

1. GENERAL

The Company is 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 NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries and associates at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting year.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statement". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating or investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 to twelve 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, other than properties 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 the properties held for redevelopment until the construction is completed.

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.

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 prevailing rates 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 and which operate in the PRC 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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 four principal activities – manufacture and sale of dyeing machines, trading of stainless steel supplies, trading of machine parts and service income and manufacture and sale of stainless steel casting products. These principal activities are the bases on which the Group reports its primary segment information.

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

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below:

2002

	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	699,294,150	310,308,959	81,642,074	51,174,023	–	1,142,419,206
Inter-segment sales	8,665,962	143,692,969	–	18,387,031	(170,745,962)	–
Total revenue	<u>707,960,112</u>	<u>454,001,928</u>	<u>81,642,074</u>	<u>69,561,054</u>	<u>(170,745,962)</u>	<u>1,142,419,206</u>
Inter-segment sales are charged at terms agreed between relevant parties.						
RESULTS						
Segment results	<u>160,712,747</u>	<u>22,341,205</u>	<u>18,532,774</u>	<u>6,720,372</u>	<u>–</u>	208,307,098
Finance costs	(6,907,173)	(3,893,905)	(806,407)	(390,979)	3,981,000	(8,017,464)
Interest income						1,430,910
Share of results of associates	(19,024,333)					(19,024,333)
Share of results of a jointly controlled entity	24,773,150					<u>24,773,150</u>
Profit before taxation						207,469,361
Taxation						(36,617,378)
Minority interests						<u>965,203</u>
Net profit for the year						<u>171,817,186</u>

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2002 (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	370,526,073	100,740,518	49,463,833	48,528,052	569,258,476
Interests in associates	35,112,174				35,112,174
Interest in a jointly controlled entity	32,386,884				32,386,884
Unallocated corporate assets					218,874,632
Consolidated total assets					<u>855,632,166</u>
LIABILITIES					
Segment liabilities	117,002,658	36,048,665	13,659,974	8,780,444	175,491,741
Unallocated corporate liabilities					101,406,116
Consolidated total liabilities					<u>276,897,857</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	21,422,217	759,182	2,501,027	710,960	25,393,386
Depreciation and amortisation	18,843,251	626,634	2,199,935	3,726,341	25,396,161
Impairment loss on the property held for redevelopment	<u>5,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,500,000</u>

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FONG'S INDUSTRIES COMPANY LIMITED

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

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.						
RESULTS						
Segment results	<u>53,478,160</u>	<u>8,826,354</u>	<u>8,297,950</u>	<u>2,178,686</u>	<u>–</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					2,801,997
Share of results of a jointly controlled entity	3,379,596					<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>

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FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

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				56,744,599
Interest in a jointly controlled entity	17,538,804				17,538,884
Unallocated corporate assets					133,448,447
Consolidated total assets					<u>697,271,216</u>
LIABILITIES					
Segment liabilities	65,281,129	42,142,606	9,214,873	7,784,834	124,423,442
Unallocated corporate liabilities					90,201,864
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	<u>14,293,256</u>	<u>471,058</u>	<u>2,017,590</u>	<u>3,762,634</u>	<u>20,544,538</u>

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	
	2002 HK\$	2001 HK\$
Hong Kong	515,504,402	315,994,530
The PRC	415,823,275	269,680,953
Asia Pacific (other than the PRC and Hong Kong)	113,586,921	89,130,581
Europe	68,528,701	52,442,678
North and South America	24,699,491	16,797,711
Others	4,276,416	14,290,001
	1,142,419,206	758,336,454

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	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Hong Kong	450,682,590	342,496,935	1,699,023	5,105,406
The PRC	379,285,511	354,774,281	22,406,938	28,621,547
Europe	25,664,065	—	1,287,425	—
	855,632,166	697,271,216	25,393,386	33,726,953

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5. PROFIT FROM OPERATIONS

	2002 HK\$	2001 HK\$
Profit from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (included in administrative expenses)	2,974,380	–
Amortisation of intangible assets (included in administrative expenses)	461,030	521,276
Auditors' remuneration	860,080	718,702
Depreciation and amortisation:		
Owned assets	19,674,947	17,487,748
Assets held under finance leases	2,285,804	2,535,514
Impairment loss on the property held for redevelopment (included in administrative expenses)	5,500,000	–
Loss on disposal of property, plant and equipment	4,156,159	57,012
Net foreign exchange gain	(2,915,161)	(245,159)
Research and development costs	959,626	725,187
Staff costs, including directors' emoluments	100,061,790	90,096,909
Cost of inventories recognised as an expense	662,116,097	476,551,814
Gross rental income net of outgoings of HK\$149,356 (2001: HK\$131,789)	415,182	425,911

