PME GROUP LIMITED
必美宜集團有限公司*

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

2010 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of PME Group Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 and the comparative figures for last year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Turnover	3	**188,359**	319,588
Revenue	3	**156,930**	176,709
Cost of sales		**(135,575)**	(162,370)
Gross profit		**21,355**	14,339
Other income, gain and loss	4	**8,223**	13,158
Selling and distribution expenses		**(9,133)**	(12,192)
Administrative expenses		**(127,228)**	(64,368)
Increase in fair value of investment property		**600**	900
Loss on revaluation of buildings		**-**	(20,107)
Gain (loss) on disposal of subsidiaries	17	**7,548**	(31,787)
Gain on disposal of associates	6	**-**	97,498
Gain on disposal of convertible bonds designated as financial assets at fair value through profit or loss		**500**	-
Gain on disposal of available-for-sale investments	7	**13,971**	-
Gain on disposal of held for trading investments		**8,975**	26,988
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	5	**4,401**	165,370
Change in fair value of derivative financial assets		**10,952**	-
Impairment loss recognised in respect of loan receivables and interest receivables		**-**	(29,893)
(Decrease) increase in fair value of held for trading investments		**(24,096)**	17,318
Loss on deemed partial disposal of an associate		**-**	(6,301)
Return on advances and charge over assets granted to an associate		**1,500**	18,898
Share of results of associates		**18,353**	(1,109)
Share of result of a jointly controlled entity		**1,428**	1,356
Finance costs	8	**(26,472)**	(1,032)
(Loss) profit before taxation		**(89,123)**	189,036
Taxation	9	**(4,387)**	(29,985)
(Loss) profit for the year	10	**(93,510)**	159,051

	Notes	**2010**	2009
		HK$'000	*HK$'000*
Attributable to:			
Owners of the Company		**(93,655)**	158,359
Non-controlling interests		**145**	692
		(93,510)	159,051
(Loss) earnings per share (Expressed in HK cents)			
Basic	12	**(4.99)**	8.99
Diluted	12	**(4.99)**	8.93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	HK$'000	*HK$'000*
(Loss) profit for the year	**(93,510)**	159,051
Other comprehensive income		
Exchange differences on translating foreign operations:		
- Exchange differences arising during the year	**633**	-
- Exchange differences realised upon the disposal of foreign operations during the year	**(9,007)**	-
Exchange difference realised upon the disposal of associates during the year	**-**	(567)
Share of other comprehensive income of associates	**858**	213
Transfer of investment revaluation reserve to profit or loss upon realisation of available-for-sale investment during the year	**(27,633)**	-
Net fair value gain on available-for-sale investments	**2,656**	22,774
Release of deferred tax arising on revaluation of available-for-sale investments upon disposal	**3,758**	-
Loss on revaluation on buildings	**-**	(2,533)
Deferred tax arising on revaluation on available-for-sale investments	**-**	(3,758)
Deferred tax arising on revaluation on buildings	**-**	1,305
Other comprehensive (expense) income for the year (net of tax)	**(28,735)**	17,434
Total comprehensive (expense) income for the year	**(122,245)**	176,485
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(122,390)**	175,793
Non-controlling interests	**145**	692
	(122,245)	176,485

