,630
Share of income tax attributable to a jointly controlled entity	7,639,734	3,300,000
	47,901,247	35,909,523

The Hong Kong Profits Tax rate has been increased from 16% to 17.5% with effect from the year of assessment 2003/04. Accordingly, the Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. The effect of this increase has been reflected in the calculation of current and deferred tax balance at December 31, 2003.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Financial Statements

for the year ended December 31, 2003

8. INCOME TAX EXPENSE (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$	%	HK\$	%
Profit before tax	322,868,509		207,469,361	
Tax at the domestic income tax rate of 17.5% (2002: 16%)	56,501,989	17.5	33,195,098	16.0
Tax effect of:				
– expenses that are not deductible in determining taxable profit	2,111,656	0.6	3,457,122	1.6
– income that are not taxable in determining taxable profit	(3,653,842)	(1.1)	(1,714,648)	(0.8)
– tax losses not recognised	2,046,611	0.6	385,629	0.2
– share of results of associates	76,713	–	3,465,523	1.6
– share of results of a jointly controlled entity	(1,186,392)	(0.4)	(663,704)	(0.3)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,652,238)	(0.8)	(474,237)	(0.2)
Increase in the opening deferred tax assets or liabilities resulting from an increase in tax rate	(473,056)	(0.1)	–	–
Overprovision in prior years	(4,695,126)	(1.4)	(1,674,001)	(0.8)
Other	(175,068)	(0.1)	(67,259)	–
Tax expense and effective tax rate for the year	47,901,247	14.8	35,909,523	17.3

Notes to the Financial Statements

for the year ended December 31, 2003

9. DIVIDENDS/SPECIAL DIVIDEND

	2003 HK\$	2002 HK\$
Interim dividend of 9.0 cents (2002: 4.5 cents) per share	50,669,666	25,334,833
Proposed final dividend of 9.0 cents (2002: 6.5 cents) per share	50,669,666	36,594,759
Underprovision of final and special dividends (<i>Note</i>)	–	49,000
	101,339,332	61,978,592
Special dividend of 3.0 cents (2002: 2.5 cents) per share	16,889,888	14,074,907
Proposed special dividend of 7.0 cents (2002: 6.5 cents) per share	39,409,740	36,594,759
	56,299,628	50,669,666

Note: This amount represented additional final and special dividends payable resulting from share options exercised subsequent to the approval of the financial statements for the year ended December 31, 2001.

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the net profit for the year of HK\$276,910,134 (2002: HK\$172,525,041) and the following data:

	Number of shares	
	2003	2002
Weighted average number of ordinary shares for the purpose of basic earnings per share	562,996,285	562,558,614
Effect of dilutive potential ordinary shares – share options	–	285,747
Weighted average number of ordinary shares for the purpose of diluted earnings per share	562,996,285	562,844,361

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic HK cents	Diluted HK cents
Reconciliation of 2002 earnings per share:		
As previously reported	30.5	30.5
Adjustment on adoption of SSAP12 (Revised)	0.2	0.2
Restated	30.7	30.7

