



**PME GROUP LIMITED**

**必美宜集團有限公司**

(incorporated in the Cayman Islands with limited liability)

Stock Code : 00379

**2009**

INTERIM REPORT

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the six months ended 30 June 2009*

The board of directors (the "Board" or the "Directors") of PME Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 and the comparative figures for the corresponding period in 2008 as follows:

	Notes	Six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Turnover	3	<b>120,803</b>	166,177
Revenue	4	<b>56,368</b>	84,278
Cost of sales		<b>(51,265)</b>	(71,150)
Gross profit		<b>5,103</b>	13,128
Other income		<b>3,058</b>	2,130
Selling and distribution expenses		<b>(5,270)</b>	(9,661)
Administrative expenses		<b>(34,674)</b>	(30,899)
Negative goodwill recognised as income		–	44,656
Gain on disposal of a subsidiary		–	167
Gain on disposals of associates	13	<b>86,480</b>	–
Fair value changes on investments held-for-trading		<b>58,795</b>	92,901
Net realised gain on disposal of investments held-for-trading		<b>6,747</b>	25,027
Impairment loss on available-for-sale investments		–	(199,500)
Share of result of a jointly controlled entity		<b>50</b>	17
Share of results of associates		<b>30</b>	(2)
Finance costs	5	<b>(533)</b>	(635)
Profit/(Loss) before taxation	6	<b>119,786</b>	(62,671)
Taxation	7	<b>(10,727)</b>	(18,794)
Profit/(Loss) for the period		<b>109,059</b>	(81,465)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
<b>Other comprehensive income/(expense)</b>			
Recognition of fair value change on available-for-sale investments		23,906	–
Recognition of impairment loss on available-for-sale investments		–	(1,405)
Exchange difference arising on translation to presentation currency		–	209
Realisation of disposal of a subsidiary		–	(180)
<b>Other comprehensive income/(expense) for the period</b>		<b>23,906</b>	<b>(1,376)</b>
<b>Total comprehensive income/(expense) for the period</b>		<b>132,965</b>	<b>(82,841)</b>
<b>Profit/(Loss) for the period attributable to:</b>			
– Owners of the Company		108,683	(81,983)
– Non-controlling interests		376	518
		<b>109,059</b>	<b>(81,465)</b>
<b>Total comprehensive income/(expense) attributable to:</b>			
– Owners of the Company		132,589	(83,359)
– Non-controlling interests		376	518
		<b>132,965</b>	<b>(82,841)</b>
<b>Earning/(Loss) per share</b>	9		
– Basic		HK6.18cents	HK(5.13)cents
– Diluted		HK6.14cents	–

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 June 2009

	<b>30 June 2009 (Unaudited) Notes</b>	<b>31 December 2008 (Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-Current Assets</b>		
Property, plant and equipment	<b>102,001</b>	105,999
Investment property	<b>3,200</b>	3,200
Prepaid lease payments	<b>10,730</b>	11,020
Available-for-sale investments	<b>30,180</b>	66
Deposits paid for acquisition of investment	<b>80,000</b>	–
Interests in associates	<b>134,681</b>	225,410
Interest in a jointly controlled entity	<b>6,051</b>	6,001
Club debentures	<b>350</b>	350
	<b>367,193</b>	352,046
<b>Current Assets</b>		
Inventories	<b>23,288</b>	27,017
Debtors, deposits and prepayments	<b>83,645</b>	158,018
Convertible bond designated as financial assets at fair value through profit or loss	<b>86,656</b>	7,047
Amount due from a jointly controlled entity	<b>136</b>	111
Amount due from an associate	<b>21,093</b>	–
Loan receivables	<b>46,227</b>	58,650
Prepaid lease payments	<b>290</b>	290
Taxation recoverable	<b>643</b>	643
Held-for-trading investments	<b>147,661</b>	80,112
Deposits placed with financial institutions	<b>25,985</b>	19,579
Pledged deposits	<b>3,000</b>	–
Bank balances and cash	<b>36,278</b>	18,150
	<b>474,902</b>	369,617

