

The following is the text of a report for the purpose of incorporation in this prospectus received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

31st October, 2002

The Directors
PME Group Limited
Emperor Capital Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding PME Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31st December, 2001 and the three months ended 31st March, 2002 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 31st October, 2002 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (Law 3 of 1961 as consolidated and revised) of the Cayman Islands on 27th February, 2002. Pursuant to a group reorganisation as more fully explained in the paragraph headed “Group reorganisation” in the section headed “Further information about the Company and its subsidiaries” in Appendix IV to the Prospectus (the “Group Reorganisation”), the Company has become the holding company of the companies comprising the Group since 23rd October, 2002.

As at the date of this report, the particulars of the Company’s wholly-owned subsidiaries, all of which are companies with limited liability and are indirectly held by the Company except for PME International (BVI) Company Limited, which is directly held by the Company, are as follows:

| Name of company | Place and date of incorporation/ registration | Issued and fully paid share capital/ registered capital | Principal activities |
|--------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------------------|
| Fook Cheong Ho International (BVI) Limited | British Virgin Islands 15th October, 1996 | Ordinary shares US\$3 | Investment holding and trading of polishing materials and equipment |

| Name of company | Place and date of incorporation/ registration | Issued and fully paid share capital/ registered capital | Principal activities |
|-------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Fook Cheong Ho International Limited | Hong Kong 8th December, 1989 | 5% non-voting deferred shares HK\$300,000 (<i>note</i>) Ordinary shares HK\$30 | Trading of polishing materials and equipment |
| Hong Kong Polishing Materials & Equipments Co., Limited | Hong Kong 10th May, 1985 | Ordinary shares HK\$1,200,000 | Inactive |
| PME Abrasive Products Limited | Hong Kong 31st December, 1997 | Ordinary shares HK\$1,000,000 | Trading of abrasive materials |
| PME Industrial Limited | Hong Kong 26th May, 1989 | Ordinary shares HK\$800,000 | Manufacturing and trading of polishing materials |
| PME International (BVI) Company Limited | British Virgin Islands 15th October, 1996 | Ordinary shares US\$30,000 | Investment holding |
| PME International Company Limited | Hong Kong 23rd December, 1961 | 5% non-voting deferred shares HK\$19,200,000 (<i>note</i>) Ordinary shares HK\$1,000 | Investment holding and trading of polishing materials and equipment |
| Shun Tien (H.K.) Mechanical Co. Limited | Hong Kong 1st November, 1988 | Ordinary shares HK\$60,000 | Trading of polishing equipment |
| Unison Base Investment Limited | Hong Kong 26th February, 1998 | Ordinary shares HK\$1,000,000 | Investment holding and property investment |
| 東莞必美宜拋光材料器材 有限公司 Dongguan PME Polishing Materials & Equipment Co., Ltd. | People's Republic of China ("PRC") 3rd July, 1993 | Registered capital HK\$40,000,000 | Manufacturing and trading of polishing materials |

Note: The 5% non-voting deferred shares of HK\$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK\$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.

No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried on any business, other than the transactions related to the Group Reorganisation. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company since its date of incorporation to the date of this report.

The statutory financial statements of 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) (“Dongguan PME”) for each of the three years ended 31st December 2001 were prepared in accordance with relevant accounting principles and financial regulations applicable to wholly foreign owned enterprises established in the PRC and were audited by 東莞市眾泰會計師事務所有限公司 (Dongguan City Hoet Certified Public Accountants Co., Ltd.). No PRC audited financial statements have been issued for the three months ended 31st March, 2002.

Messrs. Lam & Chow, Certified Public Accountants, audited the financial statements of the companies now comprising the Group for each of the two years ended 31st December, 2000. In respect of Dongguan PME, Messrs. Lam and Chow have audited, in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, the financial statements of Dongguan PME for each of the two years ended 31st December, 2000 prepared in accordance with accounting principles generally accepted in Hong Kong.

We have acted as auditors of all the companies now comprising the Group other than Dongguan PME for the year ended 31st December, 2001. For the purposes of this report, we have performed independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants in respect of the combined management accounts of the companies now comprising the Group for the three months ended 31st March, 2002. In respect of Dongguan PME, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants on the management accounts of Dongguan PME for the year ended 31st December, 2001 and for the three months ended 31st March, 2002 prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited financial statements or, where necessary, the management accounts (“Underlying Financial Statements”) of the companies comprising the Group for the Relevant Periods, or since their relevant dates of incorporation/registration to 31st March, 2002, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The financial information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements of the companies comprising the Group, on the basis of presentation set out in section 1 below, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved for their issue. The directors of the Company are also responsible for the contents of Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in section 1 below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 1999, 2000 and 2001 and 31st March, 2002 and of the combined results and cash flows of the Group for each of the three years ended 31st December, 2001 and the three months ended 31st March, 2002.

A. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

| | Notes | Year ended 31st December, | | | Three months ended |
|--------------------------------------------------------------------|-------|---------------------------|-------------------|-------------------|--------------------|
| | | 1999 | 2000 | 2001 | 31st March, 2002 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 3 | 122,451 | 123,363 | 119,064 | 18,015 |
| Cost of sales | | (73,286) | (70,092) | (61,259) | (8,597) |
| Gross profit | | 49,165 | 53,271 | 57,805 | 9,418 |
| Other operating income | 4 | 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 | | (694) | 585 | (183) | (39) |
| Profit from operations | 5 | 21,131 | 25,745 | 32,921 | 3,528 |
| Finance costs | 6 | (1,738) | (2,960) | (2,258) | (632) |
| Share of results of an associate | | 65 | — | — | — |
| Profit before taxation | | 19,458 | 22,785 | 30,663 | 2,896 |
| Taxation | 7 | (2,214) | (3,329) | (4,657) | (614) |
| Profit for the year/period | | <u>17,244</u> | <u>19,456</u> | <u>26,006</u> | <u>2,282</u> |
| Dividends | 8 | <u>—</u> | <u>—</u> | <u>5,000</u> | <u>55,000</u> |
| Earnings per share – basic (HK cents) | 9 | <u>2.54 cents</u> | <u>2.86 cents</u> | <u>3.82 cents</u> | <u>0.34 cent</u> |

COMBINED BALANCE SHEETS

| | Notes | As at 31st December, | | | As at |
|------------------------------------------|-------|----------------------|------------------|------------------|---------------------------------|
| | | 1999 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 31st March, 2002 HK\$'000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 111,193 | 115,911 | 118,916 | 117,659 |
| Interest in an associate | 12 | 565 | — | — | — |
| Club debentures | | 350 | 350 | 350 | 350 |
| | | <u>112,108</u> | <u>116,261</u> | <u>119,266</u> | <u>118,009</u> |
| Current assets | | | | | |
| Inventories | 13 | 19,191 | 22,048 | 17,489 | 15,566 |
| Debtors, deposits and prepayments | 14 | 34,641 | 27,225 | 33,412 | 24,131 |
| Amount due from ultimate holding company | 15 | — | — | 40,715 | — |
| Amounts due from related companies | 16 | 509 | 6,070 | — | — |
| Amounts due from shareholders | 17 | 6,579 | 18,478 | — | — |
| Taxation recoverable | | 187 | 141 | — | — |
| Bank balances and cash | | 9,202 | 2,850 | 1,892 | 2,779 |
| | | <u>70,309</u> | <u>76,812</u> | <u>93,508</u> | <u>42,476</u> |
| Current liabilities | | | | | |
| Creditors and accrued charges | 18 | 13,779 | 15,946 | 12,407 | 10,896 |
| Amounts due to shareholders | 19 | 33,310 | 7,431 | — | — |
| Amount due to an associate | | 30 | — | — | — |
| Taxation payable | | 1,262 | 2,679 | 5,200 | 5,461 |
| Obligations under finance leases | 20 | 200 | 200 | — | — |
| Secured bank borrowings | 21 | 6,655 | 19,800 | 33,019 | 18,578 |
| | | <u>55,236</u> | <u>46,056</u> | <u>50,626</u> | <u>34,935</u> |
| Net current assets | | <u>15,073</u> | <u>30,756</u> | <u>42,882</u> | <u>7,541</u> |
| Total assets less current liabilities | | <u>127,181</u> | <u>147,017</u> | <u>162,148</u> | <u>125,550</u> |