Notes to the Financial Statements

for the year ended December 31, 2003

11. PROPERTY, PLANT AND EQUIPMENT

	Property held for redevelopment	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Moulds and tools	Construction in progress	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP									
COST									
At January 1, 2003	18,732,820	204,446,351	1,594,549	104,495,993	38,856,499	12,062,831	5,540,400	8,624,677	394,354,120
Currency realignment	-	-	-	65,156	127,443	18,355	-	-	210,954
Reclassifications	-	(2,129,274)	-	4,628,030	-	-	-	(2,498,756)	-
Additions	-	31,132	3,066,601	25,004,813	6,274,677	5,306,847	336,601	11,412,049	51,432,720
Disposals	-	(2,709,384)	-	(12,699,183)	(257,050)	(770,060)	-	-	(16,435,677)
At December 31, 2003	18,732,820	199,638,825	4,661,150	121,494,809	45,001,569	16,617,973	5,877,001	17,537,970	429,562,117
DEPRECIATION AND AMORTISATION									
At January 1, 2003	5,918,849	60,176,837	1,102,982	45,357,671	28,554,066	6,518,062	3,717,384	-	151,345,851
Currency realignment	-	-	-	15,857	16,351	-	-	-	32,208
Provided for the year	-	9,868,080	174,602	12,625,694	3,555,880	3,879,399	442,551	-	30,546,206
Impairment loss	1,998,971	-	-	-	-	-	-	-	1,998,971
Eliminated on disposals	-	(2,229,579)	-	(8,440,445)	(219,771)	(692,977)	-	-	(11,582,772)
At December 31, 2003	7,917,820	67,815,338	1,277,584	49,558,777	31,906,526	9,704,484	4,159,935	-	172,340,464
NET BOOK VALUES									
At December 31, 2003	10,815,000	131,823,487	3,383,566	71,936,032	13,095,043	6,913,489	1,717,066	17,537,970	257,221,653
At December 31, 2002	12,813,971	144,269,514	491,567	59,138,322	10,302,433	5,544,769	1,823,016	8,624,677	243,008,269

Property held for redevelopment is temporarily held for use under operating leases.

At the balance sheet date, the directors reviewed the carrying value of the property held for redevelopment and an impairment loss of HK\$1,998,971 (2002: HK\$5,500,000) was recognised so as to reduce the carrying amount to net selling price as determined by reference to the valuation as quoted by an independent professional valuer.

The net book values of property held for redevelopment and leasehold land and buildings at December 31, 2003 comprise properties held on medium-term leases in both Hong Kong and the PRC of HK\$13,731,022 (2002: HK\$15,802,684) and HK\$128,907,465 (2002: HK\$141,280,801), respectively.

The net book values of the Group's plant and machinery, furniture and equipment and motor vehicles include an amount of HK\$5,404,401 (2002: HK\$8,570,142), HK\$Nil (2002: HK\$177,837) and HK\$1,053,064 (2002: HK\$1,452,996), respectively, in respect of assets held under finance leases.

The Group has pledged land and buildings having a carrying amount of approximately HK\$13,731,022 (2002: HK\$15,802,684) to secure banking facilities granted to the Group.

Notes to the Financial Statements

for the year ended December 31, 2003

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	36,584,983	36,584,983

The cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became ultimate holding company of the Group under the group reorganisation undertaken for the purpose of the listing of the Company's shares, and the cost of investments in subsidiaries purchased subsequent to the group reorganisation.

Details of the Company's principal subsidiaries at December 31, 2003 are set out in note 35.

13. INTANGIBLE ASSETS

	Product development expenditure HK\$
THE GROUP COST At January 1, 2003 and December 31, 2003	15,659,826
AMORTISATION At January 1, 2003	15,485,455
Provided for the year	174,371
At December 31, 2003	15,659,826
CARRYING AMOUNTS At December 31, 2003	—
At December 31, 2002	174,371

Intangible assets are amortised on a straight-line basis over five years.

Notes to the Financial Statements

for the year ended December 31, 2003

14. GOODWILL

	THE GROUP
	<i>HK\$</i>
<hr/>	
COST	
At January 1, 2003 and December 31, 2003	<u>8,923,139</u>
AMORTISATION	
At January 1, 2003	2,974,380
Charge for the year	<u>2,974,380</u>
At December 31, 2003	<u>5,948,760</u>
NET BOOK VALUE	
At December 31, 2003	<u>2,974,379</u>
At December 31, 2002	<u>5,948,759</u>

Goodwill is amortised on a straight-line basis over three years.

