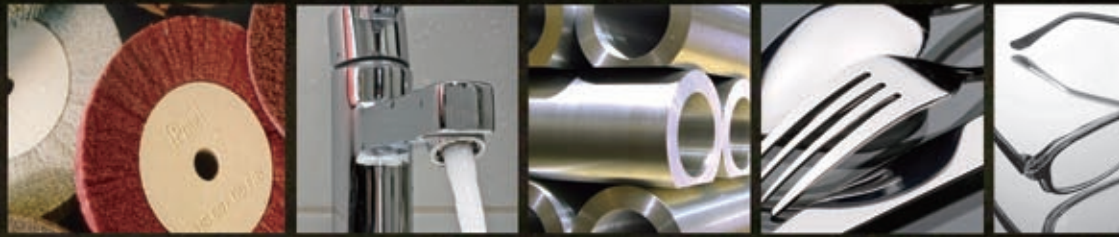


INTERIM REPORT 2010



PME GROUP LIMITED

必美宜集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 00379

The board of directors (“Board” or “Directors”) of PME Group Limited (“Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover	3	87,979	120,803
Revenue	4	60,347	56,368
Cost of sales		(53,763)	(51,265)
Gross profit		6,584	5,103
Other income		5,398	3,058
Selling and distribution expenses		(5,351)	(5,270)
Administrative expenses		(28,654)	(34,674)
Gain on disposals of associates		–	86,480
Change in fair value of held for trading investments		(43,845)	58,795
Gain on disposals of held for trading investments		7,276	6,747
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss		(23,434)	–
Gain on disposals of convertible bonds designated as financial assets at fair value through profit or loss		500	–
Return on advances and charge over assets granted to an associate		1,234	–
Share of results of associates		16,782	30
Share of result of a jointly controlled entity		755	50
Finance costs	5	(7,713)	(533)
(Loss)/profit before taxation		(70,468)	119,786
Taxation	6	(54)	(10,727)
(Loss)/profit for the period	7	(70,522)	109,059

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Other comprehensive (loss)/income			
Recognition of fair value change on available-for-sale investments		(16,266)	23,906
Other comprehensive (loss)/income for the period		(16,266)	23,906
Total comprehensive (loss)/income for the period		(86,788)	132,965
(Loss)/profit for the period attributable to:			
– Owners of the Company		(70,485)	108,683
– Minority interests		(37)	376
		(70,522)	109,059
Total comprehensive (loss)/income attributable to:			
– Owners of the Company		(86,751)	132,589
– Minority interests		(37)	376
		(86,788)	132,965
(Loss)/earnings per share	9		
– Basic		(HK 3.90 cents)	HK 6.18 cents
– Diluted		N/A	HK 6.14 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2010*

		30 June	31 December
		2010	2009
		(Unaudited)	(Audited)
<i>Notes</i>		HK\$'000	HK\$'000
Non-Current Assets			
Property, plant and equipment		18,676	20,049
Investment property		4,100	4,100
Available-for-sale investments		110,299	137,101
Interests in associates	10	338,699	135,449
Interest in a jointly controlled entity		8,112	7,357
Club debentures		350	350
		480,236	304,406
Current Assets			
Inventories		15,763	9,456
Debtors, deposits and prepayments	11	50,034	162,811
Convertible bond designated as financial assets at fair value through profit or loss		78,899	101,319
Amounts due from associates		44,364	44,631
Loan receivables		59,873	52,700
Taxation recoverable		574	574
Held for trading investments		71,998	115,159
Deposits placed with financial institutions		13	3,203
Pledged deposit		6,200	–
Bank balances and cash		287,285	14,591
		615,003	504,444
Assets classified as held for sale		83,763	83,427
		698,766	587,871

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2010*

	<i>Notes</i>	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Current Liabilities			
Creditors and accruals	12	11,461	12,270
Taxation payable		32,452	32,398
Bank and other loans		5,644	11,515
		49,557	56,183
Liabilities directly associated with assets classified as held for sale		8,058	8,423
		57,615	64,606
Net Current Assets		641,151	523,265
Total Assets less Current Liabilities		1,121,387	827,671
Non-Current Liabilities			
Convertible bonds	13	232,956	–
Promissory note	14	49,839	–
Deferred taxation		3,704	3,704
		286,499	3,704
		834,888	823,967
Capital and Reserves			
Share capital	15	18,147	18,052
Reserves		815,810	804,947
Equity attributable to owners of the Company		833,957	822,999
Minority interests		931	968
Total equity		834,888	823,967

