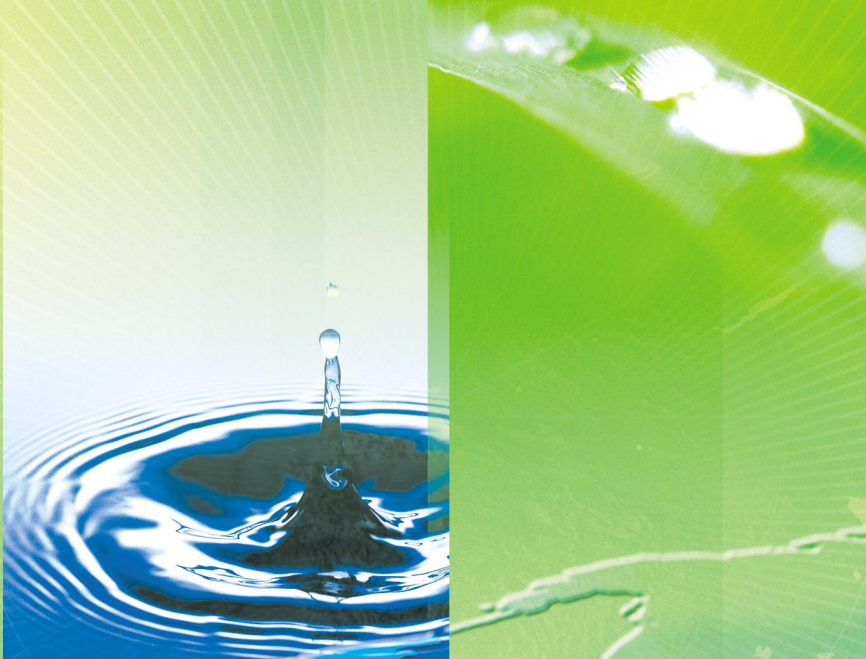




FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)



2002
annual
report

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EXECUTIVE DIRECTORS

Mr. Fong Sou Lam (*Chairman*)
Mr. Lee Che Chiu (*Managing Director*)
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Cheuk Hon Kin, Kelvin
Dr. Tsui Tak Ming, William
Ms. Poon Hang Sim, Blanche

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis

COMPANY SECRETARY

Mr. Lee Che Keung

SOLICITORS

Woo, Kwan, Lee & Lo
Gallant Y. T. Ho & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
The Bank of East Asia Limited
DBS Kwong On Bank Limited
Bank of Communications

BERMUDA PRINCIPAL REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
11 Rosebank Centre,
Bermudiana Road,
Hamilton,
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
28th Floor, BEA Harbour View Centre,
56 Gloucester Road,
Wanchai,
Hong Kong

REGISTERED OFFICE

Cedar House,
41 Cedar Avenue,
Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor,
22-28 Cheung Tat Road,
Tsing Yi,
Hong Kong

WEBSITE ADDRESS

<http://www.fongs.com>

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Fong's Industries Company Limited (the "Company") will be held at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong on Monday, May 26, 2003 at 10:00 a.m. for the following purposes:

1. To receive and adopt the audited Financial Statements and Reports of the Directors and Auditors for the year ended December 31, 2002.
2. To declare a final dividend/special dividend.
3. To re-elect Directors and to fix a maximum number of Directors.
4. To re-appoint Messrs. Deloitte Touche Tohmatsu as Auditors and authorise the Directors to fix their remuneration.
5. To transact any other ordinary business(es).

By order of the Board
C.K. Lee
Company Secretary

Hong Kong, April 8, 2003

Notes:

- (a) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, the proxy form and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's principal place of business at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong not less than 48 hours before the time fixed for holding the Annual General Meeting or any adjourned meeting.
- (b) In order to determine who are entitled to attend and vote at the Annual General Meeting, the register of members will be closed from May 19, 2003 to May 26, 2003, both days inclusive, during which period no transfer of shares can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Secretaries Limited, at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, May 16, 2003.



Despite the competitive operating environment worldwide for our customers and us, the Group has achieved a record year of sales and profits with growing demand for our products. The consolidated turnover increased by 51% to approximately HK\$1,142.42 million (2001: HK\$758.34 million) and net profit grew by 173% to approximately HK\$171.82 million (2001: HK\$62.98 million).

In addition, entering into 2003, the Group will be celebrating its 40th year of successful operation. Consequently, in light of the good performance and to mark our 40th anniversary, it is proposed to pay shareholders a special dividend of 6.5 cents per share in addition to a final dividend of 6.5 cents per share.

In September, 2002, the Group acquired an 80% interest in Xorella AG which is the Swiss technology and market leader in steaming setting and conditioning systems for textiles. With the synergy effect of the Group's sales network and sophisticated manufacturing facilities in China and Xorella AG's design and technology, especially the invaluable experience of Mr. Freddy Wanger, the founder of Xorella AG, this will be supplementary and complementary to the Group's existing product range and will enable the Group to provide further one-stop shopping convenience to customers wishing to purchase textile machinery and in turn will improve the Group's market position.

Looking ahead, with China's success in joining the World Trade Organization and its effect on the textile industry and combined with the continued robust growth of China's economy, the Board believes that the potential growth of the Group's businesses in China is in the early stage of realization. The Board also believes that the Group is in a strong position to take advantage of the economic growth in China and Asia to continue further growth based on our strong financial position and solid foundations and to further consolidate our position in these markets.

The Group will continue to devote efforts to extend its businesses by exploring both new markets and new products. Therefore, the Group has been exploring additional potential businesses and cooperations that can complement and strengthen its core businesses.

With the encouraging results of 2002 and the efforts we have put in place, we are cautiously optimistic to a fruitful year in 2003 despite the current geopolitical conflicts and the atypical pneumonia outbreak.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders for their confidence in the Group, our worldwide customers for their trust and support in our products and services through the years, our staff for their dedication as well as our bankers and business associates for their continuing support.

