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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Fong Sou Lam (*Chairman*)

Mr. Lee Che Chiu (*Managing Director*)

(appointed on July 10, 2000)

Mr. Fong Kwok Leung, Kevin

Mr. Fong Kwok Chung, Bill

Mr. Cheuk Hon Kin, Kelvin

Dr. Tsui Tak Ming, William

(appointed on July 10, 2000)

Ms. Poon Hang Sim, Blanche

(appointed on July 10, 2000)

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan

Mr. Lui Chi Lung, Louis

(appointed on September 9, 2000)

Mr. Lee Che Chiu

(redesignated to Executive Director on July 10, 2000)

## 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

The Bank of East Asia Limited

DBS Kwong On Bank Limited

## BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Corporate Services Limited

11 Rosebank Centre,

Bermudiana Road,

Hamilton,

Bermuda

## HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Secretaries Limited

5th Floor, Wing On Centre,

111 Connaught Road Central,

Hong Kong

## REGISTERED OFFICE

Cedar House,

41 Cedar Avenue,

Hamilton HM12, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor,

22-28 Cheung Tat Road,

Tsing Yi Island,

New Territories,

Hong Kong

## WEBSITE ADDRESS

<http://www.fongs.com>

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of the Company will be held at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi Island, New Territories, Hong Kong on Wednesday, May 23, 2001 at 10:00 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, 2000.
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 19, 2001

*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 Island, New Territories, 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 and the proposed final dividend/special dividend, the register of members will be closed from May 16, 2001 to May 23, 2001, 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 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 p.m. on Tuesday, May 15, 2001.

# Chairman's Statement

## RESULTS

*Highlights of the audited consolidated results of the Group for the year ended December 31, 2000 are as follows:-*

- *Turnover was approximately HK\$922.88 million, representing an increase of 90%*
- *Profit for the year was approximately HK\$106.56 million representing an increase of 180%*
- *Earnings per share were HK20.6 cents, representing an increase of approximately 168%*
- *Proposed final dividend per share of 4.0 cents, making full year dividend per share of 7.0 cents, an increase of 133%*
- *Proposed special dividend of 11.0 cents per share*
- *Net asset value per share was HK\$0.83*



## BUSINESS REVIEW

We are very pleased to announce a record year for the Group in terms of revenue and profit. The above encouraging results have been achieved by both internal and external efforts.

Firstly, we have internally continued to focus our efforts on such aspects as cost cutting and operational efficiency, research and development, the introduction of several new machine models in recent years, strengthening of our marketing and after-sales services and good capacity utilisation.

Secondly, the main external reasons which have attributed to our remarkable results were; the continued economic recovery from the Asian financial crisis in our major markets leading to robust sales growth for our textile and finishing machines business as well as our stainless steel trading business; the need for the Mainland textile industry to make technological upgrades to increase both production efficiency and quality are coupled with positive results from the restructuring of the Mainland textile industry which has been ongoing since 1996.

## PROSPECTS

With signs of economic slowdown in the United States and also the world economy, the results of this immediate year may be difficult to match. Nevertheless, we remain confident and optimistic of achieving satisfactory results in the coming year mainly due to the following reasons:-

The overall market conditions of the textile industry in Asia and China are in much better shape compared to the recent past of the Asian financial crisis years.

The requirements from our customers, especially in China, to make technological upgrade to improve their production efficiency and quality on textile products will continue to remain strong. This factor is further reinforced by the fact of World Trade Organisation entry which will lead to greater competition from the textile industry in the relevant countries.

The slowdown in the western economies will speed up and increase customers for our casting and machining business from these regions who are in search of lower cost and quality suppliers for their stainless steel casting requirements.

Lastly, with the recent disposal of our interest in a property development investment in Beijing, we are now able to better use our resources and management efforts to focus on our industrial and manufacturing related businesses. This disposal is also expected to make significant improvement in the financial performance of the Group.

## APPRECIATION

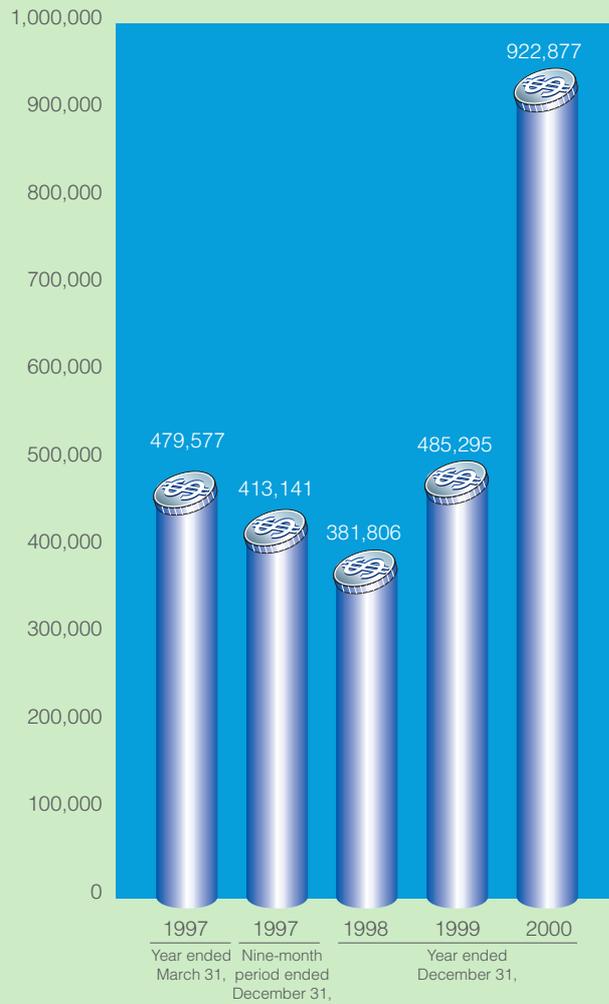
Last but certainly not least, on behalf of the Board of Directors, I would like to take this opportunity to express our gratitude to the Group's staff for their contribution and to thank all our customers, bankers, shareholders and business associates for their continuing support. Without their valued patronage, we would not have the foundation necessary to become one of the leaders in our industry today.



