PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

Annual Report 2004

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cheng Kwok Woo, *Chairman*
Mr. Cheng Kwong Cheong,
Vice-Chairman and Chief Executive Officer
Ms. Cheng Wai Ying
Mr. Chow Yin Kwang
Ms. Chan Yim Fan

NON-EXECUTIVE DIRECTOR

Mr. Zheng Jin Hong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Anthony Francis Martin Conway
Mr. Leung Yuen Wing
Mr. Lam Hon Ming Edward

COMPANY SECRETARY

Mr. Li Chak Hung

AUTHORISED REPRESENTATIVES

Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong

AUDIT COMMITTEE

Mr. Anthony Francis Martin Conway
Mr. Leung Yuen Wing
Mr. Lam Hon Ming Edward

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of America (Asia) Limited
DBS Bank (Hong Kong) Limited
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
UFJ Bank Limited
Agricultural Bank of China, Humen branch
Bank of China, Humen branch

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan, Shatin
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
Ground Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

379

WEBSITE

http://www.pme8.com

I am pleased to announce the audited consolidated results of the Group for the year ended 31st December, 2004 to our shareholders.

RESULTS FOR THE YEAR

For the year 2004, the Group recorded turnover of approximately HK$163,640,000 and net profit attributable to shareholders amounted to approximately HK$21,238,000.

BUSINESS

The Group is principally engaged in the manufacturing and selling of **Pme** branded abrasive products such as polishing compounds and polishing wheels; as well as trading of various European, American and Japanese branded industrial abrasive products. In addition to the trading of tangible products, the Group provides product processing solutions (application) and technical support services to our customers.

CUSTOMERS

Hong Kong and Pearl River Delta are our major markets, which accounted for over 90% of total turnover. The Group maintains a large customer database. However, our largest end-product user accounts for less than 2% of total turnover which means our business will not be greatly affected by the loss of individual customers.

REVIEW OF THE YEAR

An initial view of our final results for 2004 may give an impression of a less than robust performance, however, perusal of this report will show a good performance which was the outcome of succeeding in overcoming a series of challenges. Page 20 of the Consolidated Income Statement notes that increase in cost of sales was a major factor affecting profits attributable to shareholders. A surge in oil prices led to rises in costs of raw materials, which, in turn, increased our cost of sales by more than HK$22 million when compared with that of last year while the turnover increased by HK$8 million, and thus had a dramatic effect on gross profit. In contrast, other recurrent expenses such as transportation, finance and administrative expenses were reduced as compared to last year. As we are all aware, market costs of these expenses have been rising. Management's adoption of tight control, and timely and continuous adjustments resulted in achievement of acceptable results despite these challenges. This reflects our set-up of good monitoring and control systems.

DIVIDEND POLICY

The Board has adopted a dividend policy which it considers appropriate to the Group's overall financial position. The dividend policy also depends, among other things, on the Group's operation results, cash-flows, financial conditions, the Group's capital requirements and future plans, and the general economic environment.

In view of the present business conditions, including continuing increases in raw material costs and rising interest rates, and possible future capital requirements for the set-up of joint ventures in Mainland China and cooperation with a manufacturer in Japan, the Board does not recommend payment of a final dividend for the year ended 31st December, 2004.

PROSPECTS

As previously stated, soaring prices of raw materials greatly affected our operation and reduced our profits last year. Current oil prices are still at a high level, and American and Japanese economic growth is slowing down with interest rates rising, however, we believe that the market (our customers) has made the necessary preparations, and continues to take account of all these unfavourable factors. The GDP growth of Mainland China was about 9% last year, and the forecast for this year remains on the positive side. While over 90% of our market is in Hong Kong and Mainland China, we are optimistic about our prospects, but a cautious attitude is still necessary.

The Group will develop sales distribution channels in 2005 and establish a territorial distribution network; we will also expand our sales platform and transform the sales structure into a supermarket-like system; we will open up investment opportunities by identifying and negotiating with potential business partners. Last but not least, we will continue to focus on strict cost control in 2005.

Through making use of our rich knowledge of the China market, together with our professional techniques, experience and good track record, we will do our utmost to grasp and develop new business opportunities, as well as having deep concentration on achieving outstanding performance for our shareholders, in acknowledgment of their long-term trust.