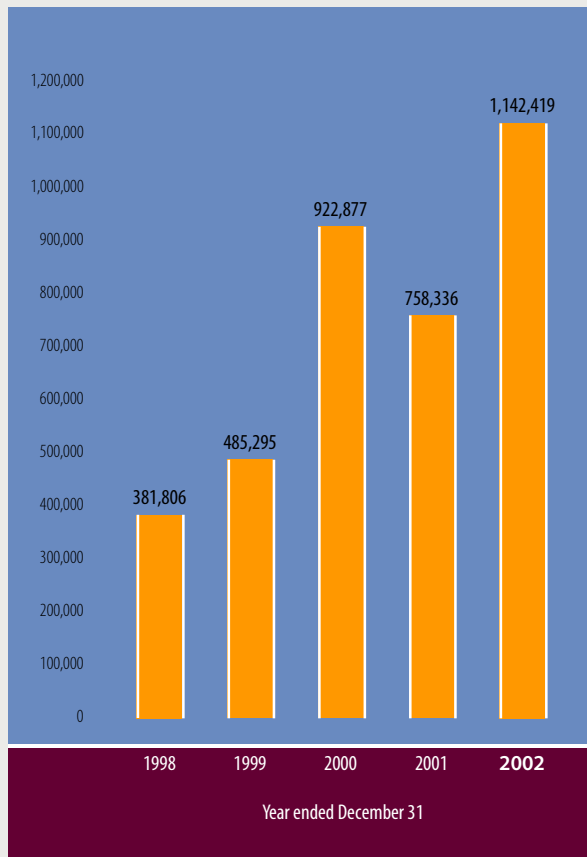
Fong Sou Lam

Chairman

Hong Kong, April 8, 2003.

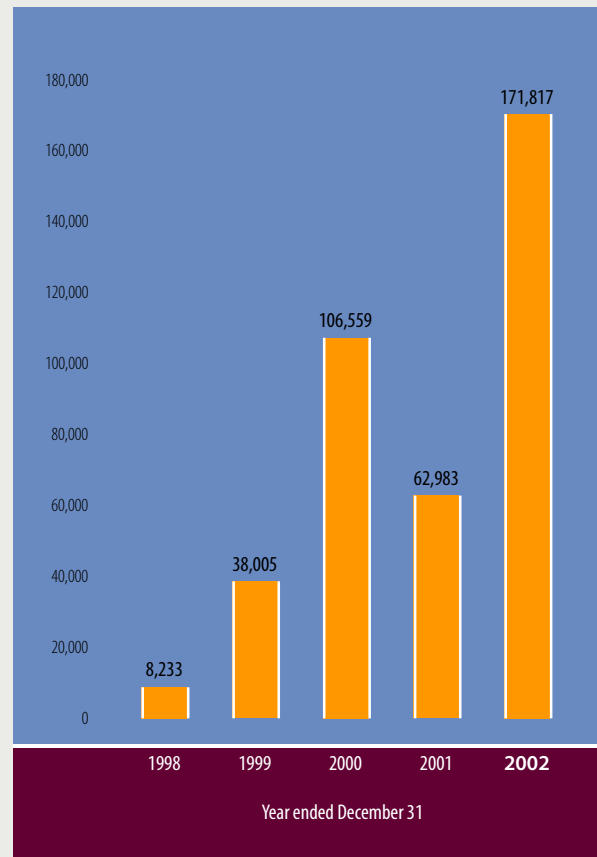
TURNOVER

(HK\$'000)



NET PROFIT

(HK\$'000)

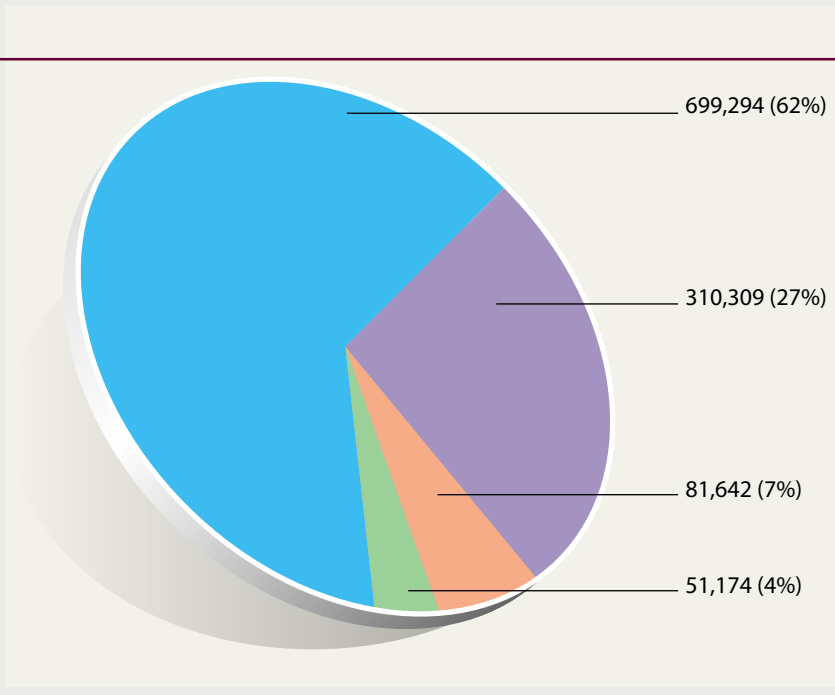


ANALYSIS OF TURNOVER FOR THE YEAR

(HK\$'000)

