PME GROUP LIMITED
必美宜集團有限公司*

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

2009 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") 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 2009 and the comparative figures for last year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	**2009** *HK$'000*	2008 *HK$'000*
Turnover	3	**319,588**	298,089
Revenue	3	**176,709**	211,256
Cost of sales		**(162,370)**	(200,003)
Gross profit		**14,339**	11,253
Other income, gain and loss	4	**13,158**	8,120
Selling and distribution expenses		**(12,192)**	(10,676)
Administrative expenses		**(64,368)**	(71,088)
Increase (decrease) in fair value of investment property		**900**	(694)
Loss on revaluation of buildings		**(20,107)**	-
(Loss) gain on disposal of subsidiaries		**(31,787)**	5,815
Loss on deemed partial disposal of an associate		**(6,301)**	-
Gain on disposal of associates	6	**97,498**	-
Gain on disposal of held for trading investments		**26,988**	24,907
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	5	**165,370**	154,465
Impairment loss recognised in respect of available-for-sale investments		**-**	(199,500)
Impairment loss recognised in respect of acquisition of an associate		**-**	(43,674)
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries		**-**	(161,008)
Impairment loss recognised in respect of loan receivables and interest receivables		**(29,893)**	-
Increase (decrease) in fair value of held for trading investments		**17,318**	(15,792)
Return on advances and charge over assets granted to an associate		**18,898**	-
Share of results of associates		**(1,109)**	29,943
Share of result of a jointly controlled entity		**1,356**	172
Finance costs	7	**(1,032)**	(1,163)
Profit (loss) before taxation		**189,036**	(268,920)
Taxation	8	**(29,985)**	528
Profit (loss) for the year	9	**159,051**	(268,392)

	Notes	**2009**	2008
		HK$'000	*HK$'000*
Attributable to:			
Owners of the Company		**158,359**	(268,371)
Minority interests		**692**	(21)
		159,051	(268,392)
Earnings (loss) per share (Expressed in HK Cents)			
Basic	11	**8.99**	(16.62)
Diluted	11	**8.93**	(16.62)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 *HK$'000*	2008 *HK$'000*
Profit (loss) for the year	**159,051**	(268,392)
Other comprehensive income		
Exchange differences arising from translation of foreign operations	**-**	3,482
Exchange differences arising from translation of an associate	**-**	1,586
Share of other comprehensive income of associates	**213**	(1,238)
Disposal of associates	**(567)**	-
Transfer of investment revaluation reserve on available-for-sale investments to profit or loss	**-**	(1,405)
Net fair value gain on available-for-sale investments	**22,774**	-
Loss on revaluation on buildings	**(2,533)**	(1,386)
Deferred tax arising on revaluation on available-for-sale investments	**(3,758)**	-
Deferred tax arising on revaluation on buildings	**1,305**	374
Other comprehensive income for the year (net of tax)	**17,434**	1,413
Total comprehensive income (expense) for the year	**176,485**	(266,979)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**175,793**	(266,958)
Minority interests	**692**	(21)
	176,485	(266,979)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009

	Notes	**2009** **HK$'000**	2008 HK$'000
Non-Current Assets			
Property, plant and equipment		**20,049**	105,999
Investment property		**4,100**	3,200
Prepaid lease payments		**-**	11,020
Available-for-sale investments		**137,101**	66
Goodwill		**-**	-
Interests in associates		**135,449**	225,410
Interest in a jointly controlled entity		**7,357**	6,001
Club debentures		**350**	350
		304,406	352,046
Current Assets			
Inventories		**9,456**	27,017
Debtors, bills receivable, deposits and prepayments	12	**162,811**	158,018
Convertible bonds designated as financial assets at fair value through profit or loss		**101,319**	7,047
Amount due from a jointly controlled entity		**-**	111
Amount due from an associate		**44,631**	-
Loan receivables		**52,700**	58,650
Prepaid lease payments		**-**	290
Taxation recoverable		**574**	643
Held for trading investments		**115,159**	80,112
Deposits placed with financial institutions		**3,203**	19,579
Bank balances and cash		**14,591**	18,150
		504,444	369,617
Assets classified as held for sale	15	**83,427**	-
		587,871	369,617
Current Liabilities			
Creditors and accruals	13	**12,270**	72,761
Taxation payable		**32,398**	802
Obligation under a finance lease		**-**	74
Bank and other loans		**11,515**	14,211
		56,183	87,848
Liabilities directly associated with assets classified as held for sale	15	**8,423**	-
		64,606	87,848
Net Current Assets		**523,265**	281,769
Total Assets less Current Liabilities		**827,671**	633,815
Capital and Reserves			
Share capital		**18,052**	17,586
Reserves		**804,947**	613,369
Equity attributable to owners of the Company		**822,999**	630,955
Minority interests		**968**	276
Total Equity		**823,967**	631,231
Non-Current Liabilities			
Obligation under a finance lease		**-**	132
Deferred taxation		**3,704**	2,452
		3,704	2,584
		827,671	633,815

