

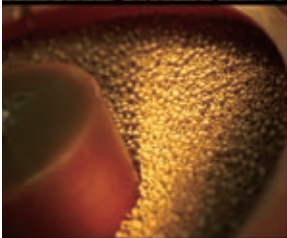
PME GROUP LIMITED (incorporated in the Cayman Islands with limited liability) | Stock Code : 00379

PME

GROUP LIMITED

INTERIM REPORT

2011



Contents

Condensed Consolidated Statement of Comprehensive Income	2
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows	7
Notes to the Condensed Consolidated Financial Statements	8
Management Discussion and Analysis	21

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2011*

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 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2011*

		Six months ended 30 June	
		2011	2010
	<i>Notes</i>	(Unaudited)	(Restated)
		HK\$'000	HK\$'000
Turnover	3	93,422	95,679
Revenue	4	93,422	68,047
Cost of sales		(71,186)	(59,670)
Gross profit		22,236	8,377
Other income, gain or loss		30,778	5,400
Selling and distribution expenses		(4,812)	(5,563)
Administrative expenses		(28,855)	(29,387)
Change in fair value of held for trading investments		(18,888)	(43,845)
Gain on disposals of held for trading investments		-	7,276
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss		(29,636)	(23,434)
Gain on disposals of convertible bonds designated as financial assets at fair value through profit or loss		-	500
Change in fair value of derivative financial assets		(3,710)	-
Return on advances and charge over assets granted to an associate		392	1,234
Share of results of associates		(4,029)	16,782
Finance costs	5	(20,327)	(7,713)
Loss before taxation		(56,851)	(70,373)
Taxation	6	(2,188)	(149)
Loss for the period	7	(59,039)	(70,522)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2011*

	<i>Notes</i>	Six months ended 30 June	
		2011	2010
		(Unaudited)	(Restated)
		HK\$'000	HK\$'000
Other comprehensive income (expense)			
Exchange difference arising on translation to presentation currency		55	–
Recognition of fair value change on available-for-sale investments		(32,967)	(16,266)
Other comprehensive expense for the period		(32,912)	(16,266)
Total comprehensive expense for the period		(91,951)	(86,788)
Loss for the period attributable to:			
– Owners of the Company		(59,022)	(70,485)
– Non-controlling interests		(17)	(37)
		(59,039)	(70,522)
Total comprehensive expense attributable to:			
– Owners of the Company		(91,934)	(86,751)
– Non-controlling interests		(17)	(37)
		(91,951)	(86,788)
Loss per share	9		
– Basic		(HK 1.94 cents)	(HK 3.90 cents)
– Diluted		(HK 1.94 cents)	(HK 3.90 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2011*

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Restated) HK\$'000
	<i>Notes</i>		
Non-Current Assets			
Property, plant and equipment	10	442,115	18,513
Investment property		4,700	4,700
Available-for-sale investments		77,703	110,171
Interests in associates	11	339,637	343,666
Goodwill	12	36,831	–
Sea use rights	13	65,504	–
Prepaid lease payments		6,476	–
Club debentures		350	350
Deferred tax assets		324	12
		973,640	477,412
Current Assets			
Inventories		30,571	30,394
Debtors, bills receivables, deposits and prepayments	14	141,557	126,070
Convertible bonds designated as financial assets at fair value through profit or loss		77,098	106,734
Derivative financial assets		7,242	10,952
Amounts due from associates		51,829	52,806
Loan receivables		14,979	72,980
Prepaid lease payments		214	–
Taxation recoverable		574	574
Held for trading investments		64,876	81,564
Deposits placed with financial institutions		1,120	927
Pledged deposit		6,650	6,200
Bank balances and cash		194,940	265,898
		591,650	755,099

