

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

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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\$
By geographical region				
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>
By principal activity				
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	342,281	70,842
	<u> 8,006,120</u>	<u> 11,756,628</u>

Notes to the Financial Statements

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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 <i>HK\$</i>	1999 <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 <i>HK\$</i>	1999 <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

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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\$
THE GROUP									
COST									
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)
At December 31, 2000	18,732,820	198,020,514	1,362,950	75,584,703	31,478,282	9,472,031	6,803,107	7,740,731	349,195,138
DEPRECIATION AND AMORTISATION									
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)
At December 31, 2000	418,849	43,315,897	826,922	36,298,722	22,300,545	7,159,594	2,786,316	-	113,106,845
NET BOOK VALUES									
At December 31, 2000	18,313,971	154,704,617	536,028	39,285,981	9,177,737	2,312,437	4,016,791	7,740,731	236,088,293
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.

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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\$
THE GROUP	
COST	
At January 1, 2000	15,652,571
Currency realignment	<u>7,255</u>
At December 31, 2000	<u>15,659,826</u>
AMORTISATION	
At January 1, 2000	13,027,561
Provided for the year	<u>1,475,588</u>
At December 31, 2000	<u>14,503,149</u>
CARRYING AMOUNTS	
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.

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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.

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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>

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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.

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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\$
THE GROUP						
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.

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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\$
THE COMPANY						
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

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31. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 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 HK\$	1999 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.

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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

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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.