



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 2006

The Board of Directors (the “Board”) of PME Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 (the “Period”) and the comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	74,749	67,737
Cost of sales		<u>(55,114)</u>	<u>(43,545)</u>
Gross profit		19,635	24,192
Other income		1,036	942
Selling and distribution expenses		(6,464)	(6,288)
Administrative expenses		(11,665)	(11,997)
Loss on disposals of available-for-sale investments		(259)	–
Finance costs	4	<u>(660)</u>	<u>(332)</u>
Profit before taxation	5	1,623	6,517
Taxation	6	<u>(585)</u>	<u>(1,051)</u>
Profit for the Period		<u>1,038</u>	<u>5,466</u>
Attributable to:			
Equity holders of the Company		1,052	5,422
Minority interests		<u>(14)</u>	<u>44</u>
		<u>1,038</u>	<u>5,466</u>
Dividend	7	<u>316</u>	<u>1,629</u>
Earnings per share – Basic and diluted	8	<u>HK 0.11 cent</u>	<u>HK 0.57 cent</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		121,313	119,172
Prepaid lease payments		9,890	10,012
Available-for-sale investments		–	1,379
Other assets		3,903	3,903
Club debentures		350	350
		<u>135,456</u>	<u>134,816</u>
Current assets			
Inventories		38,481	31,586
Debtors, deposits and prepayments	9	71,991	64,707
Loan receivables		4,900	6,105
Prepaid lease payments		244	244
Taxation recoverable		1,487	1,487
Bank balances and cash		18,264	25,086
		<u>135,367</u>	<u>129,215</u>
Current liabilities			
Creditors and accruals	10	8,647	10,312
Taxation payable		922	765
Obligations under a finance lease		152	175
Bank borrowings		19,663	12,232
Bank overdraft, unsecured		71	185
		<u>29,455</u>	<u>23,669</u>
Net current assets		<u>105,912</u>	<u>105,546</u>
Total assets less current liabilities		<u>241,368</u>	<u>240,362</u>
Non-current liabilities			
Obligations under a finance lease		–	60
Deferred taxation		4,646	4,302
		<u>4,646</u>	<u>4,362</u>
		<u>236,722</u>	<u>236,000</u>
Capital and reserves			
Share capital		9,580	9,580
Share premium and reserves		226,908	226,172
		<u>236,488</u>	<u>235,752</u>
Equity attributable to equity holders of the Company		234	248
Minority interests		<u>236,722</u>	<u>236,000</u>

NOTES:

1. Basis of Preparation

The unaudited interim 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “SEHK”).

2. Accounting Policies

The unaudited interim 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 2005 except as described below.

In the Period, the Group has applied, for the first time, a number of new standards, amendments and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment had been required.

Standard, amendment or interpretations issued but not yet effective

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Board anticipates that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

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	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Operating divisions				
Manufacturing	32,236	31,892	913	3,415
Trading	39,583	33,784	98	987
Technical services	2,930	2,061	495	1,505
	<u>74,749</u>	<u>67,737</u>	<u>1,506</u>	5,907
Other income			1,036	942
Loss on disposals of available-for-sale investments			(259)	–
Finance costs			(660)	(332)
Profit before taxation			1,623	6,517
Taxation			(585)	(1,051)
Profit for the Period			<u>1,038</u>	<u>5,466</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	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Hong Kong	33,334	36,201
Mainland China	35,009	24,428
Other Asian regions	5,323	4,489
North America and Europe	587	1,018
Other countries	496	1,601
	<u>74,749</u>	<u>67,737</u>

4. Finance Costs

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank overdrafts and bank borrowings wholly repayable within five years	646	318
Interest on finance lease	14	14
	<u>660</u>	<u>332</u>

5. Profit Before Taxation

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Profit before taxation has been arrived at after charging/(crediting):		
Depreciation and amortisation:		
– Own assets	2,628	2,332
– Asset held under a finance lease	93	93
Release of prepaid lease payments	122	122
Cost of inventories sold	55,114	43,545
Revaluation decrease on available-for-sale investments	–	65
Loss/(profit) on disposals of available-for-sale investments	259	(503)
Dividend income	–	(179)
	<u>–</u>	<u>(179)</u>

6. Taxation

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Current tax		
– Hong Kong	171	1,051
– Other regions in the PRC	70	–
	<u>241</u>	<u>1,051</u>
Deferred taxation		
– Current	344	–
	<u>585</u>	<u>1,051</u>

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

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.