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2011*

	<i>Notes</i>	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Restated) HK\$'000
Current Liabilities			
Creditors and accruals	15	167,546	23,169
Taxation payable		40,807	36,743
Obligation under a finance lease		543	543
Loan payable		15,000	–
Bank and other loans		88,566	9,357
		312,462	69,812
Net Current Assets			
		279,188	685,287
Total Assets less Current Liabilities			
		1,252,828	1,162,699
Non-Current Liabilities			
Obligation under a finance lease		691	960
Convertible bonds		213,465	229,101
Bank and other loans		16,158	–
Port construction fee refund	16	149,437	–
Promissory note		53,281	51,377
		433,032	281,438
		819,796	881,261
Capital and Reserves			
Share capital	17	40,642	25,442
Reserves		778,058	854,706
Equity attributable to owners of the Company		818,700	880,148
Non-controlling interests		1,096	1,113
		819,796	881,261

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2011	2010
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Total equity attributable to the owners of the Company at 1 January	880,148	822,999
Change in equity during the period:		
– Exchange difference arising on translation to presentation currency	55	–
– Recognition of fair value changes on available-for-sale investments	(32,967)	(16,266)
– Loss for the period	(59,022)	(70,485)
Total comprehensive loss for the period	(91,934)	(86,751)
Recognition of equity-settled share based payment	–	2,155
Convertible bonds issued	30,486	94,842
Issue of shares upon exercises of share options	–	712
	30,486	97,709
Total equity attributable to the owners of the Company at 30 June	818,700	833,957

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2011	2010
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Net cash outflow from operating activities	(6,805)	(17,573)
Net cash (outflow) inflow from investing activities	(252,378)	7,472
Net cash inflow from financing activities	188,225	282,795
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(70,958)	272,694
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	265,898	14,591
CASH AND CASH EQUIVALENTS AT END OF PERIOD	194,940	287,285
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	194,940	287,285

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2010 except for change in the accounting treatment of interest in jointly controlled entities under HKAS 31 “Interest in Joint Ventures” (“HKAS 31”).

In the current interim period, the Group recognises its interests in jointly controlled entities using proportionate consolidation rather than using the equity method of accounting. The Group’s share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group’s similar line items, line by line, in the consolidated financial statements. Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entities recognised at the date of acquisition is recognised as goodwill. The goodwill is presented separately in the consolidated statement of financial position. Any goodwill arising on the acquisition of the Group’s interest in a jointly controlled entity is accounted for in accordance with the Group’s accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity. When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group’s interest in the jointly controlled entity.

The effect of adopting of using proportionate consolidation under HKAS 31 on the condensed consolidated statement of financial position of the Group at 31 December 2010 is as follows:

	At 31 December 2010		
	Original stated	Adjustments	Restated
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Property, plant and equipment	17,585	928	18,513
Interests in a jointly controlled entity	8,044	(8,044)	–
Inventories	25,976	4,418	30,394
Debtors, bills receivables, deposits and prepayments	124,029	2,041	126,070
Bank balances and cash	263,003	2,895	265,898
Creditors and accruals	(21,709)	(1,460)	(23,169)
Reserves	(853,928)	(778)	(854,706)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The effect of adopting of using proportionate consolidation under HKAS 31 on the condensed consolidated statement of comprehensive income of the Group for the six months ended 30 June 2010 is as follows:

	For the six months ended 30 June 2010		
	Original stated <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Restated <i>HK\$'000</i>
Turnover	87,979	7,700	95,679
Revenue	60,347	7,700	68,047
Cost of sales	(53,763)	(5,907)	(59,670)
Gross profit	6,584	1,793	8,377
Other income	5,398	2	5,400
Selling and distribution expenses	(5,351)	(212)	(5,563)
Administrative expenses	(28,654)	(733)	(29,387)
Change in fair value of held for trading investments	(43,845)	–	(43,845)
Gain on disposals of held for trading investments	7,276	–	7,276
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	(23,434)	–	(23,434)
Gain on disposals of convertible bonds designated as financial assets at fair value through profit or loss	500	–	500
Return on advances and charge over assets granted to an associate	1,234	–	1,234
Share of results of associates	16,782	–	16,782
Share of result of a jointly controlled entity	755	(755)	–
Finance costs	(7,713)	–	(7,713)
Loss before taxation	(70,468)	95	(70,373)
Taxation	(54)	(95)	(149)
Loss for the period	(70,522)	–	(70,522)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In additions, 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 in the current interim period.