APPRECIATION

As a result of the hard efforts of our staff, the Group was able to overcome a series of challenges and difficulties last year. On behalf of the Board, I take this opportunity to thank our team for their continuous support and contributions.

Finally, I thank you, our shareholders, customers, suppliers and business partners, for your trust in the Group.

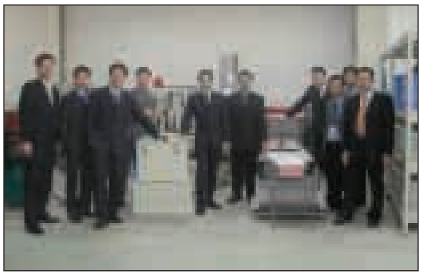
Cheng Kwok Woo
Chairman

Hong Kong, 19th April, 2005

Pme as Your Best Solution Provider

PME Group aims to be the first choice of a polishing solution provider. In order to be a Best-In-Class solution provider, knowledge is the key to success. With in-depth knowledge in the polishing industry, PME Group is your best business partner.

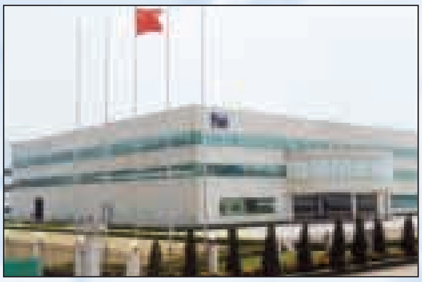
PME Group has been in the polishing industry for nearly 50 years.



PME professionals are comprehensively trained so that they can provide Best-In-Class solutions to customers to solve polishing problems and enhance production efficiency.

PME Group offers full range of polishing materials and equipment which fit different customers' needs.

Advanced manufacturing and technical support facilities enable us to provide various tailor-made services to customers.



HONG KONG HOUSEWARE FAIR

The Group participated in the Hong Kong Houseware Fair held in April 2004 as one of its promotion campaigns to enhance **Pme** brand recognition.

ROTARY CLUB LUNCHEON SEMINAR

Mr. Cheng Kwong Cheong, Vice-Chairman and Chief Executive Officer of PME Group Limited, was invited by the Rotary Club of Hong Kong Island East to deliver a talk on the polishing industry.

PROMOTION OF INTERNAL CUSTOMER SERVICES CULTURE

The Group launched a 2nd phase campaign in 2004 to consolidate the Internal Customer Services culture.

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name **Pme** and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover and profits was contributed from the markets in Hong Kong and Pearl River Delta in Mainland China.

Despite of the continued increase in the prices of raw materials during the second half of 2004, the Group has achieved moderate results for the financial year ended 31st December, 2004. The Group's turnover for the year 2004 increased by 5.5% from approximately HK$155.1 million in 2003 to approximately HK$163.6 million in 2004. The net profit for the year under review was approximately HK$21.2 million, representing a decrease of 30.7% as compared with the net profit of approximately HK$30.6 million last year. The increase in turnover was mainly due to the increased demand of the Group's products and technical services from the customers in Mainland China. However, the substantial increase in the prices of raw materials has reduced the gross profit margin by around 11% from 46.6% in 2003 to 35.7% in 2004 and thus resulting a decrease of net profit from HK$30.6 million in 2003 to HK$21.2 million in 2004. During the year, the Group has implemented effective cost control measures to reduce the selling and administrative expenses.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st December, 2004, the Group had interest-bearing bank borrowings of approximately HK$12.3 million (31st December, 2003: HK$22.2 million), which were of maturity within one year. The Directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 31st December, 2004, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$88.7 million (31st December, 2003: HK$104.4 million) were pledged to banks to secure the banking facilities granted to the Group.

