



# PME GROUP LIMITED

## 必美宜集團有限公司\*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

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 2005 (the “Period”) and the comparative figures for the corresponding period in 2004 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

|  |       | Six months ended 30 June |               |
|--|-------|--------------------------|---------------|
|  |       | 2005                     | 2004          |
|  |       | (unaudited)              | (unaudited)   |
|  | Notes | HK\$'000                 | HK\$'000      |
| Turnover                               | 3     | 67,737                   | 63,656        |
| Cost of sales                          |       | (43,545)                 | (35,091)      |
| Gross profit                           |       | 24,192                   | 28,565        |
| Other operating income                 |       | 942                      | 253           |
| Selling and distribution expenses      |       | (6,288)                  | (4,615)       |
| Administrative expenses                |       | (11,997)                 | (12,035)      |
| Profit from operations                 | 4     | 6,849                    | 12,168        |
| Finance costs                          | 5     | (332)                    | (505)         |
| Profit before taxation                 |       | 6,517                    | 11,663        |
| Taxation                               | 6     | (1,051)                  | (1,980)       |
| Net profit for the Period              |       | 5,466                    | 9,683         |
| Attributable to:                       |       |                          |               |
| Shareholders of the Company            |       | 5,422                    | 9,683         |
| Minority interests                     |       | 44                       | –             |
|  |       | 5,466                    | 9,683         |
| Dividend                               | 7     | 1,629                    | 2,880         |
| Earnings per share – Basic and diluted | 8     | HK 0.57 cent             | HK 1.05 cents |

## CONDENSED CONSOLIDATED BALANCE SHEET

|   |              | <b>30 June<br/>2005<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2004<br>(audited)<br>HK\$'000 |
|---|--------------|--|--|
|   | <i>Notes</i> |  |  |
| <b>Non-current assets</b>                             |              |  |  |
| Property, plant and machinery                         |              | 129,277  | 125,312                                      |
| Investments in securities                             |              | –  | 6,144  |
| Available-for-sale investments                        |              | 2,738  | –  |
| Other assets  |              | 3,903  | 3,903  |
| Club debentures                                       |              | 350  | 350  |
|   |              | <u>136,268</u>                                       | <u>135,709</u>                               |
| <b>Current assets</b>                                 |              |  |  |
| Inventories   |              | 33,343   | 28,177                                       |
| Debtors, deposits and prepayments                     | 9            | 55,593   | 52,393                                       |
| Loan receivable                                       |              | 1,852  | 7,860  |
| Taxation recoverable                                  |              | 2,245  | 1,550  |
| Bank balances and cash                                |              | 36,878   | 36,800                                       |
|   |              | <u>129,911</u>                                       | <u>126,780</u>                               |
| <b>Current liabilities</b>                            |              |  |  |
| Creditors and accruals                                | 10           | 4,011  | 8,376  |
| Taxation payable                                      |              | 1,302  | 925  |
| Obligations under a finance lease                     |              | 235  | 165  |
| Bank borrowings                                       |              | 14,990   | 12,290                                       |
|   |              | <u>20,538</u>  | <u>21,756</u>                                |
| <b>Net current assets</b>                             |              | <u>109,373</u>                                       | <u>105,024</u>                               |
| <b>Total assets less current liabilities</b>          |              | <u>245,641</u>                                       | <u>240,733</u>                               |
| <b>Non-current liabilities</b>                        |              |  |  |
| Obligations under a finance lease                     |              | 84   | 235  |
| Deferred taxation                                     |              | 4,678  | 4,678  |
|   |              | <u>4,762</u>   | <u>4,913</u>                                 |
|   |              | <u>240,879</u>                                       | <u>235,820</u>                               |
| <b>Capital and reserves</b>                           |              |  |  |
| Share capital   |              | 9,580  | 9,580  |
| Share premium and reserves                            |              | 231,045  | 226,240                                      |
| Equity attributable to shareholders<br>of the Company |              | <u>240,625</u>                                       | <u>235,820</u>                               |
| Minority interests                                    |              | 254  | –  |
| <b>Total Equity</b>                                   |              | <u>240,879</u>                                       | <u>235,820</u>                               |

Notes:

## 1. Basis of Preparation

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## 2. Accounting Policies

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values, as appropriate.

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 2004 except as described below.

In the Period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has had no material impact on the Group’s accounting policies and the methods of computation in the Group’s condensed consolidated financial statements for the six months ended 30 June 2005, except the followings:

### (a) HKAS 1 “Presentation of Financial Statements” (“HKAS 1”)

The application of the HKAS 1 has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The change in presentation has been applied retrospectively.

### (b) HKAS 17 “Leases” (“HKAS 17”)

The application of the HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. Under HKAS 17, the land and buildings elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, the leasehold interests in land continue to be accounted for as property, plant and equipment. In current and prior periods, the Group’s leasehold land and buildings were continued to include in property, plant and equipment as the land and buildings elements cannot be allocated reliably.