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 ("HK$"), 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, investment property and financial instruments, which are measured at revalued amounts or fair values.

In the current year, the Group has applied a number of new and revised standards, amendments to standards and interpretation ("new and revised HKFRSs") issued by the HKICPA.

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements
HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments
HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see Note 3) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)
The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosure required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Interpretation ("INT") 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[6]

[1] Effective for annual periods beginning on or after 1 July 2009.
[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate.
[3] Effective for annual periods beginning on or after 1 January 2010.
[4] Effective for annual periods beginning on or after 1 February 2010.
[5] Effective for annual periods beginning on or after 1 January 2011.
[6] Effective for annual periods beginning on or after 1 July 2010.
[7] Effective for annual periods beginning on or after 1 January 2013.

The application 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.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs issue in 2009*, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. Turnover and segmental information

Turnover represents the amounts received and receivable from the manufacturing and trading of polishing materials and equipments and provision of technical service, net of allowances and returns and sales tax, trading of equity securities and interest income, during the year.

	2009	2008
	HK$'000	*HK$'000*
Manufacturing and trading of polishing materials and equipments and provision of technical service	**176,707**	211,017
Proceeds from held for trading investments	**142,879**	86,833
Interest income	**2**	239
	319,588	298,089

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior year, segment information was analysed on the basis of the types of products manufactured or services provided, i.e. the manufacturing of abrasive products, polishing compounds and wheels, trading of polishing materials and equipments, provision of technical service and other strategic investment. However, information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment is more specifically focused on the overall business of polishing materials and equipments and investment on listed investments which are held for both short term trading and long-term investment purposes and for capital appreciation.

The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

Polishing materials and equipments – polishing materials and equipments and provision of technical service

Investment – investment in trading equity securities, convertible bonds, available-for-sale investments and associates

The Group's manufacturing facilities will be disposed of upon the completion of the disposal of subsidiaries subsequent to the end of the reporting period, however, the manufacturing process will be continued through subcontracting arrangements. Relevant details are set out in Note 15.

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

	Segment revenue		**Segment results**	
	2009	2008	**2009**	2008
Operating divisions	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Polishing materials and equipments	**176,707**	211,017	**(42,995)**	(28,842)
Investment	**2**	239	**240,460**	(236,176)
	176,709	211,256	**197,465**	(265,018)
Unallocated corporate expenses			**(7,869)**	(3,880)
Unallocated other income and gain			**98**	1,119
Finance costs			**(658)**	(1,141)
Profit (loss) before taxation			**189,036**	(268,920)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of certain other income, central administration costs, directors' salaries and certain finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

The Group's polishing materials and equipments division is located in Hong Kong and Mainland China. Investment division is located in Hong Kong.