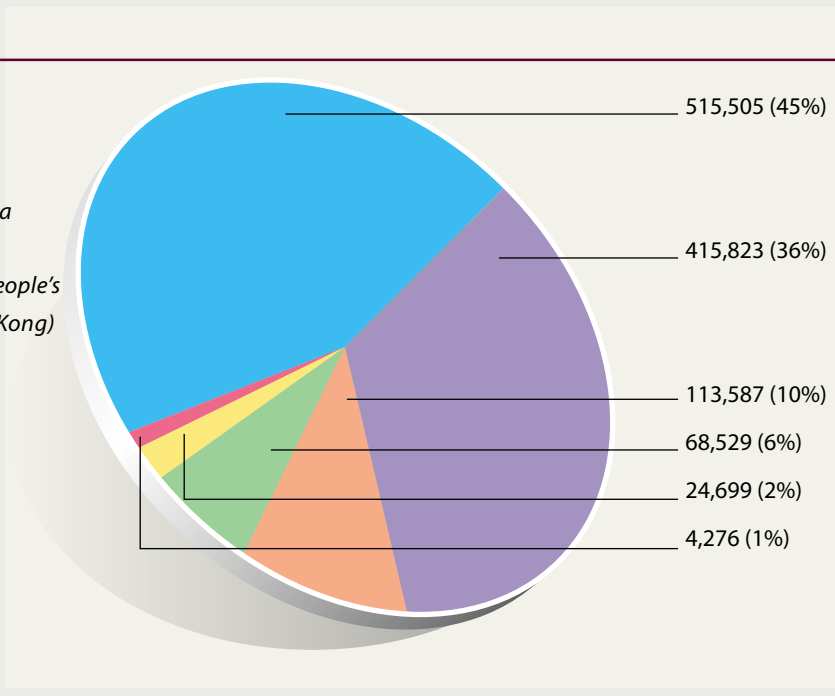
By principal activity

- *Manufacture and sale of dyeing machines*
- *Trading of stainless steel supplies*
- *Trading of machine parts and service income*
- *Manufacture and sale of stainless steel casting products*



By geographical region

- *Hong Kong*
- *The People's Republic of China*
- *Asia Pacific (other than the People's Republic of China and Hong Kong)*
- *Europe*
- *North and South America*
- *Others*



EXECUTIVE DIRECTORS

1. Mr. Fong Sou Lam, aged 68, is the founder and chairman of the Group. Mr. Fong established the dyeing and finishing machinery manufacturing business in 1963 and has over 40 years' experience in that industry.
2. Mr. Lee Che Chiu, aged 56, is a chartered engineer and holds a master degree in business administration from the Cranfield School of Management, U.K.. Mr. Lee has extensive experience in industrial and business management as well as in strategic management training and consultancy. Mr. Lee was appointed as a non-executive director in 1990 and redesignated to Managing Director of the Company on July 10, 2000.
3. Mr. Fong Kwok Leung, Kevin, aged 41, is the eldest son of Mr. Fong Sou Lam and joined the Group in 1986. Mr. Kevin Fong is also the general manager and director of Fong's Steels Supplies Company Limited and has been involved in the business of stainless steel trading since 1988. Mr. Kevin Fong holds a bachelor degree in business administration from the Simon Fraser University, Canada.
4. Mr. Fong Kwok Chung, Bill, aged 33, is the second son of Mr. Fong Sou Lam. Mr. Bill Fong joined the Group in 1994 and had been working as project manager dealing with various inter-departmental coordination prior to his appointment as an executive director in May 1997. Mr. Bill Fong studied at Simon Fraser University, Canada with concentrations in accounting and finance. Prior to joining the Group, Mr. Bill Fong spent approximately two years articling at a Chartered Accountants' firm and held the position as the treasurer for one of the oldest rugby football clubs, both in Vancouver, Canada.
5. Mr. Cheuk Hon Kin, Kelvin, aged 43, joined the Group in 1986. He is in charge of the sales and marketing department of Fong's National Engineering Company, Limited. Mr. Cheuk graduated from the Hong Kong Polytechnic University with a higher diploma in textile chemistry and has a master of science degree in polymer science and technology from the Queen's University of Belfast, U.K.. He also holds a master of business administration degree from the Monash University of Australia. Mr. Cheuk is also a member of the Textile Institute and the Society of Dyers and Colourists and obtains Royal Charter status. He is also a corporate member of the Institute of Management and the Hong Kong Institution of Textile and Apparel.
6. Dr. Tsui Tak Ming, William, aged 44, is a chartered engineer and is in charge of the research & development department, control & automation department and mechanical design department of the Group. Before joining the Group in 1989, he worked in the U.K. for eight years in research & design on mechanical engineering and digital processing. Dr. Tsui holds a bachelor of science degree in aeronautical engineering and a doctorate degree in aeronautical engineering. Dr. Tsui is a corporate member of the British Royal Aeronautical Society, the British Institution of Mechanical Engineers, the Hong Kong Institution of Engineers and the Hong Kong Computer Society. Dr. Tsui has been appointed as the Head of Office for Scheme "A" training in Fong's National Engineering Company, Limited (electrical and mechanical engineering disciplines) by Hong Kong Institution of Engineers since 1998. Dr. Tsui has been appointed as a member of the Departmental Advisory Committee by the Manufacturing Engineering and Engineering Management Department of City University of Hong Kong since 2002. Dr. Tsui has also been nominated by Hong Kong Institution of Engineers since 1998 as a professional assessment assessor with specialism in the fields of industrial, power and process plant. Dr. Tsui was appointed as an executive director of the Company on July 10, 2000.
7. Ms. Poon Hang Sim, Blanche, is the financial controller of the Group. Ms. Poon joined the Group in 1995 and holds a bachelor degree in commerce from the University of New South Wales, Australia. She is an associate member of the Hong Kong Society of Accountants and a CPA, Australia. Ms. Poon was appointed as an executive director of the Company on July 10, 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

1. Mr. Cheung Chiu Fan, aged 49, is a professional accountant with extensive experience in public accounting and professional management. He is a fellow member of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Company Secretaries, a member of the British Institute of Management in the United Kingdom and has a master degree in business administration from the Chinese University of Hong Kong. Mr. Cheung was appointed as a non-executive director in 1996.
2. Mr. Lui Chi Lung, Louis, aged 49, is an experienced and well-trained corporate and private banker for over twenty years and has worked as a senior marketing manager for a number of well-known international banks both in Hong Kong and in California, U.S.A.. Mr. Lui holds a master degree in business administration from State University of New York at Buffalo, U.S.A. and graduated from the University of Wisconsin at Madison U.S.A.. Mr. Lui was appointed as an independent non-executive director of the Company on September 9, 2000.