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 June 2009

	<i>Notes</i>	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
<b>Current Liabilities</b>			
Creditors and accruals	11	<b>52,647</b>	72,761
Taxation payable		<b>11,529</b>	802
Obligations under a finance lease		–	74
Bank loans		<b>11,009</b>	14,211
		<b>75,185</b>	87,848
<b>Net Current Assets</b>		<b>399,717</b>	281,769
<b>Total Assets less Current Liabilities</b>		<b>766,910</b>	633,815
<b>Non-Current Liabilities</b>			
Obligations under a finance lease		–	132
Deferred taxation		<b>2,527</b>	2,452
		<b>2,527</b>	2,584
		<b>764,383</b>	631,231
<b>Capital and Reserves</b>			
Share capital	12	<b>17,611</b>	17,586
Share premium and reserves		<b>746,120</b>	613,369
Equity attributable to owners of the Company		<b>763,731</b>	630,955
Non-controlling interests		<b>652</b>	276
		<b>764,383</b>	631,231

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 June 2009*

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2008 (Unaudited) HK\$'000
Total equity attributable to the owners of the Company at 1 January	<b>630,955</b>	875,551
Change in equity during the period:		
– Recognition of fair value changes on available-for-sale investments	<b>23,906</b>	–
– Recognition of impairment loss on available-for-sale investments	–	(1,405)
– Exchange difference arising on translation to presentation currency	–	209
– Realisation of disposal of a subsidiary	–	(180)
– Profit/(Loss) for the period	<b>108,683</b>	(81,983)
Total comprehensive income/(expense) for the period	<b>132,589</b>	(83,359)
Recognition of equity-settled share-based payment	–	2,079
Issue of new shares upon exercise of share options	<b>187</b>	–
	<b>187</b>	2,079
Total equity attributable to the owners of the Company at 30 June	<b>763,731</b>	794,271

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**

For the six months ended 30 June 2009

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b> <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	<b>591</b>	(9,198)
Net cash inflow/(outflow) from investing activities	<b>4,378</b>	(61,652)
Net cash inflow from financing activities	<b>13,159</b>	360
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>18,128</b>	(70,490)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>18,150</b>	164,967
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>36,278</b>	94,477
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>36,278</b>	94,477

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2009*

### 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 (the “HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “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, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKFRS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

#### *HKAS 1 (Revised 2007) "Presentation of Financial Statements"*

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

#### *HKFRS 8 "Operating Segments"*

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 "Segment Reporting" (see note 4).

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>2</sup>
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised 2008)	Business Combinations <sup>1</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 18	Transfer of Assets from Customers <sup>4</sup>

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

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>4</sup> Effective for transfer on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control of a subsidiary will be accounted for as equity transactions. The Directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2009***3. TURNOVER**

Turnover represents the amounts received and receivable from the manufacture of abrasive products, polishing compounds and wheels, trading of polishing materials and polishing equipment, provision of technical consultancy service, net of allowances and returns and sales tax; trading of equity securities and interest income, during the year.

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Manufacturing, trading and provision of technical service	<b>55,243</b>	81,692
Proceeds from held-for-trading investments	<b>64,435</b>	81,899
Interest income	<b>1,125</b>	2,586
	<b>120,803</b>	166,177

**4. SEGMENTAL INFORMATION**

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

	<b>Revenue</b>		<b>Segment result</b>	
	<b>Six months ended 30 June</b>			
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<b>Operating divisions</b>				
Manufacturing	<b>29,221</b>	43,091	<b>(8,806)</b>	(6,400)
Trading	<b>26,022</b>	37,451	<b>(4,736)</b>	(5,948)
Technical services	–	1,150	–	(486)
Investment	<b>1,125</b>	2,586	<b>146,283</b>	(47,632)
	<b>56,368</b>	84,278	<b>132,741</b>	(60,466)
Unallocated corporate expenses			<b>(15,560)</b>	(3,715)
Other income			<b>3,058</b>	2,130
Share of result of a jointly controlled entity			<b>50</b>	17
Share of results of associates			<b>30</b>	(2)
Finance costs			<b>(533)</b>	(635)
Profit/(Loss) before taxation			<b>119,786</b>	(62,671)

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2009***4. SEGMENTAL INFORMATION** (Continued)

The Group's operations are located in Hong Kong and Mainland China. The Group's trading division is mainly located in Hong Kong. Manufacturing and technical services are carried out in Mainland China. Investment division is located in Hong Kong.