At 31st December, 2004, current assets of the Group amounted to approximately HK$126.8 million (31st December, 2003: HK$82.8 million). The Group's current ratio was approximately 5.83 as at 31st December, 2004 as compared with 2.19 as at 31st December, 2003. At 31st December, 2004, the Group had total assets of approximately HK$262.5 million (31st December, 2003: HK$204.2 million) and total liabilities of approximately HK$26.7 million (31st December, 2003: HK$42.8 million), representing a gearing ratio (measured as total liabilities to total assets) of 10.2% as at 31st December, 2004 as compared with 21.0% as at 31st December, 2003.

FOREIGN EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or Renminbi. As Hong Kong dollars have been pledged with US dollars, and the exchange rate of Renminbi against Hong Kong dollars is relatively stable, the Directors consider that the Group has no material currency exchange risk exposures.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st December, 2003 and 2004.

CAPITAL COMMITMENTS

At 31st December, 2004, the Group had capital commitment of HK$96,000 (2003: HK$1,957,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

EMPLOYEES AND REMUNERATION

At 31st December, 2004, the Group had approximately 310 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 Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

Directors' and Senior Management's Profiles

DIRECTORS

Executive Directors

Mr. Cheng Kwok Woo, aged 48, is the chairman of the Group. He joined the Group in 1990 and is responsible for corporate planning, business development and overall management of the Group. He has over 20 years experience in the trading and manufacturing of abrasive products. Mr. K.W. Cheng is the brother of Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Mr. Cheng Kwong Cheong, aged 44, is the vice-chairman and chief executive officer of the Group. He joined the Group in 1990 and is responsible for marketing development of the Group and overseeing the Group's product development and production process. He has over 20 years experience in the trading and manufacturing of abrasive products. Mr. K.C. Cheng is the brother of Mr. Cheng Kwok Woo and Ms. Cheng Wai Ying.

Ms. Cheng Wai Ying, aged 46, joined the Group in 1990. She is responsible for the financial management of the Group. She has over 20 years experience in financial management and business operation management. Ms. Cheng is the sister of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

Mr. Chow Yin Kwang, aged 66, joined the Group in 1995. He is responsible for the project development of the Group. He has approximately 10 years experience in the Group's project development, operation and quality management. Before joining the Group, Mr. Chow had more than 30 years experience in operation management.

Ms. Chan Yim Fan, aged 54, joined the Group in 1990. She is responsible for the logistics of the Group including product supply, delivery, storage, and raw materials as well as trading product procurement. She has over 20 years experience in logistics management.

Non-executive Director

Mr. Zheng Jin Hong, aged 41, joined the Group in 2002. He is a certified public accountant and certified tax accountant in the PRC. He is a director of the Dongguan Accounting Society and an executive director of the Dongguan Association of Certified Public Accountants.

Independent Non-executive Directors

Mr. Anthony Francis Martin Conway, aged 65, was appointed as an independent non-executive director in May 2003. He has over 40 years experience in information technology and telecommunications, having held director and senior management positions in various renowned telecoms and information technology companies. He is currently the chairman of I.Tel (Holdings) Limited, and a fellow member of the Hong Kong Institute of Directors, the Hong Kong Management Association, the British Computer Society and the Hong Kong Institution of Engineers. Mr. Conway is also an independent non-executive director of Armitage Technologies Holding Limited, Polytec Asset Holdings Limited and Wing On Company International Limited, all are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Leung Yuen Wing, aged 38, was appointed as an independent non-executive director in September 2004. He had held managerial positions in various renowned accounting firms and an investment bank. He is currently the Financial Controller and Company Secretary of iMerchants Limited, and a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Independent Non-executive Directors (Continued)

Mr. Lam Hon Ming Edward, aged 35, was appointed as an independent non-executive director in September 2004. He has over 10 years experience in corporate finance and management sector and is a specialist in compliance auditing for financial institutions in Greater China. He is currently a director of Benchmark Corporate Consultants (HK) Company Limited and an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

SENIOR MANAGEMENT

Mr. Fong Siu Chung, aged 43, is the marketing manager of the Group. He joined the Group in 1996 and is responsible for marketing and product development of the Group. Mr. Fong holds a Bachelor degree from National Chengchi University of Taiwan.

Mr. Tam Kwok Kuen, aged 41, is the sales manager of the Group. He joined the Group in 2003 and is responsible for the sales business of the Group. He holds a Master of Business Administration degree from Royal Melbourne Institute of Technology University, Australia. Before joining the Group, Mr. Tam had worked in HSBC Group. He has more than 17 years experience in the field of international trade.