SENIOR MANAGEMENT

1. Mr. Wan Wai Yung, aged 52, is the joint managing director of Fong's National Engineering Company, Limited. Mr. Wan is responsible for the overall supervision of the Group's operations and assisting the chairman in strategic planning and business development. Mr. Wan has over 20 years' experience with excellent customer relationships in the textile & dyeing industry. Mr. Wan first joined the Group in 1978 and has held various key positions in the Group.
2. Mr. Tsui Wai Keung, aged 45, is a director of Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Company, Limited. Since joining the Group in 1980, Mr. Tsui has been involved in the production of the Group's dyeing and finishing machinery which he is now in charge of.
3. Mr. Fu Hoi Kam, aged 66, is a director of Fong's National Engineering Company, Limited. He joined the Group in 1981 and is responsible for technical support towards customers. Mr. Fu graduated from the Beijing College of Mineralogy and is also a mechanical design engineer. He has extensive experience in dyeing process and production and often conducts seminars periodically at various international textile conferences and exhibitions.
4. Mr. Lee Bo Shing, Alfred, aged 47, is a senior manager of Fong's National Engineering Company, Limited. Mr. Lee got an endorsement to higher certificate in mechanical engineering from the Hong Kong Polytechnic University in 1978 and is a member of the American Welding Society and the Chinese Mechanical Engineering Society. He joined the Group in 1979 and is responsible for the technical department and participates in product development of the Group.
5. Mr. Wong Tak Man, Francis, aged 39, is the assistant to joint managing directors. Mr. Wong graduated from the Hong Kong Polytechnic University with a higher diploma in marine engineering and joined the Group in 1987. Mr. Wong is responsible for assisting the joint managing directors in the daily operation of the manufacturing business in Shenzhen, handling matters in relation to customer relation and involving in the development of new products.
6. Mr. Wong Ching Chuen, Patrick, aged 41, is the senior manager of the sales and marketing department. He is resident in our Shenzhen sales division and is responsible for the sales work of part of China market. Mr. Wong has been respectively educated in the Hong Kong Polytechnic University for mechanical engineering and Griffith University in Australia for Law. He has over 15 years' experience in China trade for industrial equipment supplies and engineering work. He joined the Group in July 2000.

7. Dr. Dawood Jackson, aged 37, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the technical service and spare parts sales. Dr. Jackson graduated from Warwick University, U.K. and received a bachelor degree in electrical engineering. He also obtained a doctorate degree in electronic engineering from London University, U.K.. He has extensive experience in engineering industry and research field. He joined the Group in June, 2001.
8. Mr. Wong Tuh Hoe, Philip, aged 50, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the personnel and administration functions of the Group. Mr. Wong graduated from the Hong Kong Polytechnic University for human resources management studies. He has over 20 years' experience in human resources management, administration, staff career development and planning. Mr. Wong joined the Group in February, 2002.
9. Mr. Yan Tak Kuen, aged 56, is a senior manager of Fong's National Engineering Company, Limited and is responsible for the production operations of the Group's dyeing and finishing machinery manufacturing business. Mr. Yan graduated from Guangzhou Marine Engineering Technical School with a secondary technical diploma and has extensive experience in mechanics and sheet metal working. He joined the Group in September 1984.
10. Mr. Lee Che Keung, aged 42, is the company secretary of the Group. He graduated from the Hong Kong Polytechnic University with a professional diploma in company secretaryship and administration and is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Prior to his joining the Group in 1990, Mr. Lee had extensive experience in company secretarial practice in a number of accounting firms. He is responsible for the corporate secretarial matters of the Group.

*Shenzhen plant*

OPERATING RESULTS

For the year ended December 31, 2002, the Group achieved a consolidated turnover of approximately HK\$1,142.42 million (2001: HK\$758.34 million) and the net profit amounted to approximately HK\$171.82 million (2001: HK\$62.98 million), representing an increase of 51% and 173% respectively compared with that of last year. Basic earnings per share was 30.5 cents (2001: 11.4 cents).

DYEING AND FINISHING MACHINES MANUFACTURING

Fong's National Engineering Company, Limited and Fong's National Engineering (Shenzhen) Co., Ltd.

The business of dyeing and finishing machines manufacturing including trading of machine parts and servicing remained the key contributor to the Group's revenue in 2002. Turnover of this segment was approximately HK\$780.94 million (2001: HK\$445.23 million) or 68% of the Group's consolidated turnover and increasing by 75% compared to 2001.

During the year under review, the Textile Industry in Asia and China in particular experienced rapid growth due to China's entry into the World Trade Organisation ("WTO") and its robust consumer consumption growth. As a result, with the Textile Industry as a whole experiencing both sales and profit growth coupled with the launch of our new ECOTECH series of dyeing machines, our business of dyeing and finishing machines manufacturing also grew robustly in our major market of China.

Furthermore, with the investments made over the past years and adequate vertical integrations in production since migrating our production facilities to Shenzhen together with the well established sales and service networks, we were able to take advantage of the capacity available and thus generating a very healthy profit growth of 190% at the same time.



FONG'S ECOTECH Series of Dyeing Machines

Barring any unforeseeable circumstances, we remain cautiously optimistic for our business of dyeing and finishing machines manufacturing as we anticipate that our customers and the Textile Industry will continue to expand with the elimination of textile quotas in accordance with the WTO Trade Agreement and the healthy growth of the China domestic consumer market.

Sales and marketing

To cope with the market development, we have deployed adequate resources to conduct sales and marketing activities in a strategic manner. As an effort to step up our sales force and services , we have established various regional service centers in our major markets including Beijing, Qingdao, Shanghai, Wuhan, Guangzhou, Shenzhen and Thailand. Besides, we also provide continuing staff trainings to our salespeople and services engineers with the aims for better product knowledge, pre and after-sales services.

Research and development

The Group's research and development team has continued its persistent devotion to developing superior quality products with the latest technology and which has made **fong's** a brand name a leading choice in the Textile Industry. In the coming years, our research and development team will continue to focus on developing improvements to make our machines even more environmentally friendly and cost-effective to meet our customers' needs for advanced production equipment to increase their productivity and to reduce production costs.

STAINLESS STEEL TRADING

Fong's Steels Supplies Company Limited

Despite the highly competitive trading environment, this segment achieved a healthy growth during the year under review. It accounted for approximately 27% of the Group's consolidated turnover. The sales of stainless steel products increased by 20% to approximately HK\$310.31 million as compared to last year.

