

INDUSTRY OVERVIEW

Investors should note that the statistics set out in this section relating to the polishing industry in Hong Kong and the PRC have been extracted from various private and/or government publications. However, current statistics on this subject are limited and most of the relevant statistics are derived from unofficial sources in respect of which no independent verification has been carried out. In addition, the market and economic conditions in the PRC since the dates on which the relevant statistics were made up may have changed significantly. The Company makes no representation as to the accuracy or completeness of the information, which may not be consistent with information compiled from other sources and accordingly, the information in this section may not be accurate and should not be relied upon.

BACKGROUND OF POLISHING INDUSTRY

Polishing is an important stage in the final stage of production of various products which enhances the surface of various products by means of metal removal. This process is done using abrasive belts, grinding wheels and other abrasive media to give a specific or desired finish which ranges from semi-bright to mirror-bright or high luster. The history of the polishing industry dates back more than 100 years. The application of abrasive products began during the establishment of mass industrial production in the 1900s. A study of the PRC Industrial Polishing and Equipment Yearbook of 1999 shows that the total worldwide output of abrasive products was approximately US\$8 billion in 1998. The usage of abrasive products is important to many different industries including metallic and non-metallic products, including, hollowware, cutlery and metal optical frame for metallic products and watch cases, plastic eyeglasses and acrylic decoration for non-metallic products.

TYPES OF ABRASIVE PRODUCTS

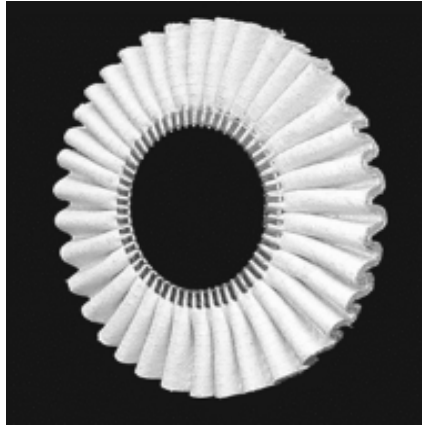
Polishing compounds



Polishing compounds are made up of two types of ingredients: abrasive and binder. Each ingredient is added to the binder to transmit a specific effect to the polishing compounds such as lubricity, degree of hardness, or improved adherence to a polishing wheel. There is a wide range of abrasives used in polishing compounds, such as aluminum oxide, silicon carbide, and tripoli, etc. The prime consideration in selecting a polishing compound is the substrate being buffed and the surface to be provided.

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Polishing wheels



Polishing wheels are wheels or discs made of natural or synthetic materials such as cotton, sisal or non-woven fabric which are used in various grinding, lapping and polishing processes. Different sizes of polishing wheels can be used on automatic and semi-automatic machines for the cutting and finishing operation of various materials and of different densities.

Other abrasive products

Other abrasive products include bonded abrasive products, coated abrasive products, non-woven abrasive products and products for dry tumbling barrel process, including grinding paste, polishing paste, shining paste, hard compound impregn and wooden chips. These products are used for the polishing and metal removal of different materials.

APPLICATION OF ABRASIVE PRODUCTS

The application of the various abrasive products such as polishing compounds and polishing wheels in the polishing process includes the achievement of a mirror finish for the work piece, sharp edges on watch bands and watch cases, the repelling of finger prints from satin finish surfaces, the removal of tiny blemishes on work pieces, the improvement of the luster of titanium, the reduction of heat buildup during the polishing of titanium, the avoidance of any deformation of the surface profile and also the maintenance of product quality.

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An abrasive is a small divided grain size and non-metallic hard particle having sharp edges and an irregular shape. It is used to smooth and polish work piece, such as in the processes of honing, lapping, buffing and polishing and are capable of removing small amounts of materials from the surface of products through a cutting process. Abrasives can be found in natural materials such as diamond, garnet, quartz or pumice. The most common synthetic types of abrasives are aluminum oxide, silicon carbide, boron nitride or cerium oxide. Abrasives in powder form are usually used in the following manners:

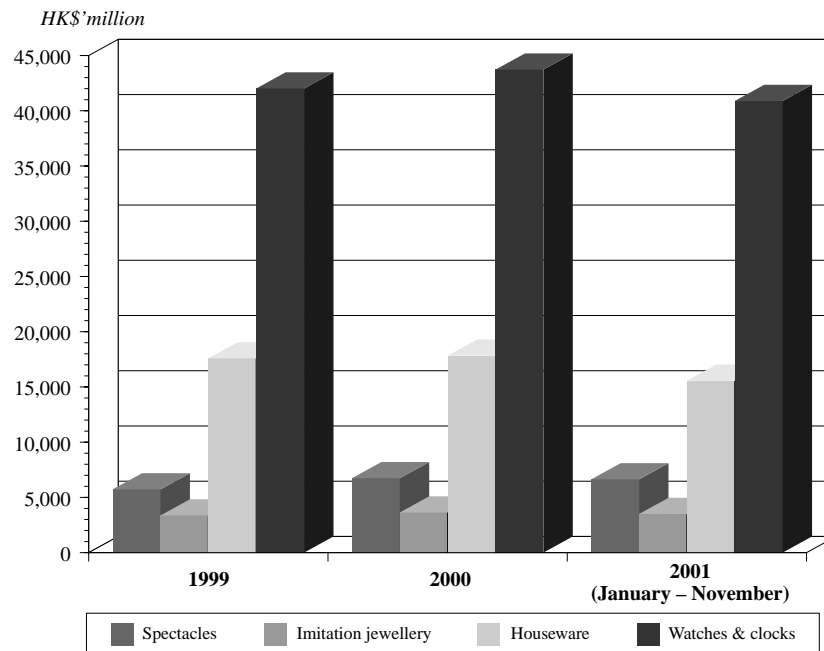
- (a) applied directly on a surface to be treated by mechanical pressure, such as polishing compounds;
- (b) affixed to a paper or textile backing after the particles have been coated with adhesive such as coated abrasive products for sand belt and sand paper;
- (c) mixed with bonding agents such as sodium silicate, rubber or polymer resin, the particles can be compressed into a wheel such as bonded abrasive products for grinding wheel and rubber bonding wheel; and
- (d) mixed with bonding agents and particles impregnated into non-woven fabrics to produce a variety of products for polishing wheels, discs, pads and rolls such as non-woven abrasive products.

POLISHING INDUSTRY IN HONG KONG

Despite the worldwide economic depression in 2001, the financial performance of the Group has only been slightly affected by the sluggish economy due to the limited number of abrasive products suppliers in Hong Kong. The products of the Group are supplied to the manufacturers of different metallic and non-metallic products in Hong Kong and the PRC. Since polishing is a necessary stage for a large number of consumer and industrial products, the Directors believe that the demand for polishing materials is closely related to the output of industrial products in Hong Kong, particularly for metallic products.

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As the polishing material market is a specialised industry in Hong Kong, there are no official records or statistics on the establishments or turnover relating to the polishing material industry in Hong Kong. Since polishing and surface finishing is one of the essential steps in the manufacturing of watches, jewellery, spectacles and houseware including tableware, kitchenware and cooking appliances, the demand for polishing materials can be deduced from the performance of the above industries in Hong Kong. Below is a chart showing the approximate amount of total export for the watches and clocks, spectacles, imitation jewellery and houseware industries in Hong Kong for the two years ended 31st December, 2000 and the period from January to November for the year 2001.



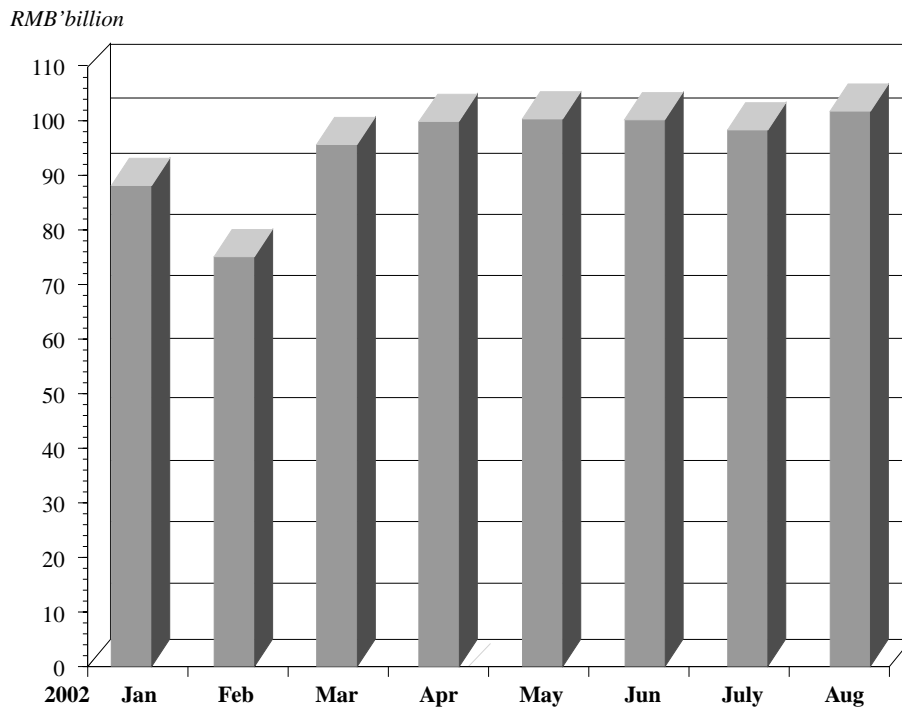
Source: Total exports of the Hong Kong major manufacturing industries published by the Hong Kong Trade Development Council

