



**Pme**

**PME GROUP LIMITED**

**必美宜集團有限公司**

(incorporated in the Cayman Islands with limited liability)

**PME makes  
everything sparkle**

Interim  
Report  
**2004**

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 2004 (the “Period”) and the comparative figures for the corresponding period in 2003 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Turnover	3	63,656	55,775
Cost of sales		(35,091)	(29,437)
Gross Profit		28,565	26,338
Other operating income		253	722
Selling and distribution expenses		(4,615)	(2,039)
Administrative expenses		(12,035)	(13,746)
Profit from operations	4	12,168	11,275
Finance costs	5	(505)	(682)
Profit before taxation		11,663	10,593
Taxation	6	(1,980)	(1,805)
Net profit for the Period		9,683	8,788
Dividend	7	2,880	2,400
Earnings per share – Basic	8	HK 1.05 cents	HK 1.10 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Notes	30 June 2004 (unaudited) HK\$'000	31 December 2003 (audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		119,775	119,233
Investments in securities		5,511	–
Other investments		3,903	1,829
Club debentures		350	350
		<b>129,539</b>	<b>121,412</b>
<b>Current assets</b>			
Inventories		25,070	18,176
Debtors, deposits and prepayments	9	46,502	45,398
Taxation recoverable		–	32
Bank balances and cash		67,538	19,179
		<b>139,110</b>	<b>82,785</b>
<b>Current liabilities</b>			
Creditors and accruals	10	8,808	9,899
Taxation payable		6,474	5,491
Obligations under a finance lease		156	156
Bank borrowings		19,301	22,232
		<b>34,739</b>	<b>37,778</b>
<b>Net current assets</b>		<b>104,371</b>	<b>45,007</b>
<b>Total assets less current liabilities</b>		<b>233,910</b>	<b>166,419</b>
<b>Non-current liability</b>			
Obligations under a finance lease		324	400
<b>Deferred taxation</b>		<b>4,827</b>	<b>4,640</b>
		<b>228,759</b>	<b>161,379</b>
<b>Capital and reserves</b>			
Share capital	11	9,600	8,000
Share premium and reserves		219,159	153,379
		<b>228,759</b>	<b>161,379</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At 1 January 2004</b>	<b>8,000</b>	<b>134,480</b>	<b>(38,581)</b>	<b>11,700</b>	<b>45,780</b>	<b>161,379</b>
Shares issued at premium on Placing	1,600	70,400	-	-	-	72,000
Share issue expenses	-	(2,303)	-	-	-	(2,303)
Dividend paid	-	-	-	-	(12,000)	(12,000)
Net profit for the Period	-	-	-	-	9,683	9,683
<b>At 30 June 2004</b>	<b>9,600</b>	<b>202,577</b>	<b>(38,581)</b>	<b>11,700</b>	<b>43,463</b>	<b>228,759</b>
At 1 January 2003	8,000	134,480	(38,581)	11,679	29,547	145,125
Dividend paid	-	-	-	-	(12,000)	(12,000)
Net profit for the period	-	-	-	-	8,788	8,788
<b>At 30 June 2003</b>	<b>8,000</b>	<b>134,480</b>	<b>(38,581)</b>	<b>11,679</b>	<b>26,335</b>	<b>141,913</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended 30 June</b>	
	<b>2004 (unaudited) HK\$'000</b>	<b>2003 (unaudited) HK\$'000</b>
Net cash inflow from operating activities	<b>1,796</b>	9,119
Net cash outflow from investing activities	<b>(8,127)</b>	(6,687)
Net cash inflow/(outflow) from financing activities	<b>55,900</b>	(15,137)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>49,569</b>	(12,705)
Cash and cash equivalents at beginning of the period	<b>17,969</b>	19,691
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>67,538</b>	6,986
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>67,538</b>	9,694
Bank overdrafts	<b>-</b>	(2,708)
	<b>67,538</b>	6,986

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### 2. ACCOUNTING POLICIES

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 2003.

### 3. SEGMENTAL INFORMATION

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

	Turnover		Segment results	
	Six months ended 30 June			
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<b>Operating divisions</b>				
Manufacturing products	27,378	25,404	7,735	7,518
Trading products	34,835	29,754	3,415	2,567
Technical services	1,443	617	765	468
	<b>63,656</b>	<b>55,775</b>	<b>11,915</b>	<b>10,553</b>
Other operating income			<b>253</b>	722
Profit from operations			<b>12,168</b>	11,275
Finance costs			<b>(505)</b>	(682)
Profit before taxation			<b>11,663</b>	10,593
Taxation			<b>(1,980)</b>	(1,805)
Net profit for the Period			<b>9,683</b>	8,788

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

**3. SEGMENTAL INFORMATION** (continued)

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

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Hong Kong	39,160	38,213
Mainland China	19,976	15,443
Other Asian regions	2,425	415
North America and Europe	624	610
Other countries	1,471	1,094
	<b>63,656</b>	<b>55,775</b>

**4. PROFIT FROM OPERATIONS**

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation:		
– Own assets	2,750	2,766
– Asset held under a finance lease	93	–
Cost of inventories sold	35,091	29,437

**5. FINANCE COSTS**

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	490	682
Interest on finance lease	15	–
	<b>505</b>	<b>682</b>

## 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
The charge comprises:		
Current period:		
– Hong Kong Profits Tax	1,793	1,805
– Deferred tax	187	–
	<b>1,980</b>	<b>1,805</b>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits 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.

