



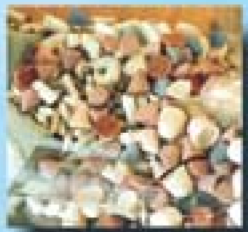

PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

Annual Report 2002

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cheng Kwok Woo, *Chairman*
Mr. Cheng Kwong Cheong,
Vice Chairman and Chief Executive Officer
Ms. Cheng Wai Ying
Mr. Chow Yin Kwang
Ms. Chan Yim Fan

NON-EXECUTIVE DIRECTORS

Mr. Charles Woo
Mr. Zheng Jin Hong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chow Chun Kwong
Mr. Chung Kam Fai, Raymond

COMPANY SECRETARY

Mr. Li Chak Hung

AUTHORISED REPRESENTATIVES

Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong

AUDIT COMMITTEE

Mr. Chow Chun Kwong
Mr. Chung Kam Fai, Raymond

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of America
Standard Chartered Bank
Hongkong Bank
Dao Heng Bank Limited
Agricultural Bank of China, Humen branch
Bank of China, Humen branch

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, Unison Industrial Centre
Nos. 27–31 Au Pui Wan Street
Fo Tan, Shatin
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
3rd Floor, 36C Bermuda House
British American Centre
George Town
Grand Cayman
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
Ground Floor,
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

WEBSITE

http: //www.pme8.com

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 quantity 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.

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

Management *Discussion and Analysis*

1	**Cheng Kwok Woo**	*Chairman*
2	**Cheng Kwong Cheong**	*Vice-chairman & Chief Executive Officer*
3	**Chan Yim Fan**	*Executive Director*
4	**Cheng Wai Ying**	*Executive Director*
5	**Chow Yin Kwang**	*Executive Director*

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

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 the PRC. The major market lies along the Pearl River Delta region in China including Hong Kong, which account for over 90% of the Group's turnover and profit contributions. There was no material change in the Group's business during the year.

The Group's turnover for the year ended 31st December, 2002 was approximately HK$121.3 million, representing an increase of 1.9% as compared with last year. The increase in turnover is mainly attributable to the increase in sales to the PRC market. Net profit for the year ended 31st December, 2002 decreased slightly from HK$26.0 million in 2001 to HK$24.3 million mainly due to the increase in competition in the industry after China's accession to the WTO and the shrunken demand due to the sluggish conditions of all sectors in Hong Kong, in particular those of relevance to the industry of the Group. Additional selling and marketing expenses and other related costs have been incurred in order to maintain the turnover for the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's operations were generally financed by internally generated cash flow. For the year ended 31st December, 2002, cash generated from the Group's operations amounted to approximately HK$30.4 million.

On 13th November, 2002, the Company issued and allotted 120,000,000 new shares at HK$0.25 per share. Net proceeds from the public issue of new shares amounted to approximately HK$23.6 million which have been retained by the Company as financing the Group's expansion of the sales and marketing network and set up representative offices in the PRC, improvement of the production facilities and the technical application centre of the Group, reduction of the Group's bank borrowings and application as general working capital for the Group.

At 31st December, 2002, the Group had interest-bearing bank borrowings of approximately HK$26.7 million (31st December, 2001: HK$39.1 million). Approximately HK$11.7 million of the Group's bank borrowings were of maturity within one year. The directors expect that all the bank borrowings will be either renewed or rolled over upon the maturity and continue to provide funding to the Group's operations. The Group's leasehold land and buildings have been pledged to banks to secure the Group's bank borrowings.

At 31st December, 2002, the Group had current assets of approximately HK$76.5 million (31st December, 2001: HK$93.5 million). The Group's current ratio increased to 2.8 as at 31st December, 2002 from 1.8 as at 31st December, 2001. At 31st December, 2002, the Group had total assets of approximately HK$192.2 million (31st December, 2001: HK$212.8 million) and total liabilities of approximately HK$42.5 million (31st December, 2001: HK$57.1 million), representing a gearing ratio (measuring as total debts to total assets) of 22.1% as at 31st December, 2002 as compared with 26.8% as at 31st December, 2001.

The directors are of the opinion that there was no material change in the financial position of the Group during the year.

CAPITAL STRUCTURE

The capital structure of the Company only consists of share capital.

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

At 31st December, 2002, the Company had contingent liabilities amounting to approximately HK$25.0 million in respect of corporate guarantees given to banks regarding the banking facilities utilised by the subsidiaries.

At 31st December, 2002, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

Neither the Company nor the Group has material capital commitments as at 31st December, 2002.

EMPLOYEES AND REMUNERATION

At 31st December, 2002, the Group has employed approximately 350 employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

The Company also operates a share option scheme of which the directors may, at its discretion, grant options to employees of the Group for the recognition of their contributions to the Group. No options have been granted during the year ended 31st December, 2002.