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 HK\$	2001 HK\$
Directors		
Directors' fees:		
Executive	–	–
Independent non-executive	100,000	100,000
Other emoluments to executive directors:		
Salaries and other benefits	12,196,400	15,778,400
Retirement benefits scheme contribution	639,960	622,896
	12,936,360	16,501,296

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	3	3
HK\$2,000,001 – HK\$2,500,000	2	2
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

The five highest paid individuals included four directors (2001: four), details of whose emoluments are set out above. The emoluments of the five highest paid individuals for the year were as follows:

	2002 HK\$	2001 HK\$
Salaries and other benefits	12,551,400	15,788,400
Retirement benefits scheme contribution	562,989	537,696
	13,114,389	16,326,096

The emoluments of the employees were within the following bands:

	Number of employees	
	2002	2001
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	2	2
HK\$3,000,001 – HK\$3,500,000	2	1
HK\$7,000,001 – HK\$7,500,000	–	1

7. FINANCE COSTS

	2002 HK\$	2001 HK\$
Interest on:		
Bank borrowings wholly repayable within five years	4,085,547	7,284,821
Obligations under finance leases	251,127	441,303
Bank charges	3,461,329	3,544,206
Factoring charges	219,461	302,701
	8,017,464	11,573,031

No interest was capitalised by the Group during the year.

8. TAXATION

	2002 HK\$	2001 HK\$
The charge comprises:		
Hong Kong Profits Tax		
Current year	25,470,969	2,481,727
Underprovision in prior years	318,805	631,267
Overseas taxation		
Current year	9,098,780	6,066,773
Overprovision in prior years	(1,992,806)	(2,965,281)
Share of taxation attributable to associates	421,630	463,251
Share of taxation attributable to a jointly controlled entity	3,300,000	422,405
	36,617,378	7,100,142

Hong Kong Profits Tax is calculated at 16% (2001: 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 27.

9. DIVIDENDS/SPECIAL DIVIDEND

	2002 HK\$	2001 HK\$
Interim dividend of 4.5 cents (2001: 2.5 cents) per share	25,334,833	14,103,507
Proposed final dividend of 6.5 cents (2001: 2 cents) per share	36,594,759	11,242,926
Underprovision of final and special dividends (<i>Note</i>)	49,000	6,327,400
	61,978,592	31,673,833
Special dividend of 2.5 cents (2001: 2.5 cents) per share	14,074,907	14,103,507
Proposed special dividend of 6.5 cents (2001: 5.0 cents) per share	36,594,759	28,107,314
	50,669,666	42,210,821

Note: This amount represents additional final and special dividends payable resulting from shares options exercised subsequent to the approval of the financial statements for both years.

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10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the net profit for the year of HK\$171,817,186 (2001: HK\$62,983,427) and the following data:

	Number of shares	
	2002	2001
Weighted average number of ordinary shares for the purpose of basic earnings per share	562,558,614	550,822,318
Effect of dilutive potential ordinary shares – share options	285,747	463,173
	<u>562,844,361</u>	<u>551,285,491</u>

11. PROPERTY, PLANT AND EQUIPMENT

	Property held for redevelopment HK\$	Leasehold land and buildings HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture and equipment HK\$	Motor vehicles HK\$	Moulds and tools HK\$	Construction in progress HK\$	Total HK\$
THE GROUP COST									
At January 1, 2002	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
Reclassifications	–	4,448,038	–	10,390,801	–	–	–	(14,838,839)	–
Acquisition of subsidiaries	–	–	–	14,624	686,302	216,233	–	–	917,159
Additions	–	356,159	145,717	6,997,780	2,605,692	885,008	260,095	13,225,776	24,476,227
Disposals	–	–	–	(9,508,831)	(718,326)	(2,397,587)	–	(39,802)	(12,664,546)
At December 31, 2002	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
DEPRECIATION AND AMORTISATION									
At January 1, 2002	418,849	51,746,367	963,441	42,993,271	25,561,683	7,262,211	3,267,939	–	132,213,761
Provided for the year	–	8,430,470	139,541	8,153,755	3,568,775	1,218,765	449,445	–	21,960,751
Impairment loss	5,500,000	–	–	–	–	–	–	–	5,500,000
Eliminated on disposals	–	–	–	(5,789,355)	(576,392)	(1,962,914)	–	–	(8,328,661)
At December 31, 2002	5,918,849	60,176,837	1,102,982	45,357,671	28,554,066	6,518,062	3,717,384	–	151,345,851
NET BOOK VALUES									
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
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

The property held for redevelopment is 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 of HK\$5,500,000 (2001: nil) 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 the property held for redevelopment and leasehold land and buildings at December 31, 2002 comprise properties held on medium-term leases in both Hong Kong and the PRC of HK\$15,802,684 (2001: HK\$21,375,375) and HK\$141,280,801 (2001: HK\$144,834,383) respectively.