7. Dividend

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend	<u>316</u>	<u>1,629</u>

The Board resolved that an interim dividend of HK0.033 cent per share for the six months ended 30 June 2006 (2005: HK0.17 cent) to be paid to the shareholders whose names are registered in the Company's Register of Members on 10 October 2006. The dividend warrants will be dispatched at around 26 October 2006.

8. Earnings per Share

The calculation of the basic and diluted earnings per share is based on the profit for the Period attributable to the equity holders of the Company of HK\$1,052,000 (2005: HK\$5,422,000) and the weighted average number of 958,000,000 (2005: 958,000,000) 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 long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK\$55,144,000 (31 December 2005: HK\$54,587,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 30 days	16,621	20,555
31 to 60 days	14,588	15,748
61 to 90 days	10,529	11,186
Over 90 days	13,406	7,098
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Other debtors, deposits and prepayments	55,144	54,587
	16,847	10,120
	<hr/>	<hr/>
	71,991	64,707
	<hr/> <hr/>	<hr/> <hr/>

10. Creditors and Accruals

The aged analysis of the trade creditors of HK\$6,983,000 (31 December 2005: HK\$6,780,000) which are included in the Group's creditors and accruals is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 30 days	2,973	2,686
31 to 60 days	1,758	984
61 to 90 days	1,501	1,615
Over 90 days	751	1,495
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Other creditors and accruals	6,983	6,780
	1,664	3,532
	<hr/>	<hr/>
	8,647	10,312
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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Performance

The Group's turnover for the Period moderately increased by 10.4% to HK\$74.7 million as compared with the corresponding period in 2005. This indicated that our market expansion plan and our effort to build up distribution network in Mainland China have gained preliminary achievements.

Profit for the Period attributable to the shareholders of the Company was approximately HK\$1.1 million, representing a decrease of 80.6%. Due to continuous increase in raw material costs, which led to a rise in cost of sales, gross profit has been negatively affected. The keen competition in the Mainland China market also resulted in a decrease in the profit margin of the Group's products. Nevertheless, with effective cost control and organisational restructuring, we have successfully reduced the Group's administrative expenses.

Liquidity and Financial Resources

At 30 June 2006, the Group had interest-bearing bank borrowings of approximately HK\$19.7 million (31 December 2005: HK\$12.4 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 2006, the Group's leasehold land and buildings, with aggregate carrying value of approximately HK\$82.4 million (31 December 2005: HK\$84.0 million), have been pledged to banks to secure banking facilities granted to the Group.

At 30 June 2006, current assets of the Group amounted to approximately HK\$135.4 million (31 December 2005: HK\$129.2 million). The Group's current ratio was approximately 4.60 as at 30 June 2006 as compared with 5.46 as at 31 December 2005. At 30 June 2006, the Group had total assets of approximately HK\$270.8 million (31 December 2005: HK\$264.0 million) and total liabilities of approximately HK\$34.1 million (31 December 2005: HK\$28.0 million), representing a gearing ratio (measured as total liabilities to total assets) of 12.6% as at 30 June 2006 as compared with 10.6% as at 31 December 2005.

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 2006 and 31 December 2005.

Capital Commitments

The Group had no material capital commitment as at 30 June 2006. At 31 December 2005, the Group had capital commitment of HK\$29,000 in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

Outlook for Second Half of 2006

Our challenges ahead include unprecedented stiff market competition and continuous rise in raw materials prices and operation costs. We will continue to adopt proactive approach to meet all these challenges. In order to accelerate the pace of our market expansion, we will increase our strength to further develop the distribution network and actively introduce new products which suit the market needs. Negotiation with a Mainland joint venture partner is now at the examination stage. Stringent cost controls remain our top issue. All of our team members will make every effort to handle the unprecedented challenges.

Employees and Remuneration

At 30 June 2006, 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 SECURITIES OF THE COMPANY

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 6 October 2006 to 10 October 2006, 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 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 5 October 2006.

CORPORATE GOVERNANCE

The Company had complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, except that the Chairman of the Board is not required to retire by rotation. The Company's Articles of Association were amended at the annual general meeting of the Company held on 29 May 2006 to comply with Code Provision A.4.2 of the CG Code.

The Directors are conducting a review of the internal controls of the Group in accordance with Code Provision C.2.1 of the CG Code. The review will be reported in the forthcoming corporate governance report to be contained with the Company's 2006 annual report.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the Period.

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 2006.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 19 September 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”