DIRECTORS

Executive Directors
Mr. Cheng Kwok Woo, aged 45, is the chairman of the Group. Mr. K.W. Cheng joined the Group in 1990 and is responsible for corporate planning, business development and overall management of the Group. He has over 20 years' experience in the trading and manufacturing of abrasive products in Hong Kong. Mr. K.W. Cheng is the brother of Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Mr. Cheng Kwong Cheong, aged 41, is the vice chairman and chief executive officer of the Group. Mr. K.C. Cheng joined the Group in 1990 and is responsible for marketing development of the Group and oversees the Group's product development and production process. He has over 20 years' experience in the trading and manufacturing of abrasive products in Hong Kong. Mr. K.C. Cheng is the brother of Mr. Cheng Kwok Woo and Ms. Cheng Wai Ying.

Ms. Cheng Wai Ying, aged 43, joined the Group in 1990. Ms. Cheng has over 20 years' experience in financial management and business operation management. She is responsible for the financial management of the Group. Ms. Cheng is the sister of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

Mr. Chow Yin Kwang, aged 64, joined the Group in July 1995. Mr. Chow is responsible for the project development of the Group. He has approximately eight years' experience in the Group's project development, operation and quality management. Before joining the Group, Mr. Chow had more than 30 years experience in operation management.

Ms. Chan Yim Fan, aged 51, joined the Group in 1990. Ms. Chan is responsible for the logistics of the Group including product supply, delivery, storage and raw materials procurement. She has over 14 years' experience in logistics management.

Non-executive Directors
Mr. Charles Woo, aged 75, is one of the founders of the Group. He has been engaged in the international trading business in Hong Kong since the 1960s. Mr. Woo is also appointed as chief consultant of the Group.

Mr. Zheng Jin Hong, aged 39, joined the Group in 2002. Mr. Zheng is a certified public accountant and certified tax accountant in the PRC. He is a director of Dongguan Accounting Society and an executive director of Dongguan Association of Certified Public Accountants.

Independent non-executive Directors
Mr. Chow Chun Kwong, aged 43, was appointed as an independent non-executive director in September 2002. Mr. Chow is a certified public accountant in Hong Kong. He holds a Diploma in Accounting from Hong Kong Shue Yan College and a Bachelor Degree of Commerce in Banking and Finance from Curtin University of Technology, Western Australia. Mr. Chow is a fellow member of The Association of Chartered Certified Accountants and an associate member of Hong Kong Society of Accountants. He is currently an executive director of a listed company in Hong Kong.

Mr. Chung Kam Fai, Raymond, aged 52, was appointed as an independent non-executive director in September 2002. Mr. Chung has gained substantive management experience in the communications and technology industry in the Greater China region. He has been working in the senior management of various telecoms and technology operators in Hong Kong, the Macau Special Administrative Region of the PRC, Taiwan and the PRC for about 25 years.

SENIOR MANAGEMENT

Mr. Fong Siu Chung, aged 41, is the sales and marketing manager of the Group. He joined the Group in July 1996 and is responsible for marketing and product development of the Group. Mr. Fong holds a Bachelor Degree from National Chengchi University of Taiwan. He has more than six years' experience in the market development of the Group.

Ms. Tsang Sui Tuen, aged 43, is the purchasing manageress of the Group. She joined the Group in 1990 and is responsible for raw materials procurement by the Group. Ms. Tsang has over 20 years' experience in the field of raw material procurement. Ms. Tsang is the wife of Mr. Cheng Kwok Woo.

Mr. Wong Kwok Ming, aged 43, is the personnel manager of the Group. He joined the Group in 1990 and is responsible for the human resource management of the Group.

Mr. Cao Zuo Shun, aged 75, is the senior production manager of the Group. He joined the Group in July 1991 and is responsible of the production and factory management of the Group. Mr. Cao graduated from Shanghai Shipping College in 1951. He has more than 12 years' experience in factory management. Before joining the Group, Mr. Cao had been working as the chief engineer of a shipping company in the PRC.

Mr. Tsang Lok Chuen, aged 54, is the logistics manager of the Group. He joined the Group in 1990 and is responsible for product delivery and transportation of the Group. Mr. Tsang has more than 16 years' experience in logistics management.

Mr. Lee Kam Wing, aged 36, joined the Group in May 1992. He is the information technology manager of the Group and is responsible for the maintenance and management of the system operations and network infrastructure of the Group. Mr. Lee has more than 10 years' work experience in information technology management. Before joining the Group, Mr. Lee worked in the information technology development of various listed companies in Hong Kong.

Ms. Hon Wing Yin, aged 26, joined the Group in August 1995. She is the administration manageress of the Group and is responsible for the general administration of the Group. She holds a Diploma in Office Administration and Office Technology from the Chinese University of Hong Kong.

Report of the Directors

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.

