



1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its securities are listed on the Stock Exchange.

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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14. Comparative amounts have been restated in order to achieve a consistent presentation.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date. The effect is disclosed in note 24 to the financial statements. This change in accounting policy has been applied retrospectively.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended December 31, 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In the current year, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate negative goodwill previously credited to reserves. Accordingly, negative goodwill arising on acquisition prior to January 1, 2001 will be credited to income at the time of disposal of the relevant subsidiaries.





2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions after January 1, 2001 will be capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after January 1, 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Goodwill

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

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

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

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





3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to January 1, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Investments in subsidiaries

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

Interests in associates

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

Jointly controlled entities

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

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

Intangible assets

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

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

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





3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Turnover

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

Revenue recognition

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

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

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

Property, plant and equipment

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

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

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

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

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

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



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress represents buildings under construction in the People's Republic China, other than Hong Kong ("PRC") and plant and machinery purchased prior to installation and is stated at cost less any identified impairment loss. Cost includes all direct costs attributable to such projects. Construction in progress is not depreciated until the construction or installation is completed and the relevant assets are ready to be put into operation.

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event which will result in a probable outflow of economic benefits that can be reasonably estimated.

Assets held under finance leases

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

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

Foreign currencies

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





3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

On consolidation the financial statements of subsidiaries, associates and jointly controlled entities which are denominated in currencies other than Hong Kong dollars and which operate in the PRC are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Retirement benefits schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits schemes.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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





NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below:

2001

	Manufacture and sale of dyeing machines HK\$	Trading of stainless steel supplies HK\$	Trading of machine parts and service income HK\$	Manufacture and sale of stainless steel casting products HK\$	Eliminations HK\$	Consolidated HK\$
REVENUE						
External sales	390,154,903	258,758,803	55,073,009	54,349,739	-	758,336,454
Inter-segment sales	5,030,996	57,446,502	-	9,772,629	(72,250,127)	-
Total revenue	<u>395,185,899</u>	<u>316,205,305</u>	<u>55,073,009</u>	<u>64,122,368</u>	<u>(72,250,127)</u>	<u>758,336,454</u>
Inter-segment sales are charged at terms agreed between relevant parties.						
RESULT						
Segment result	<u>53,478,160</u>	<u>8,826,354</u>	<u>8,297,950</u>	<u>2,178,686</u>	-	72,781,150
Finance costs	(5,886,949)	(6,030,454)	(830,983)	(498,715)	1,674,070	(11,573,031)
Interest income						2,693,857
Share of results of associates						2,801,997
Share of results of a jointly controlled entity						<u>3,379,596</u>
Profit before taxation						70,083,569
Taxation						<u>(7,100,142)</u>
Net profit for the year						<u>62,983,427</u>

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2001 (Continued)

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing machines HK\$	Trading of stainless steel supplies HK\$	Trading of machine parts and service income HK\$	Manufacture and sale of stainless steel casting products HK\$	Consolidated HK\$
ASSETS					
Segment assets	293,198,160	92,649,776	41,386,906	62,304,444	489,539,286
Interests in associates					56,744,599
Interest in a jointly controlled entity					17,538,884
Unallocated corporate assets					133,448,447
Consolidated total assets					<u>697,271,216</u>
LIABILITIES					
Segment liabilities	70,986,255	90,180,308	10,020,190	7,784,834	178,971,587
Unallocated corporate liabilities					35,653,719
Consolidated total liabilities					<u>214,625,306</u>

OTHER INFORMATION

	Manufacture and sale of dyeing machines HK\$	Trading of stainless steel supplies HK\$	Trading of machine parts and service income HK\$	Manufacture and sale of stainless steel casting products HK\$	Consolidated HK\$
Capital additions	18,384,975	1,350,507	2,595,161	11,396,310	33,726,953
Depreciation and amortisation	14,293,256	471,058	2,017,590	3,762,634	20,544,538



NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2000

	Manufacture and sale of dyeing machines	Trading of stainless steel supplies	Trading of machine parts and service income	Manufacture and sale of stainless steel casting products	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
REVENUE						
External sales	501,663,863	289,563,539	85,625,777	46,024,103	–	922,877,282
Inter-segment sales	836,136	81,952,248	–	16,508,721	(99,297,105)	–
Total revenue	<u>502,499,999</u>	<u>371,515,787</u>	<u>85,625,777</u>	<u>62,532,824</u>	<u>(99,297,105)</u>	<u>922,877,282</u>

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

RESULT						
Segment result	<u>100,222,458</u>	<u>16,824,191</u>	<u>26,679,167</u>	<u>2,964,159</u>	<u>–</u>	146,689,975
Finance costs	(9,423,886)	(10,423,192)	(1,608,502)	(591,501)	4,382,737	(17,664,344)
Interest income						471,242
Impairment of loan to an associate						(4,966,833)
Share of results of associates						1,897,295
Share of results of a jointly controlled entity						<u>306,543</u>
Profit before taxation						126,733,878
Taxation						<u>(20,174,411)</u>
Net profit for the year						<u>106,559,467</u>

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2000 (Continued)

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Trading of machine parts and service income <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS					
Segment assets	304,643,308	117,720,114	51,997,606	55,645,697	530,006,725
Interests in associates					198,686,993
Interest in a jointly controlled entity					11,323,518
Unallocated corporate assets					76,466,315
					<u>816,483,551</u>
LIABILITIES					
Segment liabilities	99,378,602	97,557,162	16,962,294	6,737,661	220,635,719
Unallocated corporate liabilities					80,271,636
					<u>300,907,355</u>

OTHER INFORMATION

	Manufacture and sale of dyeing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Trading of machine parts and service income <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	17,272,194	860,207	2,948,080	9,429,499	30,509,980
Depreciation and amortisation	12,726,644	287,592	2,172,229	3,759,804	18,946,269
	<u>12,726,644</u>	<u>287,592</u>	<u>2,172,229</u>	<u>3,759,804</u>	<u>18,946,269</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

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

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

	Revenue by geographical market		Contribution to profit from operations	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Hong Kong	315,994,530	428,349,420	28,876,575	51,320,604
The PRC	269,680,953	313,154,330	30,843,727	70,278,184
Asia Pacific (other than the PRC and Hong Kong)	89,130,581	95,312,738	8,062,137	15,067,911
Europe	52,442,678	55,771,452	2,646,456	5,523,140
North and South America	16,797,711	20,131,856	1,017,828	2,767,400
Others	14,290,001	10,157,486	1,334,427	1,732,736
	<u>758,336,454</u>	<u>922,877,282</u>	<u>72,781,150</u>	<u>146,689,975</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Hong Kong	342,496,935	448,221,188	5,105,406	2,735,573
The PRC	354,774,281	368,262,363	28,621,547	27,774,407
	<u>697,271,216</u>	<u>816,483,551</u>	<u>33,726,953</u>	<u>30,509,980</u>

5. PROFIT FROM OPERATIONS

	2001 HK\$	2000 HK\$
Profit from operations has been arrived at after charging (crediting):		
Amortisation of intangible assets	521,276	1,475,588
Auditors' remuneration	718,702	746,141
Depreciation and amortisation:		
Owned assets	17,487,748	15,109,828
Assets held under finance leases	2,535,514	2,360,853
Loss on disposal of property, plant and equipment	57,012	59,556
Net foreign exchange (gain) loss	(245,159)	253,749
Research and development costs	725,187	88,574
Staff costs, including directors' emoluments	<u>90,096,909</u>	<u>81,220,995</u>