**Fong Sou Lam**  
*Chairman*

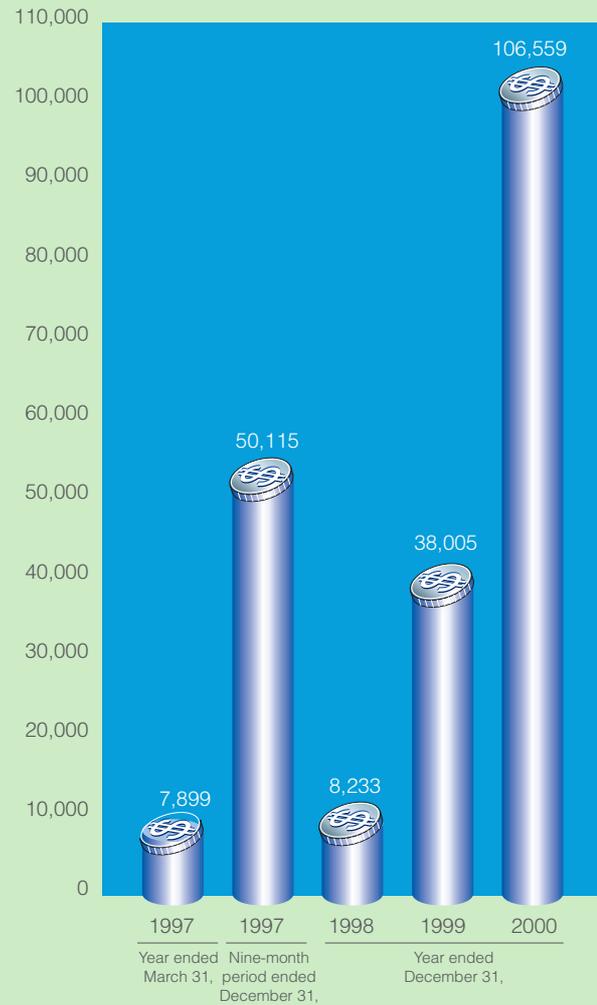
Hong Kong, April 19, 2001

**TURNOVER**  
(HK\$'000)

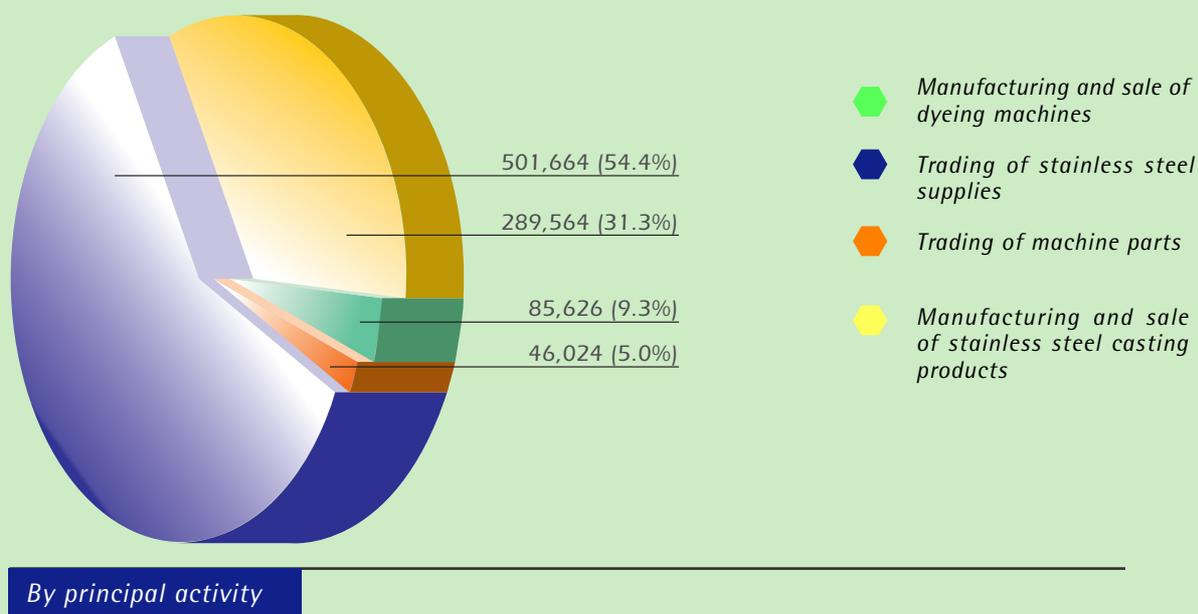
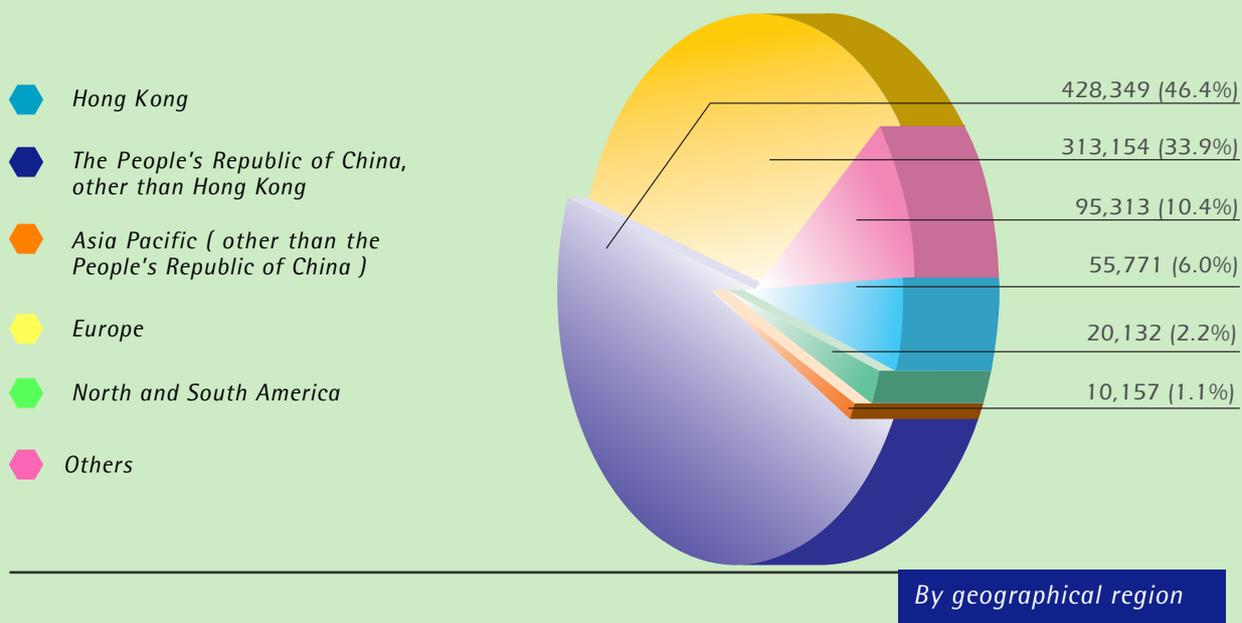


# Financial Highlights

**NET PROFIT FOR THE YEAR/PERIOD**  
(HK\$'000)



ANALYSIS OF TURNOVER FOR THE YEAR  
(HK\$'000)



# Directors and Senior Management Profile

## EXECUTIVE DIRECTORS

1. Mr. Fong Sou Lam, aged 66, 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 54, 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 39, 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 31, 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 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. Cheuk Hon Kin, Kelvin, aged 41, joined the Group in 1986. He is in charge of the sales and marketing department of Fong's National Engineering Company, Limited. Mr. Cheuk graduated from 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 of business administration degree 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.

6. Dr. Tsui Tak Ming, William, aged 42, is a chartered engineer and is in charge of the research & development department, control & automation department, technical department and management information system 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's 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 was appointed as an executive director of the Company on July 10, 2000.
7. 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.

## NON-EXECUTIVE DIRECTORS

1. Mr. Cheung Chiu Fan, aged 47, 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 of the Hong Kong Institute of Company Secretaries, a member of the British Institute of Management in the United Kingdom and has a master degree in business administration from the Chinese University of Hong Kong. Mr. Cheung was appointed as a non-executive director in 1996.
2. Mr. Lui Chi Lung, Louis, aged 47, is an experienced and well-trained corporate and private banker for over twenty 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 50, rejoined the Group in 1999, 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 43, 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 64, 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 45, 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 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 Wai Yuk, Thomas, aged 38, is the assistant general manager of Tycon Alloy Industries (Shenzhen) Company Limited, which is engaged in the business of stainless steel and alloy steel castings. He joined the Group in 1987. Mr. Wong graduated from the University of Technology, Sydney with a degree for manufacturing management. He has also received a higher diploma in mechanical engineering from the Hong Kong Polytechnic University.

6. Mr. Peter Sorensen, aged 38, is a senior manager of Fong's National Engineering Company, Limited. He has worked with control systems of textile dyeing and finishing machines for 9 years and before joining the Group in 1997, he worked in Europe as an electronic design manager. In 1986, he obtained a master of science degree in engineering, with a degree in electrical engineering. Mr. Sorensen is responsible for the control & automation department including electrical, electronic and process divisions.
7. Mr. Wong Tak Man, Francis, aged 37, is a senior manager of the Chairman's Office. Mr. Wong graduated from the Hong Kong Polytechnic University with a higher diploma in marine engineering and joined the Group in 1987. Mr. Wong is responsible for assisting the Chairman in the daily operation of the manufacturing business in Shenzhen, monitoring the training scheme for newly-employed engineers and handling matters in relation to customer relation.
8. Mr. Low Keung Wai, Gerald, 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. Low has been engaged in the human resources, staff training and administration fields for over 25 years and is a member of the Hong Kong Institute of Human Resources Management and holds diplomas by examinations from the Chartered Institute of Transport, the Institute of Linguists and the Institute of Marketing, United Kingdom. Mr. Low joined the Group in November, 2000.
9. Mr. Wong Ching Chuen, Patrick, aged 39, is the Senior Manager of the sales and marketing department. He is resident in our Shenzhen sales division and is responsible for the sales work of part of China market. Mr. Wong has been respectively educated in the Hong Kong Polytechnic University for mechanical engineering and Griffith University in Australia for Law. He has over 14 years' experience in China trade for industrial equipment supplies and engineering work. He joined the Group in July 2000.
10. Mr. Lee Che Keung, aged 40, is the company secretary of the Group. He graduated from 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 United Kingdom. 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.

turnover. The business has managed to sustain its trend of growth in turnover and profit during the year.

The management is dedicated to strengthening its sales force and research & development team, broadening its customer base and improving its productivity with the aim to improve the quality and reliability of its products so as to provide thorough satisfactory services to its customers.

## Management Discussion and Analysis



FONG'S GN6-SUPER High Temperature Dyeing Machine

For the year ended December 31, 2000, the Group recorded a turnover of approximately HK\$922.88 million, representing an increase of 90% over the previous year. Profit for the year was approximately HK\$106.56 million, showing a remarkable increase of 180% over last year. Earnings per share were enhanced by 168%.

Such encouraging growth was mainly due to the successful implementation of the marketing strategies and cost savings exercises implemented over the last few years.

In addition to the satisfactory performance derived from our core business of dyeing and finishing machines manufacturing operation, the Group's other businesses were also on the right development path with encouraging results.

### DYEING AND FINISHING MACHINES MANUFACTURING

This major core business being engaged by Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Company Limited accounted for approximately 54% of the consolidated

### Sales and Marketing

The brand "FONG'S" has long established a high recognition in its major markets and remains customers' choice.

To cope with the increase in demand for its products and to reinforce market presence in its major market, China, the sales & marketing force will be further strengthened in the various sales offices in the major cities of China, namely Beijing, Shanghai, Wuhan, Qingdao, Guangzhou and Shenzhen.

Although China market remains strong, it is our determination to explore and break into new and higher growth markets, especially in Asia Pacific. A sales office is scheduled to open in Thailand shortly with the aims to have close and direct contacts with the customers and to strengthen our after-sales services.

It is also this business's strategy to further build up its brand by active participation in key trade shows and fairs in its major markets. More resources will be put to media advertising and market promotion in the coming year to strengthen the recognition of the "FONG'S" brand.

### Research and development ("R & D")

This business regards R & D as a key strategy in order to keep abreast of international technology development. In this respect, it has entered into a number of business collaborations with academic and R & D institutions in order to develop new and innovative technology for application to our products.

