PME GROUP LIMITED
必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 379)

2007 ANNUAL RESULTS ANNOUNCEMENT

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 2007 and the comparative figures for last year as follows :

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	**2007** ***HK$'000***	2006 *HK$'000*
Turnover	3	**258,884**	235,226
Cost of sales		**(222,819)**	(191,859)
Gross profit		**36,065**	43,367
Other income, gain and loss	4	**5,522**	2,597
Selling and distribution expenses		**(11,603)**	(12,367)
Administrative expenses		**(57,099)**	(25,902)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement		**-**	320
Share of loss of a jointly controlled entity		**(154)**	-
Finance costs	5	**(2,027)**	(1,348)
(Loss)/Profit before taxation	6	**(29,296)**	6,667
Taxation	7	**556**	(1,165)
(Loss)/Profit for the year		**(28,740)**	5,502
Attributable to:			
Equity holders of the Company		**(28,796)**	5,504
Minority interests		**56**	(2)
		(28,740)	5,502
Dividends	8	**-**	1,274
(Loss)/Earnings per share			
Basic	9	**HK(2.20)cents**	HK0.57cents

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
Non-Current Assets			
Property, plant and equipment		**125,105**	122,499
Prepaid lease payments		**10,450**	10,214
Available-for-sale investments		**285,471**	-
Deposits placed with an insurer		**3,737**	3,559
Interest in a jointly controlled entity		**5,829**	-
Club debentures		**350**	350
		430,942	136,622
Current Assets			
Inventories		**31,570**	27,672
Debtors, deposits and prepayments	10	**83,619**	76,732
Amount due from a jointly controlled entity		**332**	-
Loan receivables		**4,730**	7,400
Prepaid lease payments		**268**	249
Taxation recoverable		**52**	940
Deposits placed with a financial institution		**200,451**	-
Bank balances and cash		**164,967**	25,704
		485,989	138,697
Current Liabilities			
Creditors and accruals	11	**15,523**	10,671
Taxation payable		**1,186**	682
Obligations under a finance lease		**67**	61
Bank loans		**20,884**	19,467
		37,660	30,881
Net Current Assets		**448,329**	107,816
Total Assets less Current Liabilities		**879,271**	244,438
Non-Current Liabilities			
Obligations under a finance lease		**206**	-
Deferred taxation		**3,203**	3,604
		3,409	3,604
		875,862	240,834
Capital and Reserves			
Share capital		**15,986**	9,580
Share premium and reserves		**859,565**	230,999
Equity attributable to equity holders of the Company		**875,551**	240,579
Minority interests		**311**	255
		875,862	240,834

Notes :

1) General

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 applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Group.

2) Significant accounting policies

The consolidated financial statements have been prepared under the historical cost basis except for certain leasehold properties and financial instruments, which are measured at revalued amounts or fair values.

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Serivce Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The Directors anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors are in the process of assessing the potential impact and so far concluded that the application of the other new and revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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, provision of technical consultancy service and interest income, 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**	
	2007	2006	**2007**	2006
Operating divisions	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Manufacturing	**130,081**	122,314	**(10,225)**	5,708
Trading	**116,183**	106,398	**(6,240)**	3,862
Technical service	**413**	6,514	**(452)**	891
Investment	**12,207**	-	**(11,208)**	-
	258,884	235,226	**(28,125)**	10,461
Unallocated corporate expenses			**(5,043)**	(5,363)
Other income			**6,053**	2,597
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement			**-**	320
Share of loss of a jointly controlled entity (Manufacturing segment)			**(154)**	-
Finance costs			**(2,027)**	(1,348)
(Loss)/Profit before taxation			**(29,296)**	6,667
Taxation			**556**	(1,165)
(Loss)/Profit for the year			**(28,740)**	5,502

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. Investment division is located in Hong Kong.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of customers:

	2007 *HK$'000*	2006 *HK$'000*
Hong Kong	**111,579**	97,316
Mainland China	**127,723**	118,367
Other Asian regions	**14,953**	15,462
North America and Europe	**2,065**	1,159
Other countries	**2,564**	2,922
	258,884	235,226