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book values of the Group's plant and machinery, furniture and equipment and motor vehicles include an amount of HK\$8,570,142 (2001: HK\$3,495,724), HK\$177,837 (2001: HK\$298,699) and HK\$1,452,996 (2001: HK\$1,859,813) respectively, in respect of assets held under finance leases.

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$	HK\$
Unlisted shares, at cost	36,584,983	36,584,990

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, 2002 are set out in note 35.

13. INTANGIBLE ASSETS

	Product development expenditure HK\$
THE GROUP	
COST	
At January 1, 2002 and December 31, 2002	15,659,826
AMORTISATION	
At January 1, 2002	15,024,425
Provided for the year	461,030
At December 31, 2002	15,485,455
CARRYING AMOUNTS	
At December 31, 2002	174,371
At December 31, 2001	635,401

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

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14. GOODWILL

THE GROUP

HK\$

COST

Arising on acquisition of a subsidiary during the year
and balance at December 31, 2002

8,923,139

AMORTISATION

Charge for the year and balance at December 31, 2002

2,974,380

NET BOOK VALUE

At December 31, 2002

5,948,759

At December 31, 2001

—

The amortisation period adopted for goodwill is three years.

15. INTERESTS IN ASSOCIATES

THE GROUP

2002

2001

HK\$

HK\$

Share of net assets

35,112,174

56,744,599

As at December 31, 2002, the Group held a 30% interest in Foshan East Asia Company Limited ("Foshan East Asia"), a company registered in the People's Republic of China and engaged in the manufacture of colour woven fabrics. The following details are extracted from the management accounts of Foshan East Asia:

Operating results for the year:

2002

2001

HK\$'000

HK\$'000

Turnover

154,153

185,779

(Loss) profit before taxation

(63,235)

9,124

(Loss) profit before taxation attributable to the Group

(18,970)

2,737

15. INTERESTS IN ASSOCIATES (Continued)

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Financial position:		
Non-current assets	170,856	174,275
Current assets	136,329	213,104
Total liabilities	(191,806)	(200,089)
Minority interests	(3,516)	(3,997)
	<u>111,863</u>	<u>183,293</u>
Shareholders' funds attributable to the Group	<u>33,559</u>	<u>54,990</u>

In the opinion of the directors, Foshan East Asia is the only associate which will principally affect 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.

During the year, 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 has therefore been reflected in the consolidated income statement.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2002 <i>HK\$</i>	THE GROUP 2001 <i>HK\$</i>
Share of net assets	32,386,884	10,913,734
Loan to a jointly controlled entity	–	6,625,150
	<u>32,386,884</u>	<u>17,538,884</u>

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16. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

As at December 31, 2002, the Group held a 50% interest in Monforts Fong's Textile Machinery Co. Limited ("Monforts"), 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:

Operating results for the year:

	2002 HK\$	2001 HK\$
Turnover	244,598,583	104,702,307
Profit before taxation	49,546,298	6,759,191
Profit before taxation attributable to the Group	24,773,150	3,379,596

Financial position:

	2002 HK\$	2001 HK\$
Non-current assets	13,443,665	8,393,321
Current assets	110,719,455	46,374,689
Total liabilities	(59,389,353)	(32,940,542)
	64,773,767	21,827,468
Balance of shareholders' funds attributable to the Group	32,386,884	10,913,734

17. INVENTORIES

	THE GROUP	
	2002 HK\$	2001 HK\$
Raw materials	62,288,938	36,101,273
Work in progress	38,194,104	25,356,604
Finished goods	77,551,706	79,205,668
	178,034,748	140,663,545

Included above are raw materials of HK\$19,257,461 (2001: HK\$2,156,613), work in progress of HK\$567,801 (2001: nil) and finished goods of HK\$4,864,000 (2001: HK\$51,489,665) which are carried at net realisable values.

18. TRADE AND OTHER RECEIVABLES

Except for retention money held by customers for sales of dyeing machines, the Group allows an average credit period of 60 days (2001: 60 days) to its trade customers.

