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 2005

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 2005 and the comparative figures for last year as follows:

AUDITED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**2005** *HK$'000*	2004 *HK$'000*
Turnover	2	**191,964**	163,640
Cost of sales		**(151,113)**	(105,287)
Gross profit		**40,851**	58,353
Other income	3	**4,037**	866
Selling and distribution expenses		**(12,879)**	(7,886)
Administrative expenses		**(25,242)**	(26,584)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement		**895**	554
Finance costs	4	**(750)**	(896)
Profit before taxation	5	**6,912**	24,407
Taxation	6	**(1,754)**	(3,169)
Profit for the year		**5,158**	21,238
Attributable to:			
Equity holders of the Company		**5,112**	21,238
Minority interests		**46**	–
		5,158	21,238
Dividends	7	**2,587**	2,880
Earnings per share			
Basic	8	**HK0.53 cents**	HK2.25 cents

AUDITED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment		**119,172**	110,792
Prepaid lease payments		**10,012**	10,017
Available-for-sale investments		**1,379**	–
Investments in securities		**–**	6,144
Other assets		**3,903**	3,903
Club debentures		**350**	350
		134,816	131,206
Current assets			
Inventories		**31,586**	28,177
Debtors, deposits and prepayments	9	**64,707**	52,393
Loan receivables		**6,105**	7,860
Prepaid lease payments		**244**	238
Taxation recoverable		**1,487**	1,550
Bank balances and cash		**25,086**	36,800
		129,215	127,018
Current liabilities			
Creditors and accruals	10	**10,312**	8,376
Taxation payable		**765**	925
Obligations under a finance lease		**175**	165
Bank borrowings		**12,232**	12,290
Bank overdraft, unsecured		**185**	–
		23,669	21,756
Net current assets		**105,546**	105,262
Total assets less current liabilities		**240,362**	236,468
Non-current liabilities			
Obligations under a finance lease		**60**	235
Deferred taxation		**4,302**	3,526
		4,362	3,761
		236,000	232,707
Capital and reserves			
Share capital		**9,580**	9,580
Share premium and reserves		**226,172**	223,127
Equity attributable to equity holders of the Company		**235,752**	232,707
Minority interests		**248**	–
		236,000	232,707

Notes :

1 **Application of Hong Kong Financial Reporting Standards/changes in accounting policies**

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill").

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. The effect from the adoption of HKFRS 3 for the current year is HK$28,000 and there is no effect for prior periods.

Financial Instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. For available-for-sale investments, the cumulative unrealised gains or losses previously reported in equity at 1 January 2005 continue to be held in equity. On subsequent derecognition or impairment of the investment, the unrealised gain or loss remaining in equity will be transferred to profit or loss.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

The effects of the changes in accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Recognition of discount on acquisition directly in profit	**28**	–
Decrease in amortisation of prepaid lease payments restated at cost	**52**	–
	80	–

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	At 31 December 2004 (originally stated) *HK$'000*	Adjustments *HK$'000*	At 31 December 2004 (restated) *HK$'000*	Adjustments *HK$'000*	At 1 January 2005 (restated) *HK$'000*
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	125,312	(14,520)	110,792	–	110,792
Prepaid lease payments	–	10,255	10,255	–	10,255
Deferred tax liabilities	(4,678)	1,152	(3,526)	–	(3,526)
Impact of HKAS 32 and HKAS 39:					
Investment in securities	6,144	–	6,144	(6,144)	–
Available-for-sale investments	–	–	–	6,144	6,144
Other net assets	109,042	–	109,042	–	109,042
Total effects on assets and liabilities	235,820	(3,113)	232,707	–	232,707
Property revaluation reserve	9,754	(3,113)	6,641	–	6,641
Other equities	226,066	–	226,066	–	226,066
Total effects on equity	235,820	(3,113)	232,707	–	232,707

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As originally stated *HK$'000*	**Adjustments** *HK$'000*	**As restated** *HK$'000*
Property revaluation reserve	11,700	(2,939)	8,761

However, the Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

2 Turnover and segmental information

Turnover represents the amounts received and receivable from the manufacture 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.

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

	Turnover		Segment result	
	2005	2004	**2005**	2004
Operating divisions	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Manufacturing products	**98,666**	91,997	**26**	14,461
Trading products	**85,689**	67,074	**12**	5,596
Technical service	**7,609**	4,569	**2,692**	3,826
	191,964	163,640	**2,730**	23,883
Other income			**4,037**	866
Reversal of revaluation decrease in leasehold land and buildings previously charged to the income statement			**895**	554
Finance costs			**(750)**	(896)
Profit before taxation			**6,912**	24,407
Taxation			**(1,754)**	(3,169)
Profit for the year			**5,158**	21,238

The Group's operations are located in Hong Kong and Mainland China. The Group's trading divisions are mainly located in Hong Kong and Mainland China. 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 :

	2005	2004
	HK$'000	*HK$'000*
Hong Kong	**83,622**	96,923
Mainland China	**95,762**	58,874
Other Asian regions	**8,383**	3,865
North America and Europe	**1,400**	1,490
Other countries	**2,797**	2,488
	191,964	163,640

3 Other income

	2005 *HK$'000*	2004 *HK$'000*
Other income comprises:		
Discount on acquisition of a subsidiary	**28**	–
Gain on derecognition of available-for-sale investments	**250**	–
Interest income from banks	**322**	76
Other interest income	**364**	67
Net foreign exchange gains	**2,218**	124
Dividend income from listed investments	**144**	61
Sundry income	**711**	538
	4,037	866

4 Finance costs

	2005 *HK$'000*	2004 *HK$'000*
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	**733**	869
Finance lease charges	**17**	27
	750	896

5 Profit before taxation

	2005 *HK$'000*	2004 *HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**6,082**	6,949
Release of prepaid lease payment	**238**	239
Staff costs, including directors' remuneration	**17,603**	19,062
Auditors' remuneration	**830**	824
Allowance for doubtful debts	**1,758**	–
Allowance for obsolete inventories	**546**	159
Loss on disposal of property, plant and equipment	**–**	8
Cost of inventories recognised as expenses	**151,113**	105,287

Contributions to retirement benefits schemes of HK$662,000 (2004: HK$715,000) are included in staff costs.