The R & D function unit comprises a team of over 120 engineering and technical professionals to keep abreast of the latest development in the area of dyeing machines and dyeing technology.

Recently, the stainless steel prices have become more stable. The management will continue to implement effective credit policy and credit management. It is anticipated that this business will continue to contribute to the Group's profits.

Furthermore, this trading business is complementary to our manufacturing activities by providing competitive and flexible sourcing for both our machine manufacturing and stainless steel casting businesses.

### STAINLESS STEEL CASTING AND MACHINING



*FONG'S CAS High Temperature Package Dyeing Machine*

During the year, as a recognition of our efforts, Fong's National Engineering Company, Limited has won the "HKITCC Certificate of Merit in Technological Achievement" in the 2000 Hong Kong Awards for Industry in respect of the product FC28, a newly developed microprocessor for controlling dyeing process. In the same year, the company's recently launched product GN6 SUPER High Temperature Dyeing Machine also won the "Energy saving and environmentally friendly products certification" award from the Dyeing and Finishing Industry Committee of the China Textile Engineering Institute.

### STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited accounted for approximately 31% of the consolidated turnover. Despite significant fluctuations in the stainless steel prices during the year, this business has managed to maintain reasonable profit margins through effective inventory control.

During the year under review, price competition was particularly intense, profit margins were unavoidably thinned but healthy growth can be seen.

Tycon Alloy Industries (Shenzhen) Company Limited comprises two major product lines, namely stainless steel casting and machining.

For the year under review, the turnover of the stainless steel casting business approximately doubled and generated profit contributions to the Group. The management will continue its tight inventory control measures and will establish more efficient production scheduling to reduce wastage ratio thereby enhancing the manufacturing margins.

As regards the value added precision machining division, the products will reap better margins and is expected to bring continued growth to the business.

During the year, in addition to the establishment of new production lines to extend into the machining business, its production facilities have been expanded by installing new and advanced machinery to upgrade and automate the production process to improve efficiency. As the production has gradually become more sophisticated, its products are being well received and recognised by the customers. Therefore, more orders with higher profit margins are being solicited especially from the European and US customers.

Utilising the sales networks and solid reputations of its two shareholders, Monforts Fong's has successfully launched its product under its brand name of "MONFONGS" which have been well received by customers in China.

To cope with the rapid growth of business in the coming years, Monforts Fong's has proceeded to move into a new block of production plant in the vicinity of the existing premises. The new plant is scheduled for full production by September, 2001 and will provide a gross production floor area of 5,000 square metres.

## Management Discussion and Analysis



MONFONGS 328 Twin Air Stenter

In addition, this business also supplies moulds, machined and casted parts for the Group's dyeing machine manufacturing business acting as a strategic low cost and flexible supplier.

The management is confident that with continuous improvements in product quality and production capacity, the products have already gained recognition and orders are being received with higher margins. Barring any unforeseen circumstances, this business is expected to achieve satisfactory increases in both turnover and profitability in the coming year.

### JOINTLY CONTROLLED ENTITY

**Monforts Fong's Textile Machinery Co. Limited**  
("Monforts Fong's")  
(a 50% owned jointly controlled entity)

Monforts Fong's is a joint venture established in 1999 with a leading German textile machinery manufacturer to extend the sale and manufacture of stenters in mainland China. It is an alliance between two leaders in the industry to complement each other in many areas such as marketing, research & development and branding to improve market penetration for their products.

We are confident that given the business on hand and the continued positive market response for its product, encouraging results can be seen in the near future.

### ASSOCIATES

**Foshan East Asia Company Limited ("Foshan East Asia")**  
(a 30% owned associated company as at December 31, 2000)

Foshan East Asia is a company principally engaged in the manufacture and sale of colour woven fabrics and related products.

During the year, the Asian markets for colour woven fabrics continued to recover gradually. Profit margins were still under pressure due to keen price competition. Nevertheless, it is expected that the impending accession of China to the WTO is likely to open up new trading opportunities for Foshan East Asia.

To improve its production quality and efficiency, Foshan East Asia has expanded its existing production capacity by installing new and additional machinery during the year. Thus, the management is confident that Foshan East Asia will be more competitive and expected to generate satisfactory results in the coming years.

During the year, the Group has acquired additional 12% interest in Foshan East Asia for a consideration of approximately HK\$18 million.

**Sunshine City Limited ("Sunshine City")  
(a 35% owned associated company as at December 31, 2000)**

Sunshine City is a joint venture company having a 52% interest in the property development project for the construction of the International Finance Centre in Finance Street, Beijing, China.

On February 5, 2001, the Group entered into a sale and purchase agreement for the disposal of all its entire shares in and a shareholder's loan due from Sunshine City (being substantially the cost of investment in Sunshine City) to an independent third party for a cash consideration of US\$18,018,018 and the assignment of the land use rights of office premises of an area of not less than 200 square metres above the 4th Floor in Central Plaza at Beijing, China with an estimated value of approximately HK\$2,200,000. Details of which have been disclosed in the Company's circular to shareholders dated February 26, 2001. The disposal was completed on April 12, 2001.

The land use rights of the said office premises in Central Plaza are expected to be assigned to the Group in 2002 and the Group intends to use the said office premises as a representative office of the Group in Beijing, China.

## LIQUIDITY AND CAPITAL RESOURCES

The Group's balance sheet at December 31, 2000 continued to show considerable improvement resulting from a combination of improved profitability and asset management.

For the year ended December 31, 2000, the Group generated net cash inflow from operating activities of approximately HK\$129 million. As at December 31, 2000, cash and cash equivalents have been increased by 121% to approximately HK\$73 million.

During the year, the Company raised approximately HK\$15 million, net of related expenses, from the issue of new shares at HK\$0.50 per share upon the the exercises by the warrant holders of the Company's 2000 warrants. As at December 31, 2000, the Group had 524,386,285 shares in issue with a total shareholders' funds amounted to approximately HK\$436 million.



The Group spent approximately HK\$31 million on the construction of production plant as well as purchases of machinery and equipment to cope with the increase in businesses of the Group.

As at December 31, 2000, the Group had cash and bank balances of approximately HK\$73 million. All existing bank borrowings of the Group are subject to floating interest rates.

As at December 31, 2000, the Group had current assets of approximately HK\$511 million and current liabilities of approximately HK\$366 million. The debt to equity ratio was 87% (1999: 72%) and the gearing ratio was 15% (1999: 23%).

*FONG'S MK88 High Speed  
Dyeing Machine*

## HUMAN RESOURCES

The Group had a total of approximately 1,900 employees as at December 31, 2000. Human resources have always been important to the manufacturing industry and particularly are crucial to the continued success of the Group. To this end, the Group will continue to enrich our human resources by recruiting, training and developing experienced and talented people. Extensive in-house and external training courses are being made available to all staff members, with particular emphasis on tailoring training programmes to align with the business needs and the strategic directions of the Group.

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended December 31, 2000.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The subsidiaries of the Company are principally engaged in the manufacture and sale of dyeing machines, trading of stainless steel supplies and machine parts, manufacture and sale of stainless steel casting products and property holding.

An analysis of the Group's turnover and operating profit by geographical region and principal activity is set out in note 3 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group and the appropriations of the Company for the year ended December 31, 2000 are set out in the consolidated income statement on page 23 of the annual report and in note 10 to the financial statements.

An interim dividend of 3 cents per share amounting to approximately HK\$16.26 million was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 4 cents per share plus a special dividend of 11 cents per share to the shareholders on the register of members on May 23, 2001, amounting to approximately HK\$20.94 million and HK\$57.59 million respectively and the retention of the remaining profit for the year of approximately HK\$11.76 million.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 62 of the annual report.

## RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 25 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2000, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

The five largest suppliers comprised 31% of the total purchases while the largest supplier accounted for 14%.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers.

## DIRECTORS AND SERVICE CONTRACTS

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

### Executive directors:

Mr. Fong Sou Lam ( <i>Chairman</i> )	
Mr. Lee Che Chiu ( <i>Managing Director</i> )	(appointed on July 10, 2000)
Mr. Fong Kwok Leung, Kevin	
Mr. Fong Kwok Chung, Bill	
Mr. Cheuk Hon Kin, Kelvin	
Dr. Tsui Tak Ming, William	(appointed on July 10, 2000)
Ms. Poon Hang Sim, Blanche	(appointed on July 10, 2000)

### Non-executive directors:

Mr. Cheung Chiu Fan	
Mr. Lui Chi Lung, Louis	(appointed on September 9, 2000)
Mr. Lee Che Chiu	(redesignated to executive director on July 10, 2000)

Mr. Cheung Chiu Fan was appointed under a contract commencing on August 22, 1998 and expiring on December 31, 2000. On December 19, 2000, his term of office was extended to December 31, 2002.

Mr. Lui Chi Lung, Louis was appointed under a contract for an initial term of 2 years commencing on September 9, 2000.

# Directors' Report

## DIRECTORS AND SERVICE CONTRACTS (Continued)

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

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

On December 29, 1999, the Group entered into an operating lease agreement with Sou Lam for the use of a portion of a factory building for a term of two years from January 1, 2000 to December 31, 2001.