### (c) HKAS 39 “Financial Instruments: Recognition and Measurement” (“HKAS 39”)

The application of the HKAS 39 has resulted in a change in the presentation of balance sheet. In particular, the presentation of investments in securities has been reclassified to available-for-sale investments. Except for the presentation, the adoption of the HKAS 39 had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements in the current and prior 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 |               |                |               |
|                            | 2005                     | 2004          | 2005           | 2004          |
|                            | (Unaudited)              | (Unaudited)   | (Unaudited)    | (Unaudited)   |
|                            | HK\$'000                 | HK\$'000      | HK\$'000       | HK\$'000      |
| <b>Operating divisions</b> |                          |               |                |               |
| Manufacturing products     | 31,892                   | 27,378        | 3,415          | 7,735         |
| Trading products           | 33,784                   | 34,835        | 987            | 3,415         |
| Technical services         | 2,061                    | 1,443         | 1,505          | 765           |
|                            | <u>67,737</u>            | <u>63,656</u> | <u>5,907</u>   | <u>11,915</u> |
| Other operating income     |                          |               | 942            | 253           |
| Profit from operations     |                          |               | 6,849          | 12,168        |
| Finance costs              |                          |               | (332)          | (505)         |
| Profit before taxation     |                          |               | 6,517          | 11,663        |
| Taxation                   |                          |               | (1,051)        | (1,980)       |
| Net profit for the Period  |                          |               | <u>5,466</u>   | <u>9,683</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 services 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:

|                          | Six months ended 30 June |               |
|--------------------------|--------------------------|---------------|
|                          | 2005                     | 2004          |
|                          | (Unaudited)              | (Unaudited)   |
|                          | HK\$'000                 | HK\$'000      |
| Hong Kong                | 36,201                   | 39,160        |
| Mainland China           | 24,428                   | 19,976        |
| Other Asian regions      | 4,489                    | 2,425         |
| North America and Europe | 1,018                    | 624           |
| Other countries          | 1,601                    | 1,471         |
|                          | <u>67,737</u>            | <u>63,656</u> |

#### 4. Profit from Operations

| Six months ended 30 June |             |
|--------------------------|-------------|
| 2005                     | 2004        |
| (Unaudited)              | (Unaudited) |
| HK\$'000                 | HK\$'000    |

Profit from operations has been arrived at after charging/(crediting):

Depreciation and amortisation:

|                                     |              |              |
|-------------------------------------|--------------|--------------|
| – Own assets                        | 2,454        | 2,750        |
| – Asset held under a finance lease  | 93           | 93           |
| Cost of inventories sold            | 43,545       | 35,091       |
| Revaluation decrease on investments | 65           | –            |
| Profit on disposals of investments  | (503)        | –            |
| Dividend income                     | (179)        | –            |
|                                     | <u>2,454</u> | <u>2,750</u> |

#### 5. Finance Costs

| Six months ended 30 June |             |
|--------------------------|-------------|
| 2005                     | 2004        |
| (Unaudited)              | (Unaudited) |
| HK\$'000                 | HK\$'000    |

|  |            |            |
|--|------------|------------|
| Interest on bank loans and overdrafts wholly repayable within five years | 318        | 490        |
| Interest on finance lease  | 14         | 15         |
|  | <u>318</u> | <u>490</u> |
|  | <u>332</u> | <u>505</u> |

#### 6. Taxation

| Six months ended 30 June |             |
|--------------------------|-------------|
| 2005                     | 2004        |
| (Unaudited)              | (Unaudited) |
| HK\$'000                 | HK\$'000    |

The charge comprises:

Current period:

|                         |              |              |
|-------------------------|--------------|--------------|
| – Hong Kong Profits Tax | 1,051        | 1,793        |
| – Deferred tax          | –            | 187          |
|                         | <u>1,051</u> | <u>1,980</u> |

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods.

#### 7. Dividend

| Six months ended 30 June |             |
|--------------------------|-------------|
| 2005                     | 2004        |
| (Unaudited)              | (Unaudited) |
| HK\$'000                 | HK\$'000    |

|                  |              |              |
|------------------|--------------|--------------|
| Interim dividend | <u>1,629</u> | <u>2,880</u> |
|------------------|--------------|--------------|

The Directors resolved that an interim dividend of HK0.17 cent per share for the six months ended 30 June 2005 (2004: HK 0.3 cent) to be paid to the shareholders whose names register in the Company's register of members on 20 October 2005. The dividend warrants will be dispatched at around 27 October 2005.

## 8. Earnings per Share

The calculation of the basic and diluted earnings per share is based on the net profit for the Period attributable to the shareholders of the Company of HK\$5,422,000 (2004:HK\$9,683,000) and the weighted average number of 958,000,000 (2004: 924,835,165) ordinary shares in issue during the Period.

