

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name “*Pme*” and the trading of various branded industrial abrasive products. Over 90% of the Group’s turnover and profit were contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

The year 2003 was a challenging year. There were many unfavourable factors affecting the economy including increase in oil prices due to outbreak of war in the Middle East and the occurrence of SARS over Hong Kong and Mainland China during the first half-year. The Group has devised and implemented various strategies to manage the risks and to explore opportunities. The Group has achieved a remarkable performance in 2003. The Group’s turnover for the year 2003 has increased by 27.8% from approximately HK\$121.3 million in 2002 to approximately HK\$155.1 million. The net profit for the year under review was approximately HK\$30.6 million, representing an increase of 27.6% as compared with the net profit of approximately HK\$24.0 million in last year. The increase in turnover was mainly due to the development of new customer sectors and the enhancement of the quality of the Group’s products. During the year of 2003, the Group has invested over HK\$8 million during 2003 to improve its production facilities and the technical application center in Dongguan, China in order to meet the changing needs of the customers. The successful marketing plans together with additional input of resources for technical support services also increase the customers’ awareness of and confidence on the Group’s products and services.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st December, 2003, the Group had interest-bearing bank borrowings of approximately HK\$22.2 million (31st December, 2002: HK\$26.7 million), which were of maturity within one year. The directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group’s operations.

At 31st December, 2003, the Group’s leasehold land and buildings with aggregate carrying value of approximately HK\$104.3 million (31st December, 2002: HK\$101.9 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 31st December, 2003, current assets of the Group amounted to approximately HK\$82.8 million (31st December, 2002: HK\$76.5 million). The Group’s current ratio was approximately 2.19 as at 31st December, 2003 as compared with 2.80 as at 31st December, 2002. At 31st December, 2003, the Group had total assets of approximately HK\$204.2 million (31st December, 2002: HK\$192.3 million) and total liabilities of approximately HK\$42.8 million (31st December, 2002: HK\$47.2 million), representing a gearing ratio (measured as total liabilities to total assets) of 21.0% as at 31st December, 2003 as compared with 24.5% as at 31st December, 2002.

On 10th February, 2004, the Company placed 160,000,000 new shares at HK\$0.45 per share. Net proceeds from the placement of new shares amounted to approximately HK\$69.7 million after deducting the professional fees and all related expense will be applied as to approximately HK\$15 million to improve and expand the production facilities of the Group, as to approximately HK\$5 million to support the research and development of the Group’s products, as to approximately HK\$8 million to explore and

Management Discussion and Analysis (Continued)

develop the market for the Group in the eastern China, as to approximately HK\$5 million to reduce the Group's bank borrowings and the remaining of approximately HK\$36.7 million will be retained for future investment purposes as well as general working capital of the Group.

FOREIGN EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or 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 directors consider that the Group has no material currency exchange risk exposures.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st December, 2003 and 31st December, 2002.

CAPITAL COMMITMENTS

At 31st December, 2003, the Group had capital commitment of HK\$1,957,000 (2002: HK\$37,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

OUTLOOK

Mainland China is still heading for prosperous economic growth and development. The CEPA signed last year is definitely a "cardiac stimulant" for economic exchanges between Hong Kong and Mainland China. Spread of avian flu in the first quarter of 2004 slightly affected the economic growth. The management is optimistic for 2004 and the years after.

We plan to research and develop the best mixes of various polishing products and seek for advanced and new products in American and European markets in order to meet the increasing needs of various industries.

The Group has set up a representative office in Shanghai and will focus on development of the market in the Yangtze River Delta in Eastern China during 2004.

The placing of new shares of the Company in February 2004 has broadened the shareholders' base of the Company and provided additional funding for the Group to further improve its productivity and its market competitiveness. It also enables the Group to seek for suitable investment opportunities in China and overseas in order to diversify its product types and to increase the market share of the Group.

EMPLOYEES AND REMUNERATION

At 31st December, 2003, the Group had approximately 280 employees in Hong Kong and Mainland China. 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. No option has been granted since the adoption of the share option scheme.