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<i>HK\$'000</i>
Hong Kong	<b>10,521</b>	28,177
Mainland China	<b>37,467</b>	50,915
Other Asian regions	<b>7,799</b>	3,224
North America and Europe	<b>371</b>	654
Other countries	<b>210</b>	1,308
	<b>56,368</b>	84,278

**5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<i>HK\$'000</i>
Interest on bank overdrafts and bank borrowings wholly repayable within five years	<b>530</b>	623
Interest on finance lease	<b>3</b>	12
	<b>533</b>	635

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2009***6. PROFIT/(LOSS) BEFORE TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit/(Loss) before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>3,481</b>	3,808
Share-based payments	–	2,079
Release of prepaid lease payments	<b>145</b>	125
Cost of inventories sold	<b>51,265</b>	71,150

**7. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Current tax		
– Hong Kong	<b>10,727</b>	18,794

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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2009***8. DIVIDEND**

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

**9. EARNING/(LOSS) PER SHARE**

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

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>
Earnings/(Loss) attributable to owners of the Company for the purpose of earning/(loss) per share	<b>108,683</b>	(81,983)

	<b>Number of shares</b>	
	<b>30 June 2009</b> <b>(Unaudited)</b> <b>'000</b>	<b>30 June 2008</b> <b>(Unaudited)</b> <b>'000</b>
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<b>1,759,000</b>	1,598,000
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	<b>1,771,000</b>	–

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2009***10. DEBTORS, DEPOSITS AND PREPAYMENTS**

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK\$48,761,000 (31 December 2008: HK\$62,997,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Within 30 days	<b>12,834</b>	15,118
31 to 60 days	<b>8,433</b>	13,778
61 to 90 days	<b>8,726</b>	6,489
Over 90 days	<b>18,768</b>	27,612
	<b>48,761</b>	62,997
Other debtors, deposits and prepayments	<b>34,884</b>	95,021
	<b>83,645</b>	158,018

**11. CREDITORS AND ACCRUALS**

The aged analysis of the trade creditors of HK\$12,028,000 (31 December 2008: HK\$7,260,000) which are included in the Group's creditors and accruals is as follows:

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Within 30 days	<b>5,120</b>	1,271
31 to 60 days	<b>2,854</b>	972
61 to 90 days	<b>3,243</b>	1,483
Over 90 days	<b>811</b>	3,534
	<b>12,028</b>	7,260
Other creditors and accruals	<b>40,619</b>	65,501
	<b>52,647</b>	72,761

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2009***12. SHARE CAPITAL**

	Number of shares of HK\$0.01 each '000	Nominal value HK\$'000
Authorised:		
<b>At 30 June 2009 and 31 December 2008</b>	<b>10,000,000</b>	<b>100,000</b>
Issued and fully paid:		
At 31 December 2008 and 1 January 2009	1,758,600	17,586
Issue of new shares upon exercise of share options	2,500	25
<b>At 30 June 2009</b>	<b>1,761,100</b>	<b>17,611</b>

**13. DISPOSALS OF ASSOCIATES**

During the six months ended 30 June 2009, the Group disposed of 102,000,000 ordinary shares of ZZNode Technologies Company Limited through the open market with aggregate consideration of approximately HK\$111,400,000. The disposal resulted in a gain of approximately HK\$87,188,000.

On 12 March 2009, the Group and Vital-Gain Global Limited, an independent third party, entered into an agreement for the disposal of the Group's holding of 500,000,000 shares in China Bio-Med Regeneration Technology Limited for the consideration of HK\$60,000,000. Details of which are set out in the Company's announcement dated 18 March 2009. The disposal was completed on 5 June 2009 and resulted in a loss on disposal of approximately HK\$708,000.

**14. CONTINGENT LIABILITIES**

The Group had no material contingent liabilities as at 30 June 2009 and 31 December 2008.

**15. CAPITAL COMMITMENTS**

The Group had no material capital commitment as at 30 June 2009 and 31 December 2008.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2009***16. PLEDGE OF ASSETS**

As at 30 June 2009, the Group had pledged its leasehold land and buildings, investments in listed securities and bank deposits with carrying values of approximately HK\$72,815,000, HK\$171,566,000 and HK\$3,000,000 respectively to secure the general credit facilities granted to the Group.

As at 31 December 2008, the Group had pledged its leasehold land and buildings and investments in listed securities with carrying values of approximately HK\$73,550,000 and HK\$80,100,000 respectively to secure the general credit facilities granted to the Group.