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

	2009	2008
	HK$'000	*HK$'000*
Hong Kong	**44,011**	60,264
Mainland China	**121,618**	137,428
Other Asian regions	**7,737**	10,151
North America and Europe	**1,027**	911
Other countries	**2,316**	2,502
	176,709	211,256

4. Other income, gain and loss

	2009	2008
	HK$'000	*HK$'000*
Interest income from bank	**37**	2,123
Interest income from loan receivables	**5,401**	4,096
Interest income from amount due from an associate	**3,061**	-
Imputed interest income on deposits placed with an insurer	**-**	18
Net foreign exchange gains	**850**	327
Rental income (*Note*)	**337**	527
Reversal of impairment loss on trade debtors	**240**	-
Discount on issue of share for settlement of a liability	**3,087**	-
Sundry income	**145**	1,029
	13,158	8,120

Note: During the year ended 31 December 2009, the direct operating expenses from investment property that generated rental income were approximately HK$10,000 (2008: HK$24,000).

5. Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss

The change in fair value of convertible bonds amounting to HK$165,370,000 (2008: HK$154,465,000) represents the fair value gain on certain convertible bonds held by the Group revalued by a professional valuer at fair value.

6. Gain on disposal of associates

During the year ended 31 December 2009, the Group disposed of its interests in two associates, namely ZZNode Technologies Company Limited ("ZZNode") and China Bio-Med Regeneration Technology Limited ("China Bio-Med"), to independent third parties and the details of these disposals were as follows:

(1) ZZNode

During the year ended 31 December 2008, the Group acquired interests in ZZNode, through the acquisition of a subsidiary, Betterment Enterprises Limited, in which the Group holds 99.49% equity interest. As at 31 December 2008, the Group held an effective interest of approximately 29.29% equity interest in ZZNode. The fair value of the shares as at 31 December 2008 was approximately HK$66,442,000.

During the year ended 31 December 2009, the Group partially disposed of its interests in ZZNode and resulted in a gain of disposal of approximately HK$88,176,000. Immediately after the disposal, the Group's remaining interests in ZZNode was reclassified to available-for-sale investments.

(2) China Bio-Med

During the year ended 31 December 2008, One Express Group Limited, a wholly-owned subsidiary of the Company, had entered into an agreement with Mangreat Assets Corporation, Williamsburg Invest Limited and Homelink Venture Corporation for the acquisition of 515,200,000 ordinary shares of China Bio-Med, a company listed on the Growth Enterprise Market of the Stock Exchange, at an aggregate consideration of HK$99,948,800, representing approximately 22.59% equity interest in China Bio-Med. The fair value of the shares as at 31 December 2008 was approximately HK$72,126,000.

On 12 March 2009, the Group and Vital-Gain Global Limited, an independent third party, entered into an agreement for the disposal of the Group's 21.92% of the entire issued share capital of China Bio-Med as at 12 March 2009, for a consideration of HK$60,000,000. The disposal was completed on 5 June 2009 and resulted in a gain of disposal of approximately HK$9,322,000. Immediately after the disposal, the Group's remaining interests in China Bio-Med of approximately HK$1,802,000 was reclassified to held for trading investments, and was subsequently disposed of during the year.

7. Finance costs

	2009	2008
	HK$'000	*HK$'000*
Interests on bank loans and overdrafts wholly repayable within five years	**658**	1,141
Finance lease charges	**18**	22
Interest on other loans	**356**	-
	1,032	1,163

8. Taxation

	2009	2008
	HK$'000	*HK$'000*
The charge (credit) comprises:		
Current tax		
Hong Kong	**31,592**	48
Overprovision in prior years		
Hong Kong	**-**	(574)
	31,592	(526)
Deferred taxation		
Current year	**(1,607)**	181
Effect of changes in tax rate	**-**	(183)
	29,985	(528)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.

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

No provision for PRC income tax has been made in the consolidated financial statements as the PRC subsidiary has no assessable profits for both years.

9. Profit (loss) for the year

	2009	2008
	HK$'000	*HK$'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**8,519**	8,481
Amortisation of prepaid lease payments	**290**	286
Staff costs, including directors' emoluments and share-based payments	**24,650**	28,026
Auditor's remuneration	**851**	750
Impairment loss on trade debtors (included in administrative expenses)	**5,153**	8,457
(Reversal of) allowance for inventories (included in cost of sales)	**(618)**	118
(Gain) loss on disposal of property, plant and equipment	**(1)**	40
Cost of inventories recognised as expenses	**162,988**	199,885
Minimum lease payment in respect of rental premises	**3,003**	2,560
Share of tax of associates (included in share of results of associates)	**1,151**	(296)

For the year ended 31 December 2008, share-based payments of HK$2,511,000 are included in staff costs (2009: Nil).

