

## Management Discussion and Analysis

### BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name **Pme** and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover and profits was contributed from the markets in Hong Kong and Pearl River Delta in Mainland China.

Despite of the continued increase in the prices of raw materials during the second half of 2004, the Group has achieved moderate results for the financial year ended 31st December, 2004. The Group's turnover for the year 2004 increased by 5.5% from approximately HK\$155.1 million in 2003 to approximately HK\$163.6 million in 2004. The net profit for the year under review was approximately HK\$21.2 million, representing a decrease of 30.7% as compared with the net profit of approximately HK\$30.6 million last year. The increase in turnover was mainly due to the increased demand of the Group's products and technical services from the customers in Mainland China. However, the substantial increase in the prices of raw materials has reduced the gross profit margin by around 11% from 46.6% in 2003 to 35.7% in 2004 and thus resulting a decrease of net profit from HK\$30.6 million in 2003 to HK\$21.2 million in 2004. During the year, the Group has implemented effective cost control measures to reduce the selling and administrative expenses.

### LIQUIDITY AND FINANCIAL RESOURCES

At 31st December, 2004, the Group had interest-bearing bank borrowings of approximately HK\$12.3 million (31st December, 2003: HK\$22.2 million), which were of maturity within one year. The Directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 31st December, 2004, the Group's leasehold land and buildings with aggregate carrying value of approximately HK\$88.7 million (31st December, 2003: HK\$104.4 million) were pledged to banks to secure the banking facilities granted to the Group.

At 31st December, 2004, current assets of the Group amounted to approximately HK\$126.8 million (31st December, 2003: HK\$82.8 million). The Group's current ratio was approximately 5.83 as at 31st December, 2004 as compared with 2.19 as at 31st December, 2003. At 31st December, 2004, the Group had total assets of approximately HK\$262.5 million (31st December, 2003: HK\$204.2 million) and total liabilities of approximately HK\$26.7 million (31st December, 2003: HK\$42.8 million), representing a gearing ratio (measured as total liabilities to total assets) of 10.2% as at 31st December, 2004 as compared with 21.0% as at 31st December, 2003.

### FOREIGN EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or Renminbi. As Hong Kong dollars have been pledged with US dollars, and the exchange rate of Renminbi against Hong Kong dollars is relatively stable, the Directors consider that the Group has no material currency exchange risk exposures.

### CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st December, 2003 and 2004.

### CAPITAL COMMITMENTS

At 31st December, 2004, the Group had capital commitment of HK\$96,000 (2003: HK\$1,957,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

### EMPLOYEES AND REMUNERATION

At 31st December, 2004, the Group had approximately 310 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.