Notes to the Financial Statements

for the year ended December 31, 2003

15. INTERESTS IN ASSOCIATES

THE GROUP

	2003 HK\$	2002 HK\$
Share of net assets	31,342,135	35,112,174

At the balance sheet date, the principal associate of the Group represented a 30% interest in Foshan East Asia Company Limited ("Foshan East Asia"), a company registered in the PRC and engaged in the manufacture of colour woven fabric. The following details are extracted from the management accounts of Foshan East Asia:

Operating results for the year:

	2003 HK\$	2002 HK\$
Turnover	176,009,210	154,153,449
Profit (loss) before tax	8,416,818	(63,234,548)
Profit (loss) before tax attributable to the Group	2,525,045	(18,970,364)
Financial position:		
Non-current assets	137,608,713	170,855,789
Current assets	163,972,689	136,328,659
Total liabilities	(196,785,555)	(191,805,690)
Minority interests	(5,132,824)	(3,515,815)
	99,663,023	111,862,943
Shareholders' funds attributable to the Group	29,898,907	33,558,883

In the opinion of the directors, Foshan East Asia is the only associate which will principally affects the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

For the year ended December 31, 2002, due to obsolescence of certain properties and equipment and doubt over the recoverability of certain trade and other receivables in Foshan East Asia, the directors of Foshan East Asia considered that an impairment loss had arisen in respect of the properties and equipment and trade and other receivables of approximately HK\$70 million. An impairment loss of HK\$21 million attributable to the Group had therefore been reflected in the share of results of associates in the consolidated income statement.

Notes to the Financial Statements

for the year ended December 31, 2003

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 HK\$	2002 HK\$
Share of net assets	56,200,152	32,386,884

At the balance sheet date, the Group held a 50% interest in Monforts Fong's Textile Machinery Co., Ltd. ("Monforts Fong's"), a company incorporated in Hong Kong and engaged in the manufacture and trading of textile machinery. The following details are extracted from the audited financial statements of Monforts Fong's:

Operating results for the year:

	2003 HK\$	2002 HK\$
Turnover	305,753,352	244,598,583
Profit before tax	100,870,005	49,546,298
Profit before tax attributable to the Group	50,435,003	24,773,150
Financial position:		
Non-current assets	15,397,492	13,443,665
Current assets	160,836,547	110,719,455
Total liabilities	(63,833,735)	(59,389,353)
	112,400,304	64,773,767
Shareholders' funds attributable to the Group	56,200,152	32,386,884

Notes to the Financial Statements

for the year ended December 31, 2003

17. INVENTORIES

	THE GROUP	
	2003 HK\$	2002 HK\$
Raw materials	170,329,861	62,288,938
Work in progress	39,047,504	38,194,104
Finished goods	56,005,395	77,551,706
	265,382,760	178,034,748

Included above are raw materials of HK\$12,167,936 (2002: HK\$19,257,461), work in progress of HK\$2,229,084 (2002: HK\$567,801) and finished goods of HK\$9,415,084 (2002: HK\$4,864,000), which are carried at net realisable value.

18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days (2002: 60 days) to its trade customers.

The following is an aged analysis of trade receivables:

	THE GROUP	
	2003 HK\$	2002 HK\$
0-30 days	62,936,688	55,100,795
31-60 days	3,652,360	11,261,763
Over 60 days	1,010,770	2,998,458
	67,599,818	69,361,016

19. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed repayment terms.

Notes to the Financial Statements

for the year ended December 31, 2003

20. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

	THE GROUP	
	2003 HK\$	2002 HK\$
0-30 days	53,248,097	62,800,175
31-60 days	9,289,224	3,754,150
over 60 days	1,980,607	3,860,608
	64,517,928	70,414,933

21. WARRANTY PROVISION

	THE GROUP HK\$
At January 1, 2003	3,766,200
Additional provision in the year	7,300,000
Utilisation of provision	(4,766,200)
At December 31, 2003	6,300,000

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

The Company had no provision at the balance sheet date.