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2010*

	Six months ended 30 June	
	2010	2009
	(Unaudited) HK\$'000	(Unaudited) <i>HK\$'000</i>
Total equity of the Company at 1 January	823,967	630,955
Change in equity during the period:		
– Recognition of fair value changes on available-for-sale investments	(16,266)	23,906
– (Loss)/profit for the period	(70,522)	108,683
Total comprehensive (loss)/income for the period	(86,788)	132,589
Recognition of equity-settled share based payment	2,155	–
Convertible bonds issued	94,842	–
Issue of shares upon exercises of share options	712	187
	97,709	187
Total equity of the Company at 30 June	834,888	763,731

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2010*

	Six months ended 30 June	
	2010	2009
	(Unaudited) HK\$'000	(Unaudited) <i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(17,573)	591
Net cash inflow from investing activities	7,472	4,378
Net cash inflow from financing activities	282,795	13,159
INCREASE IN CASH AND CASH EQUIVALENTS	272,694	18,128
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,591	18,150
CASH AND CASH EQUIVALENTS AT END OF PERIOD	287,285	36,278
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	287,285	36,278

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and 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 (“Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used 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 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 included in Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010.

³ Effective for annual periods beginning on or after 1 July 2010.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 January 2013.

3. TURNOVER

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

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Manufacturing and trading of polishing materials and equipment and provision of technical service	60,344	55,243
Proceeds from disposals of held for trading investments	27,632	64,435
Interest income	3	1,125
	87,979	120,803

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

4. SEGMENTAL INFORMATION

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

	Revenue		Segment result	
	Six months ended 30 June			
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Operating divisions				
Polishing materials and equipment	60,344	55,243	(6,783)	(13,492)
Investment	3	1,125	(59,162)	146,313
	60,347	56,368	(65,945)	132,821
Unallocated corporate expenses			(2,208)	(15,560)
Unallocated corporate income			5,398	3,058
Finance costs			(7,713)	(533)
(Loss)/profit before taxation			(70,468)	119,786

The Group's operating and reportable segments are as follows:

- (a) Polishing materials and equipment – polishing materials and equipment and provision of technical service; and
- (b) Investment – investments in trading equity securities, convertible bonds, available-for-sale investment and associates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

4. SEGMENTAL INFORMATION (Continued)

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	9,591	10,521
Mainland China	44,643	37,467
Other Asian regions	4,106	7,799
North America and Europe	526	371
Other countries	1,481	210
	60,347	56,368

5. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank overdrafts and bank borrowings wholly repayable within five years	248	530
Interest on other loans	81	-
Interest on convertible bonds	740	-
Interest on promissory note	1,233	-
Imputed interest on convertible bonds	3,798	-
Imputed interest on promissory note	1,613	-
Interest on finance lease	-	3
	7,713	533

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

6. TAXATION

	Six months ended 30 June	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
The charge comprises:		
Current tax		
– Hong Kong	54	10,727

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods.

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

7. (LOSS)/PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
(Loss)/profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	4,123	3,481
Share-based payments	2,155	–
Release of prepaid lease payments	145	145
Cost of inventories sold	53,763	51,265

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*For the six months ended 30 June 2010***8. DIVIDEND**

The Board does not declare payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

9. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
(Loss)/profit attributable to owners of the Company for the purpose of (loss)/earnings per share	(70,485)	108,683

	Number of shares	
	30 June 2010 (Unaudited) '000	30 June 2009 (Unaudited) '000
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	1,807,966	1,759,000
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	–	1,771,000

No diluted loss per share has been presented for the six months ended 30 June 2010 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

For the six months ended 30 June 2010

10. INTERESTS IN ASSOCIATES

	Listed investment	Unlisted investment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2009 and 1 January 2010	135,447	2	135,449
Acquired during the period	–	186,468	186,468
Share of post-acquisition results	16,797	(15)	16,782
At 30 June 2010	152,244	186,455	338,699

On 1 February 2010, the Group acquired 49% of the entire issued share capital of Giant Billion Limited ("Giant Billion") with consideration of HK\$200,000,000. The consideration of the acquisition was paid by the Group in the following manner:

- (a) HK\$80,000,000 was paid in form of cash;
- (b) HK\$60,000,000 was paid by the issuance of the convertible bond; and
- (c) HK\$60,000,000 was paid by the issuance of the promissory note.