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, *Chairman*	(appointed on 13th March, 2002)
Mr. Cheng Kwong Cheong, *Vice Chairman and CEO*	(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 HK$'000	2001 HK$'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 Limited	(i)	**–**	3,105
Purchases from		(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:

	Number of shares held			
Directors	**Personal interests**	**Corporate interests**	**Total interests**	**Percentage of interests**
Mr. Cheng Kwok Woo	54,400,000	358,328,000 *(note)*	412,728,000	51.59%
Mr. Cheng Kwong Cheong	54,400,000	358,328,000 *(note)*	412,728,000	51.59%
Ms. Cheng Wai Ying	54,400,000	358,328,000 *(note)*	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 *(note 1)*	358,328,000	44.79%
Mr. Cheng Kwok Woo *(note 2)*	412,728,000	51.59%
Mr. Cheng Kwong Cheong *(note 2)*	412,728,000	51.59%
Ms. Cheng Wai Ying *(note 2)*	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

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

TO THE SHAREHOLDERS OF PME GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 15th April, 2003

Consolidated Income Statement

For the year ended 31st December, 2002

	Notes	2002 HK$'000	2001 HK$'000
Turnover	4	**121,310**	119,064
Cost of sales		**(60,462)**	(61,259)
Gross profit		**60,848**	57,805
Other operating income	6	**646**	2,064
Selling and distribution expenses		**(4,354)**	(3,180)
Administrative expenses		**(25,213)**	(23,585)
Revaluation decrease on leasehold land and buildings		**(334)**	(183)
Profit from operations	7	**31,593**	32,921
Finance costs	8	**(2,172)**	(2,258)
Profit before taxation		**29,421**	30,663
Taxation	11	**(5,033)**	(4,657)
Net profit for the year		**24,388**	26,006
Dividends	12	**67,000**	5,000
Earnings per share	13		
Basic		**HK3.50 cents**	HK3.82 cents

Consolidated *Balance Sheet*

At 31st December, 2002

	Notes	2002 HK$'000	2001 HK$'000
Non-current assets			
Property, plant and equipment	*14*	**115,424**	118,916
Club debentures		**350**	350
		115,774	119,266
Current assets			
Inventories	*16*	**20,332**	17,489
Debtors, deposits and prepayments	*17*	**35,753**	33,412
Amount due from former ultimate holding company	*18*	**–**	40,715
Taxation recoverable		**43**	–
Bank balances and cash		**20,350**	1,892
		76,478	93,508
Current liabilities			
Creditors and accruals	*19*	**10,527**	12,407
Taxation payable		**5,071**	5,200
Bank borrowings	*20*	**11,729**	33,019
		27,327	50,626
Net current assets		**49,151**	42,882
Total assets less current liabilities		**164,925**	162,148
Non-current liabilities			
Bank borrowings	*20*	**14,953**	6,057
Deferred taxation	*21*	**254**	429
		149,718	155,662
Capital and reserves			
Share capital	*22*	**8,000**	234
Share premium and reserves		**141,718**	155,428
		149,718	155,662

The financial statements on pages 20 to 49 were approved and authorised for issue by the Board of Directors on 15th April, 2003 and are signed on its behalf by:

CHENG KWOK WOO	**CHENG KWONG CHEONG**
DIRECTOR	*DIRECTOR*

Balance Sheet

At 31st December, 2002

	Notes	HK$'000
Non-current assets		
Interests in subsidiaries	15	126,797
Current assets		
Prepayments		19
Amounts due from subsidiaries		280
Bank balances and cash		15,713
		16,012
Current liabilities		
Accruals		290
Amount due to a subsidiary		117
		407
Net current assets		15,605
		142,402
Capital and reserves		
Share capital	22	8,000
Share premium and reserves	24	134,402
		142,402

CHENG KWOK WOO
DIRECTOR

CHENG KWONG CHEONG
DIRECTOR

Consolidated
Statement of Changes in Equity

For the year ended 31st December, 2002

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2001	234	–	72,835	9,211	39,426	121,706
Revaluation increase of leasehold land and buildings not recognised in the consolidated income statement	–	–	–	5,750	–	5,750
Capitalisation of shareholders' loans	–	–	7,200	–	–	7,200
Net profit for the year	–	–	–	–	26,006	26,006
Dividend paid	–	–	–	–	(5,000)	(5,000)
At 31st December, 2001	234	–	80,035	14,961	60,432	155,662
Revaluation increase of leasehold land and buildings not recognised in the consolidated income statement	–	–	–	1,038	–	1,038
Special reserve arising on the Group Reorganisation	(224)	–	224	–	–	–
Shares issued at premium on Placing and Public Offer	1,200	28,800	–	–	–	30,000
Share issue expenses	–	(6,370)	–	–	–	(6,370)
Issue of shares arising from capitalisation of share premium	6,790	(6,790)	–	–	–	–
Net profit for the year	–	–	–	–	24,388	24,388
Dividend paid	–	–	–	–	(55,000)	(55,000)
At 31st December, 2002	8,000	15,640	80,259	15,999	29,820	149,718

Notes:

(a) Special reserve as at 1st January, 2001 represented the difference between the nominal amount of the share capital issued by PME International (BVI) Company Limited, the then holding company of the Group, and the aggregate of the nominal amount of the issued share capital and other reserves accounts of the subsidiaries which was acquired by PME International (BVI) Company Limited pursuant to the group reorganisation carried out in 1997.

