Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31st December, 2002, the Group had a total consolidated turnover of HK$236,878,000. This represents an increase of more than 20%, as compared to the figure of HK$196,565,000 last year. The increase was mainly due to the optimistic economic growth in the Mainland China and the technical assistance provided from an associate to the Shenzhen factory.

At the same time, the Group's gross profit improved slightly from 35% in 2001 to 36% in 2002. This improvement in gross profit margin was due to the Group's effective control of production costs that resulted in lowering material usage and improvement in production efficiency.

The net profit attributable to shareholders for the year amounted to HK$36,640,000, compared to HK$34,666,000 in the previous year, while earnings per share for the year was HK16 cents (2001: HK17 cents).

REVIEW OF OPERATIONS

The Group's main operating subsidiaries are Manfield Coatings Company Limited ("Manfield") and Shenzhen Pinefield Chemical Enterprises Co., Ltd.. Manfield has specialised in producing world-class, high-quality industrial coatings under the Manfield brand name. They include stoving enamels for metal, plastic coatings and air-drying coatings, pad-printing inks, powder coatings, can coatings, special-pattern coatings and surface treatment agents, and paint removers. All are tailor made to meet the specific requirements of leading manufacturers in various industries, such as toys, audio equipment, domestic appliances, electrical appliances, lamps, clocks, candles and etc..

During the year, the Company had publicly listed its shares on The Stock Exchange of Hong Kong Limited on 30th April, 2002. The proceeds raised therefrom made it possible to increase production capacity. This, together with the development of the new products, enabled the Company to meet rising demand and generate a greater volume of sales.

A contribution to the year's results came from an associate, which utilises advanced technology to manufacture new products, such as coatings for mobile phones, non-stick and high-temperature-resistant coatings for kitchenware and has expanded its market by introducing new customers and products in the current year which had led to an increase in profit shared from this associate.

During the year, though the Group faced strong competition in the market, as well as the increased cost of raw materials, the Group has made effective responses to these factors. It maintained the tried and tested strategies of strengthening its management processes, consolidating and improving existing operations, and expanding production capacity to achieve growth. Moreover, it aimed at increasing customer value by ensuring prompt, reliable and effective service. In addition, it maintained close, on-site contact with customers, supplying technical support based on its expertise in paint manufacturing.

To further sharpen its competitive edge and increase the market share of its premium products, the Group has implemented a Total Quality Management (TQM) Scheme. This emphasises the development of better products and services through the constant growth and enhancement of the skills of its staff. Quality Improvement Groups have been formed, and employees are encouraged to make suggestion and implement improvement measures. The Group also adopted a proactive approach to learning from its business partners, so as to more fully satisfy their needs.

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OUTLOOK

The Group has a broad product portfolio and a strong customer base. Industrial coatings remain in great demand by various industries.

The level of competition is expected to increase, especially from local enterprises when markets open up following China's accession to the World Trade Organisation. However, as more manufacturers establish a presence in the Mainland China, the extent of the country's manufacturing base, and therefore the number of potential customers for the Group's products will likewise expand, boosting overall demand. The Group intends to maintain its strong position by continuing to anticipate and satisfy ever-changing demand with tailor-made coatings and prompt, reliable and flexible service.

The cost of raw materials will be affected by impact of the Iraq War, as most of them are petroleum based. The longer the War continues, the more likely the costs will rise. The conflict is also expected to have an adverse economic impact on Hong Kong, as well as on the global economic environment.

The Group will implement an Enterprise Resource Planning (ERP) system that will directly transfer data between the Hong Kong office and the Shenzhen factory. This will simplify and streamline onerous management processes, thus ensuring a smoother operation and faster response to customer needs.

The future positioning of the Group in the market will be to combine the advantages of economy of scale, strong management systems and strict quality control that customers expect from large manufacturers, with the more personalised, flexible and speedy response to their needs that are characteristic of smaller operations.

Prudent and steady growth will remain the Group's strategy in the future. It will expand its production capacity in line with demand, while taking advantage of every business opportunity that arises, in order to continue to create more innovative new products for customers.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2002, the Group had no borrowings outstanding. The Group has sufficient cash surplus to finance its operations from internally generated cashflow. The Group maintains a satisfactory financial position derived from steady growth of its business. As at 31st December, 2002, cash and bank deposits mainly in the form of Hong Kong dollars and Renminbi, held by the Group was approximately HK$67,992,000 (2001: HK$56,018,000).

The Group continues to adopt a prudent approach in funding and treasury policies. Transactions of the Group are mainly denominated in Hong Kong dollars and Renminbi. Though the Group has not engaged in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

CAPITAL EXPENDITURE

Capital expenditure for the year totalled approximately HK$7,767,000 (2001: HK$6,921,000). During the year, the Group invested approximately HK$3,000,000 for construction of factory, staff quarters and accommodation facilities, in the PRC. In addition, the Group also invested approximately HK$3,100,000 in new plant and machinery for the expansion of the Group's business.

CAPITAL EXPENDITURE *(continued)*

During the year, the Group also disposed of certain property, plant and equipment totaling HK$2,158,000 (2001: HK$3,163,000).

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2002, the Group had over 750 employees, including the management and administrative staff and production workers. Most of them were stationed in the Mainland China while the rest were in Hong Kong. The remuneration, promotion and salary increment of employees are assessed based on individual's performance, professional and working experience, and in accordance with prevailing industry practices.

USE OF THE PROCEEDS FROM THE INITIAL PUBLIC OFFER

After deducting the related expenses, the net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 30th April, 2002 amounted to approximately HK$28 million. These proceeds were applied during the year as follows:

– Approximately HK$3.1 million was used to purchase additional machinery to manufacture special coatings for houseware;

– Approximately HK$3.0 million was used to expand factory premises in the PRC;

– Approximately HK$9.4 million was used for technical development capability; and

– Approximately HK$6.0 million was used as additional working capital for the Group.

The Group intends to apply the remaining proceeds of approximately HK$6.5 million, which is currently placed in short term deposits with banks in Hong Kong, for the following purposes:

– Approximately HK$2.5 million for the expansion of factory premises in the PRC;

– Approximately HK$1.5 million for marketing of the Group's products in the PRC market; and

– Approximately HK$2.5 million for purchase of additional machinery.