



PME GROUP LIMITED

必美宜集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2003

The Board of Directors (the “Directors”) of PME Group Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 (the “Period”) and the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2003	2002
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	(3)	55,775	48,551
Cost of sales		(29,437)	(24,373)
Gross profit		26,338	24,178
Other operating income		722	249
Selling and distribution expenses		(2,039)	(1,439)
Administrative expenses		(13,746)	(11,240)
Revaluation decrease on leasehold land and buildings		–	(39)
Profit from operations	(4)	11,275	11,709
Finance costs		(682)	(1,304)
Profit before taxation		10,593	10,405
Taxation	(5)	(1,805)	(1,815)
Net profit for the period		8,788	8,590
Dividend	(6)	2,400	55,000
Earnings per share – Basic	(7)	HK1.10 cent	HK1.26 cent

Notes:

(1) Group restructuring and basis of preparation of financial statements

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 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 (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 previous holding company of the Group, and thereby became the holding company of the Group on 23 October 2002.

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

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

The condensed consolidated interim financial statements have been prepared in accordance with SSAP 25 “Interim Financial Reporting” issued by the HKSA.

(2) Principal accounting policies

The condensed consolidated interim financial statements for the Period are unaudited and have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings.

The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those adopted in the Group’s audited financial statements for the year ended 31 December 2002, except for the adoption of SSAP 12 (Revised) “Income Tax” which is effective for the accounting period commenced on or after 1 January 2003. The adoption of SSAP 12 (Revised) has had no significant effect on the results of the Group for the current and prior accounting periods.

(3) Segmental information

The analysis of the turnover and segment result of the Group by operating divisions during the Period are as follows:

	Turnover		Segment result	
	Six months ended 30 June 2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000	Six months ended 30 June 2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000
<i>Operating divisions</i>				
Manufacturing products	25,404	23,104	7,518	7,886
Trading products	29,754	24,909	2,567	3,194
Technical service	617	538	468	419
	<u>55,775</u>	<u>48,551</u>	<u>10,553</u>	<u>11,499</u>
Other operating income			722	249
Revaluation decrease in leasehold land and buildings			–	(39)
Profit from operations			11,275	11,709
Finance costs			(682)	(1,304)
Profit before taxation			10,593	10,405
Taxation			(1,805)	(1,815)
Net profit for the period			<u>8,788</u>	<u>8,590</u>

The Group's operations are located in Hong Kong and Mainland China. The Group's trading division is mainly located in Hong Kong. Manufacturing and technical service are carried out in Mainland China.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of customers:

	Turnover by geographical market		Contribution to profit from operations	
	Six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	Six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Hong Kong	38,213	32,130	7,146	7,305
Mainland China	15,443	14,809	3,302	3,965
Other Asian regions	415	497	18	6
North America and Europe	610	372	25	76
Other countries	1,094	743	62	147
	<u>55,775</u>	<u>48,551</u>	<u>10,553</u>	<u>11,499</u>
Other operating income			722	249
Revaluation decrease on leasehold land and buildings			–	(39)
Profit from operations			<u>11,275</u>	<u>11,709</u>

(4) Profit from operating activities

Profit from operating activities has been arrived at after charging depreciation and amortisation of HK\$2,766,000 (2002: HK\$2,732,000).

(5) Taxation

	Six months ended 30 June 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current period	<u>1,805</u>	<u>1,815</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the period.

No provision for the PRC Enterprise Income Tax has been made as the PRC subsidiary of the Group is within the tax exemption period.

Deferred tax has not been provided as the Group did not have any significant unprovided deferred tax for the Period (2002: Nil).

(6) **Dividend**

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation	–	55,000
Interim dividend	<u>2,400</u>	–
	<u>2,400</u>	<u>55,000</u>

The Directors resolved that an interim dividend of HK0.3 cent per share for the six months ended 30 June 2003 (2002: Nil) to be paid to the shareholders whose names register in the Company's register of members on 28 October 2003. The dividend warrants will be dispatched at around 5 November 2003.

During the Period, final dividend and special dividend for the year ended 31 December 2002 amounting to HK\$9,000,000 and HK\$3,000,000 respectively have been approved and paid to the shareholders.

(7) **Earnings per share**

The calculation of the basic earnings per share is based on the net profit for the Period of HK\$8,788,000 (2002: HK\$8,590,000) and 800,000,000 (2002: 680,000,000) ordinary shares in issue during the Period on the assumption that the Group Reorganisation and capitalisation issue had been completed on 1 January 2002.