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POLISHING INDUSTRY IN THE PRC

With the PRC's accession to WTO in December 2001, the Directors expect that the demand for industrial products in the PRC will increase which may, in turn, create a demand for industrial polishing materials. The Directors believe that the polishing industry in the PRC mainly comprises of small to medium sized production plants. The Directors believe that since polishing is an important step in the production of different industrial products, it may be inferred that the demand for abrasive products in the PRC can be linked to the general industrial output of the PRC. The following chart shows the total output of the value added of the PRC's light industry in monetary terms for the period from January 2002 to August 2002.

**Total output of the PRC's light industry for
the period from January 2002 to August 2002**



Source: National Bureau of Statistics of China

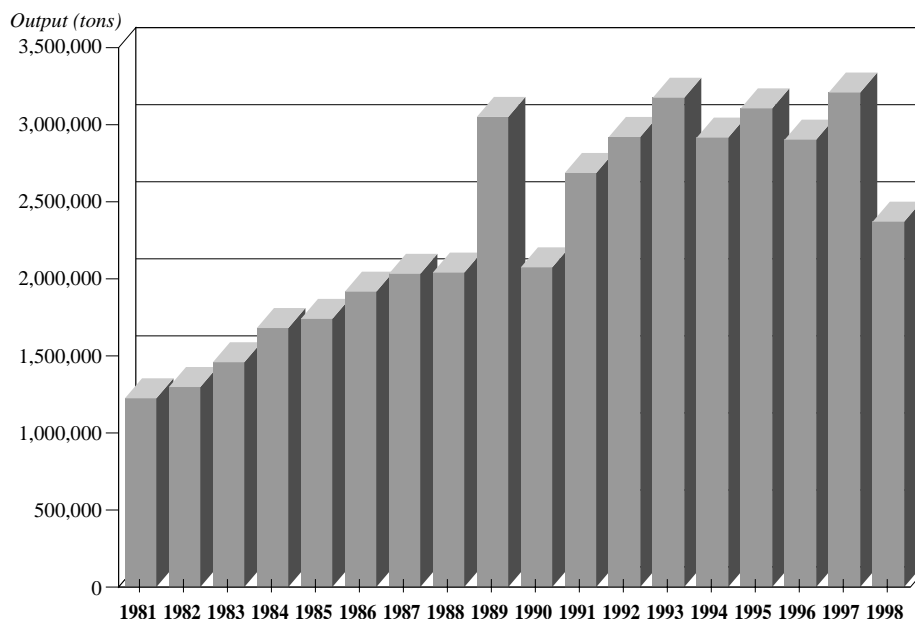
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According to the PRC Industrial Polishing Materials and Equipment Yearbook of 1999 (中國磨料磨具工業年鑒1999), the total general polishing materials produced by the PRC for the years 1996, 1997 and 1998 were approximately 280,150 tons, 320,877 tons and 224,880 tons respectively. The PRC Industrial Polishing Materials and Equipments Yearbook of 1999 shows that there were about 142 local enterprises in the PRC engaged in the production of polishing materials and abrasive products. However, most of them were principally engaged in the production of a single product, either in the production of polishing compounds, polishing wheels or abrasive materials. The Directors believe that there are only a few PRC companies engaging in the production of a variety of polishing materials and there were only about 15 local enterprises in the PRC whose turnover exceeded RMB50 million per year. Similarly, there are only a few companies in Hong Kong and the PRC which, like the Group, engage in the distribution of foreign brand name abrasive products covering medium and high-end customers.

The sales revenue of the polishing materials and the abrasive products industry in the PRC in 1998 was approximately RMB3,934 million as shown in the PRC Industrial Polishing Materials and Equipment Yearbook of 1999.

The following chart shows the total output of polishing materials and abrasive products of the PRC from 1981 to 1998.

Total output of polishing materials and abrasive products of the PRC from 1981 to 1998



Source: *The PRC Industrial Polishing Materials and Equipment Yearbook of 1999*