On April 28, 2000, the Group entered into another operating lease agreement with Sou Lam for the use of a workshop in the same factory building for the period from May 1, 2000 to December 31, 2001.

The above operating lease agreements were negotiated on an arm's length basis and the rentals were determined by independent rental valuations. Total rent payable by the Group to Sou Lam for the year amounted to HK\$3,931,960.

Save as aforesaid, there were no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest which subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES

As at December 31, 2000, the interests of the directors in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of directors	Number of ordinary shares held	
	Personal interests	Other interests
Mr. Fong Sou Lam	356,000	-
Mr. Fong Kwok Leung, Kevin	350,000	342,575,601*
Mr. Fong Kwok Chung, Bill	300,000	342,575,601*
Mr. Cheuk Hon Kin, Kelvin	593,110	-

\* 342,575,601 shares are owned by two discretionary trusts, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other family members.

Save as aforesaid and other than certain nominee shares in subsidiaries held by certain directors in trust for the Group, none of the directors, or their associates had any beneficial interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at December 31, 2000.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

The directors had personal interests in share options to subscribe for shares in the Company at an exercise price of HK\$0.56 per share under the share option scheme adopted by the Company on September 19, 1990, which expired on September 18, 2000 as follows:

Name of directors	At	Number of	At
	January 1, 2000	share options lapsed during the year	December 31, 2000
Mr. Fong Sou Lam	10,000,000	(10,000,000)	-
Mr. Cheuk Hon Kin, Kelvin	850,000	(850,000)	-
Mr. Fong Kwok Leung, Kevin	700,000	(700,000)	-
Mr. Fong Kwok Chung, Bill	300,000	(300,000)	-
Mr. Lee Che Chiu	100,000	(100,000)	-
Mr. Cheung Chiu Fan	100,000	(100,000)	-
Dr. Tsui Tak Ming, William	400,000	(400,000)	-

# Directors' Report

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES (Continued)

Pursuant to a special general meeting held on June 8, 2000, a new share option scheme was approved and was adopted on September 19, 2000. Details of the new share option scheme are set out in note 23 to the financial statements.

No options under the new share option scheme were granted or exercised during the year and no options were outstanding as at December 31, 2000.

Other than the foregoing, at no time during the year was the Company or any of 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 and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such rights.

## SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register required to be maintained under Section 16(1) of the SDI Ordinance at December 31, 2000 shows no other person as interested in shares representing 10% or more of the Company's shares in issue at that date.

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

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited as detailed in note 22 to the financial statements with the aim of increasing the earnings and net assets per share of the Company. The shares were then cancelled by the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## 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.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$6,000.

## COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended December 31, 2000 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for the following event.

On December 14, 1998, the Company established an Audit Committee comprising Messrs. Lee Che Chiu and Cheung Chiu Fan, independent non-executive directors. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. On July 10, 2000, Mr. Lee Che Chiu took up the post of Managing Director of the Company and resigned as a member of the Audit Committee. As a result, the Company had only one member in the Audit Committee until the appointment of Mr. Lui Chi Lung, Louis as an independent non-executive director and a member of the Audit Committee on September 9, 2000.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 36 to the financial statements.

## 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 19, 2001

# Auditors' Report

## 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 23 to 61 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 statements and to report our opinion to you.

### 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, 2000 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 19, 2001

# Consolidated Income Statement

For the year ended December 31, 2000

	NOTES	2000 HK\$	1999 HK\$
Turnover		922,877,282	485,295,215
Cost of sales		<u>(605,610,943)</u>	<u>(287,316,316)</u>
Gross profit		317,266,339	197,978,899
Other revenue		5,539,480	4,174,751
Distribution costs		(36,549,227)	(23,670,985)
Administrative expenses		(114,492,613)	(100,248,147)
Other operating expenses		<u>(25,074,004)</u>	<u>(22,491,404)</u>
Profit from operations	4	146,689,975	55,743,114
Finance costs	6	(17,664,344)	(11,947,498)
Investment income	7	471,242	139,346
Provision against loan to an associate		(4,966,833)	-
Share of results of associates		1,897,295	766,420
Share of results of a jointly controlled entity		<u>306,543</u>	<u>-</u>
Profit before taxation		126,733,878	44,701,382
Taxation	8	<u>20,174,411</u>	<u>6,009,336</u>
Profit before minority interests		106,559,467	38,692,046
Minority interests		<u>-</u>	<u>(686,703)</u>
Net profit for the year	9	106,559,467	38,005,343
Dividends	10	(37,201,604)	(14,958,786)
Special dividend	10	<u>(57,593,391)</u>	<u>-</u>
Profit for the year, retained		<u>11,764,472</u>	<u>23,046,557</u>
Earnings per share	11		
Basic		<u>20.6 cents</u>	<u>7.7 cents</u>
Diluted		<u>20.6 cents</u>	<u>7.7 cents</u>

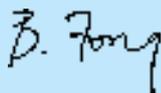
# Consolidated Balance Sheet

At December 31, 2000

	NOTES	2000 HK\$	1999 HK\$
<b>Non-current assets</b>			
Property, plant and equipment	12	236,088,293	221,562,954
Intangible assets	14	1,156,677	2,625,010
Investments in associates	15	56,486,993	65,558,701
Loans to associates	15	–	148,744,822
Interest in a jointly controlled entity	16	11,323,518	–
		<u>305,055,481</u>	<u>438,491,487</u>
<b>Current assets</b>			
Inventories	17	175,536,493	160,484,128
Trade and other receivables	18	114,075,687	73,264,762
Loans to an associate	15	142,200,000	–
Amount due from a jointly controlled entity		3,149,575	–
Taxation recoverable		3,876,710	–
Bank balances, deposits and cash		72,589,605	32,903,033
		<u>511,428,070</u>	<u>266,651,923</u>
<b>Current liabilities</b>			
Trade and other payables	19	132,879,877	91,894,283
Bills payable		17,542,043	32,167,275
Taxation payable		11,842,560	5,723,638
Proposed dividends		78,536,443	9,994,762
Obligations under finance leases – due within one year	20	3,216,600	2,436,412
Bank borrowings – due within one year	21	122,371,042	110,901,826
		<u>366,388,565</u>	<u>253,118,196</u>
Net current assets		<u>145,039,505</u>	<u>13,533,727</u>
		<u>450,094,986</u>	<u>452,025,214</u>

	NOTES	2000 HK\$	1999 HK\$
<b>Capital and reserves</b>			
Share capital	22	52,438,629	49,551,237
Reserves	25	383,310,988	359,794,455
		<u>435,749,617</u>	<u>409,345,692</u>
<b>Minority interests</b>		<u>1,290,136</u>	<u>14,827,470</u>
<b>Non-current liabilities</b>			
Loan from a minority shareholder of a subsidiary	26	–	12,864,590
Obligations under finance leases – due after one year	20	3,063,233	1,989,162
Bank borrowings – due after one year	21	9,992,000	12,998,300
		<u>13,055,233</u>	<u>27,852,052</u>
		<u>450,094,986</u>	<u>452,025,214</u>

The financial statements on pages 23 to 61 were approved by the Board of Directors on April 19, 2001 and are signed on its behalf by:



Fong Kwok Chung, Bill  
DIRECTOR

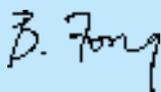


Fong Sou Lam  
DIRECTOR

# Balance Sheet

At December 31, 2000

	NOTES	2000 HK\$	1999 HK\$
<b>Non-current assets</b>			
Investments in subsidiaries	13	<u>36,584,990</u>	<u>36,584,983</u>
<b>Current assets</b>			
Other receivables		217,891	-
Amounts due from subsidiaries		458,177,953	376,210,424
Bank balances		<u>30,605</u>	<u>20,863</u>
		<u>458,426,449</u>	<u>376,231,287</u>
<b>Current liabilities</b>			
Other payables		170,731	254,080
Amounts due to subsidiaries		122,782,442	29,576,509
Proposed dividends		<u>78,536,443</u>	<u>9,994,762</u>
		<u>201,489,616</u>	<u>39,825,351</u>
<b>Net current assets</b>			
		<u>256,936,833</u>	<u>336,405,936</u>
		<u>293,521,823</u>	<u>372,990,919</u>
<b>Capital and reserves</b>			
Share capital	22	52,438,629	49,551,237
Reserves	25	<u>241,083,194</u>	<u>323,439,682</u>
		<u>293,521,823</u>	<u>372,990,919</u>



Fong Kwok Chung, Bill  
DIRECTOR



Fong Sou Lam  
DIRECTOR

# Consolidated Statement of Recognised Gains and Losses

For the year ended December 31, 2000

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Exchange differences arising on translation of overseas subsidiaries and associates not recognised in the consolidated income statement	1,241,673	(1,110,105)
Profit for the year	<u>106,559,467</u>	<u>38,005,343</u>
Total recognised gains and losses	<u>107,801,140</u>	<u>36,895,238</u>