Ms. Tsang Sui Tuen, aged 46, is the purchasing manager of the Group. She joined the Group in 1990 and is responsible for trading product procurement of the Group. Ms. Tsang has over 20 years experience in the field of procurement. Ms. Tsang is the wife of Mr. Cheng Kwok Woo.

Mr. Wong Kwok Ming, aged 46, is the accounting manager of the Group. He joined the Group in 1990 and is responsible for the accounting affairs of the Group. He holds a Master of Business Administration degree from the Open University of Hong Kong.

Mr. Wong Wai Hung, aged 47, is the production manager of the Group. He joined the Group in 1998 and is responsible for the production and factory management of the Group. Mr. Wong graduated from the Hong Kong Polytechnic. He has over 20 years experience in the manufacturing industry.

Mr. Tsang Lok Chuen, aged 56, is the logistics manager of the Group. He joined the Group in 1990 and is responsible for product delivery and transportation of the Group. Mr. Tsang has more than 18 years experience in logistics management.

Mr. Lee Kam Wing, aged 39, is the information technology manager of the Group. He joined the Group in 1992 and is responsible for the management of the system operations and network infrastructure of the Group. Before joining the Group, Mr. Lee had worked in the information technology sector of various listed companies in Hong Kong for 10 years.

Ms. Hon Wing Yin, aged 29, is the administration and personnel manager of the Group. She joined the Group in 1995 and is responsible for the general administration and human resource management of the Group. She holds a Diploma in Office Administration and Office Technology from the Chinese University of Hong Kong.

Ms. Yip Chui Ling, aged 29, is the corporate planning analyst of the Group. She joined the Group in 2003 and is responsible for the corporate planning and compliance affairs of the Group. She is a member of the Association of Chartered Certified Accountants and holds a Master of Business Administration degree from the Chinese University of Hong Kong.

Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name **Pme** and the trading of various branded industrial abrasive products in Hong Kong and Mainland China.

Details of the activities of the principal subsidiaries of the Company are set out in note 34 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31st December, 2004 is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 20 of the annual report.

During the year, final dividend of HK1.25 cents per share (totalling HK$12,000,000) for the year ended 31st December, 2003 have been approved and paid to the shareholders of the Company.

An interim dividend of HK0.3 cent per share (totalling HK$2,880,000) for the year ended 31st December, 2004 was paid to the shareholders during the year.

The directors do not recommend payment of a final dividend for the year ended 31st December, 2004.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 52 of the annual report.

FIXED ASSETS

Details of the movements in the fixed assets of the Group for the year ended 31st December, 2004 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31st December, 2004 together with the reasons therefore, are set out in note 25 to the financial statements.

SHARE PREMIUM AND RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK$203,294,000.

Movements in the share premium and reserves of the Company for the year ended 31st December, 2004 are set out in note 27 to the financial statements. Movements in the share premium and reserves of the Group for the year ended 31st December, 2004 are set out on page 23 of the annual report.

SHARE OPTION SCHEME

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. Summary of the terms of the share option scheme are set out in note 26 to the financial statements.

No share option has been offered and/or granted to any participants since the adoption of the share option scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased its own shares on the Stock Exchange as detailed below:

Month of repurchases	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration paid
		HK$	*HK$*	*HK$*
December 2004	2,000,000	0.150	0.149	299,800

The repurchased shares were subsequently cancelled and accordingly, the share capital of the Company was reduced by the nominal value of shares repurchased amounted to HK$20,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers taken together accounted for less than 30 per cent of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 10.4 per cent and 34.6 per cent respectively of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5 per cent of the Company's share capital) has any interest in the Group's five largest suppliers.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

The proceeds from the issue of new shares of the Company in connection with the listing of the Company's shares on the Stock Exchange on 13th November, 2002, after deduction of related expenses, amounted to approximately HK$23.6 million. The net proceeds has been applied as follows:

– as to approximately HK$8 million to improve the production facilities and the technical application center of the Group;

– as to approximately HK$6 million to expand the Group's sales and marketing network and set up representative office in Mainland China;

– as to approximately HK$5 million to reduce the Group's bank borrowings; and

– as to approximately HK$4.6 million as general working capital of the Group.