| | Notes | As at 31st December, | | | As at |
|----------------------------------|-------|----------------------|----------------|----------------|----------------|
| | | 1999 | 2000 | 2001 | 31st March, |
| | | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | | HK\$'000 |
| Non-current liabilities | | | | | |
| Obligations under finance leases | 20 | 217 | 17 | — | — |
| Secured bank borrowings | 21 | 19,463 | 17,665 | 6,057 | 22,176 |
| Loans from shareholders | 22 | 7,200 | 7,200 | — | — |
| | | <u>26,880</u> | <u>24,882</u> | <u>6,057</u> | <u>22,176</u> |
| Deferred taxation | 23 | 723 | 429 | 429 | 429 |
| | | <u>99,578</u> | <u>121,706</u> | <u>155,662</u> | <u>102,945</u> |
| Capital and reserves | | | | | |
| Paid-in capital | 24 | 234 | 234 | 234 | 234 |
| Reserves | 25 | 99,344 | 121,472 | 155,428 | 102,711 |
| | | <u>99,578</u> | <u>121,706</u> | <u>155,662</u> | <u>102,945</u> |

COMBINED STATEMENTS OF RECOGNISED GAINS AND LOSSES

| | Year ended 31st December, | | | Three | |
|-----------------------------------------------------------|---------------------------|---------------|---------------|---------------|--------------|
| | 1999 | 2000 | 2001 | months | |
| | HK\$'000 | HK\$'000 | HK\$'000 | ended | |
| | | | | 31st March, | |
| | | | | 2002 | |
| | | | | HK\$'000 | |
| Net gains not recognised in the combined income statement | | | | | |
| Revaluation increase of land and buildings | | 1,946 | 2,672 | 5,750 | 1 |
| Profit for the year/period | | <u>17,244</u> | <u>19,456</u> | <u>26,006</u> | <u>2,282</u> |
| Total recognised gains | | <u>19,190</u> | <u>22,128</u> | <u>31,756</u> | <u>2,283</u> |

COMBINED CASH FLOW STATEMENTS

| | Notes | Year ended 31st December, | | | Three months ended |
|-----------------------------------------------------------------------|-------|---------------------------|-----------------|-----------------|--------------------|
| | | 1999 | 2000 | 2001 | 31st March, 2002 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Operating activities | | | | | |
| Cash generated by operations | 26 | 25,494 | 32,095 | 39,103 | 14,668 |
| Interest paid | | (1,670) | (2,886) | (2,178) | (632) |
| Interest on obligations under finance leases | | (68) | (74) | (80) | — |
| Hong Kong Profits Tax paid | | (1,735) | (2,160) | (2,060) | (353) |
| Hong Kong Profits Tax refunded | | — | — | 65 | — |
| Net cash from operating activities | | <u>22,021</u> | <u>26,975</u> | <u>34,850</u> | <u>13,683</u> |
| Investing activities | | | | | |
| Interest received | | 917 | 249 | 387 | 1 |
| Purchase of property, plant and equipment | | (3,012) | (6,581) | (2,955) | (190) |
| Proceeds from disposal of property, plant and equipment | | — | — | 34 | — |
| Acquisition of a subsidiary, net of cash and cash equivalent acquired | 27 | — | (454) | — | — |
| (Advance to) repayment from shareholders | | (6,579) | (11,809) | 18,478 | — |
| (Advance to) repayment from ultimate holding company | | — | — | (40,715) | 40,715 |
| Net cash (used in) from investing activities | | <u>(8,674)</u> | <u>(18,595)</u> | <u>(24,771)</u> | <u>40,526</u> |

| | <i>Note</i> | 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> |
| Financing activities | | | | | |
| New bank loans raised | | 4,805 | 12,662 | 18,950 | 16,508 |
| Repayment of bank loans | | (1,397) | (1,663) | (19,781) | (11,995) |
| Repayment of obligations under finance leases | | (200) | (200) | (217) | — |
| Repayment of advances from shareholders | | (17,777) | (25,879) | (7,431) | — |
| Dividend paid | | — | — | (5,000) | (55,000) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in financing activities | | <u>(14,569)</u> | <u>(15,080)</u> | <u>(13,479)</u> | <u>(50,487)</u> |
| Net (decrease) increase in cash and cash equivalents | | (1,222) | (6,700) | (3,400) | 3,722 |
| Cash and cash equivalents at beginning of the year/period | | <u>10,372</u> | <u>9,150</u> | <u>2,450</u> | <u>(950)</u> |
| Cash and cash equivalents at end of the year/period | 28 | <u><u>9,150</u></u> | <u><u>2,450</u></u> | <u><u>(950)</u></u> | <u><u>2,772</u></u> |

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The combined income statements, combined statements of recognised gains and losses and combined cash flow statements include the results and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their dates of incorporation where this is a shorter period except for the acquisition of an additional 50% equity interest in the issued capital of PME Abrasive Products Limited by the Group, the results and cash flows of which was accounted for from the date when it became a subsidiary. The combined balance sheets of the Group as at 31st December, 1999, 2000 and 2001 and 31st March, 2002 have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at those dates except for the acquisition of an additional 50% equity interest in the issued share capital of PME Abrasive Products Limited by the Group, the assets and liabilities of which were accounted for from the date when it became a subsidiary.

All significant intra-group transactions and balances are eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The financial information have been prepared under the historical cost convention as modified for revaluation of land and buildings.

The principal accounting policies which have been adopted in preparing these financial information set out in this report and which conform with accounting principles generally accepted in Hong Kong are set out below:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than land and buildings and construction in progress are stated at cost less depreciation and amortisation and identified impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

Construction in progress is stated at cost, less any identified impairment loss. Cost includes land costs, all developments expenditures and other direct costs including borrowing costs capitalised attributable to such projects. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Cost of completed construction work is transferred to appropriate category of property, plant and equipment.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment other than the construction in progress over their estimated useful lives and after taking into account their residual value, using the straight line method, as follows:

| | |
|-------------------------------------|-------------------------------------------------------|
| Leasehold land | Over the term of the relevant lease |
| Buildings | Over the shorter of the term of leases or 50 years |
| Other property, plant and equipment | 3 to 10 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the combined results.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the terms of relevant leases.

Interest in associate

The combined income statement includes the Group's share of the post-acquisition result of its associate for the year. In the combined balance sheet, interest in associate are stated at the Group's share of the net assets of the associate, less any identified impairment loss.

Club debentures

Club debentures are stated at cost less identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable costs of conversion and, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

Retirement benefit costs

The contribution payable to the Group's retirement benefit schemes and mandatory provident fund scheme are charged to the income statement.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the combined income statement.

On combination, the operations of overseas subsidiaries which are denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on combination are dealt with in reserves.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in outflow of economic benefits that can be reasonably estimated.

Taxation

The charge for taxation is based on the results for the year/period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions: manufacturing, trading and technical service. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Manufacturing – manufacture of abrasive products, polishing compounds and polishing wheels
- Trading – trading of polishing materials and polishing equipment
- Technical service – provision of technical consultancy service

Segment information about these businesses is presented below.

