



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 2006

The Board of Directors (the “Directors”) of PME Group Limited (the “Company”) are pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 and the comparative figures for last year as follows :

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	3	235,226	191,964
Cost of sales		(191,859)	(151,113)
Gross profit		43,367	40,851
Other income	4	2,597	4,037
Selling and distribution expenses		(12,367)	(12,879)
Administrative expenses		(25,902)	(25,242)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement		320	895
Finance costs	5	(1,348)	(750)
Profit before taxation	6	6,667	6,912
Taxation	7	(1,165)	(1,754)
Profit for the year		5,502	5,158
Attributable to:			
Equity holders of the Company		5,504	5,112
Minority interests		(2)	46
		5,502	5,158
Dividends	8	1,274	1,629
Earnings per share			
Basic	9	HK0.57 cents	HK0.53 cents

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		122,499	119,172
Prepaid lease payments		10,214	10,012
Available-for-sale investments		–	1,379
Deposits placed with an insurer		3,559	3,903
Club debentures		350	350
		136,622	134,816
Current assets			
Inventories		27,672	31,586
Debtors, deposits and prepayments	<i>10</i>	76,732	64,707
Loan receivables		7,400	6,105
Prepaid lease payments		249	244
Taxation recoverable		940	1,487
Bank balances and cash		25,704	25,086
		138,697	129,215
Current liabilities			
Creditors and accruals	<i>11</i>	10,671	10,312
Taxation payable		682	765
Obligations under a finance lease		61	175
Bank loans		19,467	12,232
Bank overdraft, unsecured		–	185
		30,881	23,669
Net current assets		107,816	105,546
Total assets less current liabilities		244,438	240,362
Non-current liabilities			
Obligations under a finance lease		–	60
Deferred taxation		3,604	4,302
		3,604	4,362
		240,834	236,000
Capital and reserves			
Share capital		9,580	9,580
Share premium and reserves		230,999	226,172
Equity attributable to equity holders of the Company		240,579	235,752
Minority interests		255	248
		240,834	236,000

Notes :

1) BASIS OF PREPARATION

These consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2) APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“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 has been required.

Standards, amendments or interpretations issued but not yet effective

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments 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
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

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

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 March 2006

⁴ Effective for annual periods beginning on or after 1 May 2006

⁵ Effective for annual periods beginning on or after 1 June 2006

⁶ Effective for annual periods beginning on or after 1 November 2006

⁷ Effective for annual periods beginning on or after 1 March 2007

⁸ Effective for annual periods beginning on or after 1 January 2008

3) 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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<i>Operating divisions</i>				
Manufacturing products	122,314	98,666	5,708	2,918
Trading products	106,398	85,689	3,862	2,524
Technical service	6,514	7,609	891	2,915
	<u>235,226</u>	<u>191,964</u>	<u>10,461</u>	<u>8,357</u>
Unallocated corporate expenses			(5,363)	(5,627)
Other income			2,597	4,037
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement			320	895
Finance costs			<u>(1,348)</u>	<u>(750)</u>
Profit before taxation			6,667	6,912
Taxation			<u>(1,165)</u>	<u>(1,754)</u>
Profit for the year			<u>5,502</u>	<u>5,158</u>

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 :

	2006 HK\$'000	2005 HK\$'000
Hong Kong	97,316	83,622
Mainland China	118,367	95,762
Other Asian regions	15,462	8,383
North America and Europe	1,159	1,400
Other countries	2,922	2,797
	<u>235,226</u>	<u>191,964</u>

4) **OTHER INCOME**

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Other income comprises:		
Discount on acquisition of a subsidiary	–	28
Gain on disposal of available-for-sale investments	83	250
Interest income from banks	35	322
Other interest income	544	364
Imputed interest income on deposits placed with an insurer	485	–
Net foreign exchange gains	558	2,218
Dividend income from listed investments	–	144
Rental income	127	–
Sundry income	765	711
	<u>2,597</u>	<u>4,037</u>

5) **FINANCE COSTS**

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	1,340	733
Finance lease charges	8	17
	<u>1,348</u>	<u>750</u>

6) **PROFIT BEFORE TAXATION**

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	6,937	6,082
Release of prepaid lease payment	249	238
Staff costs, including directors' remuneration	17,170	17,603
Auditors' remuneration	930	830
Allowance for doubtful debts	1,003	1,758
Allowance for obsolete inventories	–	546
Loss on disposal of property, plant and equipment	248	–
Cost of inventories recognised as expenses	191,859	151,113
Rental income	(127)	–
Less : Direct expenses that generated rental income	24	–
	<u>(103)</u>	<u>–</u>

Contributions to retirement benefits schemes of HK\$520,000 (2005: HK\$662,000) are included in staff costs.

7) **TAXATION**

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The charge comprises:		
Current tax		
Hong Kong	590	572
Other regions in the PRC	122	348
Other jurisdictions	5	60
	<u>717</u>	<u>980</u>
Overprovision in prior year		
Hong Kong	–	(70)
Deferred taxation		
Current year	448	844
	<u>1,165</u>	<u>1,754</u>

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 marking year.