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2001 HK\$	2000 HK\$
Directors		
Directors fees:		
Executive	–	–
Independent non-executive	100,000	91,765
Other emoluments to executive directors:		
Salaries and other benefits	15,778,400	7,572,074
Retirement benefits scheme contribution	622,896	342,281
	<u>16,501,296</u>	<u>8,006,120</u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	3	5
HK\$1,000,001 – HK\$1,500,000	3	2
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	2	1
HK\$7,000,001 – HK\$7,500,000	<u>1</u>	<u>–</u>



NOTES TO THE FINANCIAL STATEMENTS

 For the year ended December 31, 2001

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

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

	2001 HK\$	2000 HK\$
Salaries and other benefits	4,365,000	3,071,500
Retirement benefits scheme contribution	188,400	140,880
	4,553,400	3,212,380

The emoluments of the employees were within the following bands:

	Number of employees	
	2001	2000
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	–

7. FINANCE COSTS

	2001 HK\$	2000 HK\$
Interest on:		
Bank borrowings wholly repayable within five years	7,284,821	13,329,192
Obligations under finance leases	441,303	406,781
Bank charges	3,544,206	3,747,850
Factoring charges	302,701	180,521
	11,573,031	17,664,344

No interest was capitalised by the Group during the year .

8. TAXATION

	2001 HK\$	2000 HK\$
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,481,727	12,606,611
Under(over)provision in prior years	631,267	(169,051)
Overseas taxation		
Current year	6,066,773	7,334,290
Overprovision in prior years	(2,965,281)	–
Share of taxation attributable to associates	463,251	402,561
Share of taxation attributable to a jointly controlled entity	422,405	–
	<u>7,100,142</u>	<u>20,174,411</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year.

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

Details of the unprovided deferred taxation charge for the year are set out in note 25.

9. DIVIDENDS/SPECIAL DIVIDEND

	2001 HK\$	2000 HK\$
Interim dividend of 2.5 cents (2000: 3.0 cents) per share	14,103,507	16,258,552
Proposed final dividend of 2.0 cents (2000: 4.0 cents) per share	11,242,926	20,943,052
Underprovision of final dividend (<i>Note</i>)	6,327,400	–
	<u>31,673,833</u>	<u>37,201,604</u>
Special dividend of 2.5 cents (2000: Nil) per share	14,103,507	–
Proposed special dividend of 5.0 cents (2000: 11.0 cents) per share	28,107,314	57,593,391
	<u>42,210,821</u>	<u>57,593,391</u>

Note: The amount represents last year's final dividend payable to shares options exercised subsequent to the approval of the financial statements for the year ended December 31, 2000.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the net profit for the year of HK\$62,983,427 (2000: HK\$106,559,467) and the following data:

	Number of shares	
	2001	2000
Weighted average number of ordinary shares for the purpose of basic earnings per share	550,822,318	516,154,891
Effect of dilutive potential ordinary shares: share options	463,173	219,388
	551,285,491	516,374,279

11. PROPERTY, PLANT AND EQUIPMENT

	Property held for redevelop-ment <i>HK\$</i>	Leasehold land and buildings <i>HK\$</i>	Leasehold improve-ments <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Moulds and tools <i>HK\$</i>	Construction in progress <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP									
COST									
At January 1, 2001	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
Currency realignment	-	-	-	-	4,527	-	-	-	4,527
Reclassification	-	-	-	4,355,047	43,103	-	(2,005,214)	(2,392,936)	-
Additions	-	1,621,640	85,882	17,040,875	4,907,279	4,659,118	482,412	4,929,747	33,726,953
Disposals	-	-	-	(379,006)	(150,360)	(771,972)	-	-	(1,301,338)
At December 31, 2001	18,732,820	199,642,154	1,448,832	96,601,619	36,282,831	13,359,177	5,280,305	10,277,542	381,625,280
DEPRECIATION AND AMORTISATION									
At January 1, 2001	418,849	43,315,897	826,922	36,298,722	22,300,545	7,159,594	2,786,316	-	113,106,845
Currency realignment	-	-	-	-	3,793	-	-	-	3,793
Provided for the year	-	8,430,470	136,519	6,896,390	3,308,490	769,770	481,623	-	20,023,262
Eliminated on disposals	-	-	-	(201,841)	(51,145)	(667,153)	-	-	(920,139)
At December 31, 2001	418,849	51,746,367	963,441	42,993,271	25,561,683	7,262,211	3,267,939	-	132,213,761
NET BOOK VALUES									
At December 31, 2001	18,313,971	147,895,787	485,391	53,608,348	10,721,148	6,096,966	2,012,366	10,277,542	249,411,519
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