Turnover and segment information for the year ended 31st December, 1999

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|---------------------------------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| TURNOVER | | | | |
| External sales | <u>36,701</u> | <u>84,344</u> | <u>1,406</u> | <u>122,451</u> |
| RESULT | | | | |
| Segment result | <u>9,296</u> | <u>9,076</u> | <u>1,357</u> | 19,729 |
| Other operating income | | | | 2,096 |
| Revaluation decrease in leasehold land and buildings | | | | <u>(694)</u> |
| Profit from operations | | | | 21,131 |
| Finance costs | | | | (1,738) |
| Share of results of an associate | | | | <u>65</u> |
| Profit before taxation | | | | 19,458 |
| Taxation | | | | <u>(2,214)</u> |
| Profit for the year | | | | <u>17,244</u> |

Balance sheet as at 31st December, 1999

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-----------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| ASSETS | | | | |
| Segment assets | 116,994 | 42,370 | 531 | 159,895 |
| Interest in an associate | | | | 565 |
| Unallocated corporate assets | | | | <u>21,957</u> |
| Consolidated total assets | | | | <u><u>182,417</u></u> |
| LIABILITIES | | | | |
| Segment liabilities | 3,621 | 5,661 | 87 | 9,369 |
| Unallocated corporate liabilities | | | | <u>73,470</u> |
| Consolidated total liabilities | | | | <u><u>82,839</u></u> |

OTHER INFORMATION

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| Capital additions | 1,878 | 1,115 | 19 | 3,012 |
| Depreciation and amortisation | 3,141 | 1,248 | 21 | 4,410 |

Turnover and segment information for the year ended 31st December, 2000

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|---------------------------------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| TURNOVER | | | | |
| External sales | <u>55,105</u> | <u>66,362</u> | <u>1,896</u> | <u>123,363</u> |
| RESULT | | | | |
| Segment result | <u>13,694</u> | <u>8,562</u> | <u>1,837</u> | 24,093 |
| Other operating income | | | | 1,067 |
| Revaluation increase in leasehold land and buildings | | | | <u>585</u> |
| Profit from operations | | | | 25,745 |
| Finance costs | | | | <u>(2,960)</u> |
| Profit before taxation | | | | 22,785 |
| Taxation | | | | <u>(3,329)</u> |
| Profit for the year | | | | <u><u>19,456</u></u> |

Balance sheet as at 31st December, 2000

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-----------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| ASSETS | | | | |
| Segment assets | 128,173 | 33,361 | 622 | 162,156 |
| Unallocated corporate assets | | | | <u>30,917</u> |
| Consolidated total assets | | | | <u><u>193,073</u></u> |
| LIABILITIES | | | | |
| Segment liabilities | 5,067 | 4,989 | 116 | 10,172 |
| Unallocated corporate liabilities | | | | <u>61,195</u> |
| Consolidated total liabilities | | | | <u><u>71,367</u></u> |

OTHER INFORMATION

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| Capital additions | 6,007 | 558 | 16 | 6,581 |
| Depreciation and amortisation | 4,122 | 962 | 28 | 5,112 |

Turnover and segment information for the year ended 31st December, 2001

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|---------------------------------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| TURNOVER | | | | |
| External sales | <u>46,168</u> | <u>71,366</u> | <u>1,530</u> | <u>119,064</u> |
| RESULT | | | | |
| Segment result | <u>15,884</u> | <u>13,851</u> | <u>1,305</u> | 31,040 |
| Other operating income | | | | 2,064 |
| Revaluation decrease in leasehold land and buildings | | | | <u>(183)</u> |
| Profit from operations | | | | 32,921 |
| Finance costs | | | | <u>(2,258)</u> |
| Profit before taxation | | | | 30,663 |
| Taxation | | | | <u>(4,657)</u> |
| Profit for the year | | | | <u><u>26,006</u></u> |

Balance sheet as at 31st December, 2001

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-----------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| ASSETS | | | | |
| Segment assets | 128,198 | 39,678 | 560 | 168,436 |
| Unallocated corporate assets | | | | <u>44,338</u> |
| Consolidated total assets | | | | <u><u>212,774</u></u> |
| LIABILITIES | | | | |
| Segment liabilities | 3,164 | 6,371 | 70 | 9,605 |
| Unallocated corporate liabilities | | | | <u>47,507</u> |
| Consolidated total liabilities | | | | <u><u>57,112</u></u> |

OTHER INFORMATION

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| Capital additions | 2,106 | 831 | 18 | 2,955 |
| Depreciation and amortisation | 4,581 | 903 | 19 | 5,503 |

Turnover and segment information for the three months ended 31st March, 2002

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|---------------------------------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| TURNOVER | | | | |
| External sales | <u>9,626</u> | <u>8,199</u> | <u>190</u> | <u>18,015</u> |
| RESULT | | | | |
| Segment result | <u>2,581</u> | <u>647</u> | <u>178</u> | 3,406 |
| Other operating income | | | | 161 |
| Revaluation decrease in leasehold land and buildings | | | | <u>(39)</u> |
| Profit from operations | | | | 3,528 |
| Finance costs | | | | <u>(632)</u> |
| Profit before taxation | | | | 2,896 |
| Taxation | | | | <u>(614)</u> |
| Profit for the period | | | | <u><u>2,282</u></u> |

Balance sheet as at 31st March, 2002

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-----------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| ASSETS | | | | |
| Segment assets | 128,234 | 25,918 | 398 | 154,550 |
| Unallocated corporate assets | | | | <u>5,935</u> |
| Consolidated total assets | | | | <u><u>160,485</u></u> |
| LIABILITIES | | | | |
| Segment liabilities | 3,567 | 5,378 | 48 | 8,993 |
| Unallocated corporate liabilities | | | | <u>48,547</u> |
| Consolidated total liabilities | | | | <u><u>57,540</u></u> |

OTHER INFORMATION

| | Manufacturing <i>HK\$'000</i> | Trading <i>HK\$'000</i> | Technical service <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|-------------------------------|-----------------------------------------|-----------------------------------|-------------------------------------------------|------------------------------------|
| Capital additions | 183 | 7 | — | 190 |
| Depreciation and amortisation | 1,152 | 251 | 6 | 1,409 |

GEOGRAPHICAL SEGMENTS

The Group's operations are located in Hong Kong and the PRC. The Group's trading divisions are mainly located in Hong Kong. Manufacturing and technical service are carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of customers:

| | Sales revenue by geographical market | | | | Contribution to profit from operations | | | |
|-----------------------------------------------------------------|---------------------------------------|----------------|----------------|---------------|----------------------------------------|---------------|---------------|--------------|
| | | | | | Three months ended | | | |
| | Year ended 31st December, 31st March, | | | | Year ended 31st December, 31st March, | | | |
| | 1999 | 2000 | 2001 | 2002 | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 104,974 | 95,493 | 73,764 | 14,119 | 16,744 | 17,192 | 18,227 | 2,675 |
| The PRC | 4,903 | 14,655 | 34,037 | 3,288 | 1,360 | 3,737 | 9,525 | 649 |
| Other Asian countries | 6,183 | 5,451 | 5,918 | 139 | 762 | 1,268 | 1,606 | 6 |
| North America and Europe | 4,146 | 3,669 | 2,611 | 184 | 434 | 742 | 691 | 16 |
| Others countries | 2,245 | 4,095 | 2,734 | 285 | 429 | 1,154 | 991 | 60 |
| | <u>122,451</u> | <u>123,363</u> | <u>119,064</u> | <u>18,015</u> | 19,729 | 24,093 | 31,040 | 3,406 |
| Other operating income | | | | | 2,096 | 1,067 | 2,064 | 161 |
| Revaluation (decrease) increase on leasehold land and buildings | | | | | (694) | 585 | (183) | (39) |
| Profit from operations | | | | | <u>21,131</u> | <u>25,745</u> | <u>32,921</u> | <u>3,528</u> |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | | | Additions to property, plant and equipment | | | |
|-----------|---------------------------------------|----------------|----------------|----------------|--------------------------------------------|--------------|--------------|------------|
| | | | | | Three months ended | | | |
| | Year ended 31st December, 31st March, | | | | Year ended 31st December, 31st March, | | | |
| | 1999 | 2000 | 2001 | 2002 | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 79,752 | 86,946 | 103,023 | 52,822 | 1,115 | 558 | 831 | 7 |
| The PRC | 102,665 | 106,127 | 109,751 | 107,663 | 1,897 | 6,023 | 2,124 | 183 |
| | <u>182,417</u> | <u>193,073</u> | <u>212,774</u> | <u>160,485</u> | <u>3,012</u> | <u>6,581</u> | <u>2,955</u> | <u>190</u> |