10. Dividends

No dividend was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

11. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2009	2008
	HK$'000	*HK$'000*
Earnings (loss)		
Profit (loss) attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	**158,359**	(268,371)

	Number of shares	
	2009	2008
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**1,761,612**	1,614,775
Effect of dilutive potential ordinary shares:		
Share options	**12,128**	-
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,773,740**	1,614,775

	2009	2008
	HK Cents	*HK Cents*
Basic earnings (loss) per share	**8.99**	(16.62)
Diluted earnings (loss) per share	**8.93**	(16.62)

Diluted loss per share for the year ended 31 December 2008 is the same as the basic loss per share as the conversion of the Company's outstanding share options would result in a decrease in basic loss per share.

12. Debtors, bills receivable, deposits and prepayments

The following is an aged analysis of trade receivables net of impairment loss presented based on the invoice date at the reporting date.

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**22,260**	15,118
31 to 60 days	**16,892**	13,778
61 to 90 days	**7,542**	6,489
Over 90 days	**6,074**	27,612
	52,768	62,997
Bills receivable	**375**	-
Other debtors, deposits and prepayments	**109,668**	95,021
	162,811	158,018

13. Creditors and accruals

The aged analysis of the trade creditors presented based on the invoice date at the end of the reporting period of approximately HK$6,620,000 (2008: HK$7,260,000) which are included in the creditors and accruals in the consolidated statement of financial position is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**4,561**	1,271
31 to 60 days	**982**	972
61 to 90 days	**750**	1,483
Over 90 days	**327**	3,534
	6,620	7,260
Other creditors and accruals	**5,650**	65,501
	12,270	72,761

14. Operating lease commitments

The Group as lessee

At 31 December 2009, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**1,788**	4,140
In the second to fifth years inclusive	**-**	2,099
	1,788	6,239

15. Assets classified as held for sale/liabilities directly associated with assets classified as held for sale

On 25 November 2009, the wholly-owned subsidiaries of the Company, Best Chief Ventures Limited ("Best Chief"), Teamcom Group Limited ("Teamcom") and PME International Company Limited ("PMEI"), (collectively the "Vendors") and Billionlink Holdings Limited (the "Purchaser"), entered into an agreement (the "Agreement") pursuant to which the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to purchase the shares of Magic Horizon Investment Limited ("Magic Horizon") and its loans at an aggregate consideration of HK$66,000,010.

The shares represent 100% equity interest in Magic Horizon which, in turn, possesses 100% equity interest in Dongguan PME Polishing Materials & Equipments Company Limited through PME International Investment (South China) Limited (collectively referred to as the "Disposal Group"). As at the date of the Agreement, Best Chief is the sole legal and beneficial owner of Magic Horizon.

The disposal was effected in order to realise its investment in Disposal Group and to release its resources for development and investment in other potential business opportunities. The Group will cease to own the manufacturing facilities and will maintain its manufacturing business by outsourcing the manufacturing process to the processor and other sub-contractors.

On 25 November 2009, Best Chief entered into a processing agreement (the "Master Processing Agreement") with the Purchaser pursuant to which Best Chief and / or its subsidiaries and nominees conditionally agreed to supply raw materials each year to the Purchaser and / or its subsidiaries or nominees for further processing, for a term of three years ending 31 December 2012.

On 9 April 2010, the Vendors and the Purchaser entered into a supplemental agreement to extend the execution of the Agreement to 30 July 2010. Details of the above are set out in the Company's announcements dated 9 December 2009 and 12 April 2010.

On 28 April 2010, the Vendors entered into a second supplemental agreement with the Purchaser to amend certain provisions relating to the consideration under the Agreement.

In accordance with HKFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations" issued by the HKICPA, the related assets, liabilities and reserves of the Disposal Group were classified as assets classified as held for sale, liabilities directly associated with assets classified as held for sale and amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale, respectively. The following amounts represent the assets and liabilities of the disposal group as at 31 December 2009, which are presented separately in the consolidated statement of financial position at 31 December 2009.