Though the stainless steel prices have been increasing steadily in 2002 due to the rise in nickel prices, the management has adopted certain strategies to minimize the volatilities of the stainless steel market. Furthermore, the management is able to better forecast demand and supply thus allowing the Group to be more effective in managing the volatile pricing and control of the level of inventory of our stainless steel products.

STAINLESS STEEL CASTING AND MACHINING

Tycon Alloy Industries (Hong Kong) Company Limited and Tycon Alloy Industries (Shenzhen) Co., Ltd.

The slow down of the economic conditions in the United States and the Europe had slowed down the business of stainless steel castings and machining in 2002. It accounted for approximately 4% of the Group's consolidated turnover. The turnover decreased by 6% to approximately HK\$51.17 million, but the profit from operation increased from HK\$2.18 million to HK\$6.72 million, an increase of 208% due to better margins and improvement in operating efficiency.

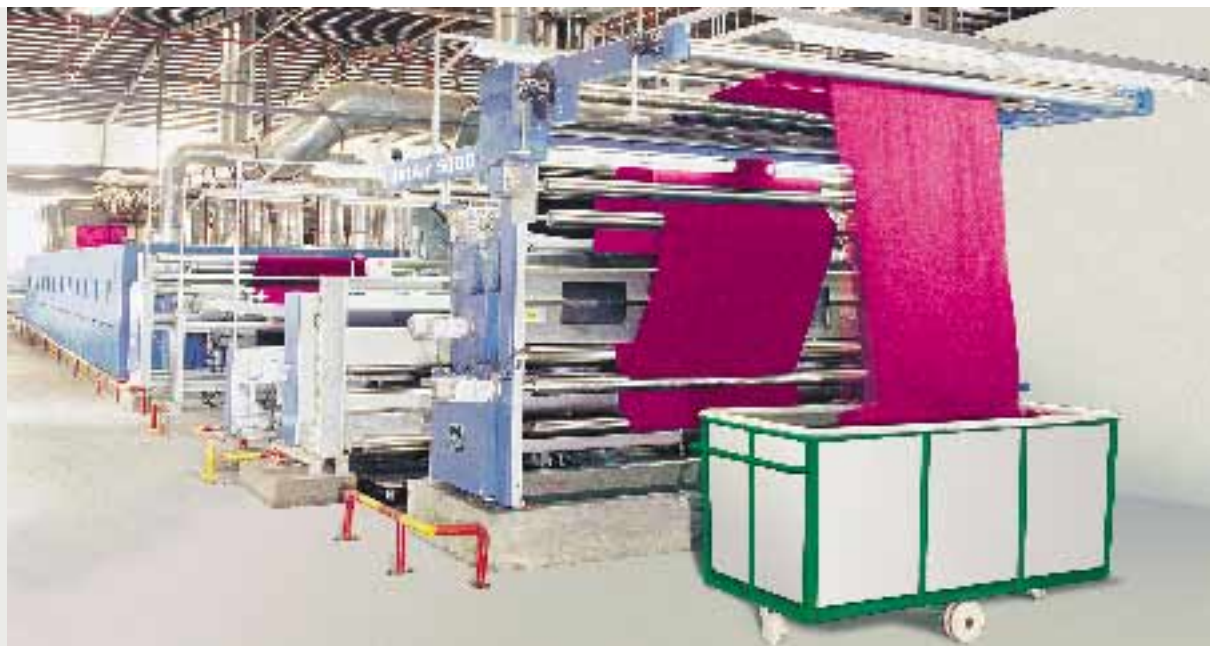
Capitalising the productivity improvement and new market development, the Board believes that both the production capacity and profit will improve. It is anticipated that the demand of castings from the overseas buyers will be improving this year because most of them had completed their inventory level adjustments in the past two years.

JOINTLY CONTROLLED ENTITY

Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's")

During the year under review, the turnover of products manufactured by Monforts Fong's under the brand name **MONFONGS** increased by 134% to approximately HK\$244.6 million.

During the second half of 2002, with the combined efforts of our German partner's advanced technology and our Group's established sales network in China, Monforts Fong's has successfully launched the additional products of Relaxation Dryers and Levelling and Stretching Machines onto the China market in addition to the leading **MONFONGS** Stenter Machines. The initial feedback on these new products from the industry is promising. The management expects Monforts Fong's will further expand its market share in China.



MONFONGS JetAir 5000 Relaxation Dryer

To cope with the anticipated sales growth, Monforts Fong's has planned to extend its existing production plant to an aggregate floor area of approximately 20,000 square metres in the existing Fong's manufacturing complex in Shenzhen. This new plant is scheduled to be put into use by the second half of 2004. Upon the launch of the new production area, the production capacity of Monforts Fong's can be greatly increased to meet its future business growth.

ASSOCIATES

Foshan East Asia Company Limited (a 30% owned associate)

The performance of the sales of woven color fabrics was inevitably affected by the fall in market prices due to keen market competition. During the year under review, its turnover decreased by 17% to approximately HK\$154.15 million. Despite this, this business continued to contribute steady and stable revenue to the Group.

During the year, the management of Foshan East Asia had made an impairment loss of approximately HK\$70 million due to obsolescence of certain properties and equipment and doubt over the recoverability of certain trade and other receivables. 30% of the impairment loss amounting to HK\$21 million has therefore been reflected in the consolidated income statement.

HUMAN RESOURCES

It is the people who make our Group a success. At December 31, 2002, the Company and its subsidiaries employed a total of approximately 2,400 staff members. The Group's remuneration policies are primarily based on the prevailing market salary levels, while bonuses may be granted on a discretionary basis. Other employee benefits include provident fund scheme and share option scheme.

We shall continue to align our human resource practices with our corporate objectives so as to maximize shareholders' value and to achieve growth.

LIQUIDITY AND CAPITAL RESOURCES

The management considers the Group's financial position as healthy and believes that the Group has adequate financial resources to meet its cash flow requirements.

As at December 31, 2002, net of total borrowings, the Group's net cash and bank balance was approximately HK\$144.51 million. In 2002, there is no gearing ratio shown as the Group has a net cash and bank balance. The current ratio was 1.98 reflecting a healthy liquidity level.