## 7. DIVIDEND

	<b>Six months ended 30 June</b>	
	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
Interim dividend	<b>2,880</b>	2,400

The Directors resolved that an interim dividend of HK 0.3 cent per share for the six months ended 30 June 2004 (2003: HK 0.3 cent) to be paid to the shareholders whose names register in the Company's register of members on 15 October 2004. The dividend warrants will be dispatched at around 27 October 2004.

During the Period, final dividend for the year ended 31 December 2003 amounting to HK\$12,000,000 has been approved and paid to the shareholders.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the Period of HK\$9,683,000 (2003: HK\$8,788,000) and the weighted average number of 924,835,165 (2003: 800,000,000) ordinary shares in issue during the Period and have been adjusted for placement of new shares on 10 February 2004.

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

## 9. DEBTORS, DEPOSITS AND PREPAYMENTS

The aged analysis of the trade debtors of HK\$43,147,000 (31 December 2003: HK\$39,254,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Within 30 days	20,781	16,382
Between 31 to 60 days	13,150	13,641
Between 61 to 90 days	7,107	5,460
Over 90 days	2,109	3,771
	<b>43,147</b>	39,254
Other debtors, deposits and prepayments	<b>3,355</b>	6,144
	<b>46,502</b>	45,398

## 10. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$5,122,000 (31 December 2003: HK\$6,257,000) which are included in the Group's creditors and accruals is as follows:

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Within 30 days	2,489	2,214
Between 31 to 60 days	860	1,276
Between 61 to 90 days	919	2,192
Over 90 days	854	575
	<b>5,122</b>	6,257
Other creditors and accruals	<b>3,686</b>	3,642
	<b>8,808</b>	9,899

## 11. SHARE CAPITAL

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	<b>100,000</b>	100,000
Issued and fully paid: 960,000,000 (2003: 800,000,000) ordinary shares of HK\$0.01 each	<b>9,600</b>	8,000

On 10 February 2004, the Company placed 160,000,000 new shares at HK\$0.45 per share. Net proceeds from the placement of new shares amounted to approximately HK\$69.7 million after deducting the professional fees and all related expenses.

## 12. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2004 and 31 December 2003.

## 13. CAPITAL COMMITMENTS

The Group had no material capital commitments as at 30 June 2004. At 31 December 2003, the Group had capital commitment of HK\$1,957,000 in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Financial Performance

The Group is principally engaged in the manufacturing of **Pme** branded industrial abrasive products in the PRC and trading of various global brands of industrial abrasive products. More than 90% of the Group's turnover is contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

In the first six months of 2004, the Hong Kong economy has achieved noticeable growth. Although the recovery is at the early stage, there is no doubt that the Hong Kong economy has grown steadily and deflationary situation has ended. Through seizing the opportunities generated by the improved economic environment, the Group has accomplished the first-half year targets, and achieved reasonable financial performance as compared with that of last year.

The Group's turnover for the Period was approximately HK\$63.7 million, representing an increase of 14.1% as compared with the corresponding period in 2003. Net profit for the Period was approximately HK\$9.7 million, increased by 10.2% as compared with net profit of approximately HK\$8.8 million in the last corresponding period. The increase in net profit for the Period mainly contributed by effective cost control and the increase in turnover during the Period. The increase in turnover was mainly due to the increased demand of the Group's products and technical services from the customers in Hong Kong and Mainland China. A number of promotion campaigns had been launched during the Period, which had successfully attracted customers' focus on the Group's products and services and increased awareness of the Group's brand name **Pme** in Mainland China. During the Period, the Group had implemented a number of cost control measures which successfully reduced the administrative expenses by 12.4% as compared with the last corresponding period.

The encouraging performance for the Period was the results of the successful marketing plans and the effective cost control measures.

## Liquidity and Financial Resources

At 30 June 2004, the Group had interest-bearing bank borrowings of approximately HK\$19.3 million (31 December 2003: HK\$22.2 million), which were of maturity within one year. The directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 30 June 2004, the Group's leasehold land and buildings with aggregate carrying value of approximately HK\$102.3 million (31 December 2003: HK\$104.4 million) were pledged to banks to secure the banking facilities granted to the Group.

At 30 June 2004, current assets of the Group amounted to approximately HK\$139.1 million (31 December 2003: HK\$82.8 million). The Group's current ratio was approximately 4.00 as at 30 June 2004 as compared with 2.19 as at 31 December 2003. At 30 June 2004, the Group had total assets of approximately HK\$268.6 million (31 December 2003: HK\$204.2 million) and total liabilities of approximately HK\$39.9 million (31 December 2003: HK\$42.8 million), representing a gearing ratio (measured as total liabilities to total assets) of 14.9% as at 30 June 2004 as compared with 21.0% as at 31 December 2003.