	HK$'000
(A) Assets	
Property, plant and equipment	55,886
Prepaid lease payments	11,020
Inventories	7,592
Debtors, bills receivables, deposits and prepayments	4,770
Amount due from a jointly controlled entity	2,274
Bank balances and cash	1,479
Deferred taxation	406
Total assets reclassified as held for sale	83,427
(B) Liabilities	
Creditors and accruals	2,969
Bank and other loans	5,454
Total liabilities directly associated with assets classified as held for sale	8,423
(C) Cumulative income or expense recognised directly in equity	
Translation reserve	8,374

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Performance

The Group's turnover for the year ended 31 December 2009 increased moderately by 7.2% to HK$319.6 million as compared with last year. The increase in turnover was mainly attributed from the proceeds from held for trading investments during the year. During the year 2009, segmental revenue of polishing materials and equipments and investment divisions decreased by 16.3% and 99.2% respectively as compared with last year.

Profit for the year ended 31 December 2009 attributable to the shareholders of the Company was approximately HK$158.4 million (2008: Loss of HK$268.4 million). The Group recorded a profit for the year ended 31 December 2009 as compared to a loss for the year ended 31 December 2008 mainly due to decrease in impairment losses recognised in respect of available-for-sale investments and goodwill on acquisition of subsidiaries and associate.

Segmental loss of the polishing materials and equipments division increased from approximately HK$28.8 million in 2008 to HK$43.0 million in 2009, which was mainly due to the loss on revaluation of buildings amounting to approximately HK$20.1 million for the year ended 31 December 2009. The gross profit margin of polishing materials and equipments division had been improved from 5.2% in 2008 to 8.1% in 2009.

Since the recovery of financial market during 2009, the investment division recorded a segmental profit of approximately HK$240.5 million, as compared with the segmental loss of approximately HK$236.2 million in 2008, which was mainly caused by the decrease in fair value of held for trading investments amounting to approximately HK$15.8 million and the impairment loss on available-for-sale investments amounting to approximately HK$199.5 million in 2008. In addition, the Group recorded gain on disposal of its interests in associates (being ZZNode and China Bio-Med) amounting to approximately HK$97.5 million in 2009.

Liquidity and Financial Resources

At 31 December 2009, the Group had interest-bearing bank borrowings of approximately HK$11.5 million (31 December 2008: HK$14.2 million), which were of maturity within one year. The Board expects that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continues to provide funding to the Group's operations. At 31 December 2009, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$59.9 million (31 December 2008: HK$84.9 million) and the held for trading investments with carrying value of HK$115.2 million (31 December 2008: HK$80.1 million) have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

At 31 December 2009, current assets of the Group amounted to approximately HK$587.9 million (31 December 2008: HK$369.6 million). The Group's current ratio was approximately 9.1 as at 31 December 2009 as compared with 4.2 as at 31 December 2008. At 31 December 2009, the Group had total assets of approximately HK$892.3 million (31 December 2008: HK$721.1 million) and total liabilities of approximately HK$68.3 million (31 December 2008: HK$90.4 million), representing a gearing ratio (measured as total liabilities to total assets) of 7.7% as at 31 December 2009 as compared with 12.5% as at 31 December 2008.

Significant Investments

At 31 December 2009, the Group held available-for-sale investments, interests in associates, convertible bonds designated as financial assets at fair value through profit or loss and held for trading investments amounting to approximately HK$137.1 million, HK$135.4 million, HK$101.3 million and HK$115.2 million respectively. During the year, the Group recorded gain on disposal of associates amounting to approximately HK$97.5 million and increase in fair value of held for trading investments amounting to approximately HK$17.3 million.

At 31 December 2008, the Group held interests in associates and held for trading investments amounting to approximately HK$225.4 million and HK$80.1 million respectively.

Foreign Exchange Exposures

The Group's purchases and sales are mainly denominated in United States dollars, Hong Kong dollars and Renminbi. The investments are in Hong Kong dollars. 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 2009 and 2008.