USE OF PROCEEDS FROM PLACEMENT OF NEW SHARES

On 10th February, 2004, the Company placed 160,000,000 new shares at HK$0.45 per share. Net proceeds from the placement of new shares, after deducting the professional fees and all related expenses, amounted to approximately HK$69.7 million. Part of the net proceeds has been applied as follows:

– approximately HK$9.2 million to improve and expand the production facilities of the Group;

– approximately HK$3.2 million to support the research and development of the Group's products;

– approximately HK$0.5 million to explore and develop the market for the Group in the eastern China;

– approximately HK$5.0 million to reduce the Group's bank borrowings; and

– approximately HK$36.7 million retained as general working capital and for future investment purposes.

USE OF PROCEEDS FROM PLACEMENT OF NEW SHARES (Continued)

The remaining balance of the net proceeds of approximately HK$15.1 million is intended to be applied as follows:

– approximately HK$5.8 million to improve and expand the production facilities of the Group;

– approximately HK$1.8 million to support the research and development of the Group's products; and

– approximately HK$7.5 million to explore and develop the market for the Group in the eastern China.

DIRECTORS

The directors of the Company during the year ended 31st December, 2004 and up to the date of this report were:

Executive directors

Mr. Cheng Kwok Woo, *Chairman*	
Mr. Cheng Kwong Cheong, *Vice-Chairman and CEO*	
Ms. Cheng Wai Ying	
Mr. Chow Yin Kwang	
Ms. Chan Yim Fan	
Mr. Chung Kam Fai Raymond	(resigned on 16th January, 2005)

Non-executive directors

Mr. Zheng Jin Hong	
Mr. Charles Woo	(resigned on 19th April, 2004)

Independent non-executive directors

Mr. Anthony Francis Martin Conway	
Mr. Leung Yuen Wing	(appointed on 30th September, 2004)
Mr. Lam Hon Ming Edward	(appointed on 30th September, 2004)
Mr. Li Kin Kent	(resigned on 30th September, 2004)

In accordance with Article 87(1) of the Company's Articles of Association, Messrs. Cheng Kwong Cheong and Zheng Jin Hong shall retire from offices in the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

In accordance with Article 86(3) of the Company's Articles of Association, Messrs. Leung Yuen Wing and Lam Hon Ming Edward shall retire from offices by rotation in the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The biographic details of the directors are set out on pages 10 and 11 of the annual report.

DIRECTORS' SERVICES CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years commencing from 1st October, 2002, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Saved as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors have any interest in competing business to the Group.

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

At 31st December, 2004, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

Long positions in the ordinary shares of the Company:

	Number of shares held			
Directors	**Personal interests**	**Corporate interests**	**Total interests**	**Percentage of interests**
Mr. Cheng Kwok Woo	54,400,000	304,498,000 *(note)*	358,898,000	37.46%
Mr. Cheng Kwong Cheong	54,400,000	304,498,000 *(note)*	358,898,000	37.46%
Ms. Cheng Wai Ying	54,400,000	304,498,000 *(note)*	358,898,000	37.46%
Ms. Chan Yim Fan	8,205,333	–	8,205,333	0.86%

Note: These shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands (the "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.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year 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.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2004, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The following persons were interested (including short positions) in the shares of underlying shares of the Company:

Long positions in the ordinary shares of the Company:

Name	Number of shares held	Percentage of interests
PME Investments *(note 1)*	304,498,000	31.78%
Mr. Cheng Kwok Woo *(note 2)*	358,898,000	37.46%
Mr. Cheng Kwong Cheong *(note 2)*	358,898,000	37.46%
Ms. Cheng Wai Ying *(note 2)*	358,898,000	37.46%
Ms. Tsang Sui Tuen *(note 3)*	358,898,000	37.46%
Ms. Wan Kam Ping *(note 4)*	358,898,000	37.46%
Mr. Cheng Yau Kuen *(note 5)*	358,898,000	37.46%

Notes:

1. 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.

