PME GROUP LIMITED

必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

The Board of Directors (the "Directors') of PME Group Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 and the comparative figures for last year as follows:

AUDITED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	**2004**	2003
		HK$'000	*HK$'000*
Turnover	*3*	**163,640**	155,076
Cost of sales		**(105,287)**	(82,833)
Gross profit		**58,353**	72,243
Other operating income		**866**	624
Selling and distribution expenses		**(7,886)**	(9,004)
Administrative expenses		**(26,584)**	(27,359)
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement		**554**	56
Profit from operations	*4*	**25,303**	36,560
Loss on disposal of a subsidiary		**–**	(30)
Finance costs		**(896)**	(1,233)
Profit before taxation		**24,407**	35,297
Taxation	*5*	**(3,169)**	(4,664)
Net profit for the year		**21,238**	30,633
Dividends	*6*	**2,880**	14,400
Earnings per share			
– Basic and diluted	*7*	**HK2.25 cents**	HK3.83 cents

Notes:

1) Potential impact arising from the recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced to assess the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented.

2) Principal accounting policies

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

The principal accounting policies used in the preparation of the current year's financial statements are consistent with those adopted by the Group in its financial statements for the year ended 31 December 2003.

3) Segmental information

The analysis of the turnover and segment result of the Group by operating divisions during the financial year is as follows:

	Turnover		Segment result	
	Year ended 31 December			
	2004	2003	**2004**	2003
Operating divisions	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Manufacturing products	**91,997**	75,454	**14,461**	23,584
Trading products	**67,074**	75,746	**5,596**	9,120
Technical service	**4,569**	3,876	**3,826**	3,176
	163,640	155,076	**23,883**	35,880
Other operating income			**866**	624
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement			**554**	56
Profit from operations			**25,303**	36,560
Loss on disposal of a subsidiary			**–**	(30)
Finance costs			**(896)**	(1,233)
Profit before taxation			**24,407**	35,297
Taxation			**(3,169)**	(4,664)
Net profit for the year			**21,238**	30,633

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 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:

	Year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
Hong Kong	**96,923**	95,269
Mainland China	**58,874**	48,939
Other Asian regions	**3,865**	7,471
North America and Europe	**1,490**	1,446
Other countries	**2,488**	1,951
	163,640	155,076

4) Profit from operations

	Year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Owned assets	**7,003**	5,850
Asset held under a finance lease	**185**	48
	7,188	5,898
Staff costs, including directors' remuneration	**19,062**	18,699
Auditors' remuneration	**824**	780
Allowance for doubtful debts	**–**	1,051
Allowance for obsolete inventories	**159**	452
Loss on disposal of property, plant and equipment	**8**	94
Cost of inventories recognised as an expense	**105,287**	82,833

5) Taxation

	Year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**2,613**	5,437
Overprovision in prior year	**(202)**	(558)
	2,411	4,879
Deferred taxation		
Current year	**758**	(264)
Attributable to a change in tax rate	**–**	49
	758	(215)
	3,169	4,664

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

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

6) Dividends and dividend policy

	Year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
Interim dividend paid at HK$0.003 (2003: HK$0.003) per ordinary share	**2,880**	2,400
Proposed final dividend (2003: HK$0.0125 per ordinary share)	**–**	12,000
	2,880	14,400

The Directors have adopted a dividend policy which they consider appropriate to the Company's overall financial position. The dividend policy also depends, among other things, on the Company's operation results, cash-flows, financial conditions, the Company's capital requirements and future plans, and the general economic environment.

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

7) Earnings per share

The calculation of the basic and diluted earnings per share is based on the net profit for the year ended 31 December 2004 of HK$21,238,000 (2003: HK$30,633,000) and the weighted average number of 942,359,000 (2003: 800,000,000) ordinary shares in issue during the year.

There is no difference between the basic and diluted earnings per share as the Company has no potentially dilutive ordinary shares during both years.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Performance

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

Despite of the continued increase in the prices of raw materials during the second half of 2004, the Group has achieved moderate results for the financial year ended 31 December 2004. The Group's turnover for the year 2004 increased by 5.5% from approximately HK$155.1 million in 2003 to approximately HK$163.6 million in 2004. The net profit for the year under review was approximately HK$21.2 million, representing a decrease of 30.7% as compared with the net profit of approximately HK$30.6 million last year. The increase in turnover was mainly due to the increased demand of the Group's products and technical services from the customers in Mainland China. However, the substantial increase in the prices of raw materials has reduced the gross profit margin by around 10% and thus resulting a decrease of net profit from HK$30.6 million in 2003 to HK$21.2 million in 2004. During the year, the Group has implemented effective cost control measures to reduce the selling and administrative expenses.

Liquidity and Financial Resources

At 31 December 2004, the Group had interest-bearing bank borrowings of approximately HK$12.3 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 31 December 2004, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$88.7 million (31 December 2003: HK$104.4 million) were pledged to banks to secure the banking facilities granted to the Group.

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

Foreign Exchange Exposures

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

Contingent Liabilities

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

Capital Commitments

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

Prospects

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

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

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

Employees and Remuneration

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as detailed below:

Month of repurchases	**Number of shares repurchased**	**Highest price paid per share** *HK$*	**Lowest price paid per share** *HK$*	**Aggregate consideration paid** *HK$*
December 2004	2,000,000	0.150	0.149	299,800

The repurchased shares were subsequently cancelled and accordingly, the share capital of the Company was reduced by the nominal value of shares repurchased amounted to HK$20,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

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 (the "Listing Rules") throughout the year, 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 three independent non-executive directors of the Company. The Group's consolidated financial statements for the year ended 31 December 2004 have been reviewed and approved by the audit committee.

FULL DETAILS OF FINANCIAL INFORMATION

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 19 April 2005

As at the date of this announcement, the Board comprises (1) Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying, Mr. Chow Yin Kwang and Ms. Chan Yim Fan as executive directors; (2) Mr. Zheng Jin Hong as non-executive director; and (3) Messrs. Anthony Francis Martin Conway, Leung Yuen Wing and Lam Hon Ming Edward as independent non-executive directors.

* *For identification purpose only*

"Please also refer to the published version of this announcement in the International Herald Tribune"