HKFRSs (Amendment)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards and amendments that have been issued but are not yet effective. The following new or revised standards and amendments that have been issued after the date of the consolidated financial statements for the year ended 31 December 2010 were authorized for issuance and are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adoption ¹
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets ¹
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 (Revised)	Presentation of Financial Statements ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (as revised in 2011)	Employee Benefits ⁴
HKAS 27 (as revised in 2011)	Separate Financial Statements ⁴
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the new or revised standards and amendments will not have material impact on the results and financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. TURNOVER

Turnover represents the amounts received and receivable from sales of polishing materials and equipment, net of allowances and returns, and provision of terminal and logistics services, gross proceeds from sales of held for trading investments and interest income during the period.

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Sales of polishing materials and equipment	57,601	68,044
Provision of terminal and logistics services	35,821	–
Gross proceeds from sales of held for trading investments	–	27,632
Interest income	–	3
	93,422	95,679

4. SEGMENTAL INFORMATION

Information reported to the Board, 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.

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

- Polishing materials and equipment – sales of polishing materials and equipment
- Terminal and logistics services – loading and discharging services, storage services, and leasing of terminal facilities and equipment
- Investment – investments in held for trading investments, convertible bonds, available-for-sale investments, derivative financial assets and associates

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENTAL INFORMATION (Continued)

The analysis of the revenue and segment result of the Group by reporting segments is as follows:

	Revenue		Segment result	
	Six months ended 30 June			
	2011 (Unaudited) HK\$'000	2010 (Restated) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Restated) HK\$'000
Revenue				
Polishing materials and equipment	57,601	68,044	(8,806)	(6,688)
Terminal and logistics	35,821	–	12,942	–
Investment	–	3	(38,449)	(59,162)
	93,422	68,047	(34,313)	(65,850)
Unallocated corporate expenses			(2,668)	(2,208)
Unallocated other income, gain or loss			457	5,398
Finance costs			(20,327)	(7,713)
Loss before taxation			(56,851)	(70,373)

5. FINANCE COSTS

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Restated) HK\$'000
	Interest on bank overdrafts and bank borrowings wholly repayable within five years	976
Interest on margin loans	180	81
Effective interest expenses on promissory note wholly repayable within five years	3,395	2,846
Effective interest expenses on convertible bonds	15,745	4,538
Finance lease charges	31	–
	20,327	7,713

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. TAXATION

	Six months ended 30 June	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Restated) <i>HK\$'000</i>
The charge comprises:		
Current tax		
– Hong Kong	364	54
– Other jurisdictions	1,824	95
	2,188	149

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 FOR THE PERIOD

	Six months ended 30 June	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Restated) <i>HK\$'000</i>
Loss for the period has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	4,414	4,123
Share-based payments	–	2,155
Release of prepaid lease payments	107	145
Cost of inventories sold	53,076	53,763
Reversal of impairment loss on loan receivable and interest receivable	(27,000)	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

9. LOSS PER SHARE

The calculation of the loss per share is based on the following data:

	Six months ended 30 June	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>
Loss attributable to owners of the Company for the purpose of loss per share	(59,022)	(70,485)

	Number of shares	
	30 June 2011 (Unaudited) <i>'000</i>	30 June 2010 (Unaudited) <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic loss per share	3,038,562	1,807,966
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	3,038,562	1,807,966

Diluted loss per share for the period ended 30 June 2011 and 2010 are the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2011 and 2010 does not assume the conclusion of the Company's outstanding convertible bonds and the exercise of the Company's share options since their exercise would result in a reduction in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired property, plant and equipment (including acquisition of a subsidiary (Note 18)) approximately HK\$425,349,000 (six months ended 30 June 2010: HK\$240,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. INTERESTS IN ASSOCIATES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Restated) HK\$'000
Cost less accumulated impairment of investment in associates		
– Listed in Hong Kong	174,635	174,635
– Unlisted	188,228	188,228
Share of post- acquisition results and other comprehensive income	(23,226)	(19,197)
	339,637	343,666