4) Other income, gain and loss

	2007 *HK$'000*	2006 *HK$'000*
Interest income from banks	**92**	35
Interest income from loan receivables	**688**	544
Imputed interest income on deposits placed with an insurer	**178**	485
Net foreign exchange gains	**3,300**	558
Rental income	**575**	127
Gain on disposal of property, plant and equipment	**249**	-
Gain on derecognition of available-for-sale investments	**-**	83
Sundry income	**971**	765
Loss on assignment of other loans and interest receivable	**(531)**	-
	5,522	2,597

5) Finance costs

	2007 *HK$'000*	2006 *HK$'000*
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	**1,028**	1,340
Finance lease charges	**11**	8
Interest on other loans	**988**	-
	2,027	1,348

6) (Loss)/Profit before taxation

	2007 *HK$'000*	2006 *HK$'000*
(Loss)/Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**7,810**	6,937
Release of prepaid lease payment	**268**	249
Staff costs, including directors' emoluments and share-based payments	**27,304**	17,170
Auditor's remuneration	**1,330**	930
Allowance for doubtful debts	**4,618**	1,003
Allowance for obsolete inventories	**1,885**	-
Loss on disposal of a subsidiary	**186**	-
Loss on assignment of other loans and interest receivable	**531**	-
(Gain)/Loss on disposals of property, plant and equipment	**(249)**	248
Cost of inventories recognised as expenses	**220,934**	191,859
Minimum lease payment in respect of rental premises	**1,067**	-
Rental income	**(575)**	(127)
Less : Direct expenses that generated rental income	**24**	24
	(551)	(103)

Contributions to retirement benefits schemes of HK$568,000 (2006: HK$520,000) are included in staff costs.

7) Taxation

	2007 *HK$'000*	2006 *HK$'000*
The (credit) charge comprises:		
Current tax		
Hong Kong	**240**	590
Other regions in the People's Republic of China ("PRC")	**-**	122
Other jurisdictions	**78**	5
	318	717
Underprovision in prior years		
Hong Kong	**250**	-
	568	717
Deferred taxation		
Current year	**(1,124)**	448
	(556)	1,165

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

The subsidiary in PRC is subject to a statutory income tax rate of 24%. In accordance with the relevant tax laws and regulations of the 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. The income tax rate for 2007 was 12% (2006: 12%).

On 16 March, 2007, the government of the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the Chairman of the PRC. On 6 December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for the subsidiary from 1 January, 2008. The deferred tax balance has been reflected the tax rates that are expected to apply to the respective periods during which the asset will be realised or the liability settled.

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

8) Dividends

	2007	2006
	HK$'000	*HK$'000*
Dividends recognised as distribution:		
Interim dividend – Nil (2006: HK0.033 cent)	**-**	316
Final dividend in respect of the year ended 31 December 2006 – Nil (2005 – HK0.1 cent per share)	**-**	958
	-	1,274

The Directors do not recommend payment of a final dividend for the years ended 31 December 2006 and 2007.

9) (Loss)/Earnings per share

The calculation of the basic (loss)/earnings per share is based on the net loss attributable to equity holders of the Company for the year ended 31 December 2007 of HK$28,796,000 (2006: profit of HK$5,504,000) and the weighted average number of ordinary shares used in the calculation of 1,307,710,000 (2006: 958,000,000).

No diluted loss per share has been presented for 2007 because the exercise of the potential dilutive ordinary shares would result in a reduction in loss per share.

No diluted earnings per share was presented for 2006 as the Company had no potential dilutive ordinary shares.

10) Debtors, deposits and prepayments

The aged analysis of the trade debtors of HK$67,810,000 (2006: HK$64,115,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**20,948**	20,797
31 to 60 days	**24,958**	20,802
61 to 90 days	**15,259**	15,181
Over 90 days	**6,645**	7,335
	67,810	64,115
Other debtors, deposits and prepayments	**15,809**	12,617
	83,619	76,732

11) Creditors and accruals

The aged analysis of the trade creditors of HK$6,535,000 (2006: HK$5,396,000) which are included in the Group's creditors and accruals is as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**3,685**	1,994
31 to 60 days	**907**	2,423
61 to 90 days	**1,893**	777
Over 90 days	**50**	202
	6,535	5,396
Other creditors and accruals	**8,988**	5,275
	15,523	10,671

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 2007 has moderately increased by 10.1% from approximately HK$235.2 million in 2006 to approximately HK$258.9 million. The loss of the Group for the year 2007 was approximately HK$28.8 million (2006: profit of HK$5.5 million).