6 Taxation

	2005	2004
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong	**572**	2,613
Other regions in the PRC	**348**	–
Other jurisdictions	**60**	–
	980	2,613
Overprovision in prior year		
Hong Kong	**(70)**	(202)
Deferred taxation		
Current year	**844**	758
	1,754	3,169

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

In accordance with the relevant tax laws and regulations of The People's Republic of China ("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. 2003 is the first profit making year.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

7 Dividends

	2005	2004
	HK$'000	*HK$'000*
Interim dividend of HK0.17 cent (2004: HK0.3 cent) per ordinary share	**1,629**	2,880
Proposed final dividend of HK0.1 cent (2004: Nil) per ordinary share	**958**	-
	2,587	2,880

The proposed final dividend for the year is subject to the approval of the shareholders at the forthcoming annual general meeting. The final dividend shall be despatched on 28 June 2006 to the shareholders whose names register in the Company's register of members as at 29 May 2006.

8 Earnings per share

The calculation of the basic earnings per share is based on the net profit for the year ended 31 December 2005 of HK$5,112,000 (2004: HK$21,238,000) and the weighted average number of ordinary shares used in the calculation is 958,000,000 (2004: weighted average 942,359,000) 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.

9 Debtors, deposits and prepayments

The aged analysis of the trade debtors of HK$54,587,000 (2004: HK$44,271,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**20,555**	26,281
31 to 60 days	**15,748**	11,383
61 to 90 days	**11,186**	4,012
Over 90 days	**7,098**	2,595
	54,587	44,271
Other debtors, deposits and prepayments	**10,120**	8,122
	64,707	52,393

The fair value of the Group's debtors, deposits and prepayments at 31 December 2005 approximates to their corresponding carrying amount.

10 Creditors and accruals

The aged analysis of the trade creditors of HK$6,780,000 (2004: HK$4,942,000) which are included in the Group's creditors and accruals is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**2,686**	2,600
31 to 60 days	**984**	723
61 to 90 days	**1,615**	812
Over 90 days	**1,495**	807
	6,780	4,942
Other creditors and accruals	**3,532**	3,434
	10,312	8,376

The fair value of the Group's creditors and accruals at 31 December 2005 approximates to their corresponding carrying amount.

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.

The Group's turnover for the year 2005 has increased by 17.3% from approximately HK$163.6 million in 2004 to approximately HK$192.0 million. The net profit for the year under review decreased from approximately HK$21.2 million in 2004 to approximately HK$5.1 million.

The increase in turnover is mainly due to increase in sales of trading products and increase in sales to Mainland China market. However, the continued increase in raw materials costs, manufacturing overheads and the costs of trading products, which have not been able to fully transfer to our customers due to keen competition in market, reduced the Group's profit margin. The increase in marketing expenses to promote the Group's products to Mainland market and bad debt provisions made during the year also resulted in a decrease in net profit.

Liquidity and Financial Resources

At 31 December 2005, the Group had interest-bearing bank borrowings of approximately HK$12.2 million (31 December 2004: HK$12.3 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 2005, the Group's leasehold land and buildings and prepaid lease payments with aggregate carrying value of approximately HK$94.3 million (31 December 2004: HK$94.6 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 31 December 2005, current assets of the Group amounted to approximately HK$129.2 million (31 December 2004: HK$127.0 million). The Group's current ratio was approximately 5.46 as at 31 December 2005 as compared with 5.84 as at 31 December 2004. At 31 December 2005, the Group had total assets of approximately HK$264.0 million (31 December 2004: HK$258.2 million) and total liabilities of approximately HK$28.0 million (31 December 2004: HK$25.5 million), representing a gearing ratio (measured as total liabilities to total assets) of 10.6% as at 31 December 2005 as compared with 9.9% 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 31 December 2005 and 31 December 2004.

Capital Commitments

At 31 December 2005, the Group had capital commitment of HK$29,000 (2004:HK$96,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

Outlook

Taking a macro-view of the economic environment, the growth of Mainland China, as in previous years, will continue; Hong Kong also has a positive economic outlook. As an enterprise where the PRC is its major market, we will try our best to grasp market opportunities so as to maximise shareholders' return. In 2006, in the areas of market and product development, we will continue to develop the distribution network so as to widen our sales channels; actively introduce new products which suit the market needs; increase the market value of ***Pme*** brand. Following the positive progress in the negotiations with the Mainland joint venture partner, it is expected that our development in the market among the Yangtze River Delta region will be accelerated. Cost control remains our top issue this year. The organisational restructuring will be undergone to increase operational effectiveness.

Employees and Remuneration

At 31 December 2005, the Group had approximately 260 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 year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 May 2006 to 29 May 2006, both days inclusive, during which no transfer of shares can be registered. To qualify for the final 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 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 24 May 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that the current Articles of Association of the Company does not require the chairman of the Board to be subject to rotation at the annual general meeting. Resolution will be proposed at the forthcoming annual general meeting to amend the Company's Articles of Association to comply with the Code.

AUDIT COMMITTEE REVIEW

The Audit Committee, together with the management of the Company, has reviewed the Group's audited financial statements for the year ended 31 December 2005, including the accounting principles and practices adopted by the Group.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 25 April 2006

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"