(b) Special reserve arising during the year represents the difference between the paid up capital of the previous holding company of the Group acquired and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation as set out in note 1.

Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	2002	2001
	HK$'000	*HK$'000*
Operating activities		
Profit from operations	**31,593**	32,921
Adjustments for:		
Interest income	**(118)**	(387)
Depreciation and amortisation	**5,616**	5,503
Loss (gain) on disposal of property, plant and equipment	**2**	(20)
Revaluation decrease on leasehold land and buildings	**334**	183
Operating cash flows before working capital changes	**37,427**	38,200
(Increase) decrease in inventories	**(2,843)**	4,559
Increase in debtors, deposits and prepayments	**(2,341)**	(6,187)
Decrease in amounts due from related companies	**–**	6,070
Decrease in creditors and accruals	**(1,880)**	(3,539)
Cash generated from operations	**30,363**	39,103
Interest paid	**(2,172)**	(2,178)
Interest on obligations under finance leases paid	**–**	(80)
Hong Kong Profits Tax paid	**(5,380)**	(2,060)
Hong Kong Profits Tax refunded	**–**	65
Net cash from operating activities	**22,811**	34,850
Investing activities		
Interest received	**118**	387
Purchases of property, plant and equipment	**(1,506)**	(2,955)
Proceeds from disposal of property, plant and equipment	**84**	34
Repayment from shareholders	**–**	18,478
Repayment from (advance to) former ultimate holding company	**40,715**	(40,715)
Net cash from (used in) investing activities	**39,411**	(24,771)
Financing activities		
Proceeds from issue of shares	**30,000**	–
Share issue expenses	**(6,370)**	–
New bank loans raised	**8,219**	18,950
Repayment of bank loans	**(18,430)**	(19,781)
Repayment of obligations under finance leases	**–**	(217)
Repayment of advances from shareholders	**–**	(7,431)
Dividend paid	**(55,000)**	(5,000)
Net cash used in financing activities	**(41,581)**	(13,479)
Net increase (decrease) in cash and cash equivalents	**20,641**	(3,400)
Cash and cash equivalents at beginning of the year	**(950)**	2,450
Cash and cash equivalents at end of the year	**19,691**	(950)
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**20,350**	1,892
Bank overdrafts	**(659)**	(2,842)
	19,691	(950)

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 30.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as 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 issued shares in exchange for the entire issued share capital of PME International (BVI) Company Limited, the former holding company of the Group, and thereby became the holding company of the Group on 23rd October, 2002. Details of the Group Reorganisation and the placing and public offer of shares of the Company ("Placing and Public Offer") are set out in 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.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Cash flow statements

Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid, interest received and dividend paid which were previously presented under a separate heading, are classified as operating, investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee benefits

SSAP 34 "Employee Benefits" introduced the measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from their respective dates of acquisition or up to the dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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 rates applicable.

Property, plant and equipment

Property, plant and equipment other than land and buildings are stated at cost less depreciation and amortisation and any accumulated impairment losses.

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 property 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Leasehold land	Over the terms of the relevant leases
Buildings	Over the shorter of the terms 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 income statement.

Club debentures

Club debentures are stated at cost less any identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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 loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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 a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year 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 asset will crystallise in the foreseeable future.

Retirement benefit costs

Payments to the defined contribution retirement benefits schemes are charged as an expense as they fall due.

4. TURNOVER

Turnover represents the amounts received and receivable from the manufacturing of abrasive products, polishing compounds and polishing wheels, trading of polishing materials and polishing equipment and provision of technical consultancy service, net of allowances and returns, during the year.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions. 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.

Income statement for the year ended 31st December, 2002

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	57,525	62,381	1,404	121,310
Result				
Segment result	20,765	9,362	1,154	31,281
Other operating income				646
Revaluation decrease on leasehold land and buildings	(158)	(172)	(4)	(334)
Profit from operations				31,593
Finance costs				(2,172)
Profit before taxation				29,421
Taxation				(5,033)
Net profit for the year				24,388

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Balance sheet at 31st December, 2002

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	129,844	37,628	492	167,964
Unallocated corporate assets				24,288
Consolidated total assets				192,252
Liabilities				
Segment liabilities	4,234	2,738	61	7,033
Unallocated corporate liabilities				35,501
Consolidated total liabilities				42,534