Notes to the Financial Statements

for the year ended December 31, 2003

22. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Amount payable under finance leases:				
Within one year	2,340,001	3,763,724	2,231,885	3,502,081
In the second to fifth year inclusive	1,544,611	3,898,883	1,518,067	3,738,739
	3,884,612	7,662,607	3,749,952	7,240,820
Less: Future finance charges	(134,660)	(421,787)	N/A	N/A
Present value of lease obligations	3,749,952	7,240,820	3,749,952	7,240,820
Less: Amount due within one year shown under current liabilities			(2,231,885)	(3,502,081)
Amount due after one year			1,518,067	3,738,739

It is the Group's policy to lease certain of its plant and equipment under finance leases. The lease terms range from 1 to 3 years. For the year ended December 31, 2003, the effective borrowing rates ranged from 3.3% to 6% (2002: 4.4% to 8%). Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

Notes to the Financial Statements

for the year ended December 31, 2003

23. BANK BORROWINGS

	THE GROUP	
	2003 HK\$	2002 HK\$
Bank borrowings comprise the following:		
Trust receipt loans	38,257,757	53,474,600
Bank loans	–	10,825,500
	38,257,757	64,300,100
Secured	25,467,153	39,988,113
Unsecured	12,790,604	24,311,987
	38,257,757	64,300,100
The bank borrowings are repayable within the following periods:		
Within one year	38,257,757	63,468,600
More than one year, but not exceeding two years	–	831,500
	38,257,757	64,300,100
<i>Less:</i> Amount due within one year shown under current liabilities	(38,257,757)	(63,468,600)
Amount due after one year	–	831,500

The outstanding bank loans as at December 31, 2002 bore interest at market rate and were fully repaid during the year.

Notes to the Financial Statements

for the year ended December 31, 2003

24. DEFERRED TAX

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

	Accelerated tax depreciation <i>HK\$</i>	Allowance for doubtful debts <i>HK\$</i>	Allowance for obsolete inventories <i>HK\$</i>	Tax losses <i>HK\$</i>	Others <i>HK\$</i>	Total <i>HK\$</i>
At January 1, 2002						
– as previously reported	–	–	–	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	309,927	(852,161)	(308,289)	(2,927,553)	(560,000)	(4,338,076)
– as restated	309,927	(852,161)	(308,289)	(2,927,553)	(560,000)	(4,338,076)
Charge (credit) to income statement for the year	435,514	(148,250)	(538,240)	503,121	(960,000)	(707,855)
At December 31, 2002 and January 1, 2003	745,441	(1,000,411)	(846,529)	(2,424,432)	(1,520,000)	(5,045,931)
Charge (credit) to income statement for the year	1,286,476	(708,075)	336,878	2,651,722	1,108,675	4,675,676
Effect of change in tax rate charge (credit) to income statement	69,885	(93,789)	(79,362)	(227,290)	(142,500)	(473,056)
At December 31, 2003	2,101,802	(1,802,275)	(589,013)	–	(553,825)	(843,311)

The following is the analysis of the deferred tax (assets) liabilities for financial reporting purposes:

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Deferred tax assets	(2,945,113)	(5,791,372)
Deferred tax liabilities	2,101,802	745,441
	(843,311)	(5,045,931)

Notes to the Financial Statements

for the year ended December 31, 2003

24. DEFERRED TAX (continued)

At the balance sheet date, the Group has unused tax losses of approximately HK\$14,200,000 (2002: HK\$18,400,000) available for offset against future profits. A deferred tax asset had been recognised in respect of HK\$15,900,000 of such losses as at December 31, 2002. No deferred tax asset has been recognised in respect of the remaining HK\$14,200,000 (2002: HK\$2,500,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$9,600,000 (2002: nil) that will expire in 2010. Other losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

25. SHARE CAPITAL

	2003 HK\$	2002 HK\$
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000,000	100,000,000
<i>Issued and fully paid:</i>		
At beginning of the year, 562,996,285 (2002: 561,946,285) ordinary shares of HK\$0.10 each	56,299,629	56,194,629
Exercise of share options	–	105,000
At end of the year, 562,996,285 (2002: 562,996,285) ordinary shares of HK\$0.10 each	56,299,629	56,299,629