11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book values of property held for redevelopment and leasehold land and buildings at December 31, 2001 comprise properties held on medium-term leases in both Hong Kong and the PRC of HK\$21,375,375 (2000: HK\$21,448,066) and HK\$144,834,383 (2000: HK\$151,570,522) respectively.

The net book values of the Group's plant and machinery, furniture and equipment and motor vehicles includes an amount of HK\$3,495,724 (2000: HK\$7,191,835), HK\$298,699 (2000: HK\$572,179) and HK\$1,859,813 (2000: HK\$822,813) respectively, in respect of assets held under finance leases.

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$	2000 HK\$
Unlisted shares, at carrying value	36,584,990	36,584,990

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

Details of the Company's principal subsidiaries at December 31, 2001 are set out in note 34.

13. INTANGIBLE ASSETS

	Product development expenditure HK\$
THE GROUP COST	
At January 1, 2001 and December 31, 2001	15,659,826
AMORTISATION	
At January 1, 2001	14,503,149
Provided for the year	521,276
At December 31, 2001	15,024,425
CARRYING AMOUNTS	
At December 31, 2001	635,401
At December 31, 2000	1,156,677



14. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE

	THE GROUP	
	2001 HK\$	2000 HK\$
Share of net assets	56,744,599	56,486,993
Loan to an associate	–	142,200,000
Less: Amount due within one year shown under current assets	–	(142,200,000)
	–	–

On February 5, 2001, the Group entered into an agreement 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. The transaction was completed on April 12, 2001.

As at December 31, 2001, the Group held a 30% interest in Foshan East Asia Company Limited ("Foshan East Asia"), a company registered in the PRC and is engaged in the manufacture of colour woven fabric. The following details are extracted from the management accounts of Foshan East Asia:

Operating results for the year:

	2001 HK\$000	2000 HK\$000
Turnover	185,779	180,515
Profit before taxation	9,124	10,542
Profit before taxation attributable to the Group	2,737	1,697
Financial position:		
Non-current assets	174,275	205,623
Current assets	213,104	229,923
Total liabilities	(200,089)	(226,990)
Minority interests	(3,997)	(3,997)
	183,293	204,559
Shareholders' funds attributable to the Group	54,990	54,670

In the opinion of the directors, Foshan East Asia 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.



15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2001 HK\$	2000 HK\$
Share of net assets (liabilities)	10,913,734	(693,457)
Loan to a jointly controlled entity	6,625,150	12,016,975
	17,538,884	11,323,518

As at December 31, 2001, the Group held a 50% interest in Monforts Fong's Textile Machinery Co., Limited ("Monforts Fong's"), a company incorporated in Hong Kong and is engaged in the manufacture and trading of stenters. The following details are extracted from the audited financial statements of Monforts Fong's:

Operating results for the year:

	2001 HK\$	2000 HK\$
Turnover	104,702,307	69,296,706
Profit before taxation	6,759,191	613,086
Profit before taxation attributable to the Group	3,379,596	306,543

Financial position:

	2001 HK\$	2000 HK\$
Non-current assets	8,393,321	769,048
Current assets	46,374,689	36,750,930
Total liabilities	(32,940,542)	(38,906,892)
	21,827,468	(1,386,914)
Balance (deficiency) of shareholders' funds attributable to the Group	10,913,734	(693,457)



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For the year ended December 31, 2001

16. INVENTORIES

	THE GROUP	
	2001 HK\$	2000 HK\$
Raw materials	36,101,273	63,789,974
Work in progress	25,356,604	30,572,844
Finished goods	79,205,668	81,173,675
	<u>140,663,545</u>	<u>175,536,493</u>

17. 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 (2000: 60 days) to its trade customers.

