

2003 was a difficult year with mixed economic conditions. In the first half of the year, the outbreak of SARS and the war in Iraq had severely dampened global and local economy. Although there was a strong economic rebound in the fourth quarter, the benefits were not fully reflected in all industries. The Group's results were adversely affected, particularly during the SARS period, but recovered gradually in the second half of the year.

### RESULTS

The Group incurred a net loss of HK\$173.33 million compared to a net loss of HK\$202.21 million (restated) in 2002. Whilst the paint business continued to contribute an operating profit of HK\$33.82 million, the other operations sustained losses amounting to HK\$192.03 million which included various impairments and provisions on the Group's assets of HK\$133.56 million. Selling and distribution costs and administrative expenses rose by 24.5% and 5.4% respectively mainly due to increased costs of fuel operation.

The Group's turnover for the year amounted to HK\$488.80 million (2002: HK\$409.26 million). The increase of 19.4% was mainly attributable to new revenue from its fuel manufacturing and trading business of HK\$86.33 million. The Group's gross profit fell by 3.8% to HK\$151.32 million (2002: HK\$157.34 million). The decrease was mainly caused by the provision for inventories of marble and granite operation and the reduced selling prices of paint products.

### OPERATIONS

#### Paint products

The operation reported a turnover of HK\$354.22 million, an increase of 6.1% from last year. Turnover in quantity registered a greater increase of 18.1% over the prior year, reaching a total of 17,818 tons (2002: 15,087 tons). During the year, the business environment remained tough as competition within the industry was increasingly intense. The gross profit margin fell to 40.9% (2002: 45.3%) mainly due to reduced selling prices and increased material costs. Relatively, the operating profit dropped by 26.2% to HK\$33.82 million (2002: HK\$45.83 million). The operation focused its business on the PRC market and achieved an increase of 21.6% in turnover over 2002. The Group will continue to focus on the PRC market and will set up new factories in Xuzhou and Shanghai to support the production in Shenzhen factory aiming to reduce production costs and strengthen sales network. As there is a demand in low pricing goods, the operation will develop suitable products to broaden its market share.

### Marble and granite

SARS had a severe impact on the marble and granite operation with many of its trading activities delayed or cancelled. The operation's turnover fell sharply to HK\$15.33 million (2002: HK\$44.90 million) and the operating loss was HK\$65.37 million for the year (2002: HK\$19.26 million). Overcast by low consumer sentiment, retail sales were far worst than last year. Project sales reduced significantly as the operation changed its business focus to trading. The operation restructured its management in the second half of the year to tighten control and increase marketing activities. The operation has established links in U.S.A. and Japan and will focus its trading activities in these two markets. As the uncertain economic conditions prevailed the industry during the year, general provisions for inventories and trade and other receivables amounting to HK\$36.33 million were set aside. It is expected that the market condition will remain harsh and the Group will keep a close eye on the progress of the business and address any adverse issues immediately.

### Quarry

The operation's results were in deficit due to poor management in the past. In October 2003, the Group took over full control of the quarry and strengthened its management with improved results recorded recently. It is expected that there will be large construction projects in the Pearl River Delta region in the coming years and a strong demand for stones will bring up the prices. The Group remains confident in this investment and anticipates it would achieve better results in 2004.

### Property investment

The property division reported a turnover of HK\$2.67 million (2002: HK\$2.39 million), an increase of 11.7% over last year. The operating loss of HK\$11.89 million (2002: HK\$37.27 million) was mainly attributable to the provision on a property in Hong Kong. Development projects in Hong Kong for land regrant are still under negotiations with the Hong Kong Government and projects in PRC are progressing on schedule. The project in Dalian is expected to start sales at the end of the year. The management is not optimistic on the Hong Kong market and will monitor its local investments cautiously. This may lead to gradual reduction of its portfolio to strengthen the Group's cashflow.

### Fuel

In 2002, the Group set up a production line in Singapore to manufacture environmental fuel for sales in Japan. The operation began sales in late 2002 through its sales network in Osaka and recorded steady growth with an annual revenue of HK\$86.33 million for the year (2002: HK\$15.20 million). In August 2003, the Japan Government implemented new regulations on the environmental fuel which adversely affected our business. The operation incurred a loss of HK\$1.84 million for the year (2002: HK\$11.64 million). The Group is aggressively improving its fuel formula to meet Japan requirements and sales are expected to resume in May 2004. The Group is also actively exploring business opportunities in PRC to increase revenue.

**Iron and steel trading**

Iron and steel trading in PRC recorded turnover of HK\$27.30 million (2002: HK\$12.89 million). The increase of 111.8% was attributable to increased efforts of the sales team and market demand. The operating profit was HK\$2.97 million (2002: HK\$0.45 million) for the year.

**Long term investments*****Auction house***

Since the change of business focus from online to traditional in-house auction services in 2002, the operation's business continued to record improvements in terms of success rate, premium rate and growth in the number of clients. In 2003, the operation successfully increased its revenue by 26.8% over last year and kept the operating expenses under tight control. However, the weak economy persisted and the operation's results, though better than last year, still sustained a consecutive loss. The results of recent months were encouraging and it is expected that the operation may turn into profit in 2004.

***Information technology***

The education web operation turned into profit for the year as remarkable improvements were recorded in turnover and reducing operational costs. In light of the uncertain economy ahead, the operation has postponed some of its development plans in PRC. As this will have a negative impact on future revenue, the Group made an impairment provision of HK\$9.70 million for this investment.

The web business in PRC that provides electronic market trading facilities recorded very poor results since commencement, particularly after the SARS incident. The Group has suspended the operation to avoid further losses.

***Environmental projects***

In December 2002, the Group set up a business in Chongqing with the exclusive right to use a U.S. patented technology "W Tech" applicable to the combustion engines of motor vehicles. W Tech is very environmentally friendly, as it not only reduces exhaust emissions significantly to meet with PRC environmental requirements, but also improves the engine performance and prolongs the engine lifespan. During the year, the technology has obtained successful testing reports from a national recognized testing center in Chongqing. The company has entered into contracts with various public and private transportation companies in Chongqing, Chengdu and Xian, using the technology to modify their vehicle fleets by stages. The business is expected to generate revenue in 2004.

The catalytic converter business recorded negative results for the year. The operation was frozen during the SARS attack and its predicted sales in Beijing and Shandong were lost. The business has been weak since commencement and we expect that this will continue in 2004. The Group has tightened its control on costs and will closely monitor the business.

### OUTLOOK

Although global economy showed signs of recovery in recent months, we expect that 2004 would be volatile and challenging as uncertain economic and political factors still exist. The local economy has benefited from the series of economic revival policies introduced by the Central Government of the PRC, CEPA in particular, and will recover gradually. With the challenging year ahead, the Group will remain cautious in formulating its investment strategies and managing its operations. The Group will focus on its paint operation whilst streamlining the non-performing sectors through tightening control on costs and exploring new revenue streams.

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