# Consolidated Cash Flow Statement

For the year ended December 31, 2000

	NOTES	2000 HK\$	1999 HK\$
Net cash inflow from operating activities	28	<u>129,352,068</u>	<u>30,204,171</u>
<b>Returns on investments and servicing of finance</b>			
Dividends paid		(26,253,314)	(7,444,186)
Interest on bank borrowings		(13,385,813)	(9,168,087)
Interest on finance leases		(406,781)	(494,287)
Factoring charges		(180,521)	-
Dividends received from associates		2,660,489	3,670,738
Interest received		<u>471,242</u>	<u>139,346</u>
Net cash outflow from returns on investments and servicing of finance		<u>(37,094,698)</u>	<u>(13,296,476)</u>
<b>Taxation</b>			
Hong Kong Profits Tax paid		(10,719,678)	(1,228,719)
Overseas taxation paid		(6,816,829)	(1,030,390)
Hong Kong Profits Tax refunded		<u>6,869</u>	<u>1,402,141</u>
Net tax paid		<u>(17,529,638)</u>	<u>(856,968)</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(25,981,180)	(3,096,700)
Advance to a jointly controlled entity		(9,516,975)	-
Acquisition of additional interest in a subsidiary		(5,200,408)	-
Advance to an associate		(1,052,198)	(5,299,999)
Investment in shares of an associate		-	(500,000)
Additions to intangible assets		-	(28,803)
Proceeds from disposal of property, plant and equipment		<u>38,430</u>	<u>870,762</u>
Net cash outflow from investing activities		<u>(41,712,331)</u>	<u>(8,054,740)</u>
Net cash inflow before financing		<u>33,015,401</u>	<u>7,995,987</u>

	NOTES	2000 HK\$	1999 HK\$
<b>Financing</b>	29		
New bank loans raised		53,150,943	34,037,058
Proceeds from issue of shares		15,013,040	270,008
Repayment of bank loans		(43,537,458)	(33,589,435)
Repayment of loan from a minority shareholder of a subsidiary		(12,864,590)	(1,420,000)
Repayment of obligations under finance leases		(2,674,541)	(2,995,532)
Repurchase of shares		(1,615,260)	(464,400)
Net cash (outflow) inflow from trust receipts loans		(1,150,569)	38,578,110
Repayment of loan from a director		-	(22,200,000)
<b>Net cash inflow from financing</b>		<u>6,321,565</u>	<u>12,215,809</u>
<b>Increase in cash and cash equivalents</b>		<u>39,336,966</u>	<u>20,211,796</u>
<b>Cash and cash equivalents brought forward</b>		<u>32,903,033</u>	<u>13,102,120</u>
<b>Effect of foreign exchange rate changes</b>		<u>349,606</u>	<u>(410,883)</u>
<b>Cash and cash equivalents carried forward, representing Bank balances, deposits and cash</b>		<u>72,589,605</u>	<u>32,903,033</u>

# Notes to the Financial Statements

For the year ended December 31, 2000

## 1. GENERAL

The Company was 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 machines, trading of stainless steel supplies and machine parts, manufacture and sale of stainless steel casting products and property holding.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### 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 and associates 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.

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

### Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary, is credited to reserves.

Any premium or discount arising on the acquisition of interests in associates, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of an investment in a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

When a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

### Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

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 interest 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. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities except where unrealised losses provide evidence of an impairment of the asset transferred.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets

Deferred 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 year in which it is incurred.

Deferred 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 term of the relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### Property, plant and equipment

Property, plant and equipment, other than property held for future development and construction in progress, is stated at cost less depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

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.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Amortisation is not provided for freehold land.

Depreciation or amortisation is provided to write off the cost of other items of property, plant and equipment over their estimated useful lives, 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%

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 future redevelopment are stated at cost less provision, if necessary, for any impairment loss. No depreciation is provided on properties held for future redevelopment until the construction is completed.

Construction in progress represents buildings under construction in the PRC and plant and machinery purchased prior to installation and is stated at cost. 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.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasing

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

Rentals payable on properties under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability of the Group, 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 term 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.

### Foreign currencies

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation the results of overseas operations are translated using average exchange rates for the year. The assets and liabilities of the overseas operations are translated using the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve account.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Capitalisation of borrowing costs

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

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 3. SEGMENT INFORMATION

The Group's turnover and contribution to profit from operations for the year ended December 31, 2000, analysed by geographical region and principal activity are as follows:

	Turnover		Contribution to profit from operations	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
<b>By geographical region</b>				
Hong Kong	428,349,420	205,665,076	51,320,604	21,224,757
The People's Republic of China, other than Hong Kong	313,154,330	138,945,246	70,278,184	17,822,853
Asia Pacific (other than the People's Republic of China)	95,312,738	84,626,552	15,067,911	11,088,621
Europe	55,771,452	33,568,430	5,523,140	2,783,057
North and South America	20,131,856	16,670,773	2,767,400	2,022,942
Others	10,157,486	5,819,138	1,732,736	800,884
	<u>922,877,282</u>	<u>485,295,215</u>	<u>146,689,975</u>	<u>55,743,114</u>
<b>By principal activity</b>				
Manufacturing and sale of dyeing machines	501,663,863	274,020,051	100,222,458	38,077,621
Trading of stainless steel supplies	289,563,539	137,974,110	16,824,191	11,902,797
Trading of machine parts	85,625,777	41,559,503	26,679,167	4,591,688
Manufacturing and sale of stainless steel casting products	46,024,103	31,741,551	2,964,159	1,171,008
	<u>922,877,282</u>	<u>485,295,215</u>	<u>146,689,975</u>	<u>55,743,114</u>

#### 4. PROFIT FROM OPERATIONS

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Profit from operations has been arrived at after charging:		
Amortisation of intangible assets	1,475,588	1,117,413
Auditors' remuneration	746,141	661,654
Depreciation and amortisation:		
Owned assets	15,109,828	16,967,752
Assets held under finance leases	2,360,853	1,355,931
Loss on disposal of property, plant and equipment	59,556	2,330,396
Net foreign exchange loss	253,749	790,336
Operating lease payments in respect of rented premises	4,289,034	3,563,081
Research and development costs	88,574	2,044,064
Staff costs, including directors' emoluments	81,220,995	72,405,499
and after crediting:		
Rental income received from an outsider, net of outgoings	<u>          -</u>	<u>      120,000</u>

#### 5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Directors		
Directors fees:		
Executive	-	-
Independent non-executive	91,765	100,000
Other emoluments to executive directors:		
Salaries and other benefits	7,572,074	11,585,786
Retirement benefits scheme contribution	<u>      342,281</u>	<u>      70,842</u>
	<u>      8,006,120</u>	<u>     11,756,628</u>

# Notes to the Financial Statements

For the year ended December 31, 2000

## 5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	5	2
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	2
	<u>          </u>	<u>          </u>

No director waived any emoluments for the years ended December 31, 2000 and 1999.

### Employees

The seven highest paid individuals included five directors (1999: the six highest paid individuals included four directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid individuals for the year were as follows:

	2000	1999
	HK\$	HK\$
Salaries and other benefits	3,071,500	4,511,986
Retirement benefits scheme contribution	140,880	11,688
	<u>          </u>	<u>          </u>
	<u>3,212,380</u>	<u>4,523,674</u>

The emoluments of the employees were within the following bands:

	Number of employees	
	2000	1999
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
	<u>          </u>	<u>          </u>

## 6. FINANCE COSTS

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Interest on:		
Bank borrowings wholly repayable within five years	13,329,192	7,485,954
Obligations under finance leases	406,781	494,287
Loan from a director	–	704,684
Bank charges	3,747,850	3,262,573
Factoring charges	180,521	–
	<u>17,664,344</u>	<u>11,947,498</u>

No interest was capitalised during the year by the Group.

## 7. INVESTMENT INCOME

The amount represents interest income earned during the year.

## 8. TAXATION

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	12,606,611	4,775,387
Overprovision in prior periods	(169,051)	(561,171)
Overseas taxation	7,334,290	1,370,617
Share of taxation of associates	402,561	424,503
	<u>20,174,411</u>	<u>6,009,336</u>

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the year.

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

Details of the deferred taxation charge (credit) not provided for in the year are set out in note 27.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 9. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year, HK\$1,928,119 (1999: HK\$540,465) has been dealt with in the financial statements of the Company.