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-Current Assets			
Property, plant and equipment		**17,585**	20,049
Investment property		**4,700**	4,100
Prepaid lease payments		**-**	-
Available-for-sale investments		**110,171**	137,101
Goodwill		**-**	-
Interests in associates		**343,666**	135,449
Interest in a jointly controlled entity		**8,044**	7,357
Club debentures		**350**	350
Deferred tax assets		**12**	-
		484,528	304,406
Current Assets			
Inventories		**25,976**	9,456
Debtors, bills receivable, deposits and prepayments	13	**124,029**	162,811
Convertible bonds designated as financial assets at fair value through profit or loss		**106,734**	101,319
Derivative financial assets		**10,952**	-
Amounts due from associates		**52,806**	44,631
Loan receivables		**72,980**	52,700
Prepaid lease payments		**-**	-
Taxation recoverable		**574**	574
Held for trading investments		**81,564**	115,159
Deposits placed with financial institutions		**927**	3,203
Pledged bank deposits		**6,200**	-
Bank balances and cash		**263,003**	14,591
		745,745	504,444
Assets classified as held for sale	16	**-**	83,427
		745,745	587,871
Current Liabilities			
Creditors and accruals	14	**21,709**	12,270
Taxation payable		**36,743**	32,398
Obligation under a finance lease		**543**	-
Bank and other loans		**9,357**	11,515
		68,352	56,183
Liabilities directly associated with assets classified as held for sale	16	**-**	8,423
		68,352	64,606
Net Current Assets		**677,393**	523,265
Total Assets less Current Liabilities		**1,161,921**	827,671
Capital and Reserves			
Share capital	18	**25,442**	18,052
Reserves		**853,928**	804,947
Equity attributable to owners of the Company		**879,370**	822,999
Non-controlling interests		**1,113**	968
Total Equity		**880,483**	823,967
Non-Current Liabilities			
Obligation under a finance lease		**960**	-
Convertible bonds		**229,101**	-
Promissory note		**51,377**	-
Deferred tax liabilities		**-**	3,704
		281,438	3,704
		1,161,921	827,671

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 ("INT") issued by the Hong Kong Institute of Certified Public Accountants (the "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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

Except as described below, the adoption of the new and revised HKFRSs in the current year had no material effect on the amounts reported in the consolidated financial statements and disclosures set out in the consolidated financial statements.

HKFRS 3 (Revised 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of acquisition.

HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, the Group had acquired the entire equity interest in Able Winner International Limited, consequently, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKFRS 27 (as revised in 2008) Consolidated and Separate Financial Statements

In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to dercognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

The Group had applied HKAS 27 (as revised in 2008) from 1 January 2010 and had no effect on the consolidated financial statements of the Group for the current year.

Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations issued in 2009, as part of the Improvements to HKFRSs clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It states that disclosure requirements of other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs have specific disclosure requirement in respect of such asset (or disposal groups); or the disclosures relate to the measurement of an individual asset or assets, as part of a disposal group which follows other HKFRSs and the information is not disclosed elsewhere in the consolidated financial statement.

The amendments had no material effect on the disclosures in these consolidated financial statements.

Amendments to HKAS 17 Lease

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases and considered the leasehold land in Mainland China remained as operating lease. As a result of the reassessment, the Group has not reclassified any leasehold land from operating leases to finance lease.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. HK INT 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities. This Interpretation did not have a material impact on the Group's financial statements.

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)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Taxes: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
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 July 2011.
[6] Effective for annual periods beginning on or after 1 January 2012.
[7] Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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 results and the financial position of the Group.

3. Turnover and segmental information

Turnover represents the amounts received and receivable from sales of polishing materials and equipments, net of allowances and returns, gross proceeds from sales of held for trading investments and interest income, during the year. An analysis of the Group's turnover for the year is as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Sales of polishing materials and equipments	**156,929**	176,707
Gross proceeds from sales of held for trading investments	**31,429**	142,879
Interest income	**1**	2
	188,359	319,588

Information reported to the Board of Directors, being the chief operating decision maker, for the purpose of resource allocation and performance assessment focuses on the nature of the operations of the Group.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Polishing materials and equipments	–	sales of polishing materials and equipments
Investment	–	investments in held for trading investments, convertible bonds, available-for-sale investments, derivative financial assets and associates

Segment revenue and results

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

	Segment revenue		Segment results	
	2010	2009	**2010**	2009
Operating divisions	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Polishing materials and equipments	**156,929**	176,707	**(4,704)**	(43,420)
Investment	**1**	2	**5,994**	235,484
	156,930	176,709	**1,290**	192,064
Unallocated corporate expenses			**(69,972)**	(7,869)
Unallocated other income and gain			**5,852**	5,499
Finance costs			**(26,293)**	(658)
(Loss) profit before taxation			**(89,123)**	189,036