2. Each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying personally holds 54,400,000 shares of the Company, being approximately 5.68% of the entire issued share capital of the Company. 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.

3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 358,898,000 shares of the Company that Mr. Cheng Kwok Woo has interest in.

4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interest in 358,898,000 shares of the Company that Mr. Cheng Kwong Cheong has interest in.

5. Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interest in 358,898,000 shares of the Company that Ms. Cheng Wai Ying has interest 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 31st December, 2004.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors of the Company are not appointed for specific terms as required by the Code, but are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. All directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

AUDIT COMMITTEE

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 members include three independent non-executive directors of the Company.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to advise the Board on the annual remuneration packages of the directors of the Company. The Remuneration Committee members include three independent non-executive directors, the Chairman and the Vice-Chairman of the Company.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

AUDITORS

A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Cheng Kwong Cheong
Vice-Chairman & CEO

Hong Kong, 19th April, 2005

Deloitte.
德勤

TO THE SHAREHOLDERS OF PME GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
19th April, 2005

Consolidated Income Statement

For the year ended 31st December, 2004

	Notes	2004 HK$'000	2003 HK$'000
Turnover	4	**163,640**	155,076
Cost of sales		**(105,287)**	(82,833)
Gross profit		**58,353**	72,243
Other operating income	6	**866**	624
Selling and distribution expenses		**(7,886)**	(9,004)
Administrative expenses		**(26,584)**	(27,359)
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement		**554**	56
Profit from operations	7	**25,303**	36,560
Loss on disposal of a subsidiary		**–**	(30)
Finance costs	8	**(896)**	(1,233)
Profit before taxation		**24,407**	35,297
Taxation	11	**(3,169)**	(4,664)
Net profit for the year		**21,238**	30,633
Dividends	12	**2,880**	14,400
Earnings per share	13		
Basic and diluted		**HK2.25 cents**	HK3.83 cents

Consolidated Balance Sheet

At 31st December, 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-current assets			
Property, plant and equipment	14	**125,312**	119,233
Investments in securities	16	**6,144**	–
Other assets	17	**3,903**	1,829
Club debentures		**350**	350
		135,709	121,412
Current assets			
Inventories	18	**28,177**	18,176
Debtors, deposits and prepayments	19	**52,393**	45,398
Loan receivable	20	**7,860**	–
Taxation recoverable		**1,550**	32
Bank balances and cash		**36,800**	19,179
		126,780	82,785
Current liabilities			
Creditors and accruals	21	**8,376**	9,899
Taxation payable		**925**	5,491
Obligations under a finance lease	22	**165**	156
Bank borrowings	23	**12,290**	22,232
		21,756	37,778
Net current assets		**105,024**	45,007
Total assets less current liabilities		**240,733**	166,419
Non-current liabilities			
Obligations under a finance lease	22	**235**	400
Deferred taxation	24	**4,678**	4,640
		4,913	5,040
		235,820	161,379
Capital and reserves			
Share capital	25	**9,580**	8,000
Share premium and reserves		**226,240**	153,379
		235,820	161,379

The financial statements on pages 20 to 51 were approved and authorised for issue by the Board of Directors on 19th April, 2005 and are signed on its behalf by:

CHENG KWOK WOO
DIRECTOR

CHENG KWONG CHEONG
DIRECTOR

Balance Sheet

At 31st December, 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-current assets			
Interests in subsidiaries	*15*	**204,867**	142,069
Other assets	*17*	**3,903**	1,829
		208,770	143,898
Current assets			
Prepayments		**172**	19
Bank balances and cash		**4,217**	31
		4,389	50
Current liability			
Accruals		**(285)**	(120)
Net current assets (liabilities)		**4,104**	(70)
		212,874	143,828
Capital and reserves			
Share capital	*25*	**9,580**	8,000
Share premium and reserves	*27*	**203,294**	135,828
		212,874	143,828