## 10. DIVIDENDS/SPECIAL DIVIDEND

	2000 HK\$	1999 HK\$
Interim dividend of 3.0 cents (1999: 1.0 cent) per share	16,258,552	4,964,024
Final dividend of 4.0 cents (1999: 2.0 cents) per share	<u>20,943,052</u>	<u>9,994,762</u>
	<u>37,201,604</u>	<u>14,958,786</u>
Special dividend of 11.0 cents (1999: Nil) per share	<u>57,593,391</u>	<u>-</u>

## 11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit for the year of HK\$106,559,467 (1999: HK\$38,005,343) and the following data:

	2000 Number of shares	1999 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	516,154,891	496,148,695
Effect of dilutive potential ordinary shares - share options	<u>219,388</u>	<u>520,274</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>516,374,279</u>	<u>496,668,969</u>

The computation of diluted earnings per share does not assume the conversion of the Company's warrants since the exercise price was higher than the average fair market value of the shares in both years.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Property held for future redevelopment HK\$	Leasehold land and buildings HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture and equipment HK\$	Motor vehicles HK\$	Moulds and tools HK\$	Construction in progress HK\$	Total HK\$
<b>THE GROUP</b>									
<b>COST</b>									
At January 1, 2000	18,732,820	193,423,819	1,248,462	62,604,505	28,333,771	8,568,837	3,960,853	371,233	317,244,300
Currency realignment	-	1,505,981	-	496,051	98,211	38,621	20,988	3,012	2,162,864
Additions	-	3,090,714	114,488	12,484,147	3,768,306	864,573	2,821,266	7,366,486	30,509,980
Disposals	-	-	-	-	(722,006)	-	-	-	(722,006)
<b>At December 31, 2000</b>	<b>18,732,820</b>	<b>198,020,514</b>	<b>1,362,950</b>	<b>75,584,703</b>	<b>31,478,282</b>	<b>9,472,031</b>	<b>6,803,107</b>	<b>7,740,731</b>	<b>349,195,138</b>
<b>DEPRECIATION AND AMORTISATION</b>									
At January 1, 2000	418,849	34,707,325	695,646	30,770,530	19,878,917	6,742,036	2,468,043	-	95,681,346
Currency realignment	-	288,692	-	190,099	48,987	32,155	18,905	-	578,838
Provided for the year	-	8,319,880	131,276	5,338,093	2,996,661	385,403	299,368	-	17,470,681
Eliminated on disposals	-	-	-	-	(624,020)	-	-	-	(624,020)
<b>At December 31, 2000</b>	<b>418,849</b>	<b>43,315,897</b>	<b>826,922</b>	<b>36,298,722</b>	<b>22,300,545</b>	<b>7,159,594</b>	<b>2,786,316</b>	<b>-</b>	<b>113,106,845</b>
<b>NET BOOK VALUES</b>									
<b>At December 31, 2000</b>	<b>18,313,971</b>	<b>154,704,617</b>	<b>536,028</b>	<b>39,285,981</b>	<b>9,177,737</b>	<b>2,312,437</b>	<b>4,016,791</b>	<b>7,740,731</b>	<b>236,088,293</b>
At December 31, 1999	18,313,971	158,716,494	552,816	31,833,975	8,454,854	1,826,801	1,492,810	371,233	221,562,954

The net book values of property held for future redevelopment and leasehold land and buildings at December 31, 2000 comprise properties held on medium-term leases in both Hong Kong and the PRC of HK\$21,448,066 (1999: HK\$21,520,757) and HK\$151,570,522 (1999: HK\$155,509,708) respectively.

The net book values of property, plant and equipment includes an amount of HK\$8,586,827 (1999: HK\$5,464,966) in respect of assets held under finance leases.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$	HK\$
Unlisted investments at carrying value	<u>36,584,990</u>	<u>36,584,983</u>

The carrying value of the unlisted investments is based on the value of the underlying assets and liabilities of the subsidiaries acquired by the Company at the time of 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, 2000 are set out in note 37.

## 14. INTANGIBLE ASSETS

	Deferred product development expenditure HK\$
<b>THE GROUP</b>	
<b>COST</b>	
At January 1, 2000	15,652,571
Currency realignment	<u>7,255</u>
<b>At December 31, 2000</b>	<b><u>15,659,826</u></b>
<b>AMORTISATION</b>	
At January 1, 2000	13,027,561
Provided for the year	<u>1,475,588</u>
<b>At December 31, 2000</b>	<b><u>14,503,149</u></b>
<b>CARRYING AMOUNTS</b>	
At December 31, 2000	<u>1,156,677</u>
At December 31, 1999	<u>2,625,010</u>

## 15. INVESTMENTS IN ASSOCIATES/LOANS TO ASSOCIATES

	THE GROUP	
	2000 HK\$	1999 HK\$
Share of net assets	<u>56,486,993</u>	<u>65,558,701</u>
Loans to associates		
Sunshine City Limited ( <i>note</i> )	142,200,000	146,244,822
Monforts Fong's Textile Machinery Co., Ltd. ("Monforts")	<u>–</u>	<u>2,500,000</u>
	142,200,000	148,744,822
Less: Amount recoverable within one year shown under current assets	<u>(142,200,000)</u>	<u>–</u>
	<u>–</u>	<u>148,744,822</u>

The loans are unsecured and non-interest bearing.

*Note:* Subsequent to the balance sheet date, the Group entered into an agreement to dispose of its entire shares in and a shareholder's loan due from Sunshine City Limited, details of which are set out in note 36 to the financial statements.

A director representing the interest of the Group was appointed to the Board of Directors of Monforts and, as a result, Monforts is subject to joint control. The investment in and loan to Monforts are then reclassified as interest in a jointly controlled entity.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 15. INVESTMENTS IN ASSOCIATES/LOANS TO ASSOCIATES (Continued)

The following details have been extracted from the management accounts of the Group's significant associates:

Operating results for the year ended December 31, 2000:

	Sunshine City Limited		Foshan East Asia Company Limited	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>-</u>	<u>-</u>	<u>180,515</u>	<u>205,186</u>
Depreciation	<u>-</u>	<u>-</u>	<u>11,086</u>	<u>9,708</u>
Profit before taxation	<u>-</u>	<u>-</u>	<u>10,542</u>	<u>11,045</u>
Profit before taxation attributable to the Group	<u>-</u>	<u>-</u>	<u>1,697</u>	<u>1,510</u>

Financial position at December 31, 2000:

Total non-current assets	373,233	373,233	205,623	179,530
Total current assets	4,439	4,439	229,923	299,491
Total liabilities	(378,044)	(378,044)	(226,990)	(257,998)
Minority interests	<u>-</u>	<u>-</u>	<u>(3,997)</u>	<u>(4,351)</u>
	<u>(372)</u>	<u>(372)</u>	<u>204,559</u>	<u>216,672</u>
Surplus (deficiency) of shareholders' funds attributable to the Group	<u>(130)</u>	<u>(130)</u>	<u>54,670</u>	<u>65,002</u>

Details of the principal associates at December 31, 2000 are set out in note 38.

## 16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2000 HK\$	1999 HK\$
Share of net liabilities	(693,457)	-
Loan to a jointly controlled entity	12,016,975	-
	<u>11,323,518</u>	<u>-</u>

As at December 31, 2000, the Group had an interest in the following jointly controlled entity:

Name of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of share capital attributable to the Group	Principal activity
Monforts Fong's Textile Machinery Co., Limited	Hong Kong	PRC	Ordinary	50%	Trading of textile machinery

## 17. INVENTORIES

	THE GROUP	
	2000 HK\$	1999 HK\$
Raw materials	63,789,974	37,498,821
Work in progress	30,572,844	20,963,913
Finished goods	81,173,675	102,021,394
	<u>175,536,493</u>	<u>160,484,128</u>

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 18. TRADE AND OTHER RECEIVABLES

Except for retention money held by customers for sales of dyeing machines, the Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade and other receivables at December 31, 2000:

	THE GROUP	
	2000 HK\$	1999 HK\$
Trade receivables		
0-30 days	61,565,926	33,906,775
31-60 days	8,416,360	7,456,101
61-90 days	6,222,280	1,848,255
over 90 days	–	2,330,184
	<u>76,204,566</u>	<u>45,541,315</u>
Bills receivables	12,244,985	9,501,545
Other receivables	<u>25,626,136</u>	<u>18,221,902</u>
	<u>114,075,687</u>	<u>73,264,762</u>

Included in other receivables is a loan to an officer. Details of the loan to an officer disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of officer	Terms of loan	Balance at 12.31.2000 HK\$	Balance at 1.1.2000 HK\$	Maximum amount outstanding during the year HK\$
Li Hon Yu, Albert	Unsecured, non-interest bearing and repayable on demand	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>

The Group pledged trade receivables with a net book value of HK\$3,363,175 to a finance company as at December 31, 2000.

## 19. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at December 31, 2000:

	THE GROUP	
	2000 HK\$	1999 HK\$
Trade payables		
0-30 days	38,595,935	19,410,549
31-60 days	11,800,268	9,064,799
over 60 days	3,540,218	3,253,948
	<u>53,936,421</u>	<u>31,729,296</u>
Deposits and temporary receipts	25,800,213	27,080,392
Other payables and accrued charges	53,143,243	33,084,595
	<u>132,879,877</u>	<u>91,894,283</u>

## 20. OBLIGATIONS UNDER FINANCE LEASES

The schedule for repayment of the obligations under finance leases is as follows:

	THE GROUP	
	2000 HK\$	1999 HK\$
Within one year	3,216,600	2,436,412
Between one to two years	2,826,233	1,989,162
Between two to five years	237,000	-
	<u>6,279,833</u>	<u>4,425,574</u>
Less: Amount due within one year shown under current liabilities	<u>(3,216,600)</u>	<u>(2,436,412)</u>
Amount due after one year	<u>3,063,233</u>	<u>1,989,162</u>

# Notes to the Financial Statements

For the year ended December 31, 2000

## 21. BANK BORROWINGS

	THE GROUP	
	2000 HK\$	1999 HK\$
Bank borrowings comprise the following:		
Trust receipts loans	70,213,799	71,364,368
Bank loans	62,149,243	52,535,758
	<u>132,363,042</u>	<u>123,900,126</u>
The bank borrowings are repayable within the following periods:		
Within one year	122,371,042	110,901,826
Between one to two years	6,664,000	9,670,300
Between two to five years	3,328,000	3,328,000
	<u>132,363,042</u>	<u>123,900,126</u>
Less: Amount due within one year shown under current liabilities	<u>(122,371,042)</u>	<u>(110,901,826)</u>
Amount due after one year	<u>9,992,000</u>	<u>12,998,300</u>
Secured	96,483,216	85,121,076
Unsecured	35,879,826	38,779,050
	<u>132,363,042</u>	<u>123,900,126</u>