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of certain other income, central administration costs, directors' salaries, certain finance costs and share-based payments. 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:

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**29,035**	44,011
Mainland China	**110,727**	121,618
Other Asian regions	**12,755**	7,737
North America and Europe	**1,018**	1,027
Other countries	**3,395**	2,316
	156,930	176,709

4. Other income, gain and loss

	2010 HK$'000	2009 HK$'000
Interest income from banks and financial institutions	**12**	37
Interest income from loan receivables	**5,848**	5,401
Interest income from amount due from an associate	**1,348**	3,061
Interest income from convertible bonds designated as financial assets at fair value through profit or loss	**311**	-
Net foreign exchange gains	**43**	850
Rental income (*Note*)	**39**	337
Reversal of impairment loss on trade debtors	**26**	240
Bad debt recovered	**7**	-
Discount on issue of share for settlement of a liability	**-**	3,087
Sundry income	**589**	145
	8,223	13,158

Note: During the year ended 31 December 2009, the direct operating expenses from investment property that generated rental income were approximately HK$10,000 (2010: Nil).

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$4,401,000 (2009: HK$165,370,000) 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 China Oriental Culture Group Limited (formerly known as ZZNode Technologies Company Limited, "China Oriental") and China Bio-Med Regeneration Technology Limited ("China Bio-Med"), to independent third parties and the details of these disposals were as follows:

(1) China Oriental

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

(2) China Bio-Med

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 at the date of the agreement, for a consideration of HK$60,000,000. The disposal was completed on 5 June 2009 and resulted in a gain on 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 during the year ended 31 December 2009.

7. Gain on disposals of available-for-sale investments

During the year ended 31 December 2010, the Group had disposed of its remaining interests in China Oriental for a cash consideration of approximately HK$17,924,000. A gain on disposal of approximately HK$13,971,000 was recognised in the consolidated income statement during the year.

8. Finance costs

	2010 *HK$'000*	2009 *HK$'000*
Interests on bank loans and overdraft wholly repayable within five years	**488**	658
Finance lease charges	**24**	18
Interest on margin loans	**155**	356
Effective interest expenses on convertible bonds	**19,909**	-
Effective interest expenses on promissory note wholly repayable within five years	**5,896**	-
	26,472	1,032

9. Taxation

	2010 *HK$'000*	2009 *HK$'000*
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**4,345**	31,592
Deferred taxation	**42**	(1,607)
	4,387	29,985

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 on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Mainland China subsidiary is 25% for both years.

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 Mainland China subsidiary had no assessable profits for both years.

10. (Loss) profit for the year

	2010 *HK$'000*	2009 *HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**4,661**	8,519
Amortisation of prepaid lease payments	**-**	290
Staff costs, including directors' emoluments and share-based payments *(Note)*	**88,969**	24,650
Auditor's remuneration	**880**	851
Impairment loss on trade debtors (included in administrative expenses)	**3,418**	5,153
Allowance (reversal of allowance) for inventories (included in cost of sales)	**1,802**	(618)
Loss (gain) on disposal of property, plant and equipment	**4,281**	(1)
Cost of inventories recognised as expenses	**133,773**	162,988
Minimum lease payment in respect of rental premises	**2,358**	3,003
Share of tax of associates (included in share of results of associates)	**2,100**	1,151
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	**340**	-

Note: For the year ended 31 December 2010, share-based payments of HK$65,000,000 are included in staff costs (2009: Nil).