The following is an aged analysis of trade receivables at December 31, 2001:

	THE GROUP	
	2001 HK\$	2000 HK\$
0-30 days	44,963,006	61,565,926
31-60 days	5,587,845	8,416,360
61-90 days	2,832,327	6,222,280
	<u>53,383,178</u>	<u>76,204,566</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 12.31.2001 HK\$	Balance at 1.1.2001 HK\$	Maximum amount outstanding during the year HK\$
Li HonYu, Albert	Unsecured, non-interest bearing and repayable on demand	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>



18. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at December 31, 2001:

	THE GROUP	
	2001	2000
	HK\$	HK\$
0-30 days	42,650,881	38,595,935
31-60 days	2,928,713	11,800,268
over 60 days	944,564	3,540,218
	<u>46,524,158</u>	<u>53,936,421</u>

19. WARRANTY PROVISION

	HK\$
THE GROUP	
At January 1, 2001	1,543,000
Additional provision in the year	1,200,000
Utilisation of provision	<u>(1,543,000)</u>
At December 31, 2001	<u>1,200,000</u>

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

The Company had no provision at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

20. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Amount payable under finance leases:				
Within one year	2,374,692	3,643,887	2,174,527	3,216,600
In the second to fifth year inclusive	2,557,963	3,321,398	2,427,225	3,063,233
	4,932,655	6,965,285	4,601,752	6,279,833
Less: Future finance charges	(330,903)	(685,452)	N/A	N/A
Present value of lease obligations	4,601,752	6,279,833	4,601,752	6,279,833
Less: Amount due within one year shown under current liabilities			(2,174,527)	(3,216,600)
Amount due after one year			2,427,225	3,063,233

It is the Group's policy to lease certain of its plant and equipment under finance leases. The lease term is ranging from 1 to 3 years. For the year ended December 31, 2001, the effective borrowing rate was ranging from 4.9 to 9%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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



21. BANK BORROWINGS

	THE GROUP	
	2001 HK\$	2000 HK\$
Bank borrowings comprise the following:		
Trust receipt loans	54,548,145	70,213,799
Bank loans	24,157,500	62,149,243
	78,705,645	132,363,042
Secured	48,088,293	96,483,216
Unsecured	30,617,352	35,879,826
	78,705,645	132,363,042
The bank borrowings are repayable within the following periods:		
Within one year	67,880,145	122,371,042
More than one year, but not exceeding two years	9,994,000	6,664,000
More than two years, but not exceeding five years	831,500	3,328,000
	78,705,645	132,363,042
Less: Amount due within one year shown under current liabilities	(67,880,145)	(122,371,042)
Amount due after one year	10,825,500	9,992,000

During the year, the Group obtained new bank loans in the amount of HK\$10,000,000. The outstanding bank loans as at balance sheet date bear interest at market rate and are repayable in instalments over a period of 2.5 years. The proceeds were used to finance the operation of the Group.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

22. SHARE CAPITAL

	2001 HK\$	2000 HK\$
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000,000	100,000,000
<i>Issued and fully paid:</i>		
At beginning of the year, 524,386,285 (2000: 495,512,366) ordinary shares of HK\$0.10 each	52,438,629	49,551,237
Exercise of warrants	–	2,748,592
Exercise of share options	4,275,000	446,800
Repurchase and cancellation of shares	(519,000)	(308,000)
At end of the year, 561,946,285 (2000: 524,386,285) ordinary shares of HK\$0.10 each	56,194,629	52,438,629

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
February 2001	210,000	0.57	0.53	118,300
March 2001	600,000	0.58	0.56	346,000
June 2001	1,586,000	0.65	0.63	1,016,580
July 2001	200,000	0.64	0.62	125,040
August 2001	400,000	0.64	0.64	256,000
September 2001	710,000	0.64	0.58	432,300
October 2001	992,000	0.71	0.64	672,600
November 2001	492,000	0.67	0.66	325,880
	5,190,000			3,292,700

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\$2,773,700 was charged against share premium. An amount of HK\$519,000 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

23. SHARE OPTIONS

During the year, share options were exercised to subscribe for 42,750,000 ordinary shares of the Company at exercise prices ranging from HK\$0.48 to HK\$0.51 per share. The remaining 1,050,000 share options were outstanding as at balance sheet date.