## 22. SHARE CAPITAL

	2000 HK\$	1999 HK\$
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid:</i>		
At beginning of the year, 495,512,366 (1999: 496,032,355) ordinary shares of HK\$0.10 each	49,551,237	49,603,236
Exercise of warrants	2,748,592	1
Exercise of share options	446,800	100,000
Repurchase of shares	<u>(308,000)</u>	<u>(152,000)</u>
At end of the year, 524,386,285 (1999: 495,512,366) ordinary shares of HK\$0.10 each	<u>52,438,629</u>	<u>49,551,237</u>

During the year, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
February 2000	680,000	0.55	0.52	364,600
March 2000	90,000	0.55	0.54	48,800
May 2000	910,000	0.59	0.50	489,800
June 2000	1,200,000	0.55	0.45	628,060
October 2000	<u>200,000</u>	0.44	0.40	<u>84,000</u>
	<u>3,080,000</u>			<u>1,615,260</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to HK\$1,307,260 was charged against share premium. An amount of HK\$308,000 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 23. SHARE OPTIONS

Pursuant to the share option scheme (the "Scheme") of the Company adopted on September 19, 1990, the board of directors of the Company may grant options to any directors or full time employees of the Company or any of its subsidiaries to subscribe for shares in the Company. The subscription price is the higher of the nominal value of the Company's shares and 80% of the average closing price of the Company's shares on the five trading days immediately preceding the offer of the options. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company from time to time.

During the year, share options were exercised to subscribe for 4,468,000 ordinary shares of the Company at exercise prices ranging from HK\$0.242 to HK\$0.560 per share. The remaining 15,934,000 share options were cancelled during the year. The share option scheme was expired on September 18, 2000.

Pursuant to a special general meeting held on June 8, 2000, a new share option scheme was approved and was adopted on September 19, 2000. Details of the new share option scheme are the same as the old scheme as mentioned above.

No options under the new share option scheme were granted or exercised during the year and no options were outstanding as at December 31, 2000.

## 24. WARRANTS

A bonus issue of 2000-warrants was issued on June 1, 1998 on the basis of one warrant for every five ordinary shares held at June 1, 1998. Each warrant carried an entitlement to subscribe in cash at a price of HK\$0.50 for one ordinary share of the Company at any time from the date of issue to the date of expiry on April 28, 2000.

During the year, the registered holders of 27,485,919 warrants exercised their rights to subscribe for ordinary shares and the remaining outstanding 71,720,380 warrants were expired on April 28, 2000.

## 25. RESERVES

	Share premium HK\$	Capital redemption reserve HK\$	Translation reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
<b>THE GROUP</b>						
At January 1, 1999	191,844,977	236,200	(14,854,351)	122,639,761	38,133,809	338,000,396
Premium on repurchase of shares	(312,400)	-	-	-	-	(312,400)
Premium on issue of shares	170,007	-	-	-	-	170,007
Transfer upon repurchase of shares	-	152,000	-	(152,000)	-	-
Exchange difference arising on translation of overseas subsidiaries and associates	-	-	(1,110,105)	-	-	(1,110,105)
Profit for the year	-	-	-	38,005,343	-	38,005,343
Dividends	-	-	-	(14,958,786)	-	(14,958,786)
	<u>191,702,584</u>	<u>388,200</u>	<u>(15,964,456)</u>	<u>145,534,318</u>	<u>38,133,809</u>	<u>359,794,455</u>
At December 31, 1999	191,702,584	388,200	(15,964,456)	145,534,318	38,133,809	359,794,455
Premium on repurchase of shares	(1,307,260)	-	-	-	-	(1,307,260)
Premium on issue of shares	11,817,648	-	-	-	-	11,817,648
Transfer upon repurchase of shares	-	308,000	-	(308,000)	-	-
Exchange difference arising on translation of overseas subsidiaries and associates	-	-	1,241,673	-	-	1,241,673
Profit for the year	-	-	-	106,559,467	-	106,559,467
Dividends	-	-	-	(37,201,604)	-	(37,201,604)
Special dividend	-	-	-	(57,593,391)	-	(57,593,391)
	<u>202,212,972</u>	<u>696,200</u>	<u>(14,722,783)</u>	<u>156,990,790</u>	<u>38,133,809</u>	<u>383,310,988</u>
At December 31, 2000	202,212,972	696,200	(14,722,783)	156,990,790	38,133,809	383,310,988

The retained profits of the Group included HK\$28,204,643 (1999: HK\$25,209,909) and a loss of HK\$1,193,457 (1999: Nil) attributable to associates and a jointly controlled entity of the Group respectively.

The translation reserve of the Group included HK\$4,660,293 (1999: HK\$3,961,079) attributable to associates of the Group.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 25. RESERVES (Continued)

	Share premium HK\$	Capital redemption reserve HK\$	Translation reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
<b>THE COMPANY</b>						
At January 1, 1999	191,844,977	236,200	-	110,334,252	35,584,967	338,000,396
Premium on repurchase of shares	(312,400)	-	-	-	-	(312,400)
Premium on issue of shares	170,007	-	-	-	-	170,007
Transfer upon repurchase of shares	-	152,000	-	(152,000)	-	-
Profit for the year	-	-	-	540,465	-	540,465
Dividends	-	-	-	(14,958,786)	-	(14,958,786)
At December 31, 1999	191,702,584	388,200	-	95,763,931	35,584,967	323,439,682
Premium on repurchase of shares	(1,307,260)	-	-	-	-	(1,307,260)
Premium on issue of shares	11,817,648	-	-	-	-	11,817,648
Transfer upon repurchase of shares	-	308,000	-	(308,000)	-	-
Profit for the year	-	-	-	1,928,119	-	1,928,119
Dividends	-	-	-	(37,201,604)	-	(37,201,604)
Special dividend	-	-	-	(57,593,391)	-	(57,593,391)
At December 31, 2000	<u>202,212,972</u>	<u>696,200</u>	<u>-</u>	<u>2,589,055</u>	<u>35,584,967</u>	<u>241,083,194</u>

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.

## 25. 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:

	2000 HK\$	1999 HK\$
Contributed surplus	35,584,967	35,584,967
Retained profits	<u>2,589,055</u>	<u>95,763,931</u>
	<u>38,174,022</u>	<u>131,348,898</u>

## 26. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The loan is unsecured, non-interest bearing and was fully repaid during the year.

## 27. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of the unprovided deferred taxation asset (liability) are as follows:

	THE GROUP		THE COMPANY	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(355,700)	(306,000)	-	-
Taxation losses	<u>608,000</u>	<u>1,243,000</u>	<u>127,000</u>	<u>272,000</u>
	<u>252,300</u>	<u>937,000</u>	<u>127,000</u>	<u>272,000</u>

# Notes to the Financial Statements

For the year ended December 31, 2000

## 27. UNPROVIDED DEFERRED TAXATION (Continued)

The amount of the unprovided deferred taxation charge (credit) for the year is as follows:

	THE GROUP		THE COMPANY	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	49,700	(91,000)	-	-
Taxation losses utilised (arising)	<u>635,000</u>	<u>2,441,000</u>	<u>145,000</u>	<u>262,000</u>
	<u>684,700</u>	<u>2,350,000</u>	<u>145,000</u>	<u>262,000</u>

The potential deferred taxation asset has not been recognised in the financial statements as it is not virtually certain that the benefit will be realised in the foreseeable future.

## 28. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$	1999 HK\$
Profit before taxation	126,733,878	44,701,382
Share of results of associates	(1,897,295)	(766,420)
Share of results of a jointly controlled entity	(306,543)	-
Provision against loan to an associate	4,966,833	-
Depreciation and amortisation on property, plant and equipment	17,470,681	18,323,683
Amortisation of intangible assets	1,475,588	1,117,413
Interest income	(471,242)	(139,346)
Loss on disposal of property, plant and equipment	59,556	2,330,396
Interest expenses	13,735,973	8,684,925
Factoring charges	180,521	-
Increase in inventories	(15,052,365)	(87,969,460)
Increase in trade and other receivables	(40,810,925)	(18,647,210)
Increase in amount due from a jointly controlled entity	(3,149,575)	-
Increase in trade and other payables	41,042,215	37,440,652
(Decrease) increase in bills payable	<u>(14,625,232)</u>	<u>25,128,156</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>129,352,068</u>	<u>30,204,171</u>