As at December 31, 2002, bank borrowings amounted to approximately HK\$64.30 million of which approximately 61% were secured by the Group's certain assets. More than 99% of the bank borrowings are repayable within one year and the remaining are repayable within two years. Most bank borrowings were sourced from Hong Kong, of which approximately 17% were denominated in Hong Kong dollars, 79% in US dollars and the remaining were denominated in various foreign currencies. The bank borrowings of the Group are predominantly subject to floating interest rates.

The cash and bank balance amounted to approximately HK\$216.05 million of which approximately 75% were denominated in Hong Kong dollars, 11% in US dollars, 6% in Euro, 4% in Swiss Franc, 3% in Renminbi and the remaining were denominated in various foreign currencies.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended December 31, 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2002 are set out in the consolidated income statement on page 21.

An interim dividend of 4.5 cents per share plus a special dividend of 2.5 cents per share, amounting to approximately HK\$39 million, were paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 6.5 cents per share plus a special dividend of 6.5 cents per share to the shareholders on the register of members on May 26, 2003, amounting to approximately HK\$73 million, and the retention of the remaining profit for the year.

Subject to the approval of the shareholders at the forthcoming annual general meeting, dividend warrants are expected to be despatched to shareholders on or before June 12, 2003.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2002, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 15% of the Group's total turnover.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 39% of the Group's total purchases and purchases attributable to the Group's largest supplier were approximately 19% of the total purchases.

As far as the directors are aware, no director of the Company, their associates or any shareholder (who to the knowledge of the directors owns more than 5% of the Company's share capital) has interest in the Group's five largest suppliers or customers.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Fong Sou Lam (*Chairman*)
 Mr. Lee Che Chiu (*Managing Director*)
 Mr. Fong Kwok Leung, Kevin
 Mr. Fong Kwok Chung, Bill
 Mr. Cheuk Hon Kin, Kelvin
 Dr. Tsui Tak Ming, William
 Ms. Poon Hang Sim, Blanche

Independent non-executive directors:

Mr. Cheung Chiu Fan
 Mr. Lui Chi Lung, Louis

Mr. Cheung Chiu Fan was appointed under a contract for a term of 2 years commencing on January 1, 2001 and expiring on December 31, 2002. Upon expiry, his term of office was extended to December 31, 2004.

Mr. Lui Chi Lung, Louis was appointed under a contract for a term of 2 years commencing on September 9, 2000 and expiring on September 8, 2002. Upon expiry, his term of office was extended to September 8, 2004.

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

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at December 31, 2002, the interests of the directors in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of directors	Number of ordinary shares held	
	Personal interests	Other interests
Mr. Fong Sou Lam	13,486,000	–
Mr. Fong Kwok Leung, Kevin	1,550,000	342,575,601*
Mr. Fong Kwok Chung, Bill	1,838,000	342,575,601*
Mr. Cheuk Hon Kin, Kelvin	400,000	–
Ms. Poon Hang Sim, Blanche	250,000	–

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

DIRECTORS' INTERESTS IN SHARES (Continued)

Other than as disclosed above and other than certain nominee shares in subsidiaries held by certain directors in trust for the Group as at December 31, 2002, none of the directors, or their associates had any beneficial interest in any securities of the Company or any of its associated corporations.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 25 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	At January 1, 2002	Number of share options		At December 31, 2002
		Granted	Exercised	
Employees	<u>1,050,000</u>	<u>–</u>	<u>1,050,000</u>	<u>–</u>

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 weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK\$1.41.

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

Other than as disclosed above, at no time during the year was the Company or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

The Group entered into operating lease agreements with Sou Lam for the leasing of a portion of a factory building. The operating lease agreements will expire on December 31, 2004. Total rentals paid by the Group to Sou Lam for the year amounted to HK\$5,375,533.

The above operating lease agreements were negotiated at terms agreed between relevant parties.

Other than as disclosed above, no other contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, no person was having an interest of 10% or more in the issued share capital of the Company as at December 31, 2002.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$107,054.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended December 31, 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Fong Sou Lam
DIRECTOR

April 8, 2003

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu****TO THE SHAREHOLDERS OF FONG'S INDUSTRIES COMPANY LIMITED****立信工業有限公司***(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 21 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at December 31, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU*Certified Public Accountants*

Hong Kong, April 8, 2003

CONSOLIDATED INCOME STATEMENT

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

	Notes	2002 HK\$	2001 HK\$
Turnover		1,142,419,206	758,336,454
Cost of sales		(730,831,737)	(522,699,899)
Gross profit		411,587,469	235,636,555
Other operating income		17,970,914	9,684,042
Distribution costs		(36,920,222)	(29,344,465)
Administrative expenses		(152,029,654)	(118,834,962)
Other operating expenses		(32,301,409)	(24,360,020)
Profit from operations	5	208,307,098	72,781,150
Finance costs	7	(8,017,464)	(11,573,031)
Interest income		1,430,910	2,693,857
Share of results of associates	15	(19,024,333)	2,801,997
Share of results of a jointly controlled entity		24,773,150	3,379,596
Profit before taxation		207,469,361	70,083,569
Taxation	8	(36,617,378)	(7,100,142)
Profit before minority interests		170,851,983	62,983,427
Minority interests		965,203	–
Net profit for the year		171,817,186	62,983,427
Earnings per share	10		
Basic		30.5 cents	11.4 cents
Diluted		30.5 cents	11.4 cents