Details of the acquisition of Giant Billion were set out in the Company's announcements dated 3 June 2009 and 5 January 2010 and circular dated 7 September 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

11. 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\$37,737,000 (31 December 2009: HK\$52,768,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within 30 days	12,045	22,260
31 to 60 days	10,598	16,892
61 to 90 days	9,332	7,542
Over 90 days	5,762	6,074
	37,737	52,768
Bills receivable	–	375
Other debtors, deposits and prepayments	12,297	109,668
	50,034	162,811

12. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$5,020,000 (31 December 2009: HK\$6,620,000) which are included in the Group's creditors and accruals is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within 30 days	3,199	4,561
31 to 60 days	810	982
61 to 90 days	955	750
Over 90 days	56	327
	5,020	6,620
Other creditors and accruals	6,441	5,650
	11,461	12,270

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

13. CONVERTIBLE BONDS

	Bond 1	Bond 2	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Liabilities component			
– Initial recognised as issued	45,575	183,583	229,158
– Imputed interest charged for the period	1,661	2,137	3,798
	47,236	185,720	232,956
Equity component	14,425	80,417	94,842
	61,661	266,137	327,798

Bond 1

During the period, the Company issued convertible bond of HK\$60,000,000 for settlement of acquisition of an associate as stated in note 10.

Bond 2

During the period, the Company placed convertible bonds of HK\$264,000,000 to an investor. The net proceeds from the placing, after deducting the placing commission, are approximately HK\$260,700,000.

As at 30 June 2010, net proceeds of approximately HK\$260,700,000 have been deposited into a licensed bank in Hong Kong and will be applied in accordance with the plans as set out in the Company's circular dated 26 April 2010.

14. PROMISSORY NOTE

The promissory note of HK\$60,000,000 was issued for settlement of acquisition of an associate as stated in note 10 and stated at fair value as at 30 June 2010. Imputed interest of HK\$1,613,000 was charged to the consolidated statement of comprehensive income for the six months ended 30 June 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

15. SHARE CAPITAL

	Number of shares of HK\$0.01 each '000	Nominal value HK\$'000
Authorised:		
At 31 December 2009 and 1 January 2010	10,000,000	100,000
Increased during the period	5,000,000	50,000
At 30 June 2010	15,000,000	150,000
Issued and fully paid:		
At 31 December 2009 and 1 January 2010	1,805,198	18,052
Issue of new shares upon exercise of share options	9,500	95
At 30 June 2010	1,814,698	18,147

The increase in the authorised share capital of the Company was passed as an ordinary resolution by the shareholders of the Company at the extraordinary general meeting of the Company held on 11 May 2010. Details of the increase in authorised share capital of the Company was set out in the Company's circular dated 26 April 2010.

16. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2010 and 31 December 2009.

17. CAPITAL COMMITMENTS

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Contracted for but not provided:		
– Acquisition of an associate	–	120,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

18. PLEDGE OF ASSETS

As at 30 June 2010, the Group had pledged its leasehold land and buildings included in assets classified as held for sale, investments in listed securities and pledged deposit with carrying values of approximately HK\$59,266,000, HK\$180,277,000 and HK\$6,200,000 respectively to secure the general credit facilities granted to the Group.

As at 31 December 2009, the Group had pledged its leasehold land and buildings included in assets classified as held for sale and investments in listed securities with carrying values of approximately HK\$59,908,000 and HK\$115,200,000 respectively to secure the general credit facilities granted to the Group.

19. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 30 June 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	4,140	1,788
In the second to fifth years inclusive	2,760	–
	6,900	1,788

20. RELATED PARTY TRANSACTIONS

The Group's key management personnel are all Directors and the remuneration of the Directors during the period is as follows:

	Six months ended 30 June 2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Fees	195	180
Salaries and other benefits	1,444	1,384
Share-based payments	2,155	–
Retirement benefits scheme contribution	69	66
	3,863	1,630

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the six months ended 30 June 2010 decreased by 27.2% to HK\$88.0 million as compared with the corresponding period in 2009. The decrease in turnover was mainly due to decrease in proceeds from disposals of held for trading investments. Segmental revenue of polishing materials and equipment division increased by 9.2% for the six months ended 30 June 2010, as compared with the same period last year. Segmental revenue of investment division for the six months ended 30 June 2010 amounted to HK\$3,000, representing a decrease of 99.7% as compared with the same period last year.