24. RESERVES

	Share premium HK\$	Dividend reserve HK\$	Capital redemption reserve HK\$	Translation reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
THE GROUP							
At January 1, 2000							
– as originally stated	191,702,584	–	388,200	(15,964,456)	145,534,318	38,133,809	359,794,455
– derecognition of liability for final dividend in 1999	–	9,994,762	–	–	–	–	9,994,762
– as restated	191,702,584	9,994,762	388,200	(15,964,456)	145,534,318	38,133,809	369,789,217
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
Net profit for the year	–	–	–	–	106,559,467	–	106,559,467
Dividends	–	(9,994,762)	–	–	(37,201,604)	–	(47,196,366)
Special dividend	–	–	–	–	(57,593,391)	–	(57,593,391)
At December 31, 2000							
– as originally stated	202,212,972	–	696,200	(14,722,783)	156,990,790	38,133,809	383,310,988
– derecognition of liability for final dividend in 2000	–	78,536,443	–	–	–	–	78,536,443
– as restated	202,212,972	78,536,443	696,200	(14,722,783)	156,990,790	38,133,809	461,847,431
Premium on repurchase of shares	(2,773,700)	–	–	–	–	–	(2,773,700)
Premium on issue of shares	16,249,574	–	–	–	–	–	16,249,574
Transfer upon repurchase of shares	–	–	519,000	–	(519,000)	–	–
Exchange difference arising on translation of overseas subsidiaries	–	–	–	(74,730)	–	–	(74,730)
Net profit for the year	–	–	–	–	62,983,427	–	62,983,427
Dividends	–	(78,536,443)	–	–	(20,430,907)	–	(98,967,350)
Special dividend	–	–	–	–	(14,103,507)	–	(14,103,507)
Proposed final dividend	–	11,242,926	–	–	(11,242,926)	–	–
Proposed special dividend	–	28,107,314	–	–	(28,107,314)	–	–
At December 31, 2001	215,688,846	39,350,240	1,215,200	(14,797,513)	145,570,563	38,133,809	425,161,145



NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

24. RESERVES (Continued)

The retained profits of the Group included HK\$30,543,389 (2000: HK\$28,204,643) and HK\$1,763,734 (2000: a loss of HK\$1,193,457) attributable to associates and a jointly controlled entity of the Group respectively.

The translation reserve of the Group included HK\$4,660,293 (2000: HK\$4,660,293) attributable to an associate of the Group.

	Share premium HK\$	Dividend reserve HK\$	Capital redemption reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
THE COMPANY						
At January 1, 2000						
– as originally stated	191,702,584	–	388,200	95,763,931	35,584,967	323,439,682
– derecognition of liability for final dividend in 1999	–	9,994,762	–	–	–	9,994,762
– as restated	191,702,584	9,994,762	388,200	95,763,931	35,584,967	333,434,444
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)	–	–
Net profit for the year	–	–	–	1,928,119	–	1,928,119
Dividends	–	(9,994,762)	–	(37,201,604)	–	(47,196,366)
Special dividend	–	–	–	(57,593,391)	–	(57,593,391)
At December 31, 2000						
– as originally stated	202,212,972	–	696,200	2,589,055	35,584,967	241,083,194
– derecognition of liability final dividend in 2000	–	78,536,443	–	–	–	78,536,443
– as restated	202,212,972	78,536,443	696,200	2,589,055	35,584,967	319,619,637
Premium on repurchase of shares	(2,773,700)	–	–	–	–	(2,773,700)
Premium on issue of shares	16,249,574	–	–	–	–	16,249,574
Transfer upon repurchase of shares	–	–	519,000	(519,000)	–	–
Net profit for the year	–	–	–	89,435,831	–	89,435,831
Dividends	–	(78,536,443)	–	(20,430,907)	–	(98,967,350)
Special dividend	–	–	–	(14,103,507)	–	(14,103,507)
Proposed final dividend	–	11,242,926	–	(11,242,926)	–	–
Proposed special dividend	–	28,107,314	–	(28,107,314)	–	–
At December 31, 2001	215,688,846	39,350,240	1,215,200	17,621,232	35,584,967	309,460,485