Capital Commitments

At 31 December 2009, the Group had capital commitments in respect of acquisition of an associate amounting to approximately HK$120.0 million which are contracted for but not provided in the financial statements.

The Group has no capital commitment as at 31 December 2008.

Outlook

2010 is expected to be both a crucial, yet complicated year in terms of economic development in Hong Kong and the PRC as they continue to counteract the global financial crisis while maintaining a stable and comparatively fast economic growth as well as accelerating transformation in growth patterns. The Group will continue to explore and develop profitable businesses while enforcing cost-saving measures, especially with respect to the manufacturing and trading of products in order to enhance its profit ratio.

The acquisition of 49% equity interest in Giant Billion Limited ("Giant Billion") was completed in February 2010. In view of the fact that the PRC has one of the largest television viewing markets in the world and that cable networks provide an important means of television transmission in the PRC, the Group intends to develop the business in the media and advertising sector in the PRC. The cable television industry in the PRC has great potential for further development as the majority of urban households subscribe to basic cable television services. The Directors consider that the investment in Giant Billion will provide a good opportunity for the Company to participate in the media industry in the PRC and bring reasonable return to the Group. The respective digital sports television channel is ready for public broadcast.

The competition in the polishing materials market in both Hong Kong and Mainland China has remained keen in 2009. The Group has made every effort to control its costs, taken advantage of its well-established sales network and expanded its distribution network. As one of the cost saving measures of the Group, in November 2009, the wholly-owned subsidiaries of the Company, Best Chief, Teamcom and PMEI, entered into a conditional sale and purchase agreement to dispose of its 100% equity interest in Magic Horizon (collectively, the "Disposal"). Magic Horizon and its subsidiaries ("Magic Horizon Group") are principally engaged in the manufacturing of polishing materials in Dongguan, the PRC. Taking into account of the continuing losses incurred by Magic Horizon Group, the Disposal represents a good opportunity for the Company to realize its investment in Magic Horizon Group and to free up resources for development and investment in other potential business opportunities. Completion of the Disposal is subject to, *inter alia*, shareholders' approval at the extraordinary general meeting to be convened and held by the Company.

Taking advantage of the recovery of the Hong Kong stock market in the second half of 2009, the Group recorded a considerable sum of investment gain from its trading in listed securities. As the recovery of the global economy remains uncertain and as there remains potential pitfalls in the external environment, the Directors will continue to adopt prudent investment policies, but believe that attractive investment opportunities are still available as companies and businesses may well be undervalued in a volatile financial market.

In January 2010, the Company announced a potential strategic cooperation regarding the restructuring and development of natural resources business in the PRC as part of the Company's ongoing efforts to consider further diversification of its business portfolio and risk management. The Directors have been actively seeking different business opportunities to diversify its businesses and will grasp every investment and business opportunities as they arise to enhance value for its shareholders.

Employees and Remuneration

At 31 December 2009, the Group had approximately 150 (2008: 210) 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 Company also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group.

POST BALANCE SHEET EVENTS

(1) On 7 January 2010, the Group entered into a placing agreement ("Placing Agreement') to issue zero coupon convertible bonds (the "Convertible Bonds") up to a principal amount of HK$264,000,000 at an initial conversion price of HK$0.03 per share. The bondholders may convert at any time from the 90th day after the date of initial issue of the Convertible Bonds and ending on the date that falls on the fifth day immediately before the maturity date into new shares of the Company in multiples of HK$1,200,000. The Convertible Bonds were unsecured, did not bear any interest with a maturity of three years from the date of issue.

The Convertible Bonds attached with an option for the subscribers to subscribe for convertible bonds up to a maximum principal amount of HK$264,000,000 convertible into a maximum of 8,800,000,000 shares.

On 11 January 2010, the Group proposed that the authorised share capital of the Company be increased from HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each to HK$150,000,000 divided into 15,000,000,000 shares of HK$0.01 each by creation of an additional HK$50,000,000 divided into 5,000,000,000 shares of HK$0.01 each.

On 7 April 2010, the Company entered into a supplemental placing agreement to amend the Placing Agreement in respect of the placing period from 90 days to 140 days after the execution of the Placing Agreement and certain terms of the Convertible Bonds.

