

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

As at the close of business on 31st August, 2002, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding secured bank borrowings of approximately HK\$37.5 million comprising bank loans of approximately HK\$35.9 million, overdrafts of approximately HK\$1.4 million and trust receipt loans of approximately HK\$0.2 million.

Contingent liabilities

As at the close of business on 31st August, 2002, the Group had contingent liabilities in respect of an unlimited corporate guarantee provided to a bank for the banking facilities granted to a related company. The guarantee has been released, without any liability to the Group, before the listing of the Shares on the Stock Exchange.

Security and guarantee

As at 31st August, 2002, the Group's banking facilities were secured by the following:

- (a) leasehold land and buildings of the Group;
- (b) corporate guarantees of certain subsidiaries of the Group;
- (c) investment property of a related company; and
- (d) joint and several guarantees of certain Directors.

Release of guarantees

The Group has obtained consents in principle from the relevant banks that all of (i) the legal charge on the investment property of a related company and (ii) the joint and several guarantees of certain Directors will be released and replaced by corporate guarantees from the Company and/or other members of the Group following the listing of the Shares on the Stock Exchange.

Disclaimers

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any outstanding loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31st August, 2002.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31st August, 2002.

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DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 to the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st August, 2002, being the latest practicable date for the purpose of this statement for the disclosure of balance sheet items, the Group had net current assets of approximately HK\$15.4 million. The current assets comprising bank balances and cash of approximately HK\$3.9 million, debtors, deposits and prepayments of approximately HK\$29.6 million, and inventories of approximately HK\$16.6 million. The current liabilities comprising bank loans, overdrafts, trust receipt loans of approximately HK\$18.0 million, creditors and accrued charges of approximately HK\$9.3 million, and taxation payable of approximately HK\$7.4 million.

Borrowings and banking facilities

The Group generally finances its operations with internally-generated cashflow and banking facilities provided by its principal bankers in Hong Kong and the PRC. As regards the financing of the Group's land and buildings, the Group relies on cashflow generated from operations and mortgage loans from its principal bankers.

As at 31st August, 2002, the Group had aggregate composite banking facilities of approximately HK\$45.9 million with various banks of which approximately HK\$37.5 million had been utilised.

Capital structure

Based on the unaudited combined management accounts of the Group as at 31st August, 2002, the Group had net assets of approximately HK\$114.0 million comprising non-current assets of approximately HK\$118.4 million including property, plant and equipment of approximately HK\$118.0 million and club debentures of approximately HK\$0.4 million, net current assets of approximately HK\$15.4 million, and long-term liabilities of approximately HK\$19.8 million.

WORKING CAPITAL

The Group services its debts primarily through cash generated from its operations. As at 31st August, 2002, the Group had an aggregate cash balance of approximately HK\$3.9 million, and after taking into consideration the available unutilised banking facilities and the net proceeds from the issue of the New Shares, the Directors are of the view that the Group has sufficient resources to meet its foreseeable capital expenditure and debt repayment requirements.

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DIRECTORS' OPINION OF THE NET CURRENT ASSET POSITION

Taking into consideration the financial resources available to the Group including internally generated funds, unutilised banking facilities and the net proceeds from the issue of the New Shares, the Directors are of the view that the Group has sufficient resources for its present requirements.

DIVIDENDS

The Group paid dividends in aggregate of approximately HK\$60 million out of the aggregate net profit attributable to shareholders of approximately HK\$65 million to the then shareholders of the members of the Group for the three years ended 31st December, 2001 and the three months ended 31st March, 2002. The payments of the dividends were financed by the internal resources of the Group.

TRADING RECORD

| | Year ended 31st December, | | | Three months ended |
|--|---------------------------|----------------------|----------------------|-----------------------|
| | 1999 | 2000 | 2001 | 31st March, 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 122,451 | 123,363 | 119,064 | 18,015 |
| Cost of sales | <u>(73,286)</u> | <u>(70,092)</u> | <u>(61,259)</u> | <u>(8,597)</u> |
| Gross profit | 49,165 | 53,271 | 57,805 | 9,418 |
| Other operating income | 2,096 | 1,067 | 2,064 | 161 |
| Selling and distribution costs | (4,187) | (4,217) | (3,180) | (448) |
| Administrative expenses | (25,249) | (24,961) | (23,585) | (5,564) |
| Revaluation (decrease) increase on leasehold land and buildings | <u>(694)</u> | <u>585</u> | <u>(183)</u> | <u>(39)</u> |
| Profit from operations | 21,131 | 25,745 | 32,921 | 3,528 |
| Finance costs | (1,738) | (2,960) | (2,258) | (632) |
| Share of results of an associate | <u>65</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Profit before taxation | 19,458 | 22,785 | 30,663 | 2,896 |
| Taxation | <u>(2,214)</u> | <u>(3,329)</u> | <u>(4,657)</u> | <u>(614)</u> |
| Profit for the year / period | <u><u>17,244</u></u> | <u><u>19,456</u></u> | <u><u>26,006</u></u> | <u><u>2,282</u></u> |
| Dividends | <u><u>—</u></u> | <u><u>—</u></u> | <u><u>5,000</u></u> | <u><u>55,000</u></u> |