24. RESERVES (Continued)

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.

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:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Contributed surplus	35,584,967	35,584,967
Retained profits	56,971,472	2,589,055
	<u>92,556,439</u>	<u>38,174,022</u>



NOTES TO THE FINANCIAL STATEMENTS

 For the year ended December 31, 2001

25. UNPROVIDED DEFERRED TAXATION

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

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(627,000)	(355,700)	-	-
Taxation losses	449,000	608,000	-	127,000
	<u>(178,000)</u>	<u>252,300</u>	<u>-</u>	<u>127,000</u>

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

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	271,300	49,700	-	-
Taxation losses utilised	159,000	635,000	-	145,000
	<u>430,300</u>	<u>684,700</u>	<u>-</u>	<u>145,000</u>

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

	2001 HK\$	2000 HK\$
Profit before taxation	70,083,569	126,733,878
Share of results of associates	(2,801,997)	(1,897,295)
Share of results of a jointly controlled entity	(3,379,596)	(306,543)
Impairment of loan to an associate	–	4,966,833
Depreciation and amortisation on property, plant and equipment	20,023,262	17,470,681
Amortisation of intangible assets	521,276	1,475,588
Interest income	(2,693,857)	(471,242)
Loss on disposal of property, plant and equipment	57,012	59,556
Interest expenses	7,726,124	13,735,973
Factoring charges	302,701	180,521
Decrease (increase) in inventories	34,872,948	(15,052,365)
Decrease (increase) in trade and other receivables	21,630,878	(40,810,925)
Increase in amount due from a jointly controlled entity	(1,034,437)	(3,149,575)
(Decrease) increase in trade and other payables	(33,792,082)	39,499,215
(Decrease) increase in warranty provision	(343,000)	1,543,000
Increase (decrease) in bills payable	8,136,604	(14,625,232)
	<hr/>	<hr/>
Net cash inflow from operating activities	119,309,405	129,352,068



27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans HK\$	Trust receipt loans HK\$	Obligations under finance leases HK\$	Share capital and share premium HK\$	Loan from a minority shareholder of a subsidiary HK\$
Balance at January 1, 2000	52,535,758	71,364,368	4,425,574	241,253,821	12,864,590
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)	-	-	-	-
Repayment of trust receipt loans	-	(1,150,569)	-	-	-
Repayment of loan from a minority shareholder of a subsidiary	-	-	-	-	(12,864,590)
Inception of finance leases (note 28)	-	-	4,528,800	-	-
Repayment of obligations under finance leases	-	-	(2,674,541)	-	-
Balance at December 31, 2000	62,149,243	70,213,799	6,279,833	254,651,601	-
Proceeds from issue of shares	-	-	-	20,524,574	-
Repurchase of shares	-	-	-	(3,292,700)	-
New bank loans raised	10,000,000	-	-	-	-
Repayment of bank loans	(47,991,743)	-	-	-	-
Repayment of trust receipt loans	-	(15,665,654)	-	-	-
Inception of finance leases (note 28)	-	-	1,763,895	-	-
Repayment of obligations under finance leases	-	-	(3,441,976)	-	-
Balance at December 31, 2001	24,157,500	54,548,145	4,601,752	271,883,475	-

28. MAJOR NON-CASH TRANSACTIONS

Other than that set out in note 14 in respect of an assignment of land use rights of office premises valued at HK\$2,200,000, the Group entered into the following major non-cash transactions during the year:

- (i) additions to property, plant and equipment amounting to HK\$1,763,895 (2000: HK\$4,528,800) were financed by new finance leases.
- (ii) the Group had increased its investment in a jointly controlled entity by capitalization of a long-term loan advanced to the jointly controlled entity.

29. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Export bills discounted with recourse	<u>6,761,671</u>	<u>10,506,099</u>	<u>—</u>	<u>—</u>
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>332,125,000</u>	<u>347,200,000</u>
Guarantees given to bankers in respect of banking facilities granted to a jointly controlled entity	<u>1,750,000</u>	<u>1,650,000</u>	<u>1,750,000</u>	<u>—</u>

At the balance sheet date, the extent of banking facilities utilised by the subsidiaries amounted to approximately HK\$79 million (2000: HK\$132 million).

30. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$	2000 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<u>2,510,917</u>	<u>817,879</u>

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



31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK\$4,699,013 (2000: HK\$4,289,034).

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

	THE GROUP	
	2001 HK\$	2000 HK\$
Within one year	4,766,696	4,476,757
In the second to fifth year inclusive	9,143,320	–
	13,910,016	4,476,757

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

The Group as lessor

Property rental income earned during the year was HK\$1,874,324 (2000: HK\$898,524). The property held has committed tenants for one year.

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments within one year amounting to HK\$634,014 (2000: HK\$634,014).

32. RETIREMENT BENEFITS SCHEMES

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

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

32. RETIREMENT BENEFITS SCHEMES (Continued)

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

	2001	2000
	HK\$	HK\$
Gross employers' contributions	2,488,713	2,516,324
Less: Forfeited contributions utilised to offset employers' contributions for the year	(284,453)	(470,942)
Net employers' contributions charged to the income statement	<u>2,204,260</u>	<u>2,045,382</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 on the Mandatory Provident Fund Scheme ("MPF Scheme"). The principal deed and the rules of the above provident fund scheme were amended accordingly to comply with the rules of the Mandatory Provident Fund Schemes Ordinance ("MPF Ordinance").

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

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



33. RELATED PARTY TRANSACTIONS

During the year, total rental payable by the Group to a related company amounted to HK\$4,357,008 (2000: HK\$3,931,960). 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.

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

	2001 HK\$	2000 HK\$
Sales of goods	<u>16,563,676</u>	<u>11,867,929</u>
Commission and management fee received	<u>5,801,503</u>	<u>2,747,895</u>
Rental received	<u>1,316,624</u>	<u>340,824</u>

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

34. PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Proportion of share capital/ registered capital attributable to the Company		Principal activity
			Directly held	Indirectly held	
Falmer Investments Ltd.	British Virgin Islands/ The PRC	US\$1	–	100%	Research and development
Fong's China Development Limited	British Virgin Islands/ The PRC	US\$1	100%	–	Investment holding
Fong's China Investment (B.V.I.) Company Limited	British Virgin Islands/ The PRC	US\$1	–	100%	Investment holding and property holding
Fong's Engineering Services Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in steel and provision of management services to group companies

34. 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 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	The 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/ The PRC	US\$10	–	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Company Limited	Hong Kong	HK\$10,000	–	100%	Trading in stainless steel casting products
Tycon Alloy Industries (Shenzhen) Co. Ltd.	The PRC	US\$2,250,000	–	100%	Manufacture of stainless steel casting products
Vastpark Limited	Hong Kong	HK\$2	–	100%	Property holding
Tianjin Lifenghang International Trading Co. Ltd.	The PRC	RMB2,889,037	–	51%	Dormant



NOTES TO THE FINANCIAL STATEMENTS



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34. PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particular of excessive length.

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

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