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	871	621	14	1,506
Depreciation and amortisation	4,620	974	22	5,616
Revaluation decrease	158	172	4	334

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Income statement for the year ended 31st December, 2001

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	46,168	71,366	1,530	119,064
Result				
Segment result	15,884	13,851	1,305	31,040
Other operating income				2,064
Revaluation decrease on leasehold land and buildings	(71)	(110)	(2)	(183)
Profit from operations				32,921
Finance costs				(2,258)
Profit before taxation				30,663
Taxation				(4,657)
Net profit for the year				26,006

Balance sheet at 31st December, 2001

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	128,198	39,678	560	168,436
Unallocated corporate assets				44,338
Consolidated total assets				212,774
Liabilities				
Segment liabilities	3,164	6,371	70	9,605
Unallocated corporate liabilities				47,507
Consolidated total liabilities				57,112

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Capital expenditure	2,106	831	18	2,955
Depreciation and amortisation	4,581	903	19	5,503
Revaluation decrease	71	110	2	183

Geographical segments

The Group's operations are located in Hong Kong and The People's Republic of China (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	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**70,448**	73,764	**18,060**	18,227
The PRC	**44,829**	34,037	**11,501**	9,525
Other Asian countries	**3,244**	5,918	**716**	1,606
North America and Europe	**1,014**	2,611	**262**	691
Other countries	**1,775**	2,734	**742**	991
	121,310	119,064	**31,281**	31,040
Other operating income			**646**	2,064
Revaluation decrease on leasehold land and buildings			**(334)**	(183)
Profit from operations			**31,593**	32,921

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments *(Continued)*

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	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**87,028**	103,023	**690**	831
The PRC	**105,181**	109,751	**816**	2,124
	192,209	212,774	**1,506**	2,955

6. OTHER OPERATING INCOME

	2002	2001
	HK$'000	*HK$'000*
Interest income from banks	**32**	27
Other interest income	**86**	360
Net foreign exchange gains	**245**	85
Gain on disposal of property, plant and equipment	**–**	20
Sundry income	**283**	1,572
	646	2,064

7. PROFIT FROM OPERATIONS

	2002	2001
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	**5,616**	5,503
Staff costs, including directors' remuneration	**15,554**	15,799
Auditors' remuneration	**852**	418
Allowance for doubtful debts	**995**	–
Loss on disposal of property, plant and equipment	**2**	–
Cost of inventories recognised as expenses	**60,462**	61,259

Contributions to retirement benefits schemes of HK$591,000 (2001: HK$475,000) are included in staff costs.

8. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	2,172	2,178
Interest on obligations under finance leases	–	80
	2,172	2,258

9. DIRECTORS' EMOLUMENTS

	2002 HK$'000	2001 HK$'000
Fees	–	–
Other emoluments:		
Salaries and other benefits	2,980	2,829
Bonus	–	223
Retirement benefits scheme contributions	222	221
	3,202	3,273
Total	3,202	3,273

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

The aggregate emoluments of each of the directors for both years were within the emoluments band ranging from nil to HK$1,000,000.

No director has waived any remunerations during the year.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2001: four) were directors of the Company, details of whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining one (2001: one) highest paid individual are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**364**	618
Retirement benefits scheme contributions	**17**	17
	381	635

The aggregate emoluments of the remaining highest paid individual for both years were within the emoluments band ranging from nil to HK$1,000,000.

During the year, 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.

11. TAXATION

	2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**5,210**	4,603
(Over) underprovision in prior year	**(2)**	54
	5,208	4,657
Deferred taxation *(note 21)*	**(175)**	–
	5,033	4,657

Hong Kong Profits Tax is calculated at 16% (2001: 16%) on the estimated assessable profit for the year.

In accordance with the relevant tax laws and regulations of the PRC, the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. No provision for the PRC EIT has been made in the financial statements as the subsidiary is within the tax exemption period.

12. DIVIDENDS

	2002 HK$'000	2001 HK$'000
Interim dividend paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation	55,000	5,000
Proposed final dividend	9,000	–
Proposed special dividend	3,000	–
	67,000	5,000