11. Dividend

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

12. (Loss) earnings per share

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

	2010	2009
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) profit attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(93,655)**	158,359

	Number of shares	
	2010	2009
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**1,875,392**	1,761,612
Effect of dilutive potential ordinary shares:		
Share options	**-**	12,128
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,875,392**	1,773,740

	2010	2009
	HK Cents	*HK Cents*
Basic (loss) earnings per share	**(4.99)**	8.99
Diluted (loss) earnings per share	**(4.99)**	8.93

Diluted loss per share for the year ended 31 December 2010 is the same as the basic loss per share. The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

13. 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.

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**13,968**	22,260
31 to 60 days	**21,206**	16,892
61 to 90 days	**5,741**	7,542
Over 90 days	**5,175**	6,074
	46,090	52,768
Bills receivable	**-**	375
Other debtors, deposits and prepayments	**77,939**	109,668
	124,029	162,811

14. 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$9,676,000 (2009: HK$6,620,000) which are included in the creditors and accruals in the consolidated statement of financial position is as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**3,774**	4,561
31 to 60 days	**4,467**	982
61 to 90 days	**1,405**	750
Over 90 days	**30**	327
	9,676	6,620
Other creditors and accruals	**12,033**	5,650
	21,709	12,270

15. Operating leases

The Group as lessor

Property rental income earned during the year was approximately HK$39,000 (2009: HK$337,000). The rental yield for the year ended 31 December 2010 is 1% (2009: 8%)

At 31 December 2010, the Group had contracted with tenants for future minimum lease payments of HK$78,000 (2009: Nil) for within the next twelve months.

The Group as lessee

At 31 December 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:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**1,678**	1,788
In the second to fifth years inclusive	**2,378**	-
	4,056	1,788

16. 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 ("Billionlink" or "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 approximately HK$66,000,000.

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 Group operated in the polishing materials and equipments segment and 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 Purchaser and other sub-contractors.

On 25 November 2009, Best Chief entered into a processing agreement amended by a supplemental agreement dated 22 November 2010 (collectively 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 commencing from the date of completion of the disposal of Magic Horizon.

On 9 April 2010, the Vendors and the Purchaser entered into a supplementary agreement to extend the execution of the Agreement to 30 July 2010. On 28 April 2010, the Vendors and the Purchaser entered into a second supplemental agreement to amend certain provisions relating to the calculation of the final consideration under the Agreement. Further details have been set out in the Company's announcements dated 30 April 2010 and the Company's circular dated 13 December 2010. The transaction was completed on 30 December 2010 and the final adjusted consideration is approximately HK$64,131,000.

In accordance with HKFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations" issued by the HKICPA, the related assets and liabilities of the Disposal Group were presented as assets classified as held for sale and liabilities directly associated with assets classified as 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

17. Disposals of subsidiaries

For the year ended 31 December 2010

On 25 November 2009, the Group entered the Agreement to dispose of its 100% equity interest in Magic Horizon and its loans to Billionlink at an aggregate consideration calculated in accordance with the supplementary agreement signed on 28 April 2010, as detailed in the Company's announcement dated 30 April 2010. Pursuant to the Agreement, the consideration receivable shall be paid upon completion of the disposal, and the amount had been fully settled subsequent to the end of the reporting period.

The net liabilities of the subsidiaries disposed of at the date of disposal were as follows:

	HK$'000
Consideration	
Consideration received in cash and cash equivalents	6,600
Consideration receivable	57,531
Total consideration	64,131
Analysis of assets and liabilities over which control was lost	
Non-current assets	
Property, plant and equipment	51,000
Prepaid lease payments	11,243
Deferred taxation	406
Current assets	
Inventories	1,119
Debtors, bills receivables, deposits and prepayments	8,989
Bank balances and cash	1,615
Current liabilities	
Creditors and accruals	(101,729)
Bank and other loans	(5,568)
Net liabilities disposed of	(32,925)
Gain on disposal of subsidiaries	
Consideration received and receivable	64,131
Net liabilities disposed of	32,925
Sale Loans	(98,515)
Cumulative exchange differences in respect of the net liabilities of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	9,007
Gain on disposal	7,548

For the year ended 31 December 2009

On 12 May 2009, the Group disposed of 80% equity interests in its wholly owned subsidiary, Express Advantage Limited ("Express Advantage") to an independent third party at a cash consideration of USD800 (equivalent to approximately HK$6,000). The disposal had resulted in no gain or loss. Upon completion, the Group held a 20% equity interest in Express Advantage and accounted for such equity holding as interest in associates.

