

## Management Discussion and Analysis

### BUSINESS REVIEW

The results of the Group was affected by the changes in the automobile repair and maintenance market and the global economic recession.

Turnover and profits attributable to shareholders of the Group for the year ended 31st December, 2002 was RMB173,431,000 and RMB2,592,000 respectively, representing a respective decrease of 3.7% and 92% when compared with the corresponding period of last year.

Following the accession of the PRC into the WTO, the PRC automobile repair and maintenance market has been experiencing changes, and was transformed from a free market to planned development led by directive automobile plant (汽車指導廠). To cope with the changes in the market, the Group seeks collaboration with automobile plants. Due to the market changes, the overall market does not witness substantial growth. In addition, in order to seek collaboration with automobile plants, the overall gross profit margin decreased from 47% to 37%. The bad debt and inventory positions of the Group were also adversely affected by the market changes.

Due to the global economic recession, the turnover in overseas markets failed to achieve any growth. The Group actively explores overseas markets. The products of the Group are well received and widely recognized in the international market by global repair and maintenance companies, distributors and users and has gained high reputation internationally. The products of the Group are sold to more than 30 states in the US and the Group continues to explore other markets, especially the sales network in western US. The rise in expenditure due to the increase in overseas marketing activities and the economic recession has affected the Group's bad debt and inventory provisions.

Following the listing of the Group in the Stock Exchange, the related expenditure and professional fees increased when compared with the corresponding period last year.

The industrial surface treatment business of the Group grew substantially by 172%. However, it was not complemented by the growth in production capacity. This explained why the production of the RMB40,000,000 order received could only begin in 2003.

In an attempt to expand its production lines, the Group entered into an agreement for investment project with the Yancheng Economic Development Zone of Jiangsu Province on 2nd January, 2003. A total amount of RMB60,000,000 will be invested on the 3 projects to be developed within the Zone, namely the production lines of painting and coating, the production line for car wash system and the production of lacquer rooms for export. The 3 projects occupy a total site area of 200 mu. For details regarding the investment projects and the location of the land, please refer to the circular dated 27th January, 2003 and the announcement dated 24th April, 2003.

### DEVELOPMENT PROSPECT

In an attempt to improve results, the Group is now dedicating much effort to achieve the followings:

Rapidly expand the production sites to accommodate the production lines for surface treatment, endeavour to accelerate the completion of the projects undertaken according to the order received and further increase the sales volume and enhance the production efficiency.

## Management Discussion and Analysis

### **DEVELOPMENT PROSPECT** (continued)

Further expand the sales in overseas markets, in particular the sales in all the states in the US. Recover the market development cost incurred in the previous years as soon as possible.

Speed up the development of the project regarding the Computerized Cleaning Machines, and seek to commence the production of the machines in 2003 and turn it into an important business which can generate income growth by 2004.

Actively capture new business opportunities and search for rooms for development in the automobile inspection and manufacturing business. Committed to achieve a breakthrough and expand the Group's business in this year.

The technology regarding the automobile repair equipment business will further be upgraded and the sales will increase.

We are confident that the sales volume will increase and that the Group will be able to capture new business development opportunities in 2003.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31st December, 2002, the Group's total assets amounted to RMB258,283,000, representing a decrease of RMB15,738,000 as compared with last year. As at 31st December, 2002, the Group had bank balances and cash of RMB47,795,000 (2001: RMB34,646,000), and the bank loans amounted to RMB48,391,000 (2001: RMB34,500,000). The Group's bank borrowings were mainly secured by a charge on fixed deposits of RMB10,606,000 (2001: RMB1,614,000), the land use rights and buildings with a net book value of RMB32,614,000 (2001: RMB34,600,000) and a third party guarantee and the guarantee given by Directors.

Due to the market changes and the global economic recession, the bad debt provision and inventory provision made by the Group for the year amounted to RMB5,980,000 (2001: RMB4,643,000) and RMB2,198,000 (2001: RMB90,000) respectively. The income of the Group is mainly denominated in RMB and USD, while the borrowings are mainly denominated in HKD and RMB. The directors believe the exchange rates of HKD, RMB and USD are quite stable, accordingly, there is no significant exposure to foreign exchange rates fluctuation. The bank borrowings were at interest rates ranging from 5.625 per cent to 7.13 per cent per annum (2001: 6.44 per cent to 7.13 per cent per annum). As at 31st December, 2002, the debt to equity ratio of the Group was 34.5% (2001: 24.3%). The debt to equity ratio is computed on the basis of total bank borrowings divided by the shareholders' funds of the Group.

### **EMPLOYEE REMUNERATION POLICIES**

As at 31st December, 2002, the Group employed a total of 891 ranging from (2001: 885) full time employees.

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus and share option may be granted to eligible staff with reference to the Group's performance and individual performance. The Group also provides other benefits such as medical and retirement benefits to both the directors and employees.