Notes to the Financial Statements

for the year ended December 31, 2003

26. SHARE OPTIONS SCHEMES

(a) 2000 Scheme

A share option scheme (the "2000 Scheme") of the Company, which was approved and adopted on September 19, 2000 pursuant to a resolution passed on June 8, 2000 for the primary purpose of providing incentives to directors and eligible employees, was terminated on May 26, 2003. Under the 2000 Scheme, the board of directors of the Company may grant options to directors and full time employees of the Company and its subsidiaries to subscribe for shares 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\$1.00 as cash consideration for the grant of the share options in accordance with the 2000 Scheme. The total number of shares which may be issued upon exercise of share options to be granted shall not exceed 10% of the total number of shares of the Company in issue from time to time, excluding shares issued on exercise of share options granted under the 2000 Scheme. The exercise price is determined by the directors of the Company, and shall not be less than the highest 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.

No share option has been granted or exercised by any of the director of the Company under the 2000 Scheme during the year ended December 31, 2003 and 2002. There were no share options under the 2000 Scheme outstanding at December 31, 2003 and 2002.

The following table discloses details of the Company's share options held by employees and the movements in such holdings under the 2000 Scheme during the year:

Year	Option type	Outstanding at January 1	Granted during year	Exercised during year	Outstanding at December 31
2003	—	—	—	—	—
2002	*	1,050,000	—	(1,050,000)	—

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
*	April 19, 2001	4/19/2001-4/18/2004	0.48

The options were exercised on various dates throughout the year ended December 31, 2002. The share prices on dates of exercise ranged from HK\$0.91 to HK\$1.80.

Notes to the Financial Statements

for the year ended December 31, 2003

26. SHARE OPTIONS SCHEMES (continued)

(b) 2003 Scheme

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

The board of directors of the Company may, at their discretion, grant options to the eligible participants including any employees, directors or consultants of the Group. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its 2003 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\$1.00 as cash consideration for the grant of the share options in accordance with the 2003 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.

No share option has been granted under the 2003 Scheme during the year ended December 31, 2003 and 2002.

Notes to the Financial Statements

for the year ended December 31, 2003

27. RESERVES

	Share premium HK\$	Dividend reserve HK\$	Capital redemption reserve HK\$	Translation reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
THE GROUP							
At January 1, 2002							
– as previously reported	215,688,846	39,350,240	1,215,200	(14,797,513)	145,570,563	38,133,809	425,161,145
– adjustment on adoption of SSAP12 (Revised) (note 2)	–	–	–	–	4,338,076	–	4,338,076
– as restated	215,688,846	39,350,240	1,215,200	(14,797,513)	149,908,639	38,133,809	429,499,221
Premium on issue of shares	399,000	–	–	–	–	–	399,000
Exchange difference arising on translation of overseas subsidiaries not reflected in the income statement	–	–	–	312,181	–	–	312,181
Net profit for the year	–	–	–	–	172,525,041	–	172,525,041
Dividends	–	(39,350,240)	–	–	(25,383,833)	–	(64,734,073)
Special dividend	–	–	–	–	(14,074,907)	–	(14,074,907)
Proposed final dividend	–	36,594,759	–	–	(36,594,759)	–	–
Proposed special dividend	–	36,594,759	–	–	(24,043,127)	(12,551,632)	–
At December 31, 2002 and January 1, 2003	216,087,846	73,189,518	1,215,200	(14,485,332)	222,337,054	25,582,177	523,926,463
Exchange difference arising on translation of overseas subsidiaries not reflected in the income statement	–	–	–	1,556,908	–	–	1,556,908
Net profit for the year	–	–	–	–	276,910,134	–	276,910,134
Dividends	–	(36,594,759)	–	–	(50,669,666)	–	(87,264,425)
Special dividend	–	(36,594,759)	–	–	(16,889,888)	–	(53,484,647)
Proposed final dividend	–	50,669,666	–	–	(50,669,666)	–	–
Proposed special dividend	–	39,409,740	–	–	(39,409,740)	–	–
At December 31, 2003	216,087,846	90,079,406	1,215,200	(12,928,424)	341,608,228	25,582,177	661,644,433

The retained profits of the Group included HK\$13,221,158 (2002: HK\$11,097,426) and HK\$66,032,152 (2002: HK\$23,236,884) attributable to associates and a jointly controlled entity of the Group, respectively.

