



I am pleased to announce the audited consolidated results of the Group for the year ended 31st December, 2004 to our shareholders.

### RESULTS FOR THE YEAR

For the year 2004, the Group recorded turnover of approximately HK\$163,640,000 and net profit attributable to shareholders amounted to approximately HK\$21,238,000.

## Chairman's Statement (Continued)

### BUSINESS

The Group is principally engaged in the manufacturing and selling of **Pme** branded abrasive products such as polishing compounds and polishing wheels; as well as trading of various European, American and Japanese branded industrial abrasive products. In addition to the trading of tangible products, the Group provides product processing solutions (application) and technical support services to our customers.

### CUSTOMERS

Hong Kong and Pearl River Delta are our major markets, which accounted for over 90% of total turnover. The Group maintains a large customer database. However, our largest end-product user accounts for less than 2% of total turnover which means our business will not be greatly affected by the loss of individual customers.

### REVIEW OF THE YEAR

An initial view of our final results for 2004 may give an impression of a less than robust performance, however, perusal of this report will show a good performance which was the outcome of succeeding in overcoming a series of challenges. Page 20 of the Consolidated Income Statement notes that increase in cost of sales was a major factor affecting profits attributable to shareholders. A surge in oil prices led to rises in costs of raw materials, which, in turn, increased our cost of sales by more than HK\$22 million when compared with that of last year while the turnover increased by HK\$8 million, and thus had a dramatic effect on gross profit. In contrast, other recurrent expenses such as transportation, finance and administrative expenses were reduced as compared to last year. As we are all aware, market costs of these expenses have been rising. Management's adoption of tight control, and timely and continuous adjustments resulted in achievement of acceptable results despite these challenges. This reflects our set-up of good monitoring and control systems.

### DIVIDEND POLICY

The Board has adopted a dividend policy which it considers appropriate to the Group's overall financial position. The dividend policy also depends, among other things, on the Group's operation results, cash-flows, financial conditions, the Group's capital requirements and future plans, and the general economic environment.

In view of the present business conditions, including continuing increases in raw material costs and rising interest rates, and possible future capital requirements for the set-up of joint ventures in Mainland China and cooperation with a manufacturer in Japan, the Board does not recommend payment of a final dividend for the year ended 31st December, 2004.

### PROSPECTS

As previously stated, soaring prices of raw materials greatly affected our operation and reduced our profits last year. Current oil prices are still at a high level, and American and Japanese economic growth is slowing down with interest rates rising, however, we believe that the market (our customers) has made the necessary preparations, and continues to take account of all these unfavourable factors. The GDP growth of Mainland China was about 9% last year, and the forecast for this year remains on the positive side. While over 90% of our market is in Hong Kong and Mainland China, we are optimistic about our prospects, but a cautious attitude is still necessary.

The Group will develop sales distribution channels in 2005 and establish a territorial distribution network; we will also expand our sales platform and transform the sales structure into a supermarket-like system; we will open up investment opportunities by identifying and negotiating with potential business partners. Last but not least, we will continue to focus on strict cost control in 2005.

Through making use of our rich knowledge of the China market, together with our professional techniques, experience and good track record, we will do our utmost to grasp and develop new business opportunities, as well as having deep concentration on achieving outstanding performance for our shareholders, in acknowledgment of their long-term trust.

### APPRECIATION

As a result of the hard efforts of our staff, the Group was able to overcome a series of challenges and difficulties last year. On behalf of the Board, I take this opportunity to thank our team for their continuous support and contributions.

Finally, I thank you, our shareholders, customers, suppliers and business partners, for your trust in the Group.

**Cheng Kwok Woo**  
*Chairman*

Hong Kong, 19th April, 2005