4. OTHER OPERATING INCOME

| | Year ended 31st December, | | 31st March, | |
|----------------------------|---------------------------|--------------|--------------|------------|
| | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest income from banks | 280 | 86 | 27 | — |
| Other interest income | 637 | 163 | 360 | 1 |
| Sundry income | 1,179 | 818 | 1,677 | 160 |
| | <u>2,096</u> | <u>1,067</u> | <u>2,064</u> | <u>161</u> |

5. PROFIT FROM OPERATIONS

| | Year ended 31st December, | | 31st March, | |
|------------------------------------------------------------------|---------------------------|---------------|---------------|--------------|
| | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit from operations is arrived at after charging (crediting): | | | | |
| Auditors' remuneration | 200 | 199 | 418 | 110 |
| Depreciation and amortisation | | | | |
| owned assets | 4,150 | 4,852 | 5,503 | 1,409 |
| assets held under finance leases | 260 | 260 | — | — |
| Loss (gain) on disposal of property, plant and equipment | 2 | 8 | (20) | — |
| Staff costs inclusive of directors' remuneration | 18,260 | 17,549 | 15,799 | 3,556 |
| | <u>18,260</u> | <u>17,549</u> | <u>15,799</u> | <u>3,556</u> |

6. FINANCE COSTS

| | Year ended 31st December, | | 31st March, | |
|----------------------------------------------------------------|---------------------------|--------------|--------------|------------|
| | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest on bank borrowings wholly repayable within five years | 1,094 | 2,310 | 2,178 | 632 |
| Interest on obligations under finance leases | 68 | 74 | 80 | — |
| Interest on loans from shareholders | 576 | 576 | — | — |
| | <u>1,738</u> | <u>2,960</u> | <u>2,258</u> | <u>632</u> |

7. TAXATION

| | Year ended 31st December, | | | Three months ended |
|--------------------------------------|---------------------------|--------------|--------------|--------------------|
| | 1999 | 2000 | 2001 | 31st March, 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| The charge comprises: | | | | |
| Hong Kong Profits Tax | | | | |
| current year | 2,937 | 3,673 | 4,603 | 614 |
| (over)underprovision | | | | |
| in prior year | (56) | (50) | 54 | — |
| tax credit | (443) | — | — | — |
| Deferred taxation (<i>note 23</i>) | (224) | (294) | — | — |
| | <u>2,214</u> | <u>3,329</u> | <u>4,657</u> | <u>614</u> |

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the Relevant Periods referred to in this report.

There is no significant unprovided deferred taxation during the Relevant Periods and as at 31st December, 1999, 2000 and 2001 and 31st March, 2002.

Deferred tax has not been provided on the revaluation increase or decrease arising on the revaluation of land and buildings as profit arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

8. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

During the Relevant Periods, the following company had paid or declared dividends, to its then shareholders, prior to the Group reorganisation, as follows (after elimination of intra-group dividends):

| | Year ended 31st December, | | | Three months ended |
|--------------------------------------------|---------------------------|----------|--------------|--------------------|
| | 1999 | 2000 | 2001 | 31st March, 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| PME International (BVI) Company Limited | <u>—</u> | <u>—</u> | <u>5,000</u> | <u>55,000</u> |

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year/period during the Relevant Periods and on the 680,000,000 shares in issue and issuable during those periods comprising 1,000,000 shares in issue as at the date of the Prospectus and 679,000,000 shares to be issued pursuant to the capitalisation issue as described more fully in the paragraph headed "Written resolutions of all the Shareholders passed on 23rd October, 2002" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV to the Prospectus ("Capitalisation Issue") on the assumption that the issue of shares of the Company upon the Group Reorganisation and Capitalisation Issue had been completed on 1st January, 1999.

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Director's remunerations paid by the Group to the directors for the Relevant Periods referred to in this report are as follows:

| | Year ended 31st December, | | | Three months ended |
|---------------------------------------------------------------------------|---------------------------|--------------|--------------|--------------------|
| | 1999 | 2000 | 2001 | 31st March, 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fees | — | — | — | — |
| Basic salaries, housing allowances, other allowances and benefits in kind | 2,755 | 2,850 | 2,829 | 690 |
| Bonus | 222 | 193 | 223 | 56 |
| Pension | 186 | 189 | 221 | 55 |
| | <u>3,163</u> | <u>3,232</u> | <u>3,273</u> | <u>801</u> |

The remunerations of the directors were within the following bands:

| | Year ended 31st December, | | | Three months ended |
|----------------------|---------------------------|----------|----------|--------------------|
| | 1999 | 2000 | 2001 | 31st March, 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Nil to HK\$1,000,000 | <u>9</u> | <u>9</u> | <u>9</u> | <u>9</u> |

During the Relevant Periods, no remunerations were paid or payable to independent non-executive directors of the Company.

The five highest paid individuals of the Group included 4 directors for the year ended 31st December, 1999; 3 directors for the year ended 31st December, 2000, 4 directors for the year ended 31st December, 2001 and 4 directors for the three months ended 31st March, 2002, details are set out above. The remunerations of the remaining 1 individuals for the year ended 31st December, 1999, 2 individuals for the year ended 31st December, 2000, 1 individual for the year ended 31st December, 2001 and 1 individual for the three months ended 31st March, 2002 were as follows:

| | Year ended 31st December, | | 31st March, | |
|---------------------------------------------------------------------------------|---------------------------|--------------|-------------|-----------|
| | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Basic salaries, housing allowances, other allowances and benefits in kind | 694 | 1,213 | 618 | 91 |
| Pension | 26 | 49 | 17 | 4 |
| | <u>720</u> | <u>1,262</u> | <u>635</u> | <u>95</u> |

The remunerations of the employees were within the following bands:

| | Year ended 31st December, | | 31st March, | |
|----------------------|---------------------------|----------|-------------|----------|
| | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Nil to HK\$1,000,000 | <u>1</u> | <u>2</u> | <u>1</u> | <u>1</u> |

During the Relevant Periods, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any remunerations during the Relevant Periods.

11. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK\$'000 | Construction in progress HK\$'000 | Plant and machinery HK\$'000 | Leasehold improvements, and furniture and fixtures HK\$'000 | Motor vehicles HK\$'000 | Yachts HK\$'000 | Total HK\$'000 |
|--------------------------------------|------------------------------------------------|--------------------------------------------|---------------------------------------|-------------------------------------------------------------------------|-------------------------------|--------------------|-------------------|
| COST OR VALUATION | | | | | | | |
| At 1st January, 1999 | 45,780 | 48,340 | 14,989 | 6,330 | 3,436 | 1,317 | 120,192 |
| Additions | — | — | 457 | 2,228 | 327 | — | 3,012 |
| Disposals | — | — | — | (3) | (368) | — | (371) |
| Transfer | 11,714 | (11,714) | — | — | — | — | — |
| Revaluation increase | 80 | — | — | — | — | — | 80 |
| At 31st December, 1999 | <u>57,574</u> | <u>36,626</u> | <u>15,446</u> | <u>8,555</u> | <u>3,395</u> | <u>1,317</u> | <u>122,913</u> |
| Cost | — | 36,626 | 15,446 | 8,555 | 3,395 | 1,317 | 65,339 |
| Valuation | <u>57,574</u> | — | — | — | — | — | <u>57,574</u> |
| | <u>57,574</u> | <u>36,626</u> | <u>15,446</u> | <u>8,555</u> | <u>3,395</u> | <u>1,317</u> | <u>122,913</u> |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1st January, 1999 | — | — | 2,551 | 3,807 | 1,835 | 658 | 8,851 |
| Provided for the year | 1,172 | — | 1,302 | 1,291 | 513 | 132 | 4,410 |
| Eliminated on revaluation | (1,172) | — | — | — | — | — | (1,172) |
| Eliminated on disposals | — | — | — | (1) | (368) | — | (369) |
| At 31st December, 1999 | <u>—</u> | <u>—</u> | <u>3,853</u> | <u>5,097</u> | <u>1,980</u> | <u>790</u> | <u>11,720</u> |
| NET BOOK VALUES | | | | | | | |
| At 31st December, 1999 | <u>57,574</u> | <u>36,626</u> | <u>11,593</u> | <u>3,458</u> | <u>1,415</u> | <u>527</u> | <u>111,193</u> |
| COST OR VALUATION | | | | | | | |
| At 1st January, 2000 | 57,574 | 36,626 | 15,446 | 8,555 | 3,395 | 1,317 | 122,913 |
| Additions | — | 223 | 1,843 | 3,706 | 809 | — | 6,581 |
| Disposals | (17) | — | — | (246) | — | — | (263) |
| Transfer | 36,849 | (36,849) | — | — | — | — | — |
| Revaluation increase | 1,495 | — | — | — | — | — | 1,495 |
| At 31st December, 2000 | <u>95,901</u> | <u>—</u> | <u>17,289</u> | <u>12,015</u> | <u>4,204</u> | <u>1,317</u> | <u>130,726</u> |
| Cost | — | — | 17,289 | 12,015 | 4,204 | 1,317 | 34,825 |
| Valuation | <u>95,901</u> | — | — | — | — | — | <u>95,901</u> |
| | <u>95,901</u> | <u>—</u> | <u>17,289</u> | <u>12,015</u> | <u>4,204</u> | <u>1,317</u> | <u>130,726</u> |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1st January, 2000 | — | — | 3,853 | 5,097 | 1,980 | 790 | 11,720 |
| Provided for the year | 1,774 | — | 1,500 | 941 | 765 | 132 | 5,112 |
| Eliminated on disposals | (12) | — | — | (243) | — | — | (255) |
| Eliminated on revaluation | (1,762) | — | — | — | — | — | (1,762) |
| At 31st December, 2000 | <u>—</u> | <u>—</u> | <u>5,353</u> | <u>5,795</u> | <u>2,745</u> | <u>922</u> | <u>14,815</u> |
| NET BOOK VALUES | | | | | | | |
| At 31st December, 2000 | <u>95,901</u> | <u>—</u> | <u>11,936</u> | <u>6,220</u> | <u>1,459</u> | <u>395</u> | <u>115,911</u> |

| | Leasehold land and buildings HK\$'000 | Construction in progress HK\$'000 | Leasehold Plant and machinery HK\$'000 | improvements, and furniture and fixtures HK\$'000 | Motor vehicles HK\$'000 | Yachts HK\$'000 | Total HK\$'000 |
|-------------------------------|------------------------------------------------|--------------------------------------------|----------------------------------------------------|------------------------------------------------------------|-------------------------------|--------------------|-------------------|
| COST OR VALUATION | | | | | | | |
| At 1st January, 2001 | 95,901 | — | 17,289 | 12,015 | 4,204 | 1,317 | 130,726 |
| Additions | 445 | — | 830 | 1,061 | 619 | — | 2,955 |
| Disposals | — | — | (38) | — | (497) | — | (535) |
| Transfer | 3,689 | — | — | (3,689) | — | — | — |
| Revaluation increase | 2,985 | — | — | — | — | — | 2,985 |
| | <u>103,020</u> | <u>—</u> | <u>18,081</u> | <u>9,387</u> | <u>4,326</u> | <u>1,317</u> | <u>136,131</u> |
| At 31st December, 2001 | 103,020 | — | 18,081 | 9,387 | 4,326 | 1,317 | 136,131 |
| Cost | — | — | 18,081 | 9,387 | 4,326 | 1,317 | 33,111 |
| Valuation | 103,020 | — | — | — | — | — | 103,020 |
| | <u>103,020</u> | <u>—</u> | <u>18,081</u> | <u>9,387</u> | <u>4,326</u> | <u>1,317</u> | <u>136,131</u> |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1st January, 2001 | — | — | 5,353 | 5,795 | 2,745 | 922 | 14,815 |
| Provided for the year | 2,582 | — | 1,654 | 316 | 820 | 131 | 5,503 |
| Eliminated on disposals | — | — | (24) | — | (497) | — | (521) |
| Eliminated on revaluation | (2,582) | — | — | — | — | — | (2,582) |
| | <u>—</u> | <u>—</u> | <u>6,983</u> | <u>6,111</u> | <u>3,068</u> | <u>1,053</u> | <u>17,215</u> |
| At 31st December, 2001 | — | — | 6,983 | 6,111 | 3,068 | 1,053 | 17,215 |
| NET BOOK VALUES | | | | | | | |
| At 31st December, 2001 | <u>103,020</u> | <u>—</u> | <u>11,098</u> | <u>3,276</u> | <u>1,258</u> | <u>264</u> | <u>118,916</u> |
| COST OR VALUATION | | | | | | | |
| At 1st January, 2002 | 103,020 | — | 18,081 | 9,387 | 4,326 | 1,317 | 136,131 |
| Additions | 42 | — | 49 | 15 | 84 | — | 190 |
| Revaluation decrease | (554) | — | — | — | — | — | (554) |
| | <u>102,508</u> | <u>—</u> | <u>18,130</u> | <u>9,402</u> | <u>4,410</u> | <u>1,317</u> | <u>135,767</u> |
| At 31st March, 2002 | 102,508 | — | 18,130 | 9,402 | 4,410 | 1,317 | 135,767 |
| Cost | — | — | 18,130 | 9,402 | 4,410 | 1,317 | 33,259 |
| Valuation | 102,508 | — | — | — | — | — | 102,508 |
| | <u>102,508</u> | <u>—</u> | <u>18,130</u> | <u>9,402</u> | <u>4,410</u> | <u>1,317</u> | <u>135,767</u> |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1st January, 2002 | — | — | 6,983 | 6,111 | 3,068 | 1,053 | 17,215 |
| Provided for the period | 516 | — | 434 | 234 | 192 | 33 | 1,409 |
| Eliminated on revaluation | (516) | — | — | — | — | — | (516) |
| | <u>—</u> | <u>—</u> | <u>7,417</u> | <u>6,345</u> | <u>3,260</u> | <u>1,086</u> | <u>18,108</u> |
| At 31st March, 2002 | — | — | 7,417 | 6,345 | 3,260 | 1,086 | 18,108 |
| NET BOOK VALUES | | | | | | | |
| At 31st March, 2002 | <u>102,508</u> | <u>—</u> | <u>10,713</u> | <u>3,057</u> | <u>1,150</u> | <u>231</u> | <u>117,659</u> |

| | As at 31st December, | | | As at |
|----------------------------------------------------------------|----------------------|---------------|----------------|----------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| The carrying amounts of leasehold land and buildings comprise: | | | | |
| Land in Hong Kong | | | | |
| Medium-term lease | 14,770 | 15,060 | 14,870 | 14,750 |
| Land outside Hong Kong | | | | |
| Medium-term lease | 42,804 | 80,841 | 88,150 | 87,758 |
| | <u>57,574</u> | <u>95,901</u> | <u>103,020</u> | <u>102,508</u> |
| Property, plant and equipment held under finance leases | <u>412</u> | <u>152</u> | <u>—</u> | <u>—</u> |