CHENG KWOK WOO
DIRECTOR

CHENG KWONG CHEONG
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2003	8,000	134,480	(38,581)	11,679	–	29,547	145,125
Revaluation increase on leasehold land and buildings	–	–	–	29	–	–	29
Deferred tax liability arising on revaluation of leasehold land and buildings	–	–	–	(8)	–	–	(8)
Net gain not recognised in the consolidated income statement	–	–	–	21	–	–	21
Net profit for the year	–	–	–	–	–	30,633	30,633
Dividends paid	–	–	–	–	–	(14,400)	(14,400)
At 31st December, 2003 and 1st January, 2004	8,000	134,480	(38,581)	11,700	–	45,780	161,379
Revaluation decrease on leasehold land and buildings	–	–	–	(2,666)	–	–	(2,666)
Deferred tax asset arising on revaluation of leasehold land and buildings	–	–	–	720	–	–	720
Revaluation increase on investments in securities	–	–	–	–	633	–	633
Net (loss) gain not recognised in the consolidated income statement	–	–	–	(1,946)	633	–	(1,313)
Share issued at premium	1,600	70,400	–	–	–	–	72,000
Share issue expenses	–	(2,304)	–	–	–	–	(2,304)
Shares repurchased	(20)	(280)	–	–	–	–	(300)
Net profit for the year	–	–	–	–	–	21,238	21,238
Dividends paid	–	–	–	–	–	(14,880)	(14,880)
At 31st December, 2004	9,580	202,296	(38,581)	9,754	633	52,138	235,820

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Operating activities			
Profit from operations		**25,303**	36,560
Adjustments for:			
Interest income		**(143)**	(199)
Dividend income		**(61)**	–
Depreciation and amortisation		**7,188**	5,898
Loss on disposals of property, plant and equipment		**8**	94
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement		**(554)**	(56)
Allowance for doubtful debts		**–**	1,051
Allowance for obsolete inventories		**159**	452
Operating cash flows before movements in working capital		**31,900**	43,800
(Increase) decrease in inventories		**(10,160)**	1,704
Increase in debtors, deposits and prepayments		**(13,155)**	(13,911)
Increase (decrease) in creditors and accruals		**1,283**	(508)
Cash generated from operations		**9,868**	31,085
Interest paid		**(869)**	(1,225)
Finance lease charges paid		**(27)**	(8)
Hong Kong Profits Tax paid		**(5,137)**	(2,174)
Net cash generated from operating activities		**3,835**	27,678
Investing activities			
Interest received		**143**	199
Dividend received		**61**	–
Purchases of property, plant and equipment		**(15,390)**	(9,757)
Purchases of other assets		**(2,074)**	(1,829)
Purchases of investments in securities		**(5,511)**	–
Advances of loan receivable		**(7,860)**	–
Proceeds from disposal of property, plant and equipment		**3**	41
Disposal of a subsidiary	*28*	**(4)**	791
Net cash used in investing activities		**(30,632)**	(10,555)

	2004 HK$'000	2003 HK$'000
Financing activities		
New bank loans raised	**10,565**	17,237
Repayment of bank loans	**(19,297)**	(22,238)
Loan raised under finance lease arrangement	**–**	670
Repayment of obligations under a finance lease	**(156)**	(114)
Dividends paid	**(14,880)**	(14,400)
Proceeds from issue of shares	**72,000**	–
Share issue expenses	**(2,304)**	–
Payment on repurchase of shares	**(300)**	–
Net cash generated from (used in) financing activities	**45,628**	(18,845)
Net increase (decrease) in cash and cash equivalents	**18,831**	(1,722)
Cash and cash equivalents at beginning of the year	**17,969**	19,691
Cash and cash equivalents at end of the year	**36,800**	17,969
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**36,800**	19,179
Bank overdrafts	**–**	(1,210)
	36,800	17,969

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and it shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 34.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced to assess the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of leasehold land and buildings and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from their respective dates of acquisition or up to the dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their residual value, using the straight line method, as follows:

Leasehold land	Over the term of the relevant lease
Buildings	Over the shorter of the term of leases or 50 years
Other property, plant and equipment	3 to 10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases

Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains or losses are included in the net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the securities are disposed of or are determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Other assets

Other assets are held for long-term purpose and are stated at cost less any identified impairment loss.

Club debentures

Club debentures are stated at cost less any identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another