



# Management *Discussion and Analysis*

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|---|--------------------|--|
| 1 | Cheng Kwok Woo     | <i>Chairman</i>                                    |
| 2 | Cheng Kwong Cheong | <i>Vice-chairman &amp; Chief Executive Officer</i> |
| 3 | Chan Yim Fan       | <i>Executive Director</i>                          |
| 4 | Cheng Wai Ying     | <i>Executive Director</i>                          |
| 5 | Chow Yin Kwang     | <i>Executive Director</i>                          |

### **BUSINESS REVIEW AND FINANCIAL PERFORMANCE**

The Group is primarily engaged in the manufacturing and sale of polishing compounds and polishing wheels under its own brand name **Pme**, and trading of various industrial abrasive products in Hong Kong and the PRC. The major market lies along the Pearl River Delta region in China including Hong Kong, which account for over 90% of the Group's turnover and profit contributions. There was no material change in the Group's business during the year.

The Group's turnover for the year ended 31st December, 2002 was approximately HK\$121.3 million, representing an increase of 1.9% as compared with last year. The increase in turnover is mainly attributable to the increase in sales to the PRC market. Net profit for the year ended 31st December, 2002 decreased slightly from HK\$26.0 million in 2001 to HK\$24.3 million mainly due to the increase in competition in the industry after China's accession to the WTO and the shrunken demand due to the sluggish conditions of all sectors in Hong Kong, in particular those of relevance to the industry of the Group. Additional selling and marketing expenses and other related costs have been incurred in order to maintain the turnover for the year.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's operations were generally financed by internally generated cash flow. For the year ended 31st December, 2002, cash generated from the Group's operations amounted to approximately HK\$30.4 million.

On 13th November, 2002, the Company issued and allotted 120,000,000 new shares at HK\$0.25 per share. Net proceeds from the public issue of new shares amounted to approximately HK\$23.6 million which have been retained by the Company as financing the Group's expansion of the sales and marketing network and set up representative offices in the PRC, improvement of the production facilities and the technical application centre of the Group, reduction of the Group's bank borrowings and application as general working capital for the Group.

At 31st December, 2002, the Group had interest-bearing bank borrowings of approximately HK\$26.7 million (31st December, 2001: HK\$39.1 million). Approximately HK\$11.7 million of the Group's bank borrowings were of maturity within one year. The directors expect that all the bank borrowings will be either renewed or rolled over upon the maturity and continue to provide funding to the Group's operations. The Group's leasehold land and buildings have been pledged to banks to secure the Group's bank borrowings.

At 31st December, 2002, the Group had current assets of approximately HK\$76.5 million (31st December, 2001: HK\$93.5 million). The Group's current ratio increased to 2.8 as at 31st December, 2002 from 1.8 as at 31st December, 2001. At 31st December, 2002, the Group had total assets of approximately HK\$192.2 million (31st December, 2001: HK\$212.8 million) and total liabilities of approximately HK\$42.5 million (31st December, 2001: HK\$57.1 million), representing a gearing ratio (measuring as total debts to total assets) of 22.1% as at 31st December, 2002 as compared with 26.8% as at 31st December, 2001.

The directors are of the opinion that there was no material change in the financial position of the Group during the year.

**CAPITAL STRUCTURE**

The capital structure of the Company only consists of share capital.

**FOREIGN EXCHANGE EXPOSURES**

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses are either in Hong Kong dollars or in Renminbi. As Hong Kong dollars have been pledged with US dollars, and the exchange rate of Renminbi against Hong Kong dollars is relatively stable, the Group has no material currency exchange risk exposures.

**CONTINGENT LIABILITIES**

At 31st December, 2002, the Company had contingent liabilities amounting to approximately HK\$25.0 million in respect of corporate guarantees given to banks regarding the banking facilities utilised by the subsidiaries.

At 31st December, 2002, the Group had no material contingent liabilities.

**CAPITAL COMMITMENTS**

Neither the Company nor the Group has material capital commitments as at 31st December, 2002.

**EMPLOYEES AND REMUNERATION**

At 31st December, 2002, the Group has employed approximately 350 employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

The Company also operates a share option scheme of which the directors may, at its discretion, grant options to employees of the Group for the recognition of their contributions to the Group. No options have been granted during the year ended 31st December, 2002.