The leasehold land and buildings of the Group in Hong Kong and outside Hong Kong were revalued by the Company's directors at 31st December, 1999 and 2000 on an open market existing use basis, and by Messrs. Castores Magi Surveyors Limited, an independent registered professional surveyors, at 31st December, 2001 and 31st March, 2002 on an open market existing use basis.

If the leasehold land and buildings of the Group in Hong Kong and outside Hong Kong had not been revalued, they would have been included on a historical cost basis at the following amounts:

| | As at 31st December, | | | As at |
|-------------------------------------------|----------------------|---------------|---------------|---------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Cost | 57,976 | 94,808 | 98,942 | 98,983 |
| Accumulated depreciation and amortisation | (3,991) | (5,698) | (8,057) | (8,573) |
| Net book values | <u>53,985</u> | <u>89,110</u> | <u>90,885</u> | <u>90,410</u> |

12. INTEREST IN AN ASSOCIATE

| | As at 31st December, | | | As at |
|---------------------|----------------------|----------|----------|-------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Share of net assets | <u>565</u> | <u>—</u> | <u>—</u> | <u>—</u> |

As at 31st December, 1999, the amount represented the Group's share of 50% net assets of PME Abrasive Products Limited, a company incorporated in Hong Kong which engaged in trading of abrasive products.

During the year ended 31st December, 2000, the Group had acquired an additional 50% equity interests in the issued share capital of the associate which became a subsidiary of the Group.

13. INVENTORIES

| | As at 31st December, | | | As at |
|-----------------------------------------------|----------------------|---------------|---------------|---------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Raw materials | 5,426 | 7,323 | 4,733 | 5,194 |
| Work in progress | 204 | 138 | 261 | 226 |
| Finished goods | 13,561 | 14,587 | 12,495 | 10,146 |
| | <u>19,191</u> | <u>22,048</u> | <u>17,489</u> | <u>15,566</u> |
| Inventories stated at net realisable value | <u>—</u> | <u>—</u> | <u>672</u> | <u>705</u> |

14. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 60 to 90 days to its trade customers.

In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

An aged analysis of trade debtors is as follows:

| | As at 31st December, | | | As at |
|--------------------------------------------|----------------------|---------------|---------------|---------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Within 30 days | 9,812 | 9,637 | 16,322 | 7,180 |
| Between 31 to 60 days | 7,584 | 7,044 | 7,091 | 2,021 |
| Between 61 to 90 days | 4,832 | 1,602 | 4,481 | 4,604 |
| Over 90 days | 6,933 | 5,564 | 3,672 | 7,170 |
| | <u>29,161</u> | <u>23,847</u> | <u>31,566</u> | <u>20,975</u> |
| Other debtors, deposits and prepayments | <u>5,480</u> | <u>3,378</u> | <u>1,846</u> | <u>3,156</u> |
| | <u>34,641</u> | <u>27,225</u> | <u>33,412</u> | <u>24,131</u> |

15. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount due from ultimate holding company is unsecured, interest free and is fully repaid during the three months ended 31st March, 2002.

16. AMOUNTS DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies are as follows:

| Name of related entity | Maximum | | Maximum | | Maximum | | Maximum | |
|----------------------------|------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------|---------------------------------------------|----------------------------------------------------------|
| | Outstanding as at 31st December, 1999 | amount during the year ended 31st December, 1999 | Outstanding as at 31st December, 2000 | amount during the year ended 31st December, 2000 | Outstanding as at 31st December, 2001 | amount during the year ended 31st December, 2001 | Outstanding as at 31st March, 2002 | amount during the period ended 31st March, 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| PME Management Limited | — | — | 46 | 46 | — | 46 | — | — |
| Panical Investment Limited | 310 | 310 | 5,825 | 5,825 | — | 5,825 | — | — |
| Fulltrade China Limited | 9 | 9 | 9 | 9 | — | 9 | — | — |
| Fook Cheong Ho Limited | 190 | 287 | 190 | 190 | — | 190 | — | — |
| | <u>509</u> | | <u>6,070</u> | | <u>—</u> | | <u>—</u> | |

The amounts due from related companies are unsecured, interest free and are repayable on demand. The amounts have been fully settled during the year ended 31st December, 2001.

Messrs. Cheng Kwok Woo and Cheng Kwong Cheong, directors and shareholders of the Company, have beneficial interests in all of the above companies and Ms. Cheng Wai Ying, a director and shareholder of the Company, has beneficial interest in Panical Investment Limited and Fook Cheong Ho Limited.

17. AMOUNTS DUE FROM SHAREHOLDERS

Particulars of amounts due from shareholders, are as follows:

| Name of related entity | Maximum | | Maximum | | Maximum | | Maximum | |
|--------------------------|------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------|---------------------------------------------|----------------------------------------------------------|
| | Outstanding as at 31st December, 1999 | amount during the year ended 31st December, 1999 | Outstanding as at 31st December, 2000 | amount during the year ended 31st December, 2000 | Outstanding as at 31st December, 2001 | amount during the year ended 31st December, 2001 | Outstanding as at 31st March, 2002 | amount during the period ended 31st March, 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Mr. Cheng Kwok Woo * | 2,193 | 2,193 | 6,008 | 6,008 | — | 6,008 | — | — |
| Mr. Cheng Kwong Cheong * | 2,183 | 2,183 | 6,009 | 6,009 | — | 6,009 | — | — |
| Ms. Cheng Wai Ying * | 2,183 | 2,183 | 6,009 | 6,009 | — | 6,009 | — | — |
| Mr. Hsu Tien Fu | 6 | 6 | 144 | 144 | — | 144 | — | — |
| Olig Limited | 8 | 8 | 180 | 180 | — | 180 | — | — |
| Mr. Charles Woo * | 6 | 6 | 6 | 6 | — | 6 | — | — |
| Ms. Chan Yim Fan * | — | — | 60 | 60 | — | 60 | — | — |
| Mr. Yu Tsung Chen | — | — | 62 | 62 | — | 62 | — | — |
| | <u>6,579</u> | | <u>18,478</u> | | <u>—</u> | | <u>—</u> | |

The amounts due from shareholders are unsecured, interest free and are repayable on demand. The amounts have been fully settled during the year ended 31st December, 2001.

* Being directors of the Company.

18. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

| | As at 31st December, | | | As at |
|-------------------------------------|----------------------|---------------|---------------|---------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| Within 30 days | 6,835 | 3,885 | 6,190 | 2,719 |
| Between 31 to 60 days | 1,205 | 2,654 | 1,970 | 952 |
| Between 61 to 90 days | — | 1,664 | 1,446 | 1,041 |
| Over 90 days | 1,329 | 1,969 | 17 | 4,279 |
| | <u>9,369</u> | <u>10,172</u> | <u>9,623</u> | <u>8,991</u> |
| Other creditors and accrued charges | 4,410 | 5,774 | 2,784 | 1,905 |
| | <u>13,779</u> | <u>15,946</u> | <u>12,407</u> | <u>10,896</u> |

19. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, interest free and are repayable on demand. The amounts have been fully repaid during the year ended 31st December, 2001.

20. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | | | Present value of minimum lease payments | | | |
|------------------------------------------------------------------|------------------------|------------|-------------------|----------|-----------------------------------------|------------|-------------------|----------|
| | At 31st December, | | As at 31st March, | | At 31st December, | | As at 31st March, | |
| | 1999 | 2000 | 2001 | 2002 | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Amount payable under finance leases: | | | | | | | | |
| Within one year | 274 | 274 | — | — | 200 | 200 | — | — |
| Between one to two years | 297 | 23 | — | — | 217 | 17 | — | — |
| | <u>571</u> | <u>297</u> | <u>—</u> | <u>—</u> | <u>417</u> | <u>217</u> | <u>—</u> | <u>—</u> |
| Less: Future finance charges | (154) | (80) | — | — | — | — | — | — |
| Present value of lease obligations | <u>417</u> | <u>217</u> | <u>—</u> | <u>—</u> | <u>417</u> | <u>217</u> | <u>—</u> | <u>—</u> |
| Less: Amount due within one year shown under current liabilities | | | | | (200) | (200) | — | — |
| Amount due after one year | | | | | <u>217</u> | <u>17</u> | <u>—</u> | <u>—</u> |

The Group had repaid all the future obligations under finance leases during the year ended 31st December, 2001.

21. SECURED BANK BORROWINGS

| | As at 31st December, | | | As at |
|-----------------------------------|----------------------|---------------|---------------|---------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Secured bank borrowings comprise: | | | | |
| Bank overdrafts | 52 | 400 | 2,842 | 7 |
| Bank loans | 25,831 | 37,065 | 36,106 | 40,747 |
| Trust receipt loans | 235 | — | 128 | — |
| | <u>26,118</u> | <u>37,465</u> | <u>39,076</u> | <u>40,754</u> |

The maturity of the above loans and overdrafts is as follows:

| | | | | |
|--------------------------------------------------------------------------|----------------|-----------------|-----------------|-----------------|
| On demand or within one year | 6,655 | 19,800 | 33,019 | 18,578 |
| More than one year, but not exceeding two years | 6,471 | 16,281 | 6,057 | 13,017 |
| More than two years, but not exceeding five years | 12,992 | 1,384 | — | 9,159 |
| | <u>26,118</u> | <u>37,465</u> | <u>39,076</u> | <u>40,754</u> |
| <i>Less:</i> amounts due within one year shown under current liabilities | <u>(6,655)</u> | <u>(19,800)</u> | <u>(33,019)</u> | <u>(18,578)</u> |
| Amount due after one year | <u>19,463</u> | <u>17,665</u> | <u>6,057</u> | <u>22,176</u> |

22. LOANS FROM SHAREHOLDERS

The loans were unsecured and bore interest at 8% per annum on the principal for the years ended 31st December, 1999 and 2000. The loans became interest free and was capitalised to the special reserve during the year ended 31st December, 2001.

23. DEFERRED TAXATION

| | As at 31st December, | | | As at |
|----------------------------------------|----------------------|--------------|------------|-------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Balance at beginning of year/period | 947 | 723 | 429 | 429 |
| Release for the year (<i>note 7</i>) | <u>(224)</u> | <u>(294)</u> | <u>—</u> | <u>—</u> |
| Balance at end of year/period | <u>723</u> | <u>429</u> | <u>429</u> | <u>429</u> |

At the balance sheet date, the major component of the provided deferred taxation liabilities represents tax effect of timing differences arising from accelerated depreciation allowance.

There was no material unprovided deferred taxation at the balance sheet date.

24. PAID-IN CAPITAL

The paid-in capital represented the issued and fully paid share capital of PME International (BVI) Company Limited, the then holding company of the Group.

25. RESERVES

| | Special reserve | Property revaluation reserve | Retained profits | Total |
|------------------------------------------|----------------------------|---------------------------------------------|-----------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1st January, 1999 | 72,835 | 4,593 | 2,726 | 80,154 |
| Revaluation increase | — | 1,946 | — | 1,946 |
| Profit for the year | — | — | 17,244 | 17,244 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December, 1999 | 72,835 | 6,539 | 19,970 | 99,344 |
| Revaluation increase | — | 2,672 | — | 2,672 |
| Profit for the year | — | — | 19,456 | 19,456 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December, 2000 | 72,835 | 9,211 | 39,426 | 121,472 |
| Capitalisation of shareholders' loans | 7,200 | — | — | 7,200 |
| Revaluation increase | — | 5,750 | — | 5,750 |
| Profit for the year | — | — | 26,006 | 26,006 |
| Dividends | — | — | (5,000) | (5,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December, 2001 | 80,035 | 14,961 | 60,432 | 155,428 |
| Revaluation increase | — | 1 | — | 1 |
| Profit for the period | — | — | 2,282 | 2,282 |
| Dividends | — | — | (55,000) | (55,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st March, 2002 | <u>80,035</u> | <u>14,962</u> | <u>7,714</u> | <u>102,711</u> |

26. RECONCILIATION OF PROFIT FROM OPERATIONS TO CASH GENERATED BY OPERATIONS

| | Year ended 31st December, | | | Three months ended |
|-----------------------------------------------------------------|---------------------------|---------------|---------------|--------------------|
| | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit from operations | 21,131 | 25,745 | 32,921 | 3,528 |
| Adjustments for: | | | | |
| Interest income | (917) | (249) | (387) | (1) |
| Share of results of an associate | 65 | — | — | — |
| Depreciation and amortisation | 4,410 | 5,112 | 5,503 | 1,409 |
| Loss (gain) on disposal of property, plant and equipment | 2 | 8 | (20) | — |
| Revaluation decrease (increase) on leasehold land and buildings | 694 | (585) | 183 | 39 |
| Operating profit before working capital changes | 25,385 | 30,031 | 38,200 | 4,975 |
| Decrease (increase) in inventories | 628 | (2,318) | 4,559 | 1,923 |
| Decrease (increase) in debtors, deposits and prepayments | 1,431 | 7,974 | (6,187) | 9,281 |
| (Increase) decrease in amounts due from related companies | (509) | (5,621) | 6,070 | — |
| (Decrease) increase in creditors and accrued charges | (1,441) | 2,029 | (3,539) | (1,511) |
| Cash generated by operations | <u>25,494</u> | <u>32,095</u> | <u>39,103</u> | <u>14,668</u> |

27. ACQUISITION OF A SUBSIDIARY

| | Year ended 31st December, | | 31st March, | |
|-----------------------------------------------------|---------------------------|--------------|-------------|----------|
| | 1999 | 2000 | 2001 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Net assets acquired | | | | |
| Inventories | — | 539 | — | — |
| Debtors, deposits and prepayments | — | 558 | — | — |
| Amount due from a shareholder | — | 90 | — | — |
| Bank balances and cash | — | 81 | — | — |
| Creditor and accrued charges | — | (138) | — | — |
| Amount due to a related company | — | (60) | — | — |
| | <u>—</u> | <u>1,070</u> | <u>—</u> | <u>—</u> |
| Reclassification from interest in an associate | — | (565) | — | — |
| Reclassification from amount due to an associate | — | 30 | — | — |
| | <u>—</u> | <u>(535)</u> | <u>—</u> | <u>—</u> |
| | <u>—</u> | <u>535</u> | <u>—</u> | <u>—</u> |
| Satisfied by: | | | | |
| Cash consideration | <u>—</u> | <u>535</u> | <u>—</u> | <u>—</u> |
| Net cash outflow arising on acquisition: | | | | |
| Cash consideration paid | — | (535) | — | — |
| Bank balances and cash of acquired associate | — | 81 | — | — |
| | <u>—</u> | <u>(454)</u> | <u>—</u> | <u>—</u> |