CONSOLIDATED BALANCE SHEET

FONG'S INDUSTRIES COMPANY LIMITED

At December 31, 2002

	Notes	2002 HK\$	2001 HK\$
Non-current assets			
Property, plant and equipment	11	243,008,269	249,411,519
Intangible assets	13	174,371	635,401
Goodwill	14	5,948,759	–
Interests in associates	15	35,112,174	56,744,599
Interest in a jointly controlled entity	16	32,386,884	17,538,884
		<u>316,630,457</u>	<u>324,330,403</u>
Current assets			
Inventories	17	178,034,748	140,663,545
Trade and other receivables	18	139,274,273	94,644,809
Amount due from a jointly controlled entity		5,641,424	4,184,012
Taxation recoverable		–	2,507,173
Bank balances, deposits and cash		216,051,264	130,941,274
		<u>539,001,709</u>	<u>372,940,813</u>
Current liabilities			
Trade and other payables	20	153,841,962	97,544,795
Bills payable		17,883,579	25,678,647
Warranty provision	21	3,766,200	1,200,000
Taxation payable		29,865,196	6,894,467
Obligations under finance leases – due within one year	22	3,502,081	2,174,527
Bank borrowings – due within one year	23	63,468,600	67,880,145
		<u>272,327,618</u>	<u>201,372,581</u>
Net current assets		<u>266,674,091</u>	<u>171,568,232</u>
		<u>583,304,548</u>	<u>495,898,635</u>
Capital and reserves			
Share capital	24	56,299,629	56,194,629
Reserves	26	518,880,532	425,161,145
		<u>575,180,161</u>	<u>481,355,774</u>
Minority interests		<u>3,554,148</u>	<u>1,290,136</u>
Non-current liabilities			
Obligations under finance leases – due after one year	22	3,738,739	2,427,225
Bank borrowings – due after one year	23	831,500	10,825,500
		<u>4,570,239</u>	<u>13,252,725</u>
		<u>583,304,548</u>	<u>495,898,635</u>

The financial statements on pages 21 to 60 were approved and authorised for issue by the Board of Directors on April 8, 2003 and are signed on its behalf by:

Fong Kwok Chung, Bill
Director

Fong Sou Lam
Director



BALANCE SHEET

FONG'S INDUSTRIES COMPANY LIMITED

At December 31, 2002

	Notes	2002 HK\$	2001 HK\$
Non-current asset			
Investments in subsidiaries	12	<u>36,584,983</u>	<u>36,584,990</u>
Current assets			
Other receivables		217,891	72,891
Amounts due from subsidiaries	19	561,397,782	480,595,174
Taxation recoverable		–	320,890
Bank balances		<u>86,622</u>	<u>72,785</u>
		<u>561,702,295</u>	<u>481,061,740</u>
Current liabilities			
Other payables		255,611	239,306
Amounts due to subsidiaries	19	227,761,386	151,752,310
Taxation payable		<u>444,753</u>	<u>–</u>
		<u>228,461,750</u>	<u>151,991,616</u>
Net current assets		<u>333,240,545</u>	<u>329,070,124</u>
		<u>369,825,528</u>	<u>365,655,114</u>
Capital and reserves			
Share capital	24	56,299,629	56,194,629
Reserves	26	<u>313,525,899</u>	<u>309,460,485</u>
		<u>369,825,528</u>	<u>365,655,114</u>

Fong Kwok Chung, Bill
Director

Fong Sou Lam
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

	Total equity <i>HK\$</i>
At January 1, 2001	<u>514,286,060</u>
Exchange difference arising on translation of overseas subsidiaries not recognised in the income statement	(74,730)
Net profit for the year	62,983,427
Dividends	(98,967,350)
Special dividend	(14,103,507)
Repurchase of shares	(3,292,700)
Premium on issue of shares	16,249,574
Issue of shares on exercise of share options	<u>4,275,000</u>
At January 1, 2002	481,355,774
Exchange difference arising on translation of overseas subsidiaries not recognised in the income statement	312,181
Net profit for the year	171,817,186
Dividends	(64,734,073)
Special dividend	(14,074,907)
Premium on issue of shares	399,000
Issue of shares on exercise of share options	<u>105,000</u>
At December 31, 2002	<u>575,180,161</u>

CONSOLIDATED CASH FLOW STATEMENT

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

	Note	2002 HK\$	2001 HK\$
OPERATING ACTIVITIES			
Profit from operations		208,307,098	72,781,150
Adjustments for:			
Depreciation and amortisation on property, plant and equipment		21,960,751	20,023,262
Amortisation of intangible assets		461,030	521,276
Amortisation of goodwill		2,974,380	–
Impairment loss on the property held for redevelopment		5,500,000	–
Loss on disposal of property, plant and equipment		4,156,159	57,012
Operating cash flows before movements in working capital		243,359,418	93,382,700
(Increase) decrease in inventories		(32,311,161)	34,872,948
(Increase) decrease in trade and other receivables		(32,543,497)	21,630,878
Increase in amount due from a jointly controlled entity		(1,457,412)	(1,034,437)
Increase (decrease) in trade and other payables		38,238,731	(33,792,082)
(Decrease) increase in bills payable		(7,795,068)	8,136,604
Increase (decrease) in warranty provision		2,566,200	(343,000)
Cash generated from operations		210,057,211	122,853,611
Bank charges		(3,461,329)	(3,544,206)
Factoring charges		(219,461)	(302,701)
Overseas taxation paid		(6,005,337)	(6,428,620)
Hong Kong Profits Tax paid		(1,847,411)	(8,138,262)
Hong Kong Profits Tax refunded		328,422	–
Overseas taxation refunded		106,480	4,773,840
NET CASH GENERATED FROM OPERATING ACTIVITIES		198,958,575	109,213,662
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(19,196,633)	(31,963,058)
Acquisition of a subsidiary	28	(6,148,656)	–
Repayment from (advance to) a jointly controlled entity		6,625,150	(3,258,175)
Dividends received from associates		2,186,462	2,081,140
Interest received		1,430,910	2,693,857
Repayment of loan from an officer		450,000	–
Proceeds from disposal of property, plant and equipment		179,726	324,187
Repayment of loan by an associate		–	140,000,000
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		(14,473,041)	109,877,951



CONSOLIDATED CASH FLOW STATEMENT

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

	2002 HK\$	2001 HK\$
FINANCING ACTIVITIES		
Dividends paid	(78,808,980)	(113,070,857)
Repayment of bank loans	(13,332,000)	(47,991,743)
Interest paid on bank borrowings	(4,085,547)	(7,284,821)
Repayment of obligations under finance leases	(2,640,526)	(3,441,976)
Net cash outflow from trust receipt loans	(1,073,545)	(15,665,654)
Interest paid on finance leases	(251,127)	(441,303)
Proceeds from issue of shares	504,000	20,524,574
New bank loans raised	-	10,000,000
Repurchase of shares	-	(3,292,700)
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(99,687,725)	(160,664,480)
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,797,809	58,427,133
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	130,941,274	72,589,605
Effect of foreign exchange rate changes	312,181	(75,464)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, Representing bank balances, deposits and cash	<u>216,051,264</u>	<u>130,941,274</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