The final dividend of HK$0.01125 (2001: Nil) and the special dividend of HK$0.00375 (2001: Nil) have been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK$24,388,000 (2001: HK$26,006,000) and on the weighted average number of 696,438,356 (2001: 680,000,000) ordinary shares in issue during the year on the assumption that the Group Reorganisation and capitalisation issue had been completed on 1st January, 2001.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Yachts	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
COST OR VALUATION						
At 1st January, 2002	103,020	18,081	9,387	4,326	1,317	136,131
Additions	346	296	782	82	–	1,506
Disposals	(84)	(14)	–	–	–	(98)
Decrease in revaluation	(1,342)	–	–	–	–	(1,342)
At 31st December, 2002	101,940	18,363	10,169	4,408	1,317	136,197
Comprising:						
At cost	–	18,363	10,169	4,408	1,317	34,257
At valuation 2002	101,940	–	–	–	–	101,940
	101,940	18,363	10,169	4,408	1,317	136,197
ACCUMULATED DEPRECIATION AND AMORTISATION						
At 1st January, 2002	–	6,983	6,111	3,068	1,053	17,215
Provided for the year	2,046	1,749	1,001	688	132	5,616
Eliminated on disposals	–	(12)	–	–	–	(12)
Eliminated on revaluation	(2,046)	–	–	–	–	(2,046)
At 31st December, 2002	–	8,720	7,112	3,756	1,185	20,773
NET BOOK VALUES						
At 31st December, 2002	101,940	9,643	3,057	652	132	115,424
At 31st December, 2001	103,020	11,098	3,276	1,258	264	118,916

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
The carrying amount of the leasehold land and building comprises:		
Properties held under medium-term leases:		
– in Hong Kong	**14,210**	14,870
– elsewhere in the PRC	**87,730**	88,150
	101,940	103,020

The leasehold land and buildings of the Group were revalued by Messrs. Castores Magi Surveyors Limited, an independent firm of registered professional surveyors, at 31st December, 2002 on an open market existing use basis. The revaluation gave rise to the revaluation surplus of HK$704,000 of which approximately HK$1,038,000 has been credited to the property revaluation reserve and HK$334,000 has been charged to the income statement.

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

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Cost	**99,204**	98,942
Accumulated depreciation and amortisation	**(10,101)**	(8,057)
Net book values	**89,103**	90,885

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY 2002 HK$'000
Unlisted shares, at cost	**118,850**
Amount due from a subsidiary	**7,947**
	126,797

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Company as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation as set out in note 1.

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment. The Company agreed not to demand repayment within the next twelve months from the balance sheet date, and accordingly, the amount was shown as non-current.

Particulars of the Company's principal subsidiaries at 31st December, 2002 are set out in note 30.

16. INVENTORIES

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**5,018**	4,733
Work in progress	**109**	261
Finished goods	**15,205**	12,495
	20,332	17,489

Included in inventories are raw materials of HK$584,000 (2001: HK$672,000) carried at net realisable value.

17. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK$31,858,000 (2001: HK$31,566,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2002	2001
	HK$'000	*HK$'000*
Within 30 days	**16,106**	16,322
Between 31 to 60 days	**7,489**	7,091
Between 61 to 90 days	**5,293**	4,481
Over than 90 days	**2,970**	3,672
	31,858	31,566
Other debtors, deposits and prepayments	**3,895**	1,846
	35,753	33,412

18. AMOUNT DUE FROM FORMER ULTIMATE HOLDING COMPANY

The amount due from former ultimate holding company was unsecured, interest free and was fully repaid during the year ended 31st December, 2002.

19. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK$6,975,000 (2001: HK$9,623,000) which are included in the Group's creditors and accruals is as follows:

	2002	2001
	HK$'000	*HK$'000*
Within 30 days	**2,991**	6,190
Between 31 to 60 days	**1,657**	1,970
Between 61 to 90 days	**1,399**	1,446
Over than 90 days	**928**	17
	6,975	9,623
Other creditors and accruals	**3,552**	2,784
	10,527	12,407

20. BANK BORROWINGS

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Bank borrowings comprise:		
Bank overdrafts	**659**	2,842
Trust receipt loans	**1,030**	128
Other bank loans	**24,993**	36,106
	26,682	39,076
Analysed as:		
Secured	**24,340**	39,076
Unsecured	**2,342**	–
	26,682	39,076
The maturity of the above loans and overdrafts is as follows:		
On demand or within one year	**11,729**	33,019
More than one year, but not exceeding two years	**8,411**	6,057
More than two years, but not exceeding five years	**6,542**	–
	26,682	39,076
Less: amounts due within one year shown under current liabilities	**(11,729)**	(33,019)
Amounts due after one year	**14,953**	6,057

21. DEFERRED TAXATION

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Balance at beginning of the year	**429**	429
Release to current taxation *(note 11)*	**(175)**	–
Balance at end of the year	**254**	429

At the balance sheet date, the major component of the deferred tax liabilities is attributable to the tax effect of timing differences arising from accelerated depreciation allowance.

There was no significant unproivded deferred taxation during the year and at the balance sheet date.

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.

22. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	**Nominal value**
		HK$'000
Authorised:		
On incorporation	40,000,000	400
Increase in authorised share capital	9,960,000,000	99,600
At 31st December, 2002	10,000,000,000	100,000
Issue and fully paid:		
Allotted and issued nil paid on 13th March, 2002	1	–
Issue of shares upon the Group Reoganisation	999,999	10
Issue of new shares	120,000,000	1,200
Capitalisation issue	679,000,000	6,790
At 31st December, 2002	800,000,000	8,000

22. SHARE CAPITAL *(Continued)*

The following changes in the share capital of the Company took place during the period from 27th February, 2002 (date of incorporation) to 31st December, 2002:

(a) The Company was incorporated on 27th February, 2002 with an authorised share capital of HK$400,000 divided into 40,000,000 ordinary shares of HK$0.01 each, one of which was allotted and issued nil paid on 13th March, 2002.