No diluted earnings per share is presented as the Company does not have any dilutive potential ordinary shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Performance

In the first half of 2003, Hong Kong had a continuation of the prevailing poor economic conditions. There was no positive economic or political news. Despite the current worldwide economic downturn, the Group was able to achieve steady results as compared to last corresponding period. This was due to a timely and flexible operations system implemented by the Group with the full involvement of the directors, management team and all staff that enabled the business to move forward. Thus, we overcame many obstacles and were able to maintain our previous results.

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

The Group's turnover for the Period was approximately HK\$55.8 million, representing an increase of 14.9% as compared with the corresponding period in 2002. Net profit for the Period was approximately HK\$8.8 million, increased slightly by 2.3% as compared with net profit of approximately HK\$8.6 million in the last corresponding period. The increase in turnover was mainly due to the increased demand of the Group's products from the customers in Hong Kong. However, the net profit for the Period has not increased in line with the increase in turnover due to the decrease in gross profit margin from 50% in 2002 to 47% in 2003. The increase in selling and distribution expenses and administrative expenses also set off partly the profit from increase in turnover.

Liquidity and Financial Resources

At 30 June 2003, the Group had interest-bearing bank borrowings of approximately HK\$26.2 million (31 December 2002: HK\$26.7 million), of which approximately HK\$16.7 million 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 30 June 2003, the Group's leasehold land and buildings with aggregate carrying value of approximately HK\$100.9 million (31 December 2002: HK\$101.9 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 30 June 2003, current assets of the Group amounted to approximately HK\$66.0 million (31 December 2002: HK\$76.5 million). The Group's current ratio was approximately 2.24 as at 30 June 2003 as compared with 2.80 as at 31 December 2002. At 30 June 2003, the Group had total assets of approximately HK\$185.7 million (31 December 2002: HK\$192.3 million) and total liabilities of approximately HK\$39.2 million (31 December 2002: HK\$42.5 million), representing a gearing ratio (measured as total liabilities to total assets) of 21.1% as at 30 June 2003 as compared with 22.1% as at 31 December 2002.

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 30 June 2003 and 31 December 2002.

Capital Commitments

The Group had no material capital commitments as at 30 June 2003 and 31 December 2002.

Outlook for second half of 2003

Because of the poor economy of Hong Kong during the first half-year, we did not expect any significant breakthrough in the near future. There is no doubt that Mainland China is in the middle of rapid economic growth. For example, there is high expectation on the development of the Yangtze River Delta. The recent signing of the Closer Economic Partnership Agreement ("CEPA") between Mainland China and Hong Kong will enable the importation of Hong Kong manufactured products into Mainland China tax-free. We do not expect immediate significant growth in the second half-year, although in the medium term CEPA will give some stimulus to the manufacturing industries in Hong Kong. CEPA will also assist in rebuilding of confidence in Hong Kong's economy recovery. The Group will follow the platform of 'maintaining the past results' in the short term and will then move forward steadily. We will explore new markets and will continue to enhance customers' confidence on our products and services. We remain optimistic about the Group's future prospects. Based upon management's ability to steer the Group through the poor economy in the first half-year, we have decided to implement the followings:

- follow the same operations mode and strategy of the first half-year;
- use scientific management techniques to handle the current economic crisis; and
- maintain strong leadership, a high initiative and positive attitude among all staff.

We would request our shareholders to join us moving forward together to do our best in looking for new opportunities and enhancing relationship. We commit to achieve the best results possible for our shareholders.

Employees and Remuneration

At 30 June 2003, the Group had approximately 300 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Period.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the Period, except that the current independent non-executive directors of the Company are not appointed for specific terms as required by the Code, but are subject to retirement by rotation and re-election in accordance with the Company’s Articles of Association.

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.

The unaudited condensed financial statements for the six months ended 30 June 2003 have been reviewed by the Audited Committee.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 October 2003 to 28 October 2003, both days inclusive, during which no transfer of shares can be registered. To qualify for the interim dividend, 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 21 October 2003.

FULL DETAILS OF FINANCIAL INFORMATION

The detailed unaudited consolidated interim results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 23 September 2003

* *For identification only*

“Please also refer to the published version of this announcement in The Standard”