Notes to the Financial Statements

for the year ended December 31, 2003

27. RESERVES (continued)

The translation reserve of the Group included HK\$4,660,293 (2002: HK\$4,660,293) attributable to an associate of the Group.

	Share premium <i>HK\$</i>	Dividend reserve <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Total <i>HK\$</i>
THE COMPANY						
At January 1, 2002	215,688,846	39,350,240	1,215,200	17,621,232	35,584,967	309,460,485
Premium on issue of shares	399,000	-	-	-	-	399,000
Net profit for the year	-	-	-	82,475,394	-	82,475,394
Dividends	-	(39,350,240)	-	(25,383,833)	-	(64,734,073)
Special dividend	-	-	-	(14,074,907)	-	(14,074,907)
Proposed final dividend	-	36,594,759	-	(36,594,759)	-	-
Proposed special dividend	-	36,594,759	-	(24,043,127)	(12,551,632)	-
At December 31, 2002 and January 1, 2003	216,087,846	73,189,518	1,215,200	-	23,033,335	313,525,899
Net profit for the year	-	-	-	223,022,098	-	223,022,098
Dividends	-	(36,594,759)	-	(50,669,666)	-	(87,264,425)
Special dividend	-	(36,594,759)	-	(16,889,888)	-	(53,484,647)
Proposed final dividend	-	50,669,666	-	(50,669,666)	-	-
Proposed special dividend	-	39,409,740	-	(39,409,740)	-	-
At December 31, 2003	216,087,846	90,079,406	1,215,200	65,383,138	23,033,335	395,798,925

The contributed surplus of the Company represents the excess of the value of the net assets of the subsidiaries at the date at which they were acquired by the Company over the nominal value of the shares issued by the Company for the acquisition at the time of group reorganisation on September 13, 1990.

The contributed surplus of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the entire issued share capital of Fong's Manufacturers Company Limited, the then holding company, acquired pursuant to a corporate reorganisation on September 13, 1990, less goodwill or capital reserve arising on consolidation.

Notes to the Financial Statements

for the year ended December 31, 2003

27. RESERVES (continued)

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

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Contributed surplus	23,033,335	23,033,335
Retained profits	65,383,138	–
Dividend reserve	90,079,406	73,189,518
	178,495,879	96,222,853

Notes to the Financial Statements

for the year ended December 31, 2003

28. ACQUISITION OF A SUBSIDIARY

During the year ended December 31, 2002, the Group acquired 80% of the issued share capital of Xorella AG for a consideration of HK\$21,840,000. The acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$8,923,139.

	2002 <i>HK\$</i>
<hr/>	
NET ASSETS ACQUIRED	
Property, plant and equipment	917,159
Inventories	5,060,042
Trade and other receivables	12,535,967
Bank balances and cash	15,691,344
Trade and other payables	(18,058,436)
Minority interests	<u>(3,229,215)</u>
	12,916,861
Goodwill	<u>8,923,139</u>
Total consideration	<u>21,840,000</u>
SATISFIED BY	
Cash	<u>21,840,000</u>
Net cash outflow arising on acquisition	
Cash consideration	21,840,000
Bank balances and cash acquired	<u>(15,691,344)</u>
Net cash outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>6,148,656</u>

The subsidiary acquired during the year ended December 31, 2002 contributed HK\$14,828,008 to the Group's turnover, and a loss of HK\$3,122,525 to the Group's profit from operations in 2002.