The following is an aged analysis of trade receivables at December 31, 2002:

	THE GROUP	
	2002	2001
	HK\$	HK\$
0-30 days	55,100,795	44,963,006
31-60 days	11,261,763	5,587,845
61-90 days	2,998,458	2,832,327
	69,361,016	53,383,178

In 2001, included in other receivables was 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 12.31.2002 HK\$	Balance at 1.1.2002 HK\$	Maximum amount outstanding during the year HK\$
Li Hon Yu, Albert	Unsecured, non-interest bearing and repayable on demand	—	450,000	450,000

19. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

20. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at December 31, 2002:

	THE GROUP	
	2002	2001
	HK\$	HK\$
0-30 days	62,800,175	42,650,881
31-60 days	3,754,150	2,928,713
over 60 days	3,860,608	944,564
	70,414,933	46,524,158

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FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

21. WARRANTY PROVISION

HK\$

THE GROUP

At January 1, 2002	1,200,000
Additional provision in the year	3,766,200
Utilisation of provision	(1,200,000)
At December 31, 2002	3,766,200

The warranty provision represents the 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.

22. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Amount payable under finance leases:				
Within one year	3,763,724	2,374,692	3,502,081	2,174,527
In the second to fifth year inclusive	3,898,883	2,557,963	3,738,739	2,427,225
	7,662,607	4,932,655	7,240,820	4,601,752
Less: Future finance charges	(421,787)	(330,903)	N/A	N/A
Present value of lease obligations	7,240,820	4,601,752	7,240,820	4,601,752
Less: Amount due within one year shown under current liabilities			(3,502,081)	(2,174,527)
Amount due after one year			3,738,739	2,427,225

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, 2002, the effective borrowing rates were ranging from 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.

23. BANK BORROWINGS

	THE GROUP	
	2002	2001
	HK\$	HK\$
Bank borrowings comprise the following:		
Trust receipt loans	53,474,600	54,548,145
Bank loans	10,825,500	24,157,500
	64,300,100	78,705,645
Secured	39,988,113	48,088,293
Unsecured	24,311,987	30,617,352
	64,300,100	78,705,645
The bank borrowings are repayable within the following periods:		
Within one year	63,468,600	67,880,145
More than one year, but not exceeding two years	831,500	9,994,000
More than two years, but not exceeding five years	–	831,500
	64,300,100	78,705,645
Less: Amount due within one year shown under current liabilities	(63,468,600)	(67,880,145)
Amount due after one year	831,500	10,825,500

The outstanding bank loans as at balance sheet date bear interest at market rate and are repayable in instalments over a period of 2.25 years. The proceeds were used to finance the operations of the Group.

24. SHARE CAPITAL

	2002 HK\$	2001 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, 561,946,285 (2001: 524,386,285) ordinary shares of HK\$0.10 each	56,194,629	52,438,629
Exercise of share options	105,000	4,275,000
Repurchase and cancellation of shares	–	(519,000)
At end of the year, 562,996,285 (2001: 561,946,285) ordinary shares of HK\$0.10 each	56,299,629	56,194,629

25. SHARE OPTIONS

The Company's share option scheme ("the Scheme") was approved and adopted on September 19, 2000 pursuant to a resolution passed on June 8, 2000 for the primary purpose of providing incentive to directors and eligible employees, and will expire on September 18, 2010. Under the Scheme, the Board of Directors of the Company may grant share 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 from the date of grant. Each of the grantees is required to pay HK\$1.00 as consideration for the grant of the share options in accordance with the 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 Scheme. The exercise price is determined by the directors of the Company, and shall be 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.

25. SHARE OPTIONS (Continued)

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

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

Option type	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Outstanding at 31.12.2002
1	1,050,000	–	1,050,000	–
Option type	Outstanding at 1.1.2001	Granted during the year	Exercised during the year	Outstanding at 31.12.2001
1	–	43,650,000	42,600,000	1,050,000
2	–	150,000	150,000	–
	–	43,800,000	42,750,000	1,050,000

Details of the share options held by the directors included in the above table as follows:

	Option type	Outstanding at January 1	Granted during the year	Exercised during the year	Outstanding at December 31
2002	–	–	–	–	–
2001	1	–	22,200,000	22,200,000	–

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
1	April 19, 2001	4/19/2001 – 4/18/2004	0.48
2	April 20, 2001	4/20/2001 – 4/19/2004	0.51

The total consideration received in 2001 from employees for taking up share options granted amounted to HK\$74.

The closing price of the Company's shares immediately before April 19, 2001 and April 20, 2001 were HK\$0.63 and HK\$0.71 respectively.