## 29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Bank loans HK\$	Loan from a director HK\$	Trust receipts loans HK\$	Loan from a minority shareholder of a subsidiary HK\$	Obligations under finance leases HK\$
Balance at January 1, 1999	241,448,213	52,088,135	22,200,000	32,786,258	14,284,590	6,501,920
Proceeds from issue of shares	270,008	-	-	-	-	-
Repurchase of shares	(464,400)	-	-	-	-	-
New bank loans raised	-	34,037,058	-	-	-	-
Repayment of bank loans	-	(33,589,435)	-	-	-	-
Repayment of loan from a director	-	-	(22,200,000)	-	-	-
Net cash inflow from trust receipts loans	-	-	-	38,578,110	-	-
Repayment of loan from a minority shareholder of a subsidiary	-	-	-	-	(1,420,000)	-
Inception of finance leases	-	-	-	-	-	919,186
Repayment of finance leases	-	-	-	-	-	(2,995,532)
Balance at December 31, 1999	241,253,821	52,535,758	-	71,364,368	12,864,590	4,425,574
Proceeds from issue of shares	15,013,040	-	-	-	-	-
Repurchase of shares	(1,615,260)	-	-	-	-	-
New bank loans raised	-	53,150,943	-	-	-	-
Repayment of bank loans	-	(43,537,458)	-	-	-	-
Net cash outflow from trust receipts loans	-	-	-	(1,150,569)	-	-
Repayment of loan from a minority shareholder of a subsidiary	-	-	-	-	(12,864,590)	-
Inception of finance leases	-	-	-	-	-	4,528,800
Repayment of obligations under finance leases	-	-	-	-	-	(2,674,541)
Balance at December 31, 2000	254,651,601	62,149,243	-	70,213,799	-	6,279,833

## 30. NON CASH TRANSACTIONS

Additions to property, plant and equipment during 2000 amounting to HK\$4,528,800 (1999: HK\$919,186) were financed by new finance leases.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 31. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Export bills discounted with recourse	<u>10,506,099</u>	<u>1,046,000</u>	<u>-</u>	<u>-</u>
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	<u>-</u>	<u>-</u>	<u>347,200,000</u>	<u>276,500,000</u>
Guarantees given to bankers in respect of banking facilities granted to a jointly controlled entity	<u>1,650,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

At the balance sheet date, the extent of banking facilities utilised by the subsidiaries amounted to approximately HK\$132 million (1999: HK\$124 million).

## 32. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$	HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of technical know-how for the production of new products	-	542,500
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<u>817,879</u>	<u>108,400</u>
	<u>817,879</u>	<u>650,900</u>

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

### 33. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the following commitments payable in the next twelve months under non-cancellable operating leases in respect of rented premises:

	THE GROUP	
	2000 HK\$	1999 HK\$
Operating leases which expire:		
Within one year	4,476,757	8,649
In the second to fifth year inclusive	–	3,689,645
	<u>4,476,757</u>	<u>3,698,294</u>

At the balance sheet date, the Company did not have any significant commitment under non-cancellable operating leases.

### 34. RETIREMENT BENEFITS SCHEME

The Group has a defined contribution provident fund scheme for its Hong Kong employees. The scheme assets are being held under a provident fund operated by AXA Investment Managers HKSAR Limited with Messrs. Fong Sou Lam, Fong Kwok Chung, Bill and Lam Hin Chi as Trustees and Hastings Service & Company Limited as an additional Trustee. On February 8, 2000, Mr. Lam Hin Chi resigned as a Trustee of the scheme.

The Group is required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The Group's contribution will further increase proportionally to a maximum of 8% of each employee's basic salary after completion of three years of service to the Group. The employees are entitled to 100% of the employers' contribution and the accrued interest after 10 years' of completed service, or at a reduced scale of between 30% to 100% after completion of 3 to 10 years' service. The forfeited contributions and related accrued interest are to be used to reduce the employers' contribution.

# Notes to the Financial Statements

For the year ended December 31, 2000

## 34. RETIREMENT BENEFITS SCHEME (Continued)

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

	2000 HK\$	1999 HK\$
Gross employers' contributions	2,516,324	653,875
Less: Forfeited contributions utilised to offset employers' contributions for the year	<u>(470,942)</u>	<u>(884,757)</u>
Net employers' contributions charged (credited) to the income statement	<u>2,045,382</u>	<u>(230,882)</u>

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 of the Mandatory Provident Fund Schemes. 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.

With effect from December 1, 2000, the Group also participated in a mandatory provident fund scheme. The scheme assets are held under a mandatory provident fund operated by AXA Investment Managers HKSAR Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Schemes Ordinance) on a monthly basis.

The employees entitled to the defined contribution provident fund scheme before December 1, 2000 are granted options to join the mandatory provident fund or to continue making contributions to the defined contribution provident fund scheme. All other existing or newly employed employees are required to join the mandatory provident fund scheme compulsorily. The Group is required to make contributions to either of the two schemes according to the employees' options.

## 35. RELATED PARTY TRANSACTIONS

During the year, total rental payable by the Group to a related company amounted to HK\$3,931,960 (1999: HK\$3,342,000). The party concerned is related to the Group since it is an enterprise in which Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests. The rentals were negotiated on an arm's length basis and were determined by independent rental valuations.

### 35. RELATED PARTY TRANSACTIONS (Continued)

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

	2000 HK\$	1999 HK\$
Sales of goods	<u>11,867,929</u>	<u>-</u>
Commission and management fee received	<u>2,747,895</u>	<u>240,867</u>
Rental received	<u>340,824</u>	<u>159,414</u>

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

### 36. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group entered into an agreement on February 5, 2001 to dispose of its entire shares in and a shareholder's loan due from Sunshine City Limited, an associate of the Group, to an independent third party at a total consideration of US\$18,301,158 (equivalent to approximately HK\$142,200,000), comprising a cash consideration of US\$18,018,018 (equivalent to approximately HK\$140,000,000) and the assignment of the land use rights of office premises with an estimated value of US\$283,140 (equivalent to approximately HK\$2,200,000) made by the directors.

### 37. 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/ Hong Kong	US\$1	-	100%	Research and development
Fong's China Development Limited	British Virgin Islands/ PRC	US\$1	100%	-	Investment holding
Fong's China Investment (B.V.I.) Company Limited	British Virgin Islands/ PRC	US\$1	-	100%	Investment holding and property holding

# Notes to the Financial Statements

For the year ended December 31, 2000

## 37. 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	
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 machines
Fong's National Engineering (Shenzhen) Company Limited	PRC	US\$22,500,000	-	100%	Manufacture of dyeing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK\$10,000	-	100%	Trading in stainless steel supplies
Sunshine Glory Limited	British Virgin Islands/ PRC	US\$10	-	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Company Limited	Hong Kong	HK\$10,000	-	100%	Trading in metal castings products
Tycon Alloy Industries (Shenzhen) Co. Ltd.	PRC	US\$2,250,000	-	100%	Manufacture of metal castings products
Vastpark Limited	Hong Kong	HK\$2	-	100%	Property holding

### 37. PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected 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 loan capital subsisting at the end of the year or at any time during the year.

*Note:* At December 31, 2000, Fong's National Engineering Company, Limited had outstanding 8,000,000 non-voting deferred shares of HK\$1 each. 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.

### 38. PRINCIPAL ASSOCIATES

Name of company	Country of incorporation or registration	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company	Principal activity
Beijing Rongjin Real Estate Development Co. Ltd.	PRC	US\$12,000,000	18.2%	Property development
Foshan East Asia Company Limited	PRC	RMB72,735,000	30%	Manufacture of colour woven fabric
Sunshine City Limited	British Virgin Islands	US\$100	35%	Investment holding

The above table lists the associates of the Group which, in the opinion of the directors, principally affected 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.

# Financial Summary

The following is a summary of the consolidated results of the Group for the periods stated below:

	Year ended	Nine-month	Year ended December 31,		
	March 31, 1997 HK\$'000	period ended December 31, 1997 HK\$'000	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
<b>RESULTS</b>					
Turnover	<u>479,577</u>	<u>413,141</u>	<u>381,806</u>	<u>485,295</u>	<u>922,877</u>
Profit from operations	23,986	65,258	16,586	55,743	146,690
Finance costs	(25,134)	(15,925)	(16,477)	(11,947)	(17,664)
Investment income	455	222	221	139	471
Provision against loan to an associate	-	-	-	-	(4,967)
Share of results of associates	13,003	9,677	7,436	766	1,897
Share of results of a jointly controlled entity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>307</u>
Profit before taxation	12,310	59,232	7,766	44,701	126,734
Taxation charge (credit)	<u>692</u>	<u>5,936</u>	<u>(2,770)</u>	<u>6,009</u>	<u>20,175</u>
Profit before minority interests	11,618	53,296	10,536	38,692	106,559
Minority interests	<u>(3,719)</u>	<u>(3,181)</u>	<u>(2,303)</u>	<u>(687)</u>	<u>-</u>
Net profit for the year/period	<u>7,899</u>	<u>50,115</u>	<u>8,233</u>	<u>38,005</u>	<u>106,559</u>
	As at March 31, 1997 HK\$'000	As at December 31, 1997 HK\$'000	As at December 31, 1998 HK\$'000	As at December 31, 1999 HK\$'000	As at December 31, 2000 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	644,791	637,528	595,552	705,143	816,484
Total liabilities	(294,613)	(243,065)	(193,807)	(280,970)	(379,444)
Minority interests	<u>(8,656)</u>	<u>(11,838)</u>	<u>(14,141)</u>	<u>(14,827)</u>	<u>(1,290)</u>
Shareholders' funds	<u>341,522</u>	<u>382,625</u>	<u>387,604</u>	<u>409,346</u>	<u>435,750</u>

# Summary of Property Held for Future 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 <sup>2</sup>	Factory site	51%	Building demolished and site cleared