On 20 April 2010, the Company entered into a second supplemental placing agreement to amend the terms on redemption of the Convertible Bonds.

The placing was not yet completed at the report date. Details of the above are set out in the Company's announcements dated 11 January 2010, 7 April 2010 and 21 April 2010 and circular dated 26 April 2010.

(2) As announced by the Company on 5 January 2010, the long stop date for the fulfillment of the conditions precedent for the acquisition of Giant Billion was extended to 31 January 2010. Details have been set out in the Company's announcement dated 5 January 2010.

On 1 February 2010, the Company entered into an instrument for the issuance of convertible bonds with principal amount of HK$60,000,000 to Crown Sunny Limited, the vendor, as partial settlement of the consideration for the acquisition of Giant Billion. The transaction was completed on 1 February 2010.

(3) The Group had paid a deposit of HK$20,000,000 for the acquisition of five-year zero coupon rate convertible bonds with principal amount of HK$12,000,000 issued by Hembly International Holdings Limited from Bright Group Limited, an independent third party at a consideration of HK$20,000,000. The consideration was paid before the year ended 31 December 2009 and included in other debtors, deposits and prepayment as at 31 December 2009.

(4) On 18 January 2010, Platinum Expert Limited ("Platinum Expert"), a wholly-owned subsidiary of the Company and Excel Business Enterprises Limited ("Excel Business"), an independent third party, entered into a strategic cooperation memorandum (the "Memorandum") pursuant to which both parties intended to become strategic partners to explore the possibility of setting up a joint venture company (the "JV Company") with paid up capital of not less than HK$500,000,000 to invest in a wholly-owned subsidiary of Excel Business (the "Holding Company").

In the Memorandum dated 18 January 2010, the Holding Company proposed to invest in a company in Shanxi in the PRC (the "Coal Company"). The Coal Company proposed to participate in the restructuring of approximately 30 coal mines, coal and nonferrous metal mineral resources companies. Upon signing of the Memorandum, Platinum Expert shall be granted an exclusive right for 180 days to conduct due diligence review and during such period, Excel Business shall not negotiate or enter into any contract or agreement with any third party in relation to its equity interest in the Holding Company or the transactions contemplated under the Memorandum. In consideration for the granting of such exclusive right, a refundable deposit of HK$20,000,000 shall be paid by the Group to Excel Business.

On 1 February 2010, Platinum Expert and Excel Business entered into a supplemental memorandum (the "Supplemental Memorandum") pursuant to which Platinum Expert will subscribe for 51% of the entire share capital of the JV Company at HK$300,000,000 in cash while Excel Business will subscribe for 49% of the entire share capital of the JV Company through injection of the equity interest (the "Interest") of the Holding Company into the JV Company. Excel Business undertakes that the Interest shall be subject to review by professional accountant or valuer designated by Platinum Expert and the value of which will not be less than HK$2,000,000,000 while Platinum Expert undertakes that HK$300,000,000 cash resources earmarked for the subscription shall be available before the execution of the formal agreement.

Details of the above are set out in the Company's announcements dated 18 January 2010 and 1 February 2010.

(5) On 9 April 2010, the wholly-owned subsidiaries of the Company, Best Chief, Teamcom and PMEI entered into a supplemental agreement with the Purchaser to extend the execution of the Agreement to 30 July 2010. Details of the above are set out in the Company's announcement dated 12 April 2010.

On 28 April 2010, Best Chief, Teamcom and PMEI entered into a second supplemental agreement with the Purchaser to amend certain provisions relating to the consideration under the Agreement.

(6) On 28 April 2010, 3,000,000 new shares were issued upon exercise of share options by an employee of the Company at a subscription price of HK$0.075 per share.

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 2009.

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 2009 have been reviewed and approved by the audit committee.

BROAD OF DIRECTORS

As at the date of this announcement, 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) Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward as independent non-executive directors.

On behalf of the Board
PME Group Limited
Cheng Kwok Woo
Chairman

Hong Kong, 28 April 2010

** For identification purpose only*