(b) Pursuant to written resolutions of all shareholders of the Company passed on 23rd October, 2002:

   (i) the authorised share capital of the Company was increased from HK$400,000 to HK$100,000,000 by the creation of an additional 9,960,000,000 new ordinary shares of HK$0.01 each. The new shares rank pari passu in all respects with the existing shares;

   (ii) as consideration for the acquisition of the entire issued share capital of PME International (BVI) Company Limited, the then holding company of the Group, the directors were authorised to allot and issue an aggregate of 999,999 ordinary shares and together with the 1 ordinary share, which was allotted and issued nil paid on 13th March, 2002, credited as fully paid under the Group Reorganisation which took place on 23rd October, 2002;

   (iii) the placing and public offer of 120,000,000 new shares of the Company of HK$0.01 each at a price of HK$0.25 per share, were approved and, the directors were authorised to allot and issue the new shares in connection with the Placing and Public Offer; and

   (iv) the directors were also authorised to allot and issue a total of 679,000,000 new shares credited as fully paid at par to the holders of shares on the register of members at the close of business on 23rd October, 2002 in proportion to their then existing holding by way of capitalisation of the sum of HK$6,790,000 standing to the credit of the share premium account of the Company following the Placing and Public Offer mentioned in (iii) above.

On 12th November, 2002, the Company completed the issue, allotment and despatchment of 120,000,000 shares of the Company of HK$0.01 each in connection with the Placing and Public Offer. The above resolutions became unconditional on 13th November, 2002 when the Company's shares were listed on the Main Board of the Stock Exchange. The proceeds from the shares issued above shall be used for financing the Group's expansion of the sales and marketing network and set up representative offices in the PRC, improvement of the production facilities and the technical application centre of the Group, reduction of the Group's bank borrowings and use as general working capital for the Group.

The share capital of 31st December, 2001 as shown in the consolidated balance sheet represented the nominal value of the issued share capital of PME International (BVI) Company Limited, the then holding company of the Group, acquired by the Company pursuant to the Group Reorgainsation.

23. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 23rd October, 2002, the board of directors of the Company may, at its discretion, grant options to full-time employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein, and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK$1 is payable on acceptance of each grant.

No share options have been granted under the scheme since its adoption.

24. SHARE PREMIUM AND RESERVES

	Share premium	**Deficit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
Premium arising on Group Reorganisation	118,840	–	118,840
Shares issued at premium on Placing and Public Offer	28,800	–	28,800
Issue of shares arising from capitalisation of share premium	(6,790)	–	(6,790)
Share issue expenses	(6,370)	–	(6,370)
Loss for the year	–	(78)	(78)
At 31st December, 2002	134,480	(78)	134,402

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 HK$134,402,000.

25. CONTINGENT LIABILITIES

At 31st December, 2002, the Company had contingent liabilities of HK$25,022,000 in respect of the extent of banking facilities utilised by subsidiaries in which corporate guarantees were given by the Company to certain banks.

26. PLEDGE OF ASSETS

At 31st December, 2002, leasehold land and buildings with aggregate carrying value of HK$101,940,000 (2001: HK$103,020,000) were pledged to banks to secure banking facilities granted to the Group.

27. CAPITAL COMMITMENTS

At 31st December, 2002, the Group had capital commitment of HK$37,000 (2001: HK$118,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

28. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the mandatory provident fund scheme ("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 scheme are held separately from those of the Group in funds under the control of independent trustees. 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 of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the income statement represents contributions payable to the MPF Scheme by the Group.

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.

29. 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 HK$'000	2001 HK$'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 Limited	(i)	–	3,105
Purchases from		(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 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.

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(notes a and b)*	Principal activities
Fook Cheong Ho International (BVI) Limited	British Virgin Islands	Ordinary shares US$3	Investment holding, trading of polishing materials and equipment and provision of technical consultancy service
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note c)* Ordinary shares HK$30	Trading of polishing materials and equipment
PME Abrasive Products Limited	Hong Kong	Ordinary shares HK$1,000,000	Trading of abrasive materials
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US$30,000	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note c)* Ordinary shares HK$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co., Limited	Hong Kong	Ordinary shares HK$60,000	Trading of polishing equipment
Unison Base Investment Limited	Hong Kong	Ordinary shares HK$1,000,000	Investment holding and property investment
Dongguan PME Polishing Materials & Equipments Co., Ltd.	PRC	Registered capital HK$40,000,000 *(note d)*	Manufacturing and trading of polishing materials

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

(a) The Company directly holds the entire interest in PME International (BVI) Company Limited. The interests of all other subsidiaries are indirectly held by the Company.