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WAIVER ON THE LATEST FINANCIAL PERIOD REPORTED ON BY THE REPORTING ACCOUNTANTS UNDER THE LISTING RULES

Pursuant to Rule 8.06 of the Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. As indicated in the accountants' report, the text of which is set forth in Appendix I to this prospectus, the financial information of the Group has been audited up to 31st March, 2002. In order to comply strictly with the Listing Rules, this prospectus must be dated on or before 30th September, 2002.

Compliance with Rule 8.06 of the Listing Rules would require substantial work to be carried out for audit purposes within a short period of time. The Directors consider that the additional work and expenses involved may not be justified given that there has been no material adverse change in the financial position of the Group since the expiry of the period reported on the reporting accountants of the Group, the text of which is set forth in Appendix I to this prospectus.

The Company has sought and obtained a waiver from strict compliance with such requirement from the Stock Exchange. The Directors confirm that there has been no material adverse change in the financial position of the Group since 31st March, 2002 and up to the date of this prospectus, and that they are not aware of any event which would arise prior to the date of this prospectus that would materially affect the information shown in the accountants' report, the text of which is set forth in Appendix I to this prospectus.

SUMMARY OF COMBINED RESULTS OF THE GROUP

During the three years ended 31st December, 2001, the Group has experienced steady growth of profit. For the three years ended 31st December, 2001, the Group's profit attributable to shareholders increased by about 51.2% from approximately HK\$17.2 million for the year ended 31st December, 1999 to approximately HK\$26.0 million for the year ended 31st December, 2001. The Directors attribute the growth of profit to the expansion of the Group's customer base through its well established business relationships with customers, the experienced marketing team, the ability to source the products required by its customers, the expansion of the range of products and marketing resources used by the Group and success in the cost control.

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Year ended 31st December, 1999

Turnover for the year ended 31st December, 1999 amounted to approximately HK\$122.5 million. During this financial year, profit from operations amounted to approximately HK\$21.1 million and profit attributable to shareholders of the Group amounted to approximately HK\$17.2 million.

Manufacturing and trading of abrasive products and polishing equipment accounted for approximately 98.9% of the turnover and 93.5% of the profit from operations of the Group for the year ended 31st December, 1999 respectively. During the same financial year, turnover of the Group attributable to the provision of technical consultancy services provided by the Group amounted to approximately HK\$1.4 million.

The net profit attributable to shareholders of the Group was approximately HK\$17.2 million representing a net profit margin of approximately 14.1%.

Year ended 31st December, 2000

Turnover for the year ended 31st December, 2000 amounted to approximately HK\$123.4 million which represented a slight increase of approximately 0.73% over the previous year. During the same financial year, profit from operations amounted to approximately HK\$25.7 million and profit attributable to shareholders of the Group amounted to approximately HK\$19.5 million.

Manufacturing and trading of abrasive products and polishing equipment accounted for approximately 98.5% of the turnover and approximately 92.8% of the profit from operations of the Group for the year ended 31st December, 2000. With lowered costs of raw material during this financial year, the gross profit margin of the Group was increased from approximately 40.2% for the year ended 31st December, 1999 to approximately 43.2% for the year ended 31st December, 2000. During the year, the Group imposed various measures to control its administrative costs and expenses resulting in a reduction of approximately HK\$0.3 million. During the same financial year, turnover of the Group attributable to the provision of technical consultancy services provided by the Group amounted to approximately HK\$1.9 million.

The net profit attributable to shareholders of the Group was approximately HK\$19.5 million, representing a net profit margin of approximately 15.8%.

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Year ended 31st December, 2001

Due to the global economic recession in 2001, the Group's turnover for the year ended 31st December, 2001 decreased slightly. The turnover of the Group for the year ended 31st December, 2001 amounted to approximately HK\$119.1 million which represents a drop of approximately 3.5% from the previous year. However, the Group's effort and success in lowering the raw material costs enhanced the gross profit margin of the Group to approximately 48.6%. The increase of sales to the PRC market also contributed to the increase of the gross profit margin for the year. During this financial year, profit from operations amounted to approximately HK\$32.9 million and net profit attributable to shareholders of the Group amounted to approximately HK\$26.0 million.

Manufacturing and trading of abrasive products and polishing equipment accounted for approximately 98.7% of the turnover and 96.0% of the profit from operations of the Group for the year ended 31st December, 2001 respectively. During the same year, as a result of the Group's commitment to containing the cost of raw materials and the continuous increase of sales to the PRC market, the gross profit margin of the Group rose further from approximately 43.2% for the year ended 31st December, 2000 to approximately 48.5% for the year ended 31st December, 2001. During the same financial year, turnover of the Group attributable to the technical consultancy services provided by the Group amounted to approximately HK\$1.5 million.