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

8) **DIVIDENDS**

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Dividends recognised as distribution:		
Interim dividend – HK0.033 cent (2005: HK0.17 cent) per share	316	1,629
Final dividend in respect of the year ended 31 December 2005 – HK0.1 cent (year ended 31 December 2004: Nil) per share	958	–
	<u>1,274</u>	<u>1,629</u>
Proposed:		
Final dividend in respect of the year ended 31 December 2006 – Nil (year ended 31 December 2005: HK0.1 cent) per share	–	958

The Directors do not recommend payment of final dividend for the year ended 31 December 2006.

9) EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year ended 31 December 2006 of HK\$5,504,000 (2005: HK\$5,112,000) and the weighted average number of ordinary shares used in the calculation is 958,000,000 (2005: 958,000,000) 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.

10) DEBTORS, DEPOSITS AND PREPAYMENTS

The aged analysis of the trade debtors of HK\$64,115,000 (2005: HK\$54,587,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 30 days	20,797	20,555
31 to 60 days	20,802	15,748
61 to 90 days	15,181	11,186
Over 90 days	7,335	7,098
	<hr/>	<hr/>
	64,115	54,587
Other debtors, deposits and prepayments	12,617	10,120
	<hr/>	<hr/>
	76,732	64,707
	<hr/> <hr/>	<hr/> <hr/>

11) CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$5,396,000 (2005: HK\$6,780,000) which are included in the Group's creditors and accruals is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 30 days	1,994	2,686
31 to 60 days	2,423	984
61 to 90 days	777	1,615
Over 90 days	202	1,495
	<hr/>	<hr/>
	5,396	6,780
Other creditors and accruals	5,275	3,532
	<hr/>	<hr/>
	10,671	10,312
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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 2006 has increased by 22.5% from approximately HK\$192.0 million in 2005 to approximately HK\$235.2 million. The net profit for the year under review was slightly increased from approximately HK\$5.1 million in 2005 to approximately HK\$5.5 million.

The increase in turnover is mainly due to increase in sales to wholesale distributors in Mainland China market. During the year, the prices of raw materials increased and had been kept at high level, therefore the gross profit margin was slightly decreased. Due to effective cost control, selling and administrative expenses were kept at the same level as compared with last year, the Group's profit was slightly improved in 2006 as compared with last year.

Liquidity and Financial Resources

At 31 December 2006, the Group had interest-bearing bank borrowings of approximately HK\$19.5 million (31 December 2005: HK\$12.2 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 2006, the Group's leasehold land and buildings with aggregate carrying value of approximately HK\$83.1 million (31 December 2005: HK\$94.3 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 31 December 2006, current assets of the Group amounted to approximately HK\$138.7 million (31 December 2005: HK\$129.2 million). The Group's current ratio was approximately 4.49 as at 31 December 2006 as compared with 5.46 as at 31 December 2005. At 31 December 2006, the Group had total assets of approximately HK\$275.3 million (31 December 2005: HK\$264.0 million) and total liabilities of approximately HK\$34.5 million (31 December 2005: HK\$28.0 million), representing a gearing ratio (measured as total liabilities to total assets) of 12.5% as at 31 December 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 31 December 2006 and 31 December 2005.

Capital Commitments

On 29 September 2006, the Group entered a joint venture agreement with a third party to establish a joint venture in which the Group will invest approximately HK\$5,830,000. The Group's commitment for contribution of HK\$5,830,000 has not been provided in the consolidated financial statements.

There was no (2005: HK\$29,000) capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

Outlook

As an enterprise where PRC is its major market, we are filled with hope for the future as the PRC economy continues to grow.

In 2007, we are celebrating the 50th anniversary of the setup of the polishing business. We will bring new elements and environment to create a new future of the Group: 1) Shanghai PME-XINHUA Polishing Materials Systems, a joint venture in Shanghai, has been formally established and commenced operations in March 2007. It is expected that the pace of expanding to the Yangtze River Delta market will accelerate; 2) Except for sales of high-end products, we will develop more and more products to suit the market needs. We will capture the market through distribution network as we believe that it is the most effective and economical way to obtain higher market shares. Certainly, cost control remains our top issue this year.

The placement of new shares in April 2007 has increased the capital base of the Company and improved the financial position of the Group. Proceeds from the placement enable the Group to further expand its distribution network in the PRC and also to explore new business opportunity.

Employees and Remuneration

At 31 December 2006, the Group had approximately 240 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.

POST BALANCE SHEET EVENTS

On 2 April 2007, the Company entered into a placing agreement to place 191,600,000 new shares of the Company at HK\$0.172 per share. The placing was completed on 16 April 2007.

On 12 April 2007, the Company entered into a placing agreement to place 220,000,000 unlisted warrants of the Company at issue price of HK\$0.046 per warrant. The placing of the unlisted warrants is not yet completed.

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.

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 Listing Rules throughout the year ended 31 December 2006.

AUDIT COMMITTEE REVIEW

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 2006 have been reviewed and approved by the audit committee.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 25 April 2007

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”