(b) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all the principal subsidiaries operate principally in Hong Kong.

(c) 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.

(d) Established as a wholly foreign owned enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31st December, 2002 or at any time during the year.

Financial Summary

	For the year ended 31st December,			
	1999	2000	2001	**2002**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS				
Turnover	122,451	123,363	119,064	**121,310**
Cost of sales	(73,286)	(70,092)	(61,259)	**(60,462)**
Gross profit	49,165	53,271	57,805	**60,848**
Other operating income	2,096	1,067	2,064	**646**
Selling and distribution expenses	(4,187)	(4,217)	(3,180)	**(4,354)**
Administrative expenses	(25,249)	(24,961)	(23,585)	**(25,213)**
Revaluation (decrease) increase on leasehold land and buildings	(694)	585	(183)	**(334)**
Profit from operations	21,131	25,745	32,921	**31,593**
Financial costs	(1,738)	(2,960)	(2,258)	**(2,172)**
Share of results of an associate	65	–	–	**–**
Profit before taxation	19,458	22,785	30,663	**29,421**
Taxation	(2,214)	(3,329)	(4,657)	**(5,033)**
Net profit for the year	17,244	19,456	26,006	**24,388**

	At 31st December,			
	1999	2000	2001	**2002**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES				
Total assets	182,417	193,073	212,774	**192,252**
Total liabilities and deferred taxation	(82,839)	(71,367)	(57,112)	**(42,534)**
Equity	99,578	121,706	155,662	**149,718**

Notes:

1. The Company was incorporated in the Cayman Islands on 27th February, 2002 and became the holding company of the Group with effect from 23rd October, 2002 upon completion of the Group Reorganisation as set out in the Company's prospectus dated 31st October, 2002.

2. The results of the Group for the three years ended 31st December, 2001 and the balance sheet of the Group at 31st December, 1999, 2000 and 2001 have been prepared on a merger basis and are extracted from the Company's prospectus dated 31st October, 2002.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of shareholders of the Company will be held at 5th Floor, Unison Industrial Centre, Nos. 27–31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong on 23rd May, 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31st December, 2002;

2. To declare a final dividend and a special dividend for the year ended 31st December, 2002;

3. To re-elect directors and authorise the board of directors to fix their remuneration;

4. To re-appoint auditors and authorise the board of directors to fix their remuneration;

5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "**THAT**:

   (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue or otherwise deal with additional shares in the capital of the Company, and to make or grant offers, agreements and options which might require the exercise of such power, be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (aa) Rights Issue; or (bb) the exercise of rights of subscription or conversion under the terms of any warrants or other securities issued by the Company carrying a right to subscribe for or purchase shares of the Company; or (cc) the exercise of any option under any share option scheme of the Company adopted by its shareholders for the grant or issue to employees of the Company and/or any of its subsidiaries of options to subscribe for or rights to acquire shares of the Company; or (dd) any scrip dividend or other similar scheme implemented in accordance with the Articles of Association of the Company, shall not exceed 20% of the total aggregate nominal amount of the share capital of the Company in issue as at the date of the passing this Resolution and the said approval be limited accordingly; and

(d) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

i. the conclusion of the next annual general meeting of the Company; or

ii. the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."

"Rights Issue" means an offer of shares or other securities open for a period fixed by the directors of the Company to holders of shares on the Register of Members of the Company on a fixed recorded date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements the directors of the Company may deem necessary or expedient in relation to fractional entitlements of having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong).

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT**:

(a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of HK$0.01 each in the capital of the Company be and is hereby generally and unconditionally approved;

(b) the aggregate nominal of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

i. the conclusion of the next annual general meeting of the Company; or

ii. the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."

7. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "**THAT** the general mandate referred to in Resolution No. 5 above be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company since the granting of the general mandate referred to in Resolution No.6 above and pursuant to the exercise by the directors of the powers of the Company to purchase such shares provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution."

By order of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 15th April, 2003

Notes:

(i) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies (who must be an individual or individuals) to attend and vote instead of him. A proxy does not need to be a member of the Company.

(ii) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney of authority, must be lodged with the Company's Hong Kong branch share registrar, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not less than 48 hours before the time fixed for holding the meeting and any adjourned meeting.

(iii) The Register of Members of the Company will be closed from 16th May, 2003 to 23rd May, 2003, both days inclusive, during which no transfer of shares can be registered. To qualify for the final dividend and the special dividend (which will be payable on or about 10th June, 2003) to be approved at the forthcoming Annual General Meeting, members must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 15th May, 2003.

(iv) A circular containing details regarding Ordinary Resolutions nos. 5 to 7 will be sent to shareholders together with this annual report.