

A portrait of a man with dark hair and glasses, wearing a dark suit, white shirt, and dark tie. He is looking slightly to the left of the camera. The background is a blue gradient with light streaks.

Chairman's *Statement*

I am pleased to present the first annual report of the Company and the audited consolidated results of the Group for the year ended 31st December, 2002.

For the year 2002, the Group recorded a turnover of approximately HK\$121.3 million and the net profit attributable to the shareholders amounted to approximately HK\$24.3 million.

REVIEW OF THE YEAR

2002 is a remarkable year of the Company and the Group. During the year, the Group has undergone a series of restructuring and the shares of the Company have been successfully listed on the Main Board of the Stock Exchange of Hong Kong. The successful listing of the Company's shares strengthen the financial position of the Group and earmarked that the development of the Group into a new era.

The Group is primarily engaged in the manufacturing and sale of polishing compounds and polishing wheels under its own brand name **Pme** and trading of various industrial abrasive products in Hong Kong and Mainland China. Its major market lies along the Pearl River Delta in China, including Hong Kong, which accounts for over 90% of the Group's total turnover and profit contributions. In the wake of the "911 Incident" in 2001, economies around the world fell into the doldrums. Hong Kong was no exception. Accordingly, the Group also found itself facing a number of challenges:

- the increase in competition in the industry after China's accession to the WTO;
- the problem of shipment backlog caused by the West Coast strike;
- shrunken demand due to the sluggish conditions of all sectors in Hong Kong, in particular those of relevance to the industry of the Group.

Yet, the Group still managed to maintain a steady profit level, thanks to its flexible operating measures and the dedication of all its directors and senior management staff in overcoming the difficulties during the year.

PROSPECTS

At the time of writing this report, bad news were emerging one after another which will prove to be unfavourable to the general economic development of Asia.

The war in Middle East is fuelling the surge in oil prices. The higher manufacturing costs as result will most likely trigger a chain reaction in other sectors and finally lead to falling exports from Hong Kong and the PRC. The recent outbreak and spread of "atypical pneumonia" in Hong Kong and the PRC are making foreign investors cancelling their business trips. Trade fairs and exhibitions are called off too. Meanwhile, local businessmen are barred entry to foreign countries. Promotional activities have nearly ground to a halt. This disease is really dealing another blow to the already sluggish economic environment in Hong Kong. It is not easy to foresee or quantify the impact of the disease on the local economy. What can be sure is that while we may not be heading for an economic crisis, the prospects are far from promising. We must accept the reality and be prepared for the challenges ahead. Yet it is also true that with challenges come opportunities amid an economic quagmire. The pressing issue for the Group at the moment is therefore how to take on the challenges and grasp the opportunities.

Chairman's Statement (Continued)

Over the years, the Group has been able to achieve steady progress through efforts at improving and revising its business directions. It has been able to maintain a strategic position in the industry based on the following strengths:

- extensive manufacturing experience and advanced technologies and facilities;
- reliable product quality and "one-stop services";
- established and solid relationships with customers and a robust sales & distribution network; and
- forward-looking and flexible business strategies.

On this platform, the Group plans to:

- set up a representative office in Shanghai to expand its sales and marketing network in the eastern China region;
- enhance its product quality and performance by upgrading the production facilities and the technical application centre;
- diversity its product range through new product research and development and seeking new trading products;
- reduce the cost of operation via improving the logistical efficiency; and
- consolidate and strengthen its capital base and working capital.

The Group will make an aggressive effort in pursuing the above plans to strive for better returns on investment to the shareholders.

APPRECIATION

Last but not least, I would like to take this opportunity to express my gratitude to the directors, the management team and all staff of the Group for their dedication and contributions. My thanks are also extended to the shareholders, customers, suppliers and business partners for their trust and support over the years.

Cheng Kwok Woo
Chairman

Hong Kong, 15th April, 2003