Notes to the Financial Statements

for the year ended December 31, 2003

29. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2002, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$5,279,594.

30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Export bills discounted with recourse	7,874,407	19,607,433	–	–
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	–	–	517,600,962	398,125,000
Guarantees given to bankers in respect of banking facilities granted to a jointly controlled entity	–	1,750,000	–	1,750,000

At the balance sheet date, the extent of banking facilities utilised by the subsidiaries amounted to approximately HK\$38 million (2002: HK\$64 million).

31. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$	2002 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	11,159,604	2,229,031

At the balance sheet date, the Company did not have any significant capital commitments.

N o t e s t o t h e F i n a n c i a l S t a t e m e n t s

for the year ended December 31, 2003

32. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK\$6,160,213 (2002: HK\$5,695,255).

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

	THE GROUP	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Within one year	5,028,671	4,811,268
In the second to fifth year inclusive	–	4,657,680
	5,028,671	9,468,948

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

The Group as lessor

Property rental income earned during the year was HK\$222,441 (2002: HK\$564,538). The property is expected to generate rental yield of 2.2% (2002: 4.4%) on an ongoing basis. The property held has committed tenants for one year.

At December 31, 2002, the Group had contracted with tenants for the future minimum lease payments within one year amounting to HK\$448,139.

Notes to the Financial Statements

for the year ended December 31, 2003

33. RETIREMENT BENEFITS SCHEME

The Group has a defined contribution provident fund scheme ("the Scheme") for its Hong Kong employees. The Scheme's assets are being held under a provident fund operated by AXA Rosenberg Investment Management Asia Pacific Limited with Messrs. Fong Sou Lam and Fong Kwok Chung, Bill as trustees and Hastings Service & Company Limited as an additional trustee.

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 further increase proportionally to a maximum of 8% of each employee's basic salary after completion of three years of service to the Group. The employees are entitled to 100% of the employers' contribution and the accrued interest after 10 years' of completed service, or at a reduced scale of between 30% to 100% after completion of 3 to 10 years' service. The forfeited contributions and related accrued interest are to be used to reduce the employers' contribution.

The aggregate employers' contributions, net of forfeited contributions, which have been dealt with in the income statement of the Group amounted to:

	2003 HK\$	2002 HK\$
Gross employers' contributions	2,596,834	2,497,427
Less: Forfeited contributions utilised to offset employers' contributions for the year	(179,845)	(289,383)
Net employers' contributions charged to the income statement	2,416,989	2,208,044

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

On July 28, 2000, the above provident fund scheme was granted an exemption on the Mandatory Provident Fund Scheme ("MPF Scheme"). The principal deed and the rules of the above provident fund scheme were amended accordingly to comply with the rules of the Mandatory Provident Fund Schemes Ordinance ("MPF Ordinance").

With effect from December 1, 2000, the Group also participated in MPF Scheme. The MPF scheme assets are held under a mandatory provident fund operated by AXA Rosenberg Investment Management Asia Pacific Limited. Under the MPF Scheme, the Group is required to make contributions to the scheme calculated at lower of 5% of the employees' relevant income or HK\$1,000 (as defined in the MPF Ordinance) on a monthly basis.

The employees entitled to participate in the Scheme before December 1, 2000 were given an option to join the MPF Scheme or to continue making contributions to the 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.

Notes to the Financial Statements

for the year ended December 31, 2003

34. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions to related companies in which Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests.

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Management fee received	328,525	–
Rental paid	5,731,626	5,375,533

In addition, the Group entered into the following transactions with the jointly controlled entity:

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Sale of goods	1,981,249	3,545,524
Purchase of materials	14,337,089	15,430,902
Commission and management fee received	20,243,281	14,987,502
Compensation received for plant reallocation	2,100,000	–

The above transactions were carried out at market price or where no market price was available, at cost.

