

# Pme

## Interim Report 2008



**PME GROUP LIMITED**

**必美宜集團有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 379





## CONDENSED CONSOLIDATED INCOME STATEMENT

The Board of Directors (the “Board”) of PME Group Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 and the comparative figures for the corresponding period in 2007 as follows:

	Notes	<b>Six months ended 30 June</b>	
		<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 (Unaudited) HK\$'000
Turnover	3	<b>84,278</b>	79,234
Cost of sales		<b>(71,150)</b>	(55,950)
Gross profit		<b>13,128</b>	23,284
Other income		<b>2,130</b>	1,455
Negative goodwill recognised as income	13	<b>44,656</b>	–
Gain on disposal of a subsidiary	12	<b>167</b>	–
Fair value changes on investments held-for-trading		<b>92,901</b>	–
Net realised gain on disposal of investments held-for-trading		<b>25,027</b>	–
Impairment loss on available-for-sale investments		<b>(199,500)</b>	–
Selling and distribution expenses		<b>(9,661)</b>	(8,238)
Administrative expenses		<b>(30,899)</b>	(12,950)
Share of profit of a jointly controlled entity		<b>17</b>	–
Share of loss of an associate		<b>(2)</b>	–
Finance costs	4	<b>(635)</b>	(625)
(Loss)/Profit before taxation	5	<b>(62,671)</b>	2,926
Taxation	6	<b>(18,794)</b>	(903)
<b>(Loss)/Profit for the period</b>		<b>(81,465)</b>	2,023
Attributable to:			
Equity holders of the Company		<b>(81,983)</b>	2,070
Minority interests		<b>518</b>	(47)
		<b>(81,465)</b>	2,023
Dividend	7	–	–
(Loss)/Earnings per share	8		
– Basic		<b>HK (5.13) cents</b>	HK 0.20 cent
– Diluted		–	HK 0.19 cent

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
<b>Non-Current Assets</b>			
Property, plant and equipment		121,668	125,105
Prepaid lease payments		10,182	10,450
Available-for-sale investments		102,007	285,471
Deposit for acquisition of investment		5,000	–
Deposits placed with an insurer		–	3,737
Interest in an associate		16,327	–
Interest in a jointly controlled entity		5,846	5,829
Club debentures		350	350
		<b>261,380</b>	430,942
<b>Current Assets</b>			
Inventories		37,532	31,570
Investments held-for-trading		221,889	–
Debtors, deposits and prepayments	9	181,014	83,619
Amount due from a jointly controlled entity		667	332
Amount due from an associate		3,009	–
Loan receivables		53,728	4,730
Prepaid lease payments		273	268
Taxation recoverable		668	52
Deposits placed with financial institutions		12,589	200,451
Bank balances and cash		94,477	164,967
		<b>605,846</b>	485,989
<b>Current Liabilities</b>			
Creditors and accruals	10	28,661	15,523
Taxation payable		18,766	1,186
Obligations under a finance lease		67	67
Bank loans		21,080	20,884
		<b>68,574</b>	37,660
<b>Net Current Assets</b>		<b>537,272</b>	448,329
<b>Total Assets less Current Liabilities</b>		<b>798,652</b>	879,271
<b>Non-Current Liabilities</b>			
Obligations under a finance lease		164	206
Deferred taxation		3,203	3,203
		<b>3,367</b>	3,409
		<b>795,285</b>	875,862
<b>Capital and Reserves</b>			
Share capital	11	15,986	15,986
Share premium and reserves		778,285	859,565
Equity attributable to equity holders of the Company		794,271	875,551
Minority interests		1,014	311
		<b>795,285</b>	875,862



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Total equity attributable to the equity holders of the Company at 1 January	<b>875,551</b>	240,579
Recognition of equity-settled share-based payment	<b>2,079</b>	-
Recognition of impairment loss on available-for-sale investments	<b>(1,405)</b>	-
Exchange difference arising on translation of foreign operations	<b>209</b>	(17)
Realisation of disposal of a subsidiary	<b>(180)</b>	-
Net gains/(losses) not recognised in the condensed consolidated income statement	<b>703</b>	(17)
(Loss)/Profit for the period	<b>(81,983)</b>	2,070
Issue of shares upon placing	-	32,955
Expenses on shares placing	-	(792)
Issue of warrants	-	10,120
Expenses on issue of warrants	-	(302)
Issue of shares upon exercises of warrants	-	37,500
	<b>(81,983)</b>	81,551
Total equity attributable to the equity holders of the Company at 30 June	<b>794,271</b>	322,113

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited) HK\$'000</b>	(Unaudited) HK\$'000
Net cash outflow from operating activities	<b>(9,198)</b>	(23,669)
Net cash outflow from investing activities	<b>(61,652)</b>	(398)
Net cash inflow from financing activities	<b>360</b>	82,423
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(70,490)</b>	58,356
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>164,967</b>	25,704
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>94,477</b>	84,060
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>94,477</b>	84,060



## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **1. BASIS OF PREPARATION**

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

### **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain leasehold properties and financial instruments, which are measured at revalued amounts or fair values. The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new Interpretations”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2008:

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreement for the construction of real estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign corporation <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

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 of the Company anticipate that the application of the other new or revised standards, amendment or interpretation will have no material impact on the results and the financial position of the Group.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENTAL INFORMATION

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

	Turnover		Segment result	
	Six months ended 30 June			
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>Operating divisions</b>				
Manufacturing	<b>43,091</b>	40,789	<b>(6,400)</b>	2,246
Trading	<b>37,451</b>	34,735	<b>(5,948)</b>	691
Technical services	<b>1,150</b>	3,710	<b>(486)</b>	649
Investment	<b>2,586</b>	–	<b>(47,632)</b>	–
	<b>84,278</b>	79,234	<b>(60,466)</b>	3,586
Unallocated corporate expenses			<b>(3,715)</b>	(1,490)
Other income			<b>2,130</b>	1,455
Share of profit of a jointly controlled entity			<b>17</b>	–
Share of loss of an associate			<b>(2)</b>	–
Finance costs			<b>(635)</b>	(625)
(Loss)/profit before taxation			<b>(62,671)</b>	2,926



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENTAL INFORMATION (Continued)

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 services 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:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong	<b>28,177</b>	32,017
Mainland China	<b>50,915</b>	43,190
Other Asian regions	<b>3,224</b>	2,927
North America and Europe	<b>654</b>	289
Other countries	<b>1,308</b>	811
	<b>84,278</b>	79,234

### 4. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank overdrafts and bank borrowings wholly repayable within five years	<b>623</b>	625
Interest on finance lease	<b>12</b>	-
	<b>635</b>	625



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. (LOSS)/PROFIT BEFORE TAXATION

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
(Loss)/Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>3,808</b>	3,517
Share-based payments	<b>2,079</b>	–
Release of prepaid lease payments	<b>125</b>	124
Cost of inventories sold	<b>71,150</b>	55,950

### 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Current tax		
– Hong Kong	<b>18,794</b>	903

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for the six months ended 30 June 2008 (six months ended 30 June 2007: 17.5%).

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 7. DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

### 8. (LOSS)/EARNINGS PER SHARE

The calculation of the (loss)/earnings per share is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>
(Loss) earnings attributable to equity holders of the Company for the purposes of (loss) earnings per share	<b>(81,983)</b>	2,070

	<b>Number of shares</b>	
	<b>30 June</b> <b>2008</b> <b>(Unaudited)</b>	<b>30 June</b> <b>2007</b> <b>(Unaudited)</b>
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b>1,598,000,000</b>	1,041,765,746
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	–	1,063,951,538

No diluted loss per share has been presented for the six months ended 30 June 2008 because the exercise of the potential dilutive ordinary shares would result in a reduction in loss per share.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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\$64,674,000 (31 December 2007: HK\$67,810,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within 30 days	<b>15,927</b>	20,948
31 to 60 days	<b>17,622</b>	24,958
61 to 90 days	<b>16,010</b>	15,259
Over 90 days	<b>15,115</b>	6,645
	<b>64,674</b>	67,810
Other debtors, deposits and prepayments	<b>116,340</b>	15,809
	<b>181,014</b>	83,619

### 10. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$7,077,000 (31 December 2007: HK\$6,535,000) which are included in the Group's creditors and accruals is as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within 30 days	<b>2,876</b>	3,685
31 to 60 days	<b>2,999</b>	907
61 to 90 days	<b>812</b>	1,893
Over 90 days	<b>390</b>	50
	<b>7,077</b>	6,535
Other creditors and accruals	<b>21,584</b>	8,988
	<b>28,661</b>	15,523

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 11. SHARE CAPITAL

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	<b>100,000</b>	100,000
Issued and fully paid: 1,598,600,000 ordinary shares of HK\$0.01 each	<b>15,986</b>	15,986

### 12. DISPOSAL OF A SUBSIDIARY

On 31 May 2008, the Group disposed its investment in 71% of entired share capital of a subsidiary, Wels International Company Limited, for a consideration of HK\$1,100,000.

The net assets of the subsidiary at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed:	
Debtors, deposits and prepayments	2,660
Cash and bank balances	502
Creditors and accruals	(1,858)
	1,304
Less : Capital contributed by minority interest	(371)
	933
Cash consideration	1,100
	167



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. ACQUISITION OF A SUBSIDIARY

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 into 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. These transactions have been deemed as a purchase of assets and related liabilities.