On 25 August 2009, the Group disposed of 100% equity interests in a wholly owned subsidiary, Maxcash Investment Limited and its wholly owned subsidiaries Gold Max Limited and Able Entertainment Limited (collectively referred to as "Maxcash Group") to Winning Standard Limited ("Winning Standard"), an independent third party, at a cash consideration of HK$23,500,000. At the disposal date, Maxcash Group held convertible bonds issued by Asia Energy Logistics Group Limited ("Asia Energy") with an aggregate principal of HK$15,000,000.

Pursuant to the sale and purchase agreement, the consideration should be adjusted by a profit share resulting from the conversion of the convertible bond in Asia Energy, and shall be calculated in accordance with the formula stipulated in the agreement. Subsequent to the disposal of Maxcash Group, Winning Standard converted the convertible bond resulting in the Group's share of profit of approximately HK$5,000,000. The consideration was adjusted to HK$28,500,000, resulting in a loss on disposal of approximately HK$31,787,000.

The net assets of the subsidiaries disposed of at the respective dates of disposal were as follows:

	Maxcash Group	Express Advantage	Total
	HK$'000	*HK$'000*	*HK$'000*
Net assets disposed:			
Convertible bonds designated at fair value through profit or loss	60,252	-	60,252
Other debtors	-	8	8
	60,252	8	60,260
Attributable goodwill	35	-	35
Transfer to interests in associates	-	(2)	(2)
Loss on disposal	(31,787)	-	(31,787)
Total consideration	28,500	6	28,506
Satisfied by:			
Cash	28,500	6	28,506

18. Share Capital

	Number of ordinary shares of HK$0.01 each		Share capital	
	2010	2009	**2010**	2009
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At beginning of year	**10,000,000**	10,000,000	**100,000**	100,000
Increase on 11 May 2010 *(note a)*	**5,000,000**	-	**50,000**	-
At end of year	**15,000,000**	10,000,000	**150,000**	100,000
Issued and fully paid:				
At beginning of year	**1,805,198**	1,758,600	**18,052**	17,586
Issue of shares upon exercise of share options *(note b)*	**19,000**	2,500	**190**	25
Issue of shares for settlement of a liability *(note c)*	**-**	44,098	**-**	441
Issue of shares upon conversion of convertible bonds ("CB2") *(note d)*	**720,000**	-	**7,200**	-
At end of year	**2,544,198**	1,805,198	**25,442**	18,052

Notes :

(a) On 26 April 2010, in anticipation of the issue of shares upon the conversion of the convertible bonds, the Company proposed to increase the authorised share capital of the Company 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 the creation of additional 5,000,000,000 unissued shares of HK$0.01 each. A circular detailing the proposed capital increase was made on 26 April 2010. An ordinary resolution by the shareholders was duly passed at the Extraordinary General Meeting of the Company held on 11 May 2010 and the proposed increase in authorised capital of the Company was approved.

(b) On 19 May 2009, 2,500,000 share options were exercised by an employee of the Company at a subscription price of HK$0.075 per share, for a total consideration of HK$187,500, resulting in the issue of 2,500,000 new ordinary shares of HK$0.01 each. The new shares rank pari passu with the existing shares in all respects.

During the year ended 31 December 2010, certain directors of the Company and employee of the Group had exercised an aggregate of 16,000,000 share options at a subscription price of HK$0.075 per share and an aggregate of 3,000,000 share options at a subscription price of HK$0.64, for a total consideration of HK$3,120,000, resulting in the issue of an aggregate of 19,000,000 new ordinary shares of HK$0.01 each.

