

## BUSINESS REVIEW

Looking back on the year of 2002, the Group recorded gratifying results amid a sluggish world economy recovery and number of uncertainties such as the war in Iraq. Our customers in the USA and Europe market adopted conservative purchasing approaches in reducing their orders whilst Middle East market customers virtually stopped placing orders. Consequently, the turnover on fabric and PVC household products experienced slight decrease. The war in Gulf area leads to the increase in oil price which caused a substantial rise in the price of raw materials in the downstream products, particularly in PVC materials, PVC pellet and PVC resin. As a result, the profit margin in PVC pipes and fittings, building materials and PVC household products dropped accordingly. Despite such stringent economic environment, the Group's turnover and net profit for the year still achieved encouraging growths.

## RESULTS

During the year 2002, the Group's turnover and gross profit amounted to HK\$679,655,000 and HK\$130,732,000 respectively, representing an increase of 4.5% and 1.3% compared with last year. The increase was substantially attributable to the strong growth in turnover of PVC pipes and fittings products during the year. The turnover of household products was flat when compared with last year. On geographical basis, United States of America and Asia remained the dominant markets to the Group, which accounted for 45.8 % and 44.8 % of the Group's turnover respectively. China's accession to the World Trade Organisation ("WTO") sustained a rapid growth in demand of construction-related materials for basic infrastructure and construction of property. In consequence, the Group recorded a turnover of PVC pipes and fittings of HK\$239,405,000, representing an increase of 30% compared with last year (2001: HK\$ 184,145,000). The Group's gross profit margin was slightly decreased compared with last year. Net profit for the year amounted to HK\$42,028,000, representing an increase of 14% as compared to HK\$36,868,000 in last year. Basic earnings per share was 6.2 cents, representing an increase of 12.7% as compared to 5.5 cents in last year. The Board of Directors has resolved to recommend the payment of final dividend of 0.5 cent (2001: 0.5 cent) per share for the year ended 31 December 2002 payable to shareholders whose names appear on the Company's register of members on 26 May 2003. Together with the interim dividend of 0.5 cent (2001: 0.5 cent) per share already paid during the year, the total dividend for 2002 would be 1 cent (2001: 1 cent) per share.

## PROSPECTS

Having set the correct direction and maintained our steady pace of development, the Group has focused on core business development with continued efforts to accomplish best operating results and to optimise its operational scale. We have designated 2003 as our "Year of rapid progression". The Group aims to grasp the opportunities springing up in the markets of South and North America, Europe, Middle East, Asia and particularly in the PRC by speeding up our investment in production facilities and improving our efficiency so as to obtain a better profit return.

**PROSPECTS** *(Continued)*

In 2001, the Group's wholly owned subsidiaries, Nam Sok Building Material & Plastic Products (Changshu) Co., Ltd. ("NSBM") and Nam Sok Houseware Producing (Changshu) Co., Ltd. ("NSHW") invested HK\$6,200,000 to acquire a parcel of land for industrial use in Wangzhuang Zhen, Changshu City, Jiangsu Province, PRC. Further investment of HK\$24,161,000 was injected for construction of production plant, machinery and equipment in 2002. Production will commence when the phase I investment plan in respect of plant construction and machinery installation is completed in June 2003. NSBM's production capacity will then be about 10,000 tons per annum for the manufacturing of PVC pipes and fittings products which represents 30% of the total planned production capacity of NSBM of the overall development. Correspondingly, the production capacity of fabric and PVC household products of NSHW will be substantially enhanced.

According to the Group's refined development strategy, the Group will further invest HK\$200,000,000 in NSBM & NSHW in the three years period from 2003. Approximately HK\$42,000,000 will be utilised to accelerate the phase II and phase III plant construction and machinery installation of NSBM. This part of development is scheduled to be completed in 2004 with the total enhanced production capacity to 30,000 tons per annum.

The Group believes that China's accession into the WTO has sustained a rapid economic growth that drives the increase in demand for construction of roads, houses and mass transit systems. Certain large-scale construction projects in PRC such as the grand development strategy of Western Region, the South-to-North Water Transmission Engineering Project and the 2008 Olympic Game will bring enormous opportunities to the Group's PVC pipes and fittings division.

The Board will allot HK\$128,440,000 from our planned investment into NSHW of which approximately HK\$6,000,000 will be used to acquire a parcel of land of an area of approximately 90,000 m<sup>2</sup> adjacent to the existing plant site for industrial use, and approximately HK\$22,000,000 will be used for the construction of plant, and approximately HK\$100,000,000 will be utilised to acquire the production machinery for spinning, weaving, dyeing and calico printing so as to upgrade the Group's fabric products from purely downstream processing to new and modernised vertically integrated production manufacturing. Eventually, the fabric product quality will be improved, production craftsmanship be optimised, wastage rate be reduced and the competitiveness be strengthened. This part of new investment will be scheduled to commence production in 2004 and the whole investment will be completed in 2005. With the uplifting of quota restriction on fabric products in 2005, the Group is striving to grasp the business opportunities so as to achieve a better return and the increase of the Group's profits.

In view of the Group's proactive business strategy, the coming years will be extremely busy and challenging. The Directors foresee with optimism, baring unforeseen circumstances, a bright prospect for the Group and better return to shareholders.