Notes to the Financial Statements

for the year ended December 31, 2003

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company		Principal activity
			Directly held	Indirectly held	
Falmer Investments Ltd.	British Virgin Islands/ The PRC	US\$1	–	100%	Research and development
Fong's China Development Limited	British Virgin Islands/ The PRC	US\$1	100%	–	Investment holding
Fong's China Investment (B.V.I.) Company Limited	British Virgin Islands/ The PRC	US\$1	–	100%	Investment holding and property holding
Fong's Engineering Services Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in steel and provision of management services to group companies
Fong's Manufacturers Company Limited	British Virgin Islands/ Hong Kong	US\$10,000	100%	–	Investment holding
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK\$100 Deferred – HK\$8,000,000 (Note)	–	100%	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Company Limited	The PRC *	US\$22,500,000	–	100%	Manufacture of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in stainless steel supplies
Sunshine Glory Limited	British Virgin Islands/ The PRC	US\$10	–	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in metal castings products

Notes to the Financial Statements

for the year ended December 31, 2003

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company		Principal activity
			Directly held	Indirectly held	
Tycon Alloy Industries (Shenzhen) Co. Ltd.	The PRC *	US\$2,250,000	–	100%	Manufacture of metal castings products
Vastpark Limited	Hong Kong	HK\$2	–	100%	Property holding
Tianjin Lifenghang International Trading Co. Ltd.	The PRC *	RMB2,889,037	–	51%	Dormant
Xorella Hong Kong Limited	Hong Kong	US\$3,500,000	–	80%	Trading in textile machinery and technical parts
Xorella AG	Switzerland	CHF350,000	–	80%	Manufacture of textile machinery and technical parts

* *Company with limited liability*

The above table lists the subsidiaries of the Group 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.

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

Note: The deferred shares entitle the holders to dividends from one half of the remaining net profit after the first HK\$10,000,000,000 has been distributed to holders of ordinary shares of HK\$1 each of the company. The deferred shares also entitle the holders to participate in distribution of one half of the surplus assets on winding up after the first HK\$20,000,000,000 has been distributed to holders of ordinary shares of HK\$1 each of the company.

Financial Summary

	Year ended December 31,				2003 HK\$'000
	1999 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	
RESULTS					
Turnover	485,295	922,877	758,336	1,142,419	1,350,380
Profit from operations	55,743	146,690	72,781	208,307	273,315
Finance costs	(11,947)	(17,664)	(11,573)	(8,017)	(4,875)
Interest income	139	471	2,694	1,431	1,326
Impairment loss on loan to an associate	–	(4,967)	–	–	–
Share of results of associates	766	1,897	2,802	(19,025)	2,667
Share of results of a jointly controlled entity	–	307	3,379	24,773	50,435
Profit before tax	44,701	126,734	70,083	207,469	322,868
Income tax expense	(4,819)	(20,860)	(6,554)	(35,909)	(47,901)
Profit before minority interests	39,882	105,874	63,529	171,560	274,967
Minority interests	(687)	–	–	965	1,943
Net profit for the year	39,195	105,874	63,529	172,525	276,910

	As at December 31,				2003 HK\$'000
	1999 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	
ASSETS AND LIABILITIES					
Total assets	709,926	820,632	701,919	861,423	963,333
Total liabilities	(281,726)	(301,264)	(214,935)	(277,643)	(243,778)
Minority interests	(14,827)	(1,290)	(1,290)	(3,554)	(1,611)
Shareholders' funds	413,373	518,078	485,694	580,226	717,944

Note: Prior periods' figures for years ended December 31, 1999 to 2002 have been adjusted to reflect the changes in accounting policies, as described in note 2 to the financial statements.

| Summary of Property Held for Redevelopment

Location	Category of lease	Site area	Nature of property	Percentage of interest in the property	Stage of completion
The site of Hung Hsin Factory Building, No.932 Cheung Sha Wan Road, Kowloon, Hong Kong	Medium term lease	535.67m ²	Factory site	51%	Building demolished and site cleared