The net assets acquired in the transactions are as follows:

	<i>HK\$'000</i>
Net assets acquired:	
Available-for-sale investments	84,654
Deposits placed in financial institutions	43,292
Other debtors	5
Other creditors and accruals	(18,694)
	<u>109,257</u>
Less: Capital contributed by minority interest	(556)
	<u>108,701</u>
Consideration in form of loan and interest receivables	(64,045)
	<u>44,656</u>

### 14. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2008 and 31 December 2007.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 15. CAPITAL COMMITMENTS

On 21 May 2008, the Group entered into a share sale and purchase agreement in relating to acquisition of 515,200,000 ordinary shares of BM Intelligence International Limited, a company incorporated in the Cayman Islands and the issued shares of which are listed on GEM board of the SEHK, at consideration of HK\$99,948,800. As at 30 June 2008, a deposit of HK\$5,000,000 has been paid. The acquisition was completed on 29 August 2008 and further part of the acquisition consideration of HK\$61,000,000 was paid. A further balance of the acquisition consideration of HK\$4,000,000 shall be payable on or before 28 November 2008, and the remaining balance of the acquisition consideration of HK\$29,948,800 shall be payable on or before 31 August 2009.

The Group had no material capital commitment as at 31 December 2007.

### 16. PLEDGE OF ASSETS

At 30 June 2008, leasehold land and buildings with an aggregate carrying value of approximately HK\$70,667,000 (31 December 2007: HK\$71,380,000) were pledged to banks to secure banking facilities granted to the Group.

### 17. OPERATING LEASE COMMITMENTS

#### The Group as lessor

As at 30 June 2008, the Group had contracted with tenants for the following future minimum lease receipts:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within one year	<b>309</b>	412
In the second to fifth years inclusive	–	103
	<b>309</b>	515

#### The Group as lessee

As at 30 June 2008, the Group had contracted with landlords for the following future minimum lease payments:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within one year	<b>2,681</b>	2,681
In the second to fifth years inclusive	<b>1,629</b>	2,967
	<b>4,310</b>	5,648



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the six months ended 30 June 2008 was moderately increased by 6.4% to 84.3 million as compared with the corresponding period in 2007. The moderate increase in turnover was mainly due to increase in sales of polishing products to Mainland China and interest income contributed by investments segmental section. Segmental turnover of manufacturing and trading products were increased by 5.6% and 7.8% respectively and segmental turnover of technical services were decreased by 69.0% for the six months ended 30 June 2008, as compared with the same period in last year. Segmental turnover of investment division for the six months ended 30 June 2008 amounted to HK\$2.6 million.

Loss for the six months ended 30 June 2008 attributable to the shareholders of the Company was approximate by HK\$82.0 million (six months ended 30 June 2007: profit of HK\$2.0 million). The loss for the six months ended 30 June 2008 was mainly due to impairment loss on the Group's available-for-sale investments, and the increase in cost of sales and administrative expenses.

During the first half of 2008, the material prices and the production costs continued to increase. The appreciation of Reminbi further pushed up the Group's production costs on top of the rising prices. The administrative expenses were increased by HK\$18 million mainly due to the setup of the investment division in second half of 2007.

The global financial markets decline in the first half of 2008 with concerns in further US Sub-prime mortgage related write-offs, credit crunch, high oil and food prices, and slowdown of the US economy. The Hong Kong stock market has also decreased as affected by fluctuations in global financial markets. The Group's investments in the listed shares in Hong Kong stock market record a substantial impairment loss as a result of the decrease in the stock market. During the six months ended 30 June 2008, the Group recorded net realized gain of HK\$25,027,000 on disposal of investments held-for-trading. The fair value changes on investments held-for-trading amounted to HK\$92,901,000 and the impairment loss on available-for-sale investments amounted to HK\$199,500,000.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **LIQUIDITY AND FINANCIAL RESOURCES**

At 30 June 2008, the Group had interest-bearing bank borrowings of approximately HK\$21.1 million (31 December 2007: HK\$20.9 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 2008, the Group's leasehold land and buildings, with aggregate carrying value of approximately HK\$70.7 million (31 December 2007: HK\$71.4 million), have been pledged to banks to secure the banking facilities granted to the Group.

At 30 June 2008, current assets of the Group amounted to approximately HK\$605.8 million (31 December 2007: HK\$486.0 million). The Group's current ratio was approximately 8.83 as at 30 June 2008 as compared with 12.9 as at 31 December 2007. At 30 June 2008, the Group had total assets of approximately HK\$867.2 million (31 December 2007: HK\$917.0 million) and total liabilities of approximately HK\$71.9 million (31 December 2007: HK\$41.1 million), representing a gearing ratio (measured as total liabilities to total assets) of 8.3% as at 30 June 2008 as compared with 4.5% as at 31 December 2007.