The new shares rank pari passu with the existing shares in all respect.

(c) On 6 July 2009, the Company entered into a deed to settle the consideration payable in relation to the acquisition of China Bio-Med during the year ended 31 December 2008. The consideration payable was to be settled by cash of HK$12,000,000 and the remaining consideration payable of approximately HK$22,049,000 by way of issuing 44,097,600 shares in the Company valued at HK$0.50 per share. The closing price of the Company's shares was HK$0.43 per share at the date of issue. The issue of shares in lieu of cash settlement had resulted in a discount on issue of shares for settlement of a liability of approximately HK$3,087,000, which had been recognised as other income in the consolidated income statement. The new shares rank pari passu with the existing shares in all respects.

(d) On 19 November 2010 and 6 December 2010, the holders of CB2 converted an aggregate principal amount of HK$21,600,000 of CB2 into a total of 720,000,000 ordinary share of HK$0.01 each in the Company. These shares rank pari passu with the existing shares in all respects. The details of conversion are as follows:

Conversion date	Number of ordinary shares of HK$0.01 each *'000*	Price per share *HK$*	Conversion principal amount *HK$'000*
19 November 2010	200,000	0.03	6,000
6 December 2010	520,000	0.03	15,600
	720,000		21,600

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Performance

The Group's turnover for the year ended 31 December 2010 decreased by 41.1% to HK$188.4 million as compared with last year. The decrease in turnover was mainly due to decrease in the proceeds from held for trading investments during the year. During the year 2010, segmental revenue of polishing materials and equipments and investment divisions decreased by 11.2% and 50.0% respectively as compared with last year.

Loss for the year ended 31 December 2010 attributable to the shareholders of the Company was approximately HK$93.7 million (2009: Profit of HK$158.4 million). The Group incurred a loss for the year ended 31 December 2010 mainly due to increase in share-based payment expenses, decrease in fair value increase of convertible bonds designated as financial assets at fair value through profit or loss, and decrease in gain on disposal of associates.

Segmental loss of the polishing materials and equipments division decreased from approximately HK$43.4 million in 2009 to HK$4.7 million in 2010, which was mainly due to decrease in impairment loss on land and building, improvement in gross profit margin of the polishing products and decrease in revaluation loss of building. The gross profit margin of polishing materials and equipments division had been improved from 8.1% in 2009 to 13.6% in 2010.

The investment division recorded a segmental profit of approximately HK$6.0 million, as compared with the segmental profit of approximately HK$235.5 million in 2009, which was mainly caused by the decrease in fair value increase of convertible bonds designated as financial assets at fair value through profit or loss and decrease in gain on disposal of associates.

Liquidity and Financial Resources

At 31 December 2010, the Group had interest-bearing bank and other loans of approximately HK$9.4 million (31 December 2009: HK$17.0 million), which were of maturity within one year. The Board expects that all the bank and other loans 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 2010, current assets of the Group amounted to approximately HK$745.7 million (31 December 2009: HK$587.9 million). The Group's current ratio was approximately 10.91 as at 31 December 2010 as compared with 9.10 as at 31 December 2009. At 31 December 2010, the Group had total assets of approximately HK$1,230.3 million (31 December 2009: HK$892.3 million) and total liabilities of approximately HK$349.8 million (31 December 2009: HK$68.3 million), representing a gearing ratio (measured as total liabilities to total assets) of 28.4% as at 31 December 2010 as compared with 7.7% as at 31 December 2009.

Charge of Assets

At 31 December 2010, the Group's pledged bank deposits with carrying value of HK$6.2 million and the listed securities held under the margin accounts, with a total market value of approximately HK$40.2 million have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

At 31 December 2009, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$59.9 million and the listed securities held under the margin accounts, with a total market value of approximately HK$104.9 million have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

Significant Investments

At 31 December 2010, 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$110.2 million, HK$343.7 million, HK$106.7 million and HK$81.6 million respectively. During the year, the Group recorded gain on disposal of subsidiaries amounting to approximately HK$7.5 million, gain on disposal of available-for-sale investments amounting to approximately HK$14.0 million and gain on disposals of held for trading investments amounting to approximately HK$9.0 million.