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>	-	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>

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>

NOTES TO THE FINANCIAL STATEMENTS

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2001

	Manufacture and sale of dyeing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Trading of machine parts and service income <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Eliminations <i>HK\$</i>	Consolidated <i>HK\$</i>
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>

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2001 (Continued)

CONSOLIDATED BALANCE SHEET

	Manufacture and sale of dyeing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Trading of machine parts and service income <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS					
Segment assets	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					<u>133,448,447</u>
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					<u>90,201,864</u>
Consolidated total liabilities					<u>214,625,306</u>

OTHER INFORMATION

	Manufacture and sale of dyeing machines <i>HK\$</i>	Trading of stainless steel supplies <i>HK\$</i>	Trading of machine parts and service income <i>HK\$</i>	Manufacture and sale of stainless steel casting products <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	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

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)	<u>415,182</u>	<u>425,911</u>

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
	<u>12,936,360</u>	<u>16,501,296</u>

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
	<u> </u>	<u> </u>

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

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
	<u>–</u>	<u>1</u>

7. FINANCE COSTS

	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
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
	<u>8,017,464</u>	<u>11,573,031</u>

No interest was capitalised by the Group during the year.

8. TAXATION

	2002	2001
	HK\$	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
	<u>36,617,378</u>	<u>7,100,142</u>

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	2001
	HK\$	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
	<u>61,978,592</u>	<u>31,673,833</u>
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
	<u>50,669,666</u>	<u>42,210,821</u>

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	<u>36,584,983</u>	<u>36,584,990</u>

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	<u>15,659,826</u>
AMORTISATION	
At January 1, 2002	15,024,425
Provided for the year	<u>461,030</u>
At December 31, 2002	<u>15,485,455</u>
CARRYING AMOUNTS	
At December 31, 2002	<u>174,371</u>
At December 31, 2001	<u>635,401</u>

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 HK\$'000	2001 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

	THE GROUP	
	2002 <i>HK\$</i>	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>

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

Financial position:

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

17. INVENTORIES

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

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 HK\$	2001 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 HK\$	2001 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

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21. WARRANTY PROVISION

HK\$

THE GROUP

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

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	<u>7,240,820</u>	<u>4,601,752</u>	7,240,820	4,601,752
Less: Amount due within one year shown under current liabilities			<u>(3,502,081)</u>	<u>(2,174,527)</u>
Amount due after one year			<u>3,738,739</u>	<u>2,427,225</u>

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
	<i>HK\$</i>	<i>HK\$</i>
Bank borrowings comprise the following:		
Trust receipt loans	53,474,600	54,548,145
Bank loans	10,825,500	24,157,500
	<u>64,300,100</u>	<u>78,705,645</u>
Secured	39,988,113	48,088,293
Unsecured	24,311,987	30,617,352
	<u>64,300,100</u>	<u>78,705,645</u>
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
	<u>64,300,100</u>	<u>78,705,645</u>
<i>Less:</i> Amount due within one year shown under current liabilities	<u>(63,468,600)</u>	<u>(67,880,145)</u>
Amount due after one year	<u>831,500</u>	<u>10,825,500</u>

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	<u>100,000,000</u>	<u>100,000,000</u>
<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	–	<u>(519,000)</u>
At end of the year, 562,996,285 (2001: 561,946,285) ordinary shares of HK\$0.10 each	<u>56,299,629</u>	<u>56,194,629</u>

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).

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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.

NOTES TO THE FINANCIAL STATEMENTS

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
	<u>96,222,853</u>	<u>92,556,439</u>

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	–	–
	<u>(7,000)</u>	<u>(178,000)</u>	<u>–</u>	<u>–</u>

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	–	–
	<u>(171,000)</u>	<u>430,300</u>	<u>–</u>	<u>–</u>

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)
	<u>6,148,656</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 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).

NOTES TO THE FINANCIAL STATEMENTS

FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

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

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

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

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.

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FONG'S INDUSTRIES COMPANY LIMITED

For the year ended December 31, 2002

	Year ended December 31,				2002 HK\$'000
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	
RESULTS					
Turnover	<u>381,806</u>	<u>485,295</u>	<u>922,877</u>	<u>758,336</u>	<u>1,142,419</u>
Profit from operations	16,586	55,743	146,690	72,781	208,307
Finance costs	(16,477)	(11,947)	(17,664)	(11,573)	(8,017)
Interest income	221	139	471	2,694	1,431
Impairment loss on loan to an associate	–	–	(4,967)	–	–
Share of results of associates	7,436	766	1,897	2,802	(19,025)
Share of results of a jointly controlled entity	–	–	307	3,379	24,773
Profit before taxation	7,766	44,701	126,734	70,083	207,469
Taxation charge (credit)	(2,770)	6,009	20,175	7,100	36,617
Profit before minority interests	10,536	38,692	106,559	62,983	170,852
Minority interests	(2,303)	(687)	–	–	965
Net profit for the year	<u>8,233</u>	<u>38,005</u>	<u>106,559</u>	<u>62,983</u>	<u>171,817</u>
As at December 31,					
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES					
Total assets	595,552	705,143	816,484	697,271	855,632
Total liabilities	(193,807)	(280,970)	(300,908)	(214,625)	(276,898)
Minority interests	(14,141)	(14,827)	(1,290)	(1,290)	(3,554)
Shareholders' funds	<u>387,604</u>	<u>409,346</u>	<u>514,286</u>	<u>481,356</u>	<u>575,180</u>



SUMMARY OF PROPERTY HELD FOR REDEVELOPMENT

FONG'S INDUSTRIES COMPANY LIMITED

Location	Category of lease	Site area	Nature of property	Percentage of interest in the property	Stage of completion
The site of Hung Hsin Factory Building, No.932 Cheung Sha Wan Road, Kowloon, Hong Kong	Medium term lease	535.67m ²	Factory site	51%	Building demolished and site cleared