Loss for the six months ended 30 June 2010 attributable to the owners of the Company was approximately HK\$70.5 million (six months ended 30 June 2009: profit of HK\$108.7 million), which was mainly due to decrease in fair value of held for trading investments, decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss and decrease in gain on disposals of associates as compared with the same period last year.

The increase in the revenue of polishing materials and equipment division was due to increase in demand for the Group's products as a result of the economic recovery in the first half of 2010. As the Group has been concentrating on sales of the manufacturing and trading products with higher margin, the gross profit margin of the Group's products increased from 7.2% in the first half of 2009 to 10.9% in the first half of 2010.

The investment division recorded a segmental loss of approximately HK\$59.2 million as a result of decrease in fair value of held for trading investments and convertible bonds held.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had interest-bearing bank borrowings of approximately HK\$11.1 million (31 December 2009: HK\$11.5 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.

As at 30 June 2010, the Group had pledged its leasehold land and buildings, investments in listed securities and pledged deposits with carrying values of approximately HK\$59,266,000, HK\$180,277,000 and HK\$6,200,000 respectively to secure the general credit facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2009, the Group had pledged its leasehold land and buildings included in assets classified as held for sale and investments in listed securities with carrying values of approximately HK\$59,908,000 and HK\$115,200,000 respectively to secure the general credit facilities granted to the Group.

As at 30 June 2010, current assets of the Group amounted to approximately HK\$698.8 million (31 December 2009: HK\$587.9 million). The Group's current ratio (measured as total current assets to total current liabilities) was approximately 12.1 times as at 30 June 2010 as compared with 9.1 times as at 31 December 2009. At 30 June 2010, the Group had total assets of approximately HK\$1,179.0 million (31 December 2009: HK\$892.3 million) and total liabilities of approximately HK\$344.1 million (31 December 2009: HK\$68.3 million), representing a gearing ratio (measured as total liabilities to total assets) of 29.2% as at 30 June 2010 as compared with 7.7% as at 31 December 2009.

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.

OUTLOOK

It is expected that economic recovery will continue but there is still full of uncertainty in terms of the sustainability of the recovery. It is expected that demand for consumer products will grow but in a slow pace. The costs of raw materials are increasing, but it is difficult to transfer all the cost increases to the customers as the market competition is very keen. The Directors remain cautious of the outlook of the polishing product business. The Group will continue to enforce cost-saving measures, concentrate on selling products with high profit margin and expand its distribution network.

The acquisition of 49% equity interests in 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 cable networks provide an important means of television transmission in the PRC, the Group believe that the cable television industry in the PRC has great potential for further development. The Directors consider that the investment in Giant Billion will provide a good opportunity for the Group to participate in the media industry in the PRC and bring return to the Group. It is expected that the respective digital sports television channel will be ready for public broadcast in the 4th quarter of 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

The recovery of the global economy remains uncertain. As there are potential pitfalls in the external environment, the Directors will continue to adopt prudent investment strategies, but believe that attractive investment opportunities are available as companies and businesses may well be undervalued in a volatile financial market.

In May 2010, the Company successfully raised approximately HK\$260.7 million through issuing convertible bonds to an investor. The new fund raised has strengthened the cash flow of the Group and has provided funding for future investments.

MATERIAL ACQUISITION OF AN ASSOCIATE

The transaction in relation to the acquisition of 49% equity interests in Giant Billion at the consideration of HK\$200,000,000 was completed on 1 February 2010. Details were set out in the Company's announcements dated 3 June 2009 and 5 January 2010 and circular dated 7 September 2009.

FUND RAISING ACTIVITY

During the period under review, the Company placed convertible bonds of HK\$264,000,000 to an investor. The net proceeds from the placing, after deducting the placing commission, are approximately HK\$260,700,000.

As at 30 June 2010, net proceeds of approximately HK\$260,700,000 have been deposited into a licensed bank in Hong Kong and will be applied in accordance with the plans as set out in the Company's circular dated 26 April 2010.

EMPLOYEES AND REMUNERATION

As at 30 June 2010, the Group had approximately 155 employees (31 December 2009: 150 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

At 30 June 2010, 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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers ("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	62,400,000	318,438,000 <i>(note)</i>	380,838,000	20.99%
Mr. Cheng Kwong Cheong	62,400,000	318,438,000 <i>(note)</i>	380,838,000	20.99%
Ms. Chan Shui Sheung Ivy	16,500,000	–	16,500,000	0.91%
Ms. Yeung Sau Han Agnes	15,000,000	–	15,000,000	0.83%
Mr. Tin Ka Pak	1,500,000	–	1,500,000	0.08%

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 50% by each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

On 27 May 2010, the Company granted 181,000,000 share options to five executive Directors of the Company to subscribe for 181,000,000 ordinary shares of HK\$0.01 each of the Company with exercise price of HK\$0.64 per share. 175,000,000 share options granted to Ms. Yeung Sau Han Agnes was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 13 July 2010. Details of the share options are set out in the Company's announcement dated 27 May 2010.

The movements of share options during the six months ended 30 June 2010 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2010	Granted during the period	Exercised during the period	As at 30.6.2010
<i>HK\$</i>						
Mr. Cheng Kwok Woo	0.075	31.10.2008-31.10.2011	6,500,000	-	(6,500,000)	-
Mr. Cheng Kwok Woo	0.640	27.5.2010-26.5.2015	-	1,500,000	-	1,500,000
Mr. Cheng Kwong Cheong	0.075	31.10.2008-31.10.2011	6,500,000	-	-	6,500,000
Mr. Cheng Kwong Cheong	0.640	27.5.2010-26.5.2015	-	1,500,000	-	1,500,000
Ms. Chan Shui Sheung Ivy	1.198	22.10.2007-22.10.2010	15,000,000	-	-	15,000,000
Ms. Chan Shui Sheung Ivy	0.640	27.5.2010-26.5.2015	-	1,500,000	-	1,500,000
Ms. Yeung Sau Han Agnes	1.198	22.10.2007-22.10.2010	15,000,000	-	-	15,000,000
Mr. Tin Ka Pak	0.640	27.5.2010-26.5.2015	-	1,500,000	-	1,500,000
Other employees	0.075	31.10.2008-31.10.2011	3,000,000	-	(3,000,000)	-
			46,000,000	6,000,000	(9,500,000)	42,500,000

Save as disclosed above, at no time during the six months ended 30 June 2010 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 2010, 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:

Name	Notes	Number of shares/ underlying shares held	Percentage of interests
PME Investments	1	318,438,000	17.55%
Mr. Cheng Kwok Woo	2	380,838,000	20.99%
Mr. Cheng Kwong Cheong	2	380,838,000	20.99%
Ms. Tsang Sui Tuen	3	380,838,000	20.99%
Ms. Wan Kam Ping	4	380,838,000	20.99%
Crown Sunny Limited	5	300,000,000	16.53%
Mr. Wu Jia Neng	6	300,000,000	16.53%
Worldkin Development Limited	7	8,800,000,000	484.93%
Mr. Wong Lik Ping	8	8,800,000,000	484.93%

Notes:

- PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to 50% by each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.
- Mr. Cheng Kwok Woo personally holds 62,400,000 shares and Mr. Cheng Kwong Cheong personally holds 62,400,000 shares/underlying shares of the Company. Each of them is further beneficially interested in 50% of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.
- Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interests in 380,838,000 shares of the Company that Mr. Cheng Kwok Woo has interests in.
- Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interests in 380,838,000 shares/underlying shares of the Company that Mr. Cheng Kwong Cheong has interests in.
- The interests represent the convertible bonds issued by the Company at a principal amount of HK\$60,000,000 at a conversion price of HK\$0.2 per conversion share.
- Mr. Wu Jia Neng holds entire equity interests of Crown Sunny Limited and is accordingly deemed to have interests in 300,000,000 underlying shares of the Company that Crown Sunny Limited has interests in.
- The interests represent the convertible bonds issued by the Company at a principal amount of HK\$264,000,000 at a conversion price of HK\$0.03 per conversion share.
- Mr. Wong Lik Ping holds entire equity interests of Worldkin Development Limited and is accordingly deemed to have interests in 8,800,000,000 underlying shares of the Company that Worldkin Development Limited has interests in.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2010.

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 2010.

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 2010.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 2010.

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 condensed consolidated financial statements for the six months ended 30 June 2010.

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, 27 August 2010