The net profit attributable to shareholders of the Group was approximately HK\$26.0 million, representing a net profit margin of approximately 21.8%.

Three months ended 31st March, 2002

The turnover for the three months ended 31st March, 2002 amounted to approximately HK\$18.0 million which is relatively low in proportion to the turnover of approximately HK\$119.1 million for the year ended 31st December, 2001. The Directors believe that this decrease can be attributed to seasonal factors and the Chinese New Year holidays in February 2002.

The overall gross profit margin was increased from about 48.5% for the year ended 31st December, 2001 to about 52.3% for the three months ended 31st March, 2002 as a result of the increase in percentage of sales of the Group's manufactured products over the total turnover of the Group. The sales of the Group's manufactured products accounted for about 38.8% of the Group's total turnover in the year 2001 while the sales of the manufactured products accounted for about 53.4% of the Group's total turnover for the three months ended 31st March, 2002. As the manufactured products commanded a higher gross profit margin than the trading products, the overall gross profit margin of the Group was increased for the three months ended 31st March, 2002.

The net profit attributable to shareholders of the Group was approximately HK\$2.3 million, representing a net profit margin of approximately 12.7%.

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TAX RATE

The Group's income is principally subject to Hong Kong profits tax. Provisions for Hong Kong profits tax have been calculated at 16% on the estimated assessable profits for the three years ended 31st December, 2001 and the three months ended 31st March, 2002 respectively. Dongguan PME, the Group's subsidiary operated in the PRC, is subject to PRC income tax at the rate of 27% (24% enterprise income tax and 3% local income tax). No provision for PRC income tax has been made as Dongguan PME has not commenced to generate any assessable profits since its establishment.

For the three years ended 31st December, 2001 and the three months ended 31st March, 2002, the effective tax rates of the Group were approximately 11%, 15%, 15% and 21% respectively. The low effective tax rate of about 11% for the year ended 31st December, 1999 was mainly due to the timing differences in relation to the depreciation of fixed assets, manufacturing profits of a subsidiary not taxable under the concession practice of the Inland Revenue Department and the tax refund from the Inland Revenue Department. The high effective tax rate of about 21% for the three months ended 31st March, 2002 was mainly attributed to the loss incurred by the Company's subsidiary established in the PRC, which could not be utilised to set off the profits of other Group companies.

DISTRIBUTABLE RESERVES

As at 31st August, 2002 the Company had not yet commenced operation and had no reserves available for distribution to the Shareholders.

NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 31st March, 2002.

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PRO FORMA NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the combined net tangible assets of the Group as at 31st March, 2002 as shown in the accountants' report the text of which is set out in Appendix I to this prospectus and adjusted as follows:

| | <i>HK\$'000</i> |
|---|-------------------------|
| Audited combined net tangible assets of the Group as at 31st March, 2002 | 102,945 |
| Combined profit after taxation of the Group for the five months ended 31st August, 2002 based on its unaudited combined management accounts | 11,041 |
| Revaluation increase on the Group's leasehold land and buildings as at 31st August, 2002 (<i>Note 1</i>) | 1,026 |
| Estimated net proceeds from the issue of New Shares | <u>23,400</u> |
| Adjusted net tangible assets | <u><u>138,412</u></u> |
| Adjusted net tangible asset value per Share (<i>Note 2</i>) | <u><u>HK\$0.173</u></u> |

Notes:

1. Based on the revaluation performed by Castores Magi, an independent firm of professional valuers. Details of the valuation are set out in Appendix II to this prospectus. The revaluation increase will be incorporated into the Group's financial statements for the year ending 31st December, 2002. The revaluation increase includes a revaluation decrease of approximately HK\$247,000 in respect of the Group's leasehold land and buildings situated in Hong Kong.
2. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in this paragraph and on the basis of a total of 800,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 23rd October, 2002" under the section headed "Further information about the Company and its subsidiaries" in Appendix IV to this prospectus.

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PROPERTIES

Property valuation

Valuations of the property interests of the Group as at 31st August, 2002 have been undertaken by Castores Magi and the texts of its valuation letter, summary of values and valuation certificate are set out in Appendix II to this prospectus. Castores Magi has valued the Group's property interests as at 31st August, 2002 at approximately HK\$102.7 million.

Properties owned in Hong Kong

The Group owns the following properties in Hong Kong:

- Units A, B, C and D on 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.
- Van Parking Spaces nos. 1 and 8 and Lorry Parking Spaces nos. 23 and 29 on 1st Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.

Properties owned in the PRC

The Group owns the following property in the PRC:

- various buildings erected on two adjoining parcels of land located at No. 18 First High-Tech Road, High-Tech Industrial Zone, Xinlian Zhen, Humen Town, Dongguan City, Guangdong Province, the PRC.