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

## 9. 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 well-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK\$46,184,000 (31 December 2004: HK\$44,271,000) which are included in the debtors, deposits and prepayments are as follows:

|   | <b>30 June<br/>2005<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2004<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Within 30 days                          | 17,148   | 26,281                                       |
| 31 to 60 days                           | 11,257   | 11,383                                       |
| 61 to 90 days                           | 11,404   | 4,012  |
| Over 90 days                            | 6,375  | 2,595  |
|   | <hr/>  | <hr/>  |
| Other debtors, deposits and prepayments | 46,184<br>9,409                                      | 44,271<br>8,122                              |
|   | <hr/>  | <hr/>  |
|   | <b>55,593</b>  | <b>52,393</b>                                |
|   | <hr/> <hr/>  | <hr/> <hr/>                                  |

## 10. Creditors and Accruals

The aged analysis of the trade creditors of HK\$2,789,000 (31 December 2004: HK\$4,942,000) which are included in the creditors and accruals is as follows:

|                              | <b>30 June<br/>2005<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2004<br>(Audited)<br>HK\$'000 |
|------------------------------|--|--|
| Within 30 days               | 1,702  | 2,600  |
| 31 to 60 days                | 913  | 723  |
| 61 to 90 days                | 161  | 812  |
| Over 90 days                 | 13   | 807  |
|                              | <hr/>  | <hr/>  |
| Other creditors and accruals | 2,789<br>1,222                                       | 4,942<br>3,434                               |
|                              | <hr/>  | <hr/>  |
|                              | <b>4,011</b>   | <b>8,376</b>                                 |
|                              | <hr/> <hr/>  | <hr/> <hr/>                                  |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Business Review and Financial Performance*

The Group is principally engaged in the manufacturing of **Pme** branded industrial abrasive products in Mainland China 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.

The Group's turnover for the Period was moderately increased by 6.4% to HK\$67.7 million as compared with the corresponding period in 2004. Net profit for the Period attributable to the shareholders of the Company was approximately HK\$5.4 million, representing a decrease of 44.0%. Chain reaction caused by substantial increases in crude oil prices led to a rise in cost of sales, including increase in the raw material costs and the manufacturing overheads, which greatly affected our gross profit margin. It was difficult to transfer the increased costs to our customers due to keen competition in the market. An unexpected bad debt provision resulting from the collapse of an eye-care group in June 2005 has also reduced the Group's net profit for the Period.

#### *Liquidity and Financial Resources*

At 30 June 2005, the Group had interest-bearing bank borrowings of approximately HK\$15.0 million (31 December 2004: HK\$12.3 million), which were to mature within one year. The directors expect that all the bank borrowings will be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations. At 30 June 2005, the Group's leasehold land and buildings, with aggregate carrying value of approximately HK\$87.7 million (31 December 2004: HK\$88.7 million), have been pledged to banks to secure banking facilities granted to the Group.

At 30 June 2005, current assets of the Group amounted to approximately HK\$129.9 million (31 December 2004: HK\$126.8 million). The Group's current ratio was approximately 6.33 as at 30 June 2005 as compared with 5.83 as at 31 December 2004. At 30 June 2005, the Group had total assets of approximately HK\$266.2 million (31 December 2004: HK\$262.5 million) and total liabilities of approximately HK\$25.3 million (31 December 2004: HK\$26.7 million), representing a gearing ratio (measured as total liabilities to total assets) of 9.5% as at 30 June 2005 as compared with 10.2% as at 31 December 2004.

### 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 2005 and 31 December 2004.

## **Capital Commitments**

The Group had no material capital commitments as at 30 June 2005. At 31 December 2004, the Group had capital commitment of HK\$96,000 in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

## **Outlook**

From an economic point of view, the Hong Kong economic environment is now on a firm foundation. The economic growth of Mainland China, as in previous years, will continue (the general forecast is around 9% growth). Hong Kong and the Pearl River Delta are two most important regions for us and it accounted for over 90% of our revenue. Our sales to the Yangtze River Delta region are steadily increasing and more resources will be spent on marketing promotion activities. Opening up sales distribution channels, diversifying product ranges and searching for and negotiating with powerful business partners (due to frequent changes of government policies in Mainland China, some projects have been slowed) remain our striving direction. Cost control remains our top issue. The appreciation of Renminbi has certainly increased the costs of our manufacturing products. Stringent cost control policies are being implemented in order to maintain the competitiveness of our products. As such, we are conservatively optimistic for the second half of 2005.

## **Employees and Remuneration**

At 30 June 2005, the Group had approximately 280 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.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 18 October 2005 to 20 October 2005, 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, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 17 October 2005.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, except for the Code Provisions A.1.7, A.4.1, A.4.2, A.5.4, B.1.1, and C.3.3.

## **AUDIT COMMITTEE REVIEW**

The Company has established an Audit Committee, which includes three independent non-executive directors of the Company.

The Audit Committee has reviewed the unaudited condensed interim financial statements for the six months ended 30 June 2005.

On behalf of the Board  
**Cheng Kwong Cheong**  
*Vice-Chairman & CEO*

Hong Kong, 23 September 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”