

The directors have pleasure in presenting their first report and the audited financial statements of the Company for the period from 27th February, 2002 (date of incorporation) to 31st December, 2002 and of the Group for the year ended 31st December, 2002.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27th February, 2002 under the Companies Law (Revised) Chapter 22 of the Cayman Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (the "Group") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 23rd October, 2002. Further details of the Group Reorganisation and the subsidiaries acquired thereto are set out in the notes 1, 22, 24 and 30 to the financial statements, and the prospectus dated 31st October, 2002 issued by the Company.

The shares of the Company have been listed on the Stock Exchange with effect from 13th November, 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in the People's Republic of China (the "PRC") under its own brand name **Pme** and the trading of different types of industrial abrasive products in Hong Kong and the PRC.

Details of the principal activities of the subsidiaries of the Group are set out in note 30 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31st December, 2002 is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 20 of the annual report.

During the year, an interim dividend amounting to HK\$55.0 million was paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganization.

The directors now recommend the payment of a final dividend of HK\$0.01125 per share and a special dividend of HK\$0.00375 per share to the shareholders on the register of members on 23rd May, 2003, amounting to HK\$12.0 million.

FINANCIAL SUMMARY

A summary of the Group's financial information for the years ended 31st December, 1999, 2000, 2001 and 2002 is set out on pages 50 and 51 of the annual report.

FIXED ASSETS

During the year, the Group spent approximately HK\$1.5 million on fixed assets to expand and upgrade its production capacity. The Group revalued its self-occupied leasehold land and buildings at 31st December, 2002, resulting in a revaluation surplus of approximately HK\$1.0 million and a revaluation deficit of approximately HK\$0.3 million.

Details of the movements during the year in fixed assets of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the period from 27th February, 2002 (date of incorporation) to 31st December, 2002 together with the reasons therefore, are set out in note 22 to the financial statements.

SHARE PREMIUM AND RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to approximately HK\$134.4 million.

Movements in the share premium and reserves of the Company for the period from 27th February, 2002 (date of incorporation) to 31st December, 2002 are set out in note 24 to the financial statements. Movements in the share premium and reserves of the Group for the year ended 31st December, 2002 are set out on page 23 of the annual report.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group. Summary of the terms of the share option scheme are set out in note 23 to the financial statements, and the prospectus dated 31st October, 2002 issued by the Company.

At the date of this report, no share options have been offered and/or granted to any participants under the share option scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

Other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 13th November, 2002, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 15% and 23% respectively of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 16% and 40% respectively of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

The proceeds from the issue of new shares of the Company in connection with the listing of the Company's shares on the Stock Exchange on 13th November, 2002, after deduction of related expenses, amounted to approximately HK\$23.6 million. Part of the net proceeds has been applied during the period ended 31st December, 2002 as follows:

- as to approximately HK\$5.0 million to reduce the Group's bank borrowings; and
- as to approximately HK\$4.6 million as general working capital of the Group.

The remaining balance of the net proceeds of approximately HK\$14.0 million, which has been placed with licensed banks in Hong Kong as at 31st December, 2002, will be applied in accordance with the plans set out in the Company's prospectus dated 31st October, 2002.

Report of the Directors (Continued)

DIRECTORS

The directors of the Company during the period from 27th February, 2002 (date of incorporation) to 31st December, 2002 and up to the date of this report were:

Executive directors

Mr. Cheng Kwok Woo, <i>Chairman</i>	(appointed on 13th March, 2002)
Mr. Cheng Kwong Cheong, <i>Vice Chairman and CEO</i>	(appointed on 13th March, 2002)
Ms. Cheng Wai Ying	(appointed on 19th July, 2002)
Mr. Chow Yin Kwang	(appointed on 19th July, 2002)
Ms. Chan Yim Fan	(appointed on 19th July, 2002)

Non-executive directors

Mr. Charles Woo	(appointed on 19th July, 2002)
Mr. Zheng Jin Hong	(appointed on 19th July, 2002)

Independent non-executive directors

Mr. Chow Chun Kwong	(appointed on 23rd September, 2002)
Mr. Chung Kam Fai, Raymond	(appointed on 23rd September, 2002)

In accordance with Article 87(1) of the Company's Articles of Association, Messrs. Cheng Kwok Woo, Cheng Kwong Cheong, and Ms. Cheng Wai Ying shall retire from offices by rotation in the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The details of the directors' profiles are set out on page 9 of the annual report.

DIRECTORS' SERVICES CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years commencing from 1st October, 2002, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Saved as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with related companies:

Nature of transactions	Name of related company	Notes	2002	2001
			HK\$'000	HK\$'000
Sales to	Kansource Limited	(i)	1	160
Management fee income from		(ii)	–	280
Purchases from	Fulltrade China Limited	(i)	–	180
Sales to	New Happy Multinational	(i)	–	3,105
Purchases from	Limited	(i)	–	28
Sales to	Panical Investment Limited	(i)	–	128
Purchases from		(i)	–	268

Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, the executive 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 ceased during the year ended 31st December, 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 was charged based on terms agreed by the parties concerned.
- (b) Certain directors had provided unlimited personal guarantees to banks for banking facilities granted to the Group at nil consideration. These personal guarantees have been released and replaced by the corporate guarantees provided by the Company after the listing of the shares of the Company on the Stock Exchange.
- (c) The Group had 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 pledge had been released and replaced by the corporate guarantees provided by the Company after the listing of the shares of the Company on the Stock Exchange.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2002, the interests of the directors in the share capital of the Company, as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Directors	Number of shares held			Percentage of interests
	Personal interests	Corporate interests	Total interests	
Mr. Cheng Kwok Woo	54,400,000	358,328,000 <i>(note)</i>	412,728,000	51.59%
Mr. Cheng Kwong Cheong	54,400,000	358,328,000 <i>(note)</i>	412,728,000	51.59%
Ms. Cheng Wai Ying	54,400,000	358,328,000 <i>(note)</i>	412,728,000	51.59%
Mr. Charles Woo	16,342,667	–	16,342,667	2.04%
Ms. Chan Yim Fan	8,205,333	–	8,205,333	1.03%

Note: These shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of PME Investments is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Saved as disclosed above, neither the directors nor the chief executive, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance disclosed the following persons as having an interest of 10% or more of the issued share capital of the Company:

Name	Number of shares	Percentage of interests
PME Investments (<i>note 1</i>)	358,328,000	44.79%
Mr. Cheng Kwok Woo (<i>note 2</i>)	412,728,000	51.59%
Mr. Cheng Kwong Cheong (<i>note 2</i>)	412,728,000	51.59%
Ms. Cheng Wai Ying (<i>note 2</i>)	412,728,000	51.59%

Notes:

1. PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.
2. Each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying personally holds 54,400,000 shares of the Company, being 6.8% of the entire issued share capital of the Company. Each of them is further beneficially interested in one-third of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.

Saved as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange since the listing of the Company's shares in the Stock Exchange on 13th November, 2002.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors of the Company.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation.

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Cheng Kwok Woo

Chairman

Hong Kong, 15th April, 2003