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 2010 and 2009.

Capital Commitments

At 31 December 2010, the Group had capital commitments in respect of acquisition of a subsidiary amounting to approximately HK$401.1 million which are contracted for but not provided in the financial statements.

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.

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 and labour costs are increasing, but it is difficult to transfer all the cost increments to the customers as the market competition is very keen.

The Board remain cautious of the outlook of the polishing product business. Taking into account the continuing losses incurred by the Magic Horizon Group in 2008 and 2009, the disposal of the Magic Horizon Group during 2010 represents a good opportunity for the Company to realise its investment in Magic Horizon Group and to release its resources for development and investment in other potential business opportunities. In addition, by entering into the master processing agreement, the Group will have better control of the manufacturing costs and is able to benefit from possible lower processing price (per tonne) of the relevant raw materials by negotiation with other sub-contractors available to the Group and cap its maximum costs when processing price of the raw materials is rising. 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 Limited ("Giant Billion") was completed in February 2010. The Board consider that the investment in Giant Billion will provide a good opportunity for the Group to participate in the media industry in Mainland China and will bring return to the Group. It is expected that the respective digital sports television channel will be ready for public broad cast in 2011.

The recovery of the global economy remains uncertain. The financial market in Hong Kong is expected to continue to be volatile during the first half of 2011. As there are potential pitfalls in the external environment, the Board 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 addition, the Board considers that with the profitable track record and future prospects of 日照嵐山萬盛港業有限責任公司 (Rizhao Lanshan Wansheng Harbour Company Limited, "Rizhao Lanshan"), the acquisition of Upmove International Limited ("Upmove") is in line with the Group's business development strategy of exploring and developing profitable business and can improve the results and strengthen the financial position of the Group.

The Board and management of the Group will continue to use their best endeavor to strengthen and strive for improvements in all the Group's business segments and to enhance the long-term growth potential of the Group.

Material Acquisitions

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 circular dated 7 September 2009.

During the year 2010, the Group entered into a conditional sale and purchase agreement to acquire the entire issued share capital of Upmove at a consideration of RMB343,679,250 (approximately HK$401,073,685). Upmove will own 50% of the registered capital of Rizhao Lanshan after restructuring. Rizhao Lanshan is sino-foreign joint venture company established in Mainland China and engaged in provision of terminal and logistic services including loading and discharging, storage and transfer of iron ore, steel products, timber and other goods and leasing of terminal facilities and equipment in Lanshan Harbour, Rizhao Port, Shangdong province of China. Details of the acquisition are disclosed in the Company's circular dated 27 January 2011. At the date of this announcement, the acquisition is not yet completed.

Fund Raising Activity

During the year 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, which will be applied to finance part of the consideration for the acquisition of entire issued share capital of Upmove.

Employees and Remuneration

At 31 December 2010, the Group had approximately 55 (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.

EVENTS AFTER THE REPORTING PERIOD

(1) On 8 February 2011, 3 March 2011 and 14 March 2011, the holders of convertible bonds issued by the Company converted an aggregate of HK$10,800,000 convertible bonds into a total of 360,000,000 ordinary shares of HK$0.01 each in the Company. These shares rank pari passu with the existing shares in all respects.

(2) On 28 February 2011, the Group entered into a third supplemental agreement with the vendor for the proposed acquisition of Upmove to extend the long stop date from 28 February 2011 to 30 April 2011. Details are set out in the Company's announcement dated 28 February 2011.

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 2010.

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 two independent non-executive directors of the Company. The Group's consolidated financial statements for the year ended 31 December 2010 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 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, 30 March 2011

** For identification purpose only*