The share options was exercised on various dates throughout the year. The share prices on dates of exercise ranged from HK\$0.91 to HK\$1.80 (2001: HK\$0.69 to HK\$0.82).

NOTES TO THE FINANCIAL STATEMENTS

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

26. 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 31, 2001	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 not reflected in the income statement	-	-	-	(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
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	-	-	-	-	171,817,186	-	171,817,186
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	216,087,846	73,189,518	1,215,200	(14,485,332)	217,291,123	25,582,177	518,880,532

The retained profits of the Group included HK\$11,097,426 (2001: HK\$30,543,389) and HK\$23,236,884 (2001: HK\$1,763,734) attributable to associates and a jointly controlled entity of the Group respectively.

The translation reserve of the Group included HK\$4,660,293 (2001: HK\$4,660,293) attributable to an associate of the Group.

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FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

26. RESERVES (Continued)

	Share premium HK\$	Dividend reserve HK\$	Capital redemption reserve HK\$	Retained profits HK\$	Contributed surplus HK\$	Total HK\$
THE COMPANY						
At January 31, 2001	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
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	216,087,846	73,189,518	1,215,200	-	23,033,335	313,525,899

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

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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.

NOTES TO THE FINANCIAL STATEMENTS

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

26. RESERVES (Continued)

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

	2002 HK\$	2001 HK\$
Contributed surplus	23,033,335	35,584,967
Retained profits	–	17,621,232
Dividend reserve	73,189,518	39,350,240
	96,222,853	92,556,439

27. UNPROVIDED DEFERRED TAXATION

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

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(369,000)	(627,000)	–	–
Taxation losses	362,000	449,000	–	–
	(7,000)	(178,000)	–	–

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

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(258,000)	271,300	–	–
Taxation losses utilised	87,000	159,000	–	–
	(171,000)	430,300	–	–

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

28. ACQUISITION OF A SUBSIDIARY

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

	2002 HK\$
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	(3,229,215)
	<u>12,916,861</u>
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	(15,691,344)
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 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.

29. MAJOR NON-CASH TRANSACTIONS

During the year, 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 (2001: HK\$1,763,895).

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FONG'S INDUSTRIES COMPANY LIMITED

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30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Export bills discounted with recourse	<u>19,607,433</u>	<u>6,761,671</u>	<u>—</u>	<u>—</u>
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>398,125,000</u>	<u>332,125,000</u>
Guarantees given to bankers in respect of banking facilities granted to a jointly controlled entity	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,750,000</u>

At the balance sheet date, the extent of banking facilities utilised by the subsidiaries amounted to approximately HK\$64 million (2001: HK\$79 million).

31. CAPITAL COMMITMENTS

	THE GROUP	
	2002 HK\$	2001 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<u>2,229,031</u>	<u>2,510,917</u>

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

32. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to HK\$5,695,255 (2001: HK\$4,699,013).

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	
	2002	2001
	HK\$	HK\$
Within one year	4,811,268	4,766,696
In the second to fifth year inclusive	4,657,680	9,143,320
	9,468,948	13,910,016

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\$564,538 (2001: HK\$557,700). The property is expected to generate rental yield of 4.4% on an ongoing basis. The property held has committed tenants for one year.

At the balance sheet date, the Group had contracted with tenants for the future minimum lease payments within one year amounting to HK\$448,139 (2001: HK\$557,700).

33. RETIREMENT BENEFITS SCHEME

The Group has a defined contribution provident fund scheme ("the Scheme") for its Hong Kong employees. The scheme assets are being held under a provident fund operated by AXA Investment Managers HKSAR Limited with Messrs. Fong Sou Lam 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.

33. RETIREMENT BENEFITS SCHEME (Continued)

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

	2002 HK\$	2001 HK\$
Gross employers' contributions	2,497,427	2,488,713
Less: Forfeited contributions utilised to offset employers' contributions for the year	(289,383)	(284,453)
Net employers' contributions charged to the income statement	<u>2,208,044</u>	<u>2,204,260</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 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 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 compulsorily. The Group is required to make contributions to either of the two schemes in accordance with the option selected by the employees.

34. RELATED PARTY TRANSACTIONS

During the year, total rental payable by the Group to a related company amounted to HK\$5,375,533 (2001: HK\$4,357,008). 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:

	2002 HK\$	2001 HK\$
Sales of goods	3,545,524	16,563,676
Purchase of materials	15,430,902	–
Commission and management fee received	13,170,433	5,801,503
Rental received	1,817,069	1,316,624

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

35. 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

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35. 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) Co., Ltd.	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 metal castings products
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

35. 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 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.