## 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 13 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 as follows:

- approximately HK\$8.0 million to improve the production facilities and the technical application centre of the Group;
- approximately HK\$3.3 million to expand the Group's sales and marketing network;
- approximately HK\$5.0 million to reduce the Group's bank borrowings; and
- approximately HK\$4.6 million as general working capital of the Group.

At 30 June 2004, the remaining balance of the net proceeds of approximately HK\$2.7 million, which has been placed with licensed banks in Hong Kong, will be applied to expand the Group's sales and marketing network.

## Use of Proceeds from Placement of New Shares

On 10 February 2004, the Company placed 160,000,000 new shares at HK\$0.45 per share. Net proceeds from the placement of new shares, after deducting the professional fees and all related expenses, amounted to approximately HK\$69.7 million. Part of the net proceeds has been applied as follows :

- approximately HK\$2.3 million to improve and expand the production facilities of the Group;
- approximately HK\$0.3 million to support the research and development of the Group's products;
- approximately HK\$0.2 million to explore and develop the market for the Group in the eastern China;
- approximately HK\$5.0 million to reduce the Group's bank borrowings; and
- approximately HK\$36.7 million retained as general working capital and for future investment purposes.

The remaining balance of the net proceeds of approximately HK\$25.2 million is intended to be applied as follows:

- approximately HK\$12.7 million to improve and expand the production facilities of the Group;
- approximately HK\$4.7 million to support the research and development of the Group's products; and
- approximately HK\$7.8 million to explore and develop the market for the Group in the eastern China.

## 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.

## **Outlook for Second Half of 2004**

Broadly speaking, current Hong Kong economic environment has firm foundation. Although the Chinese Government has intensified the macro-control measures, it is believed that the economic growth of Mainland China will still continue. It is perfectly obvious that the implementation of CEPA has injected vitality to the Hong Kong economy and facilitated the pace of recovery. The Group has an optimistic view on the long-term development of the local economy.

The Group will continue to focus on innovation and change, be prepared for danger in times of peace, grasp investment opportunities and develop new markets. The recent increase in the price of the crude oil has resulted in substantial increase in the prices of a number of chemical raw materials applied by the Group in its manufacturing. The Group is facing the challenges of the increase in products costs and the difficulties in transferring the increased costs to its customers as the customers are also facing the same difficulties, and there is increasing competition in the polishing materials market. The management is taking every effort to control the product costs in order to maintain the competitiveness of the Group's products in the market. All staff members of the Group will try our best to achieve the best return for our shareholders.

## **Employees and Remuneration**

At 30 June 2004, the Group had approximately 310 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2004, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Long positions in the ordinary shares of the Company:

Directors	Number of shares held		Total interests	Percentage of interests
	Personal interests	Corporate interests		
Mr. Cheng Kwok Woo	54,400,000	361,168,000 (note)	415,568,000	43.29%
Mr. Cheng Kwong Cheong	54,400,000	361,168,000 (note)	415,568,000	43.29%
Ms. Cheng Wai Ying	54,400,000	361,168,000 (note)	415,568,000	43.29%
Ms. Chan Yim Fan	8,205,333	–	8,205,333	0.85%

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.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

## **DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Saved as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding company, or subsidiaries a party to any arrangement to enable the directors or chief executive to acquire such rights in any other corporate.

## **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.

At 30 June 2004, no share options has been offered and/or granted to any participants under the share option scheme.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules. The following persons were interested (including short positions) in the shares of underlying shares of the Company:

Long positions in the ordinary shares of the Company:

Name	Number of shares held	Percentage of interests
PME Investments (note 1)	361,168,000	37.62%
Mr. Cheng Kwok Woo (note 2)	415,568,000	43.29%
Mr. Cheng Kwong Cheong (note 2)	415,568,000	43.29%
Ms. Cheng Wai Ying (note 2)	415,568,000	43.29%
Ms. Tsang Sui Tuen (note 3)	415,568,000	43.29%
Ms. Wan Kam Ping (note 4)	415,568,000	43.29%
Mr. Cheng Yau Kuen (note 5)	415,568,000	43.29%
Morgan Stanley	58,380,000	6.08%

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 approximately 5.67% 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.
3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 415,568,000 shares of the Company that Mr. Cheng Kwok Woo has interest in.

4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interest in 415,568,000 shares of the Company that Mr. Cheng Kwong Cheong has interest in.
5. Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interest in 415,568,000 shares of the Company that Ms. Cheng Wai Ying has interest in.

Saved as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2004.

### **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 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.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 13 October 2004 to 15 October 2004, 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 4:30 p.m. on 12 October 2004.

## 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 2004 have been reviewed by the Audit Committee.

On behalf of the Board

**Cheng Kwok Woo**

*Chairman*

Hong Kong, 24 September 2004