The increase in turnover is mainly due to increase in sales from Mainland China and Hong Kong market. During the year, increase in raw material price and production overheads and the appreciation of Renminbi have increased the costs of good sold. Due to keen competition in the market, the Group is in difficulty to transfer the increased costs to its customers thus resulting a decrease in gross profit margin. The increase in administrative expenses also leads to the loss for the year.

During 2007, the Company has successfully raised HK$650 million from the market through placement of new shares and unlisted warrants of the Company. The funds raised have enhanced the capital base of the Company and provides strong resource for the Group to expand its core businesses and to explore new business opportunities in the future.

Liquidity and Financial Resources

At 31 December 2007, the Group had interest-bearing bank borrowings of approximately HK$20.9 million (31 December 2006: HK$19.5 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 2007, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$82.1 million (31 December 2006: HK$79.1 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 31 December 2007, current assets of the Group amounted to approximately HK$486.0 million (31 December 2006: HK$138.7 million). The Group's current ratio was approximately 12.9 as at 31 December 2007 as compared with 4.5 as at 31 December 2006. At 31 December 2007, the Group had total assets of approximately HK$917.0 million (31 December 2006: HK$275.3 million) and total liabilities of approximately HK$41.1 million (31 December 2006: HK$34.5 million), representing a gearing ratio (measured as total liabilities to total assets) of 4.5% as at 31 December 2007 as compared with 12.5% as at 31 December 2006.

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. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2007 and 31 December 2006.

Capital Commitments

The Group has no capital commitment as at 31 December 2007.

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 which was completed during the year.

Outlook

In 2008, the management foresee that the prolonged increase in the production costs, especially the raw materials and labour costs, would continue. The Group will endeavour to accelerate profit in the coming year by keeping on cost control, continuously extending and developing the PRC market, and raising product prices moderately in order to offset the effect of increase in the product costs. Despite the US sub-prime lending crisis which has caused the slowdown of the global capital market, the management believes that the PRC market would not be greatly affected. We expect dramatic growth of the PRC economy, and will keep looking for investment projects with potential appreciation in the PRC, in order to bring return to shareholders in the coming year.

Employees and Remuneration

At 31 December 2007, the Group had approximately 230 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.

POST BALANCE SHEET EVENTS

On 11 February 2008, the Group entered into a subscription agreement with Betterment Enterprises Limited ("Betterment"), a third party, to subscribe a convertible bond with a principal of HK$64,000,000 issued by Betterment ("Convertible Bond"). On 19 February and 25 February 2008, the Group exercised the conversion rights under the Convertible Bond and converted the Convertible Bond in 51 and 9,898 shares of Betterment respectively. After the conversion, the Group held 9,949 shares of Betterment, which represented 99.49% of enlarged share capital of Betterment.

The principal activity of Betterment is holding approximately 29.29% of the issued share capital of ZZNode Technologies Company Limited ("ZZNode"), the shares of which are listed on the main board of the Stock Exchange.

It is impracticable to disclose the amounts recognised at 25 February 2008 for each class of Betterment's consolidated assets, consolidated liabilities and contingent liabilities as the financial information of ZZNode as at 25 February 2008 was not available for preparation of consolidated financial statements of Betterment.

On 8 April, 2008, the Company entered into a placing agreement to place 319,000,000 unlisted warrants at an issue price of HK$0.01 per warrant with rights attached to subscribe for 319,000,000 shares of the Company at a subscription price of HK$0.50 per new share of the Company. 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 2007.

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 2007 have been reviewed and approved by the audit committee.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2007 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

BROAD OF DIRECTORS

As at the date of this announcement, the Directors comprises (1) Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Chan Shui Sheung Ivy and Ms. Yeung Sau Han Agnes as executive directors; and (2) Messrs. Leung Yuen Wing, Soong Kok Meng and Chow Fu Kit Edward as independent non-executive directors.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 28 April 2008

** For identification purpose only*