### **PLACING OF UNLISTED WARRANTS**

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. On 30 June 2008, the Company entered into a supplemental agreement to insert a new condition and to extend the last date for fulfilling the conditions in the placing agreement from 30 June 2008 to 30 September 2008. The placing of the unlisted warrants is not yet completed.

### **FOREIGN EXCHANGE EXPOSURES**

The Group's purchases and sales are mainly denominated in United States 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.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OUTLOOK**

Looking forward to the second half of 2008, it will still be a difficult period although the management remains cautiously optimistic. The deterioration of the US Sub-prime issue and the recent crisis in US financial market will inevitably slow down the global economy. The competition in polishing materials market in Hong Kong and Mainland China is extremely keen. The Group will continue to make every effort to control its costs and take advantage of its well-established sales network. The Group also explores the opportunity in upstream business of raw materials supplies in order to reduce the product costs and to enhance the competitiveness of the Group's products.

The Group will take more prudent investment policies but believes that attractive investment opportunities are available as companies and businesses will be undervalued in a volatile financial market. The Company will grasp the investment and business opportunities as they arise to enhance value for its shareholders.

### **EMPLOYEES AND REMUNERATION**

At 30 June 2008, the Group had approximately 240 employees (31 December 2007: 230) 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2008, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long positions in the ordinary shares/underlying shares of the Company:

Directors	Number of shares/underlying shares held			Percentage of interests
	Personal interests	Corporate interests	Total interests	
Mr. Cheng Kwok Woo	60,900,000	318,438,000	379,338,000	23.73%
Mr. Cheng Kwong Cheong	60,900,000	318,438,000 <i>(note)</i>	379,338,000	23.73%
Ms. Chan Shui Sheung Ivy	15,000,000	–	15,000,000	0.94%
Ms. Yeung Sau Han Agnes	15,000,000	–	15,000,000	0.94%

*Note:* These shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands ("BVI"). The entire issued share capital of PME Investments is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group.

The movement of share options during the six months ended 30 June 2008 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2008	Granted during the period	Exercised/ lapsed during the period	As at 30.6.2008
<i>HK\$</i>						
Directors:						
Cheng Kwok Woo	0.600	8.5.2008- 8.5.2011	-	6,500,000	-	6,500,000
Cheng Kwong Cheong	0.600	8.5.2008- 8.5.2011	-	6,500,000	-	6,500,000
Chan Shui Sheung Ivy	1.198	22.10.2007- 22.10.2010	15,000,000	-	-	15,000,000
Yeung Sau Han Agnes	1.198	22.10.2007- 22.10.2010	15,000,000	-	-	15,000,000
Other employees	0.600	8.5.2008- 8.5.2011	-	4,500,000	-	4,500,000
			30,000,000	17,500,000	-	47,500,000

Save as disclosed above, at no time during the six months ended 30 June 2008 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding company, or subsidiaries a party to any arrangement to enable the directors or chief executive to acquire such rights in any other corporate.



## MANAGEMENT DISCUSSION AND ANALYSIS

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules. The following persons were interested (including short positions) in the shares or underlying shares of the Company:

Long positions in the ordinary shares/underlying shares of the Company:

<b>Name</b>	<i>Notes</i>	<b>Number of shares/ underlying shares held</b>	<b>Percentage of interests</b>
PME Investments	1	318,438,000	19.92%
Mr. Cheng Kwok Woo	2	379,338,000	23.73%
Mr. Cheng Kwong Cheong	2	379,338,000	23.73%
Ms. Cheng Wai Ying	2	352,838,000	22.07%
Ms. Tsang Sui Tuen	3	379,338,000	23.73%
Ms. Wan Kam Ping	4	379,338,000	23.73%
Mr. Cheng Yau Kuen	5	352,838,000	22.07%

*Notes:*

1. PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.
2. Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 60,900,000 Shares and Ms. Cheng Wai Ying personally holds 34,400,000. Each of them is further beneficially interested in one-third of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.
3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 379,338,000 shares of the Company that Mr. Cheng Kwok Woo has interest in.
4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interest in 379,338,000 shares of the Company that Mr. Cheng Kwong Cheong has interest in.
5. Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interest in 352,838,000 shares of the Company that Ms. Cheng Wai Ying has interest in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2008.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **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 six months ended 30 June 2008.

### **CORPORATE GOVERNANCE**

The Board considers that good corporate governance of the Company is crucial to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2008.

### **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 six months ended 30 June 2008.

### **AUDIT COMMITTEE REVIEW**

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

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2008.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BOARD OF DIRECTORS**

As at the date of this report, the Board comprises (1) Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Yeung Sau Han Agnes, Ms. Chan Shui Sheung Ivy and Mr. Tin Ka Pak 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  
**PME GROUP LIMITED**  
**Cheng Kwok Woo**  
*Chairman*

Hong Kong, 22 September 2008