**17. OPERATING LEASE COMMITMENTS****The Group as lessee**

As at 30 June 2009, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Within one year	<b>4,140</b>	4,140
In the second to fifth years inclusive	<b>29</b>	2,099
	<b>4,169</b>	6,239

**18. RELATED PARTY TRANSACTION**

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

	<b>Six months ended 30 June 2009 (Unaudited) HK\$'000</b>	2008 (Unaudited) HK\$'000
Fees	<b>180</b>	180
Salaries and other benefits	<b>1,384</b>	1,257
Share-based payments	<b>–</b>	2,079
Retirement benefits scheme contribution	<b>66</b>	60
	<b>1,630</b>	3,576



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the six months ended 30 June 2009 decreased by 27.3% to 120.8 million as compared with the corresponding period in 2008. The decrease in turnover was mainly due to decrease in revenue of manufacturing and trading divisions. Segmental revenue of manufacturing and trading products decreased by 32.2% and 30.5% respectively for the six months ended 30 June 2009, as compared with the same period last year. Segmental revenue of technical services was zero for the six months ended 30 June 2009. Segmental revenue of investment division for the six months ended 30 June 2009 amounted to HK\$1.1 million, representing a decrease of 56.5% as compared with the same period last year.

Profit for the six months ended 30 June 2009 attributable to the shareholders of the Company was approximately HK\$108.7 million (six months ended 30 June 2008: loss of HK\$82.0 million), which was mainly generated from fair value changes on investments held-for-trading and gain on disposals of associates. As there was moderate recovery of the Hong Kong stock market in the second quarter of 2009, the Group recorded net realized gain of HK\$86.5 million on disposal of associates and fair value increase on investments held-for-trading of approximately HK\$58.8 million during the six months ended 30 June 2009.

The business environment was tough in the first half of 2009. Manufacturing and trading divisions have been adversely affected by the financial tsunami. Under the effect of the financial tsunami, China's export and import have decreased. The demand for consumer goods has dropped due to weak consumer confidence, resulting in lower demand for our polishing products. Therefore, the revenue of manufacturing and trading products decreased by 31.4% as compared with the same period last year. For the six months ended 30 June 2009, the gross profit margin of manufacturing and trading products decreased to 7.2% from 12.9% in the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group had interest-bearing bank borrowings of approximately HK\$11.0 million (31 December 2008: HK\$14.2 million), which were to mature within one year. The Directors expect that all the bank borrowings will be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations. As at 30 June 2009, the Group's leasehold land and buildings, with aggregate carrying value of approximately HK\$72.8 million (31 December 2008: HK\$73.6 million), have been pledged to banks to secure the banking facilities granted to the Group.

As at 30 June 2009, current assets of the Group amounted to approximately HK\$474.9 million (31 December 2008: HK\$369.6 million). The Group's current ratio (measured as total current assets to total current liabilities) was approximately 6.3 times as at 30 June 2009 as compared with 4.2 times as at 31 December 2008. As at 30 June 2009, the Group had total assets of approximately HK\$842.1 million (31 December 2008: HK\$721.7 million) and total liabilities of approximately HK\$77.7 million (31 December 2008: HK\$90.4 million), representing a gearing ratio (measured as total liabilities to total assets) of 9.2% as compared with 12.5% as at 31 December 2008.

In view of the above, the Group maintained a solid financial position during the period under review.

### 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

Although there are signs of recovery suggesting that the most difficult times are over, it is too early to expect a strong rebound. There is still full of uncertainty of the sustainability of the recovery. We expect that the demand for consumer products will remain weak in the second-half of 2009, thus affecting the demand for the Group's polishing products. The Directors remain cautious of the outlook of the polishing product business. The Group will continue to enforce the cost saving measures and concentrate on manufacturing and trading products with higher profit margin and market competitiveness in order to enhance its profit ratio.

## MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong stock market has recovered moderately since the second quarter of 2009. The Group is cautiously optimistic about its investment performance.

In August 2009, the Group exercised the right to convert the convertible bonds of China Fortune Group Limited ("China Fortune", a company listed on the main board of the Stock Exchange) held by the Group into ordinary shares of China Fortune. After the conversion, the Group is interested in approximately 27.02% of the issued share capital of China Fortune. The Directors are of the view that the current market situation represents a good time for the Group to convert the China Fortune convertible bonds into China Fortune shares for possible realisation of an investment at a profit.

On 19 May 2009 and 2 June 2009, the Group entered into a formal agreement and a supplemental agreement respectively, to acquire 49% of the entire issued share capital of Giant Billion Limited ("Giant Billion") at the consideration of HK\$200,000,000. Giant Billion has entered into a framework agreement with 北京中體健文化傳播有限公司 (Beijing Zhongtujian Cultural Broadcast Co., Limited, "Zhongtujian"), for a possible investment of more than 51% equity interest in Zhongtujian while Zhongtujian has entered into a co-operation agreement with 央視風雲傳播有限公司 (China DTV Production Co., Ltd., "CDP") for the operation and marketing of a digital sports television channel of "小球競技" (the "Channel"). The Channel may include programs of handball, bowling, petanque, billiards, sepak takraw, cricket and squash. CDP was established by China Central Television ("CCTV") and is specialised in launching, programming and operation of the CCTV digital pay television channels. An extraordinary general meeting of the Company for the approval of the formal agreement and the transactions contemplated thereunder will be held and convened on 23 September 2009.