28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

| | As at 31st December, | | | As at |
|------------------------|----------------------|--------------|--------------|--------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Bank balances and cash | 9,202 | 2,850 | 1,892 | 2,779 |
| Bank overdrafts | (52) | (400) | (2,842) | (7) |
| | <u>9,150</u> | <u>2,450</u> | <u>(950)</u> | <u>2,772</u> |

29. PLEDGE OF ASSETS

The Group had pledged the following assets to secure general banking facilities at the balance sheet date:

| | As at 31st December, | | | As at |
|------------------------------|----------------------|---------------|----------------|----------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Leasehold land and buildings | 57,574 | 95,901 | 103,020 | 102,508 |
| Construction in progress | 36,626 | — | — | — |
| | <u>94,200</u> | <u>95,901</u> | <u>103,020</u> | <u>102,508</u> |

30. CAPITAL COMMITMENTS

| | As at 31st December, | | | As at |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------|------------|-------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements | — | — | 118 | 132 |
| | <u>—</u> | <u>—</u> | <u>118</u> | <u>132</u> |

31. CONTINGENT LIABILITIES

| | As at 31st December, | | | As at |
|--------------------------------|----------------------|----------|----------|-------------|
| | 1999 | 2000 | 2001 | 31st March, |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2002 |
| | | | | HK\$'000 |
| Discounted bills with recourse | 159 | — | — | — |
| | <u>159</u> | <u>—</u> | <u>—</u> | <u>—</u> |

In addition, the Group had provided an unlimited corporate guarantee to a bank in respect of banking facilities granted to Panical Investment Limited. The guarantee has been released before the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

32. RELATED PARTY TRANSACTIONS

- (a) During the Relevant Periods, the Group had the following transactions, which were conducted in the ordinary course of the Group's business, with its related companies and directors:

| Name | Notes | Nature of transactions | Year ended 31st December, 31st March, | | | |
|---------------------------------|-------|-------------------------|---------------------------------------|------------------|------------------|------------------|
| | | | 1999 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 |
| Kansource Limited | (i) | Sales to | 1,344 | 257 | 160 | 1 |
| | (i) | Purchase from | 98 | 28 | — | — |
| | (ii) | Subcontracting expenses | 36 | 4 | — | — |
| | (ii) | Management fee income | 480 | 332 | 280 | — |
| | (iii) | Loan interest income | 32 | — | — | — |
| Fook Cheong Ho Limited | (i) | Purchase from | 22 | — | — | — |
| Fulltrade China Limited | (i) | Purchase from | — | — | 180 | — |
| Learok Enterprise Limited | (i) | Sales to | 1,318 | — | — | — |
| | (i) | Purchase from | 981 | — | — | — |
| New Happy Multinational Limited | (i) | Sales to | — | — | 3,105 | — |
| | (ii) | Purchase from | — | — | 28 | — |
| Panical Investment Limited | (i) | Sales to | — | — | 128 | — |
| | (i) | Purchase from | 46 | 2,539 | 268 | — |
| Ms. Chan Yim Fan | (iv) | Loan interest expenses | 58 | 58 | — | — |
| Mr. Charles Woo | (iv) | Loan interest expenses | 192 | 192 | — | — |
| Mr. Cheng Kwok Woo | (iv) | Loan interest expenses | 326 | 326 | — | — |

Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, the directors and shareholders of the Company, have beneficial interests in the above related companies, except for Fulltrade China Limited in which Messrs. Cheng Kwok Woo and Cheng Kwong Cheong have beneficial interests. These related party transactions have been ceased as at 31st March, 2002 and would be discontinued thereafter.

Notes:

- (i) Sales and purchases are based on cost plus a percentage of profit mark-up.
- (ii) Management fee income and subcontracting expenses were charged based on terms agreed by the concerned parties.
- (iii) Loan interest income is based on 12% per annum on the principal outstanding.
- (iv) Loan interests expenses are based on 8% per annum on the principal outstanding.
- (b) Certain directors have provided unlimited personal guarantees to banks for banking facilities granted to the Group at nil consideration. The relevant banks have agreed in principal that these personal guarantees will be released and replaced by the corporate guarantees provided by the Company and/or other members of the Group after the listing of the shares of the Company on the Stock Exchange.

- (c) The Group has provided an unlimited corporate guarantee to a bank for banking facilities granted to Panical Investment Limited at nil consideration. The guarantee has been released before the listing of the shares of the Company on the Stock Exchange.
- (d) A property owned by a related company had been pledged to a bank for banking facilities granted to the Group at nil consideration. The relevant bank has agreed in principal that the charge will be released and replaced by the corporate guarantees provided by the Company and/or other members of the Group after the listing of the shares of the Company on the Stock Exchange.

33. EMPLOYEE RETIREMENT BENEFITS

Prior to the introduction of the mandatory provident fund scheme ("MPF Scheme"), the Group had operated a retirement scheme under the Occupational Retirement Scheme Ordinance ("ORSO Scheme"). The ORSO Scheme discontinued and the benefits for the employees were transferred to the MPF Scheme. The assets held under the ORSO Schemes were held separately from those of the Group and were transferred directly to the MPF Scheme.

With effect from 1st December, 2000, the operating subsidiaries in Hong Kong joined a MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme are charged to the income statement.

The PRC employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC local government. The subsidiary is required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

| | Year ended 31st December, | | | Three months ended 31st March, |
|----------------------------------------------------------------|----------------------------------|-----------------|-----------------|---------------------------------------------------|
| | 1999 | 2000 | 2001 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Retirement benefit contribution made during the year/period | <u>398</u> | <u>331</u> | <u>475</u> | <u>162</u> |

34. LONG SERVICE PAYMENTS

At 31st March, 2002, the Group had a number of employees who had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31st March, 2002 under the circumstances specified by the Ordinance. The maximum potential exposure would have been approximately HK\$3,378,000 (31st December, 2001: HK\$3,506,000; 31st December, 2000: HK\$3,467,000; 31st December, 1999: HK\$2,969,000). No provision has been made in the financial statements in respect of such long service payments.

B. NET TANGIBLE ASSETS OF THE COMPANY

The Company was incorporated on 27th February, 2002. As at 31st March, 2002, the Company has no asset and liability. Pursuant to the Group Reorganisation, the Company became the holding company of the Group on 23rd October, 2002. Had the Group Reorganisation been completed on 31st March, 2002, the net tangible assets of the Company at that date would have been approximately HK\$102,945,000 representing the Company's investment in its subsidiaries.

C. DIRECTORS' REMUNERATIONS

Under the arrangement currently in force, the aggregate amount of remunerations of the directors of the Company payable for the year ending 31st December, 2002 is estimated to be approximately HK\$3,200,000.

D. ULTIMATE HOLDING COMPANY

At the date of this report, the directors of the Company consider PME Investments (BVI) Co., Ltd., a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

E. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31st March, 2002:

- (a) On 23rd October, 2002, written resolutions were passed to effect the transactions which are set out in the paragraph headed "Written resolutions of all the Shareholders passed on 23rd October, 2002" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV to the Prospectus; and
- (b) The companies in the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Stock Exchange, details of which are set out in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV to the Prospectus.

Save as aforesaid, no other significant event took place subsequent to 31st March, 2002.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 31st March, 2002.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong