

# Notes to the Financial Statements

for the year ended December 31, 2003

## 1. GENERAL

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

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and property holding.

## 2. CHANGES IN ACCOUNTING POLICIES

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

### Income taxes

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of consolidation

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

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

## Notes to the Financial Statements

for the year ended December 31, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of consolidation (continued)**

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

#### **Goodwill**

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

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

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

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

#### **Investments in subsidiaries**

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

#### **Interests in associates**

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

#### **Jointly controlled entities**

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

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

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

for the year ended December 31, 2003

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

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

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

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

**Turnover**

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

**Revenue recognition**

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

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

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

**Property, plant and equipment**

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

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

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

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

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

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

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

### Impairment

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment (continued)

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

### Assets held under finance leases

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

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

### Foreign currencies

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

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

### Borrowing costs

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

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

### Retirement benefit costs

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

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

Segment information about these businesses is presented below:

#### 2003

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

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

#### RESULTS

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2003 (continued)

#### CONSOLIDATED BALANCE SHEET

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

#### OTHER INFORMATION

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2002

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

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

### RESULTS

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2002 (continued)

#### CONSOLIDATED BALANCE SHEET

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

#### OTHER INFORMATION

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments

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

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

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 5. PROFIT FROM OPERATIONS

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

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

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

### Employees

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

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

The emoluments of the employees were within the following bands:

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 7. FINANCE COSTS

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

No interest was capitalised by the Group during the year.

## 8. INCOME TAX EXPENSE

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 8. INCOME TAX EXPENSE (continued)

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 9. DIVIDENDS/SPECIAL DIVIDEND

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

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

## 10. EARNINGS PER SHARE

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

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 11. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 12. INVESTMENTS IN SUBSIDIARIES

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

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

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

## 13. INTANGIBLE ASSETS

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 14. GOODWILL

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 15. INTERESTS IN ASSOCIATES

### THE GROUP

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

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

Operating results for the year:

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 16. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

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

Operating results for the year:

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 17. INVENTORIES

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

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

## 18. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of trade receivables:

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

## 19. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 20. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

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

## 21. WARRANTY PROVISION

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

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

The Company had no provision at the balance sheet date.

# Notes to the Financial Statements

for the year ended December 31, 2003

## 22. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 23. BANK BORROWINGS

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 24. DEFERRED TAX

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

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

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

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

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

for the year ended December 31, 2003

## 24. DEFERRED TAX (continued)

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

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

## 25. SHARE CAPITAL

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 26. SHARE OPTIONS SCHEMES

### (a) 2000 Scheme

A share option scheme (the "2000 Scheme") of the Company, which was approved and adopted on September 19, 2000 pursuant to a resolution passed on June 8, 2000 for the primary purpose of providing incentives to directors and eligible employees, was terminated on May 26, 2003. Under the 2000 Scheme, the board of directors of the Company may grant options to directors and full time employees of the Company and its subsidiaries to subscribe for shares of the Company.

Share options granted must be taken up within 28 days of the date of grant. Each of the grantees is required to pay HK\$1.00 as cash consideration for the grant of the share options in accordance with the 2000 Scheme. The total number of shares which may be issued upon exercise of share options to be granted shall not exceed 10% of the total number of shares of the Company in issue from time to time, excluding shares issued on exercise of share options granted under the 2000 Scheme. The exercise price is determined by the directors of the Company, and shall not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the share.

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

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

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

Details of specific categories of options are as follows:

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 26. SHARE OPTIONS SCHEMES (continued)

### (b) 2003 Scheme

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

The board of directors of the Company may, at their discretion, grant options to the eligible participants including any employees, directors or consultants of the Group. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its 2003 Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

Share options granted must be taken up within 28 days of the date of grant. Each of the grantees is required to pay HK\$1.00 as cash consideration for the grant of the share options in accordance with the 2003 Scheme. The total number of shares in respect of which share options may be granted shall not exceed 10% of the issued ordinary share capital. The exercise price is determined by the directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the share.

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 27. RESERVES

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 27. RESERVES (continued)

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

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 27. RESERVES (continued)

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

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 28. ACQUISITION OF A SUBSIDIARY

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 29. MAJOR NON-CASH TRANSACTIONS

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

## 30. CONTINGENT LIABILITIES

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

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

## 31. CAPITAL COMMITMENTS

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

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

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

for the year ended December 31, 2003

## 32. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

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

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

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

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

### The Group as lessor

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 33. RETIREMENT BENEFITS SCHEME

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

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

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

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

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

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

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

The employees entitled to participate in the Scheme before December 1, 2000 were given an option to join the MPF Scheme or to continue making contributions to the Scheme. All other existing or newly employed employees are required to join the MPF Scheme. The Group is required to make contributions to either of the two schemes in accordance with the option selected by the employees.

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

for the year ended December 31, 2003

## 34. RELATED PARTY TRANSACTIONS

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

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

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

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

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

# Notes to the Financial Statements

for the year ended December 31, 2003

## 35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

for the year ended December 31, 2003

## 35. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

\* *Company with limited liability*

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

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

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