The Directors are of the view that there is a great potential in the media and advertising business in the PRC. In addition, given that the consideration of the acquisition shall be satisfied by the Company with the convertible bonds, the Directors are of the view that the acquisition provides the Company the opportunity to diversify its investment with good potential.

## EMPLOYEES AND REMUNERATION

As at 30 June 2009, the Group had approximately 190 employees (31 December 2008: 210 employees) in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Company also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2009, 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 of its 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	60,900,000	318,438,000 <i>(note)</i>	379,338,000	21.54%
Mr. Cheng Kwong Cheong	60,900,000	318,438,000 <i>(note)</i>	379,338,000	21.54%
Ms. Chan Shui Sheung Ivy	15,000,000	–	15,000,000	0.85%
Ms. Yeung Sau Han Agnes	15,000,000	–	15,000,000	0.85%

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

Save as disclosed above, none of the Directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the 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 to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group.

The movement of share options during the six months ended 30 June 2009 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2009	Granted during the period	Exercised/ Lapsed during the period	As at 30.6.2009
	<i>HK\$</i>					
Mr. Cheng Kwok Woo	0.075	31.10.2008-31.10.2011	6,500,000	-	-	6,500,000
Mr. Cheng Kwong Cheong	0.075	31.10.2008-31.10.2011	6,500,000	-	-	6,500,000
Ms. Chan Shui Sheung Ivy	1.198	22.10.2007-22.10.2010	15,000,000	-	-	15,000,000
Ms. Yeung Sau Han Agnes	1.198	22.10.2007-22.10.2010	15,000,000	-	-	15,000,000
Other employees	0.075	31.10.2008-31.10.2011	5,500,000	-	(2,500,000)	3,000,000
			48,500,000	-	(2,500,000)	46,000,000

Save as disclosed above, at no time during the six months ended 30 June 2009 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 subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company to acquire such rights in any other corporate.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules. The following persons were interested (including short positions) in the shares or underlying shares of the Company:

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

Name	Notes	Number of shares/ underlying shares held	Percentage of interests
PME Investments	1	318,438,000	18.08%
Mr. Cheng Kwok Woo	2	379,338,000	21.54%
Mr. Cheng Kwong Cheong	2	379,338,000	21.54%
Ms. Cheng Wai Ying	2	355,838,000	20.21%
Ms. Tsang Sui Tuen	3	379,338,000	21.54%
Ms. Wan Kam Ping	4	379,338,000	21.54%
Mr. Cheng Yau Kuen	5	355,838,000	20.21%
Crown Sunny Limited	6	300,000,000	17.03%
Mr. Wu Jia Neng	7	300,000,000	17.03%

Notes:

- PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.
- Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 60,900,000 shares/underlying shares and Ms. Cheng Wai Ying personally holds 37,400,000 shares/underlying shares. Each of them is further beneficially interested in one-third of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.
- Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interests in 379,338,000 shares/underlying shares of the Company that Mr. Cheng Kwok Woo has interests in.
- Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interests in 379,338,000 shares/underlying shares of the Company that Mr. Cheng Kwong Cheong has interests in.
- Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interests in 355,838,000 shares/underlying shares of the Company that Ms. Cheng Wai Ying has interests in.
- The interests represent the convertible bonds to be issued by the Company at a principal amount of HK\$60,000,000 at a conversion price of HK\$0.2 per conversion share.
- Mr. Wu Jia Neng holds entire equity interests of Crown Sunny Limited and is accordingly deemed to have interests in 300,000,000 underlying shares of the Company that Crown Sunny Limited has interests in.

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 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2009.

### 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 2009.

### CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2009.

### AUDIT COMMITTEE REVIEW

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

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2009.

### BOARD OF DIRECTORS

As at the date of this report, the Board comprises (1) Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Yeung Sau Han Agnes, Ms. Chan Shui Sheung Ivy and Mr. Tin Ka Pak as executive directors; and (2) Messrs. Leung Yuen Wing, Soong Kok Meng and Chow Fu Kit Edward as independent non-executive directors.

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

Hong Kong, 22 September 2009