12. GOODWILL

	<i>HK\$'000</i>
Cost	
At 1 January 2011	161,008
Arising on acquisition of a subsidiary (Note 18)	36,831
At 30 June 2011	197,839
Accumulated impairment loss	
At 1 January 2011 and 30 June 2011	161,008
Carrying values	
At 30 June 2011	36,831

During the six months ended 30 June 2011, the Group acquired Upmove International Limited ("Upmove") with goodwill of approximately HK\$36,831,000. Details are set out in note 18.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to the terminal and logistics segment.

13. SEA USE RIGHTS

During the six months ended 30 June 2011, the Group acquired the sea use rights approximately HK\$65,504,000 through acquisition of a subsidiary (six months ended 30 June 2010: HK\$Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. DEBTORS, BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 0 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\$61,282,000 (31 December 2010: HK\$48,103,000 as restated) which are included in the Group's debtors, bills receivables, deposits and prepayments is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Restated) HK\$'000
Within 30 days	18,970	14,925
31 to 60 days	22,527	21,558
61 to 90 days	6,075	6,445
Over 90 days	13,710	5,175
	61,282	48,103
Bills receivables	66,170	–
Other debtors, deposits and prepayments	14,105	77,967
	141,557	126,070

16

15. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$8,474,000 (31 December 2010: HK\$11,108,000 as restated) which are included in the Group's creditors and accruals is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Restated) HK\$'000
Within 30 days	3,367	4,433
31 to 60 days	3,178	4,740
61 to 90 days	1,375	1,905
Over 90 days	554	30
	8,474	11,108
Other creditors and accruals	159,072	12,061
	167,546	23,169

At 30 June 2011, other creditors and accruals included an amount of processing fees of HK\$1,447,000 (31 December 2010: HK\$Nil) payable to a related company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. PORT CONSTRUCTION FEE REFUND

The port construction fee refund was amounts received from the Ministry of Transport of the PRC. The usage of the port construction fee refund is subject to the approval of the relevant PRC government authority.

17. SHARE CAPITAL

	Number of shares of HK\$0.01 each '000	Nominal value HK\$'000
Authorised:		
At 31 December 2010 and 30 June 2011	15,000,000	150,000
Issued and fully paid:		
At 31 December 2010 and 1 January 2011	2,544,198	25,442
Issue of new shares upon exercise of convertible bonds	1,520,000	15,200
At 30 June 2011	4,064,198	40,642

18. ACQUISITION OF A SUBSIDIARY

In October 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\$409,349,481). Upon the completion of the acquisition of Upmove, the Group indirectly own 50% of the equity interests in Rizhao Lanshan Wansheng Harbour Company Limited (日照嵐山萬盛港業有限責任公司, "Rizhao Lanshan"). Rizhao Lanshan is a 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, Shandong province of the PRC. Details of the acquisition are disclosed in the Company's circular dated 27 January 2011. The acquisition was completed on 28 April 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. ACQUISITION OF A SUBSIDIARY (Continued)

Acquisition-related costs amounting to approximately HK\$2,300,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in administrative expenses in the condensed consolidated income statement.

The net assets acquired in the transactions are as follows:

	<i>HK\$'000</i>
Net assets acquired:	
Property, plant and equipment	399,871
Sea use rights	65,363
Prepaid lease payments	6,476
Deferred tax assets	310
Inventories	113
Debtors, bills receivable, deposits and prepayments	77,767
Bank balances and cash	189,650
Creditors and accruals	(115,779)
Tax payables	(1,757)
Bank and other loans	(100,970)
Port construction fee refund	(148,526)
	372,518
Cash consideration paid	(409,349)
	36,831

Goodwill arising on acquisition of Upmove is carried at cost and is presented separately in the condensed consolidated statement of financial position. The goodwill is attributable to the industry expertise as well as the sustainable and profitable business model of the acquired business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The receivable acquired (which principally comprised debtors) with a fair value of HK\$77,767,000 had gross contractual amounts of HK\$77,767,000. No estimated uncollectible contractual cash flows were expected at acquisition date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. ACQUISITION OF A SUBSIDIARY (Continued)

Net cash outflow arising on acquisition:

	<i>HK\$'000</i>
Consideration paid in cash	409,349
Loss: cash and cash equivalent balances acquired	(189,650)
	219,699

Impact of acquisition on the results of the Group

Included in the loss for the period ended 30 June 2011 attributable to the owners of the Group is profit of HK\$12,942,000 attributable to Upmove. Revenue of the Group for the period ended 30 June 2011 included HK\$35,821,000 attributable to Upmove.

Had the acquisition of Upmove been effected on 1 January 2011, the revenue of the Group for the six months ended 30 June 2011 would have been HK\$165,325,000, and loss for the period would have been HK\$36,361,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

19. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2011 and 31 December 2010.

20. CAPITAL COMMITMENTS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Contracted for but not provided:		
– Acquisition of a subsidiary	–	401,074
– Acquisition of property, plant and equipment	245,821	–

21. PLEDGE OF ASSETS

As at 30 June 2011, the Group's leasehold land and buildings, plant and machinery and pledged bank deposits with carrying value of approximately HK\$187,852,000, HK\$69,880,000 and HK\$6,650,000 respectively and the available-for-sale investments and held for trading investments with a total carrying value of approximately HK\$64,876,000 have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

As at 31 December 2010, the Group's pledged bank deposits with carrying value of approximately HK\$6,200,000 and the available-for-sale investments and held for trading investments with a total carrying value of approximately HK\$40,200,000 have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 30 June 2011, 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 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	1,678	1,678
In the second to fifth years inclusive	1,539	2,378
	3,217	4,056

23. RELATED PARTY TRANSACTIONS

- (a) 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 2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Fees	225	195
Salaries and other benefits	1,397	1,444
Share-based payments	–	2,155
Retirement benefits scheme contribution	66	69
	1,688	3,863

- (b) The Group paid subcontracting fee of approximately HK\$2,882,000 (six months ended 30 June 2010: HK\$Nil) to a connected person during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the six months ended 30 June 2011 decreased by 2.4% to HK\$93.4 million as compared with the corresponding period in 2010. The decrease in turnover was mainly due to decrease in sales of polishing materials and equipment and sales of held for trading investments. The terminal and logistics operation acquired during the period contributed turnover of HK\$35.8 million for the period. Segmental revenue of polishing materials and equipment division decreased by 15.3% for the six months ended 30 June 2011, as compared with the same period last year. The decrease in the revenue of polishing materials and equipment division was due to poor performance of the PRC export industries, which led to a decrease in demand for the Group's products.

The Group completed its acquisition of the terminal and port operation, Rizhao Lanshan, on 28 April 2011. Rizhao Lanshan is 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, Shandong Province of the PRC. Rizhao Lanshan has contributed revenue of HK\$35.8 million to the Group during the period, representing approximately 38.3% of the Group's total revenue for the period.

Loss for the six months ended 30 June 2011 attributable to the owners of the Company was approximately HK\$59.0 million (six months ended 30 June 2010: loss of HK\$70.5 million), which was mainly due to decrease in fair value of held for trading investments and decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had interest-bearing bank borrowings and other loans of approximately HK\$104.7 million (31 December 2010: HK\$9.4 million), which were to mature within five years. 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 2011, the Group's leasehold land and buildings, plant and machinery and pledged bank deposits with carrying value of approximately HK\$187,852,000, HK\$69,880,000 and HK\$6,650,000 respectively and the available-for-sale investments and held for trading investments with a total carrying value of approximately HK\$64,876,000 have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2010, the Group's pledged bank deposits with carrying value of approximately HK\$6,200,000 and the available-for-sale investments and held for trading investments with a total carrying value of approximately HK\$40,200,000 have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

As at 30 June 2011, current assets of the Group amounted to approximately HK\$591.7 million (31 December 2010: HK\$755.1 million). The Group's current ratio (measured as total current assets to total current liabilities) was approximately 1.89 times as at 30 June 2011 as compared with 10.82 times as at 31 December 2010. At 30 June 2011, the Group had total assets of approximately HK\$1,565.3 million (31 December 2010: HK\$1,232.5 million) and total liabilities of approximately HK\$745.5 million (31 December 2010: HK\$351.3 million), representing a gearing ratio (measured as total liabilities to total assets) of 47.6% as at 30 June 2011 as compared with 28.5% as at 31 December 2010. The high variances in the current ratio and gearing ratio were due to the acquisition of terminal and port operation during the period.

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 there is still full of uncertainty in terms of the economic situation of the United States and Europe. The export of the PRC will be adversely affected due to decrease in demand for consumer goods. The management predicts that demand for the Group's polishing products will continue to decrease. The costs of raw materials have been 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking for the second half of 2011, we believe that global uncertainties will remain as it takes time and efforts for the United States and certain European countries to deleverage their respective economies and the PRC government will continue to make use of the monetary policies to control prices. In such a volatile market environment, the Group will adopt conservative and prudent approaches on the investment policies and investment portfolio of the Group, with a special emphasis on risk management. The Group will also actively explore suitable and secured investment opportunities with reasonable return in order to maximise the shareholders' value.

The newly acquired terminal and port operation performs satisfactorily. It provides stable revenue and profit to the Group. Benefiting from the government's economic policies and the economic development in south Shandong Province, the demand for terminal and logistics services in that area is expected to increase continuously. However, as affected by global economic downturn and the PRC government's policies on inflation control, the growth pace of the import and export will be slowed down. The newly developed Dongjiakou port and Gangyu port in Qingdao Harbour will also increase the competition of terminal and logistics operation in the neighborhood area.

MATERIAL ACQUISITION OF A SUBSIDIARY

In October 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\$409,349,481). Upon the completion of the acquisition of Upmove, the Group indirectly own 50% of the equity interests in Rizhao Lanshan. Rizhao Lanshan is a 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, Shandong province of the PRC. Details of the acquisition are disclosed in the Company's circular dated 27 January 2011. The acquisition was completed on 28 April 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION

As at 30 June 2011, the Group had approximately 160 employees (31 December 2010: 55 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.

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

At 30 June 2011, 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 Companies ("Model Code"):

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

Directors	Number of shares/underlying shares held			Percentage of interests
	Personal interests	Corporate interests	Total interests	
Mr. Cheng Kwok Woo	62,400,000	318,438,000 <i>(note)</i>	380,838,000	9.37%
Mr. Cheng Kwong Cheong (resigned on 30 June 2011)	55,900,000	318,438,000 <i>(note)</i>	374,338,000	9.21%
Ms. Chan Shui Sheung Ivy	550,000	–	550,000	0.01%
Ms. Yeung Sau Han Agnes	199,280,000	–	199,280,000	4.90%

MANAGEMENT DISCUSSION AND ANALYSIS

Short 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	–	318,438,000 <i>(note)</i>	318,438,000	7.84%
Mr. Cheng Kwong Cheong (resigned on 30 June 2011)	–	318,438,000 <i>(note)</i>	318,438,000	7.84%

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.

The movements of share options during the six months ended 30 June 2011 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2011	Granted during the period	Exercised during the period	As at 30.6.2011
	<i>HK\$</i>					
Mr. Cheng Kwok Woo	0.640	27.5.2010-26.5.2015	1,500,000	-	-	1,500,000
Ms. Yeung Sau Han Agnes	0.640	27.5.2010-26.5.2015	175,000,000	-	-	175,000,000
Mr. Cheng Kwong Cheong (resigned on 30 June 2011)	0.640	27.5.2010-26.5.2015	1,500,000	-	-	1,500,000
			178,000,000	-	-	178,000,000

Save as disclosed above, at no time during the six months ended 30 June 2011 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 2011, 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:

Name	Notes	Number of shares/ underlying shares held	Long (L) or short (S) position	Percentage of interests
PME Investments	1	318,438,000	L	7.84%
		318,438,000	S	7.84%
Mr. Cheng Kwok Woo	2	380,838,000	L	9.37%
		318,438,000	S	7.84%
Mr. Cheng Kwong Cheong	2	374,338,000	L	9.21%
		318,438,000	S	7.84%
Ms. Tsang Sui Tuen	3	380,838,000	L	9.37%
		318,438,000	S	7.84%
Ms. Wan Kam Ping	4	374,338,000	L	9.21%
		318,438,000	S	7.84%
Crown Sunny Limited	5	300,000,000	L	7.38%
Mr. Wu Jia Neng	6	300,000,000	L	7.38%
Worldkin Development Limited	7	2,940,000,000	L	72.34%
		2,700,000,000	S	66.43%
Mr. Wong Lik Ping	8	2,940,000,000	L	72.34%
		2,700,000,000	S	66.43%
Yardley Finance Limited	9	2,700,000,000	L	66.43%
Mr. Chan Kin Sun	10	2,700,000,000	L	66.43%
Shanxi Coal Transportation and Sales Group (HK) Co., Limited ("Shanxi Coal HK")	11	3,320,000,000	L	81.69%
Shanxi Coal Transportation and Sales Group Co., Limited ("Shanxi Coal")	12	3,320,000,000	L	81.69%
Mr. Ng Leung Ho		520,000,000	L	12.79%
Mr. Kong Xianyong		299,890,000	L	7.38%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. 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.
2. Mr. Cheng Kwok Woo personally holds 62,400,000 shares/underlying shares of the Company and Mr. Cheng Kwong Cheong personally holds 55,900,000 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.
3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interests in 380,838,000 shares/underlying shares of the Company that Mr. Cheng Kwok Woo has interests in.
4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interests in 374,338,000 shares/underlying shares of the Company that Mr. Cheng Kwong Cheong has interests in.
5. 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.
6. 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.
7. The interests represent the convertible bonds issued by the Company at a principal amount of HK\$88,200,000 at a conversion price of HK\$0.03 per conversion share.
8. Mr. Wong Lik Ping holds entire equity interests of Worldkin Development Limited and is accordingly deemed to have interests in the underlying shares of the Company that Worldkin Development Limited has interests in.
9. The interests represent the convertible bonds issued by the Company at a principal amount of HK\$81,000,000 at a conversion price of HK\$0.03 per conversion share.
10. Mr. Chan Kin Sun holds entire equity interests of Yardley Finance Limited and is accordingly deemed to have interests in the underlying shares of the Company that Yardley Finance Limited has interests in.

MANAGEMENT DISCUSSION AND ANALYSIS

11. The interests represent the convertible bonds issued by the Company at a principal amount of HK\$90,000,000 at a conversion price of HK\$0.03 per conversion share and 320,000,000 shares of the Company.
12. Shanxi Coal holds entire equity interests of Shanxi Coal HK and is accordingly deemed to have interests in the shares/underlying shares of the Company that Shanxi Coal HK has interests in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2011.

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 2011.

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 2011.

UPDATE OF DIRECTORS' INFORMATION

Ms. Chan Shui Sheung Ivy resigned as an executive director of China Oriental Culture Group Limited (Stock Code: 2371) on 26 May 2011.

Mr. Lam Kwok Hing Wilfred was appointed as an executive director of Hong Kong Resources Holdings Company Limited (Stock Code: 2882) on 17 August 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Following a specific enquiry, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2011.

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 2011.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Cheng Kwok Woo, Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy as executive directors; and Mr. Leung Yuen Wing, Mr. Chow Fu Kit Edward and Mr. Lam Kwok Hing Wilfred as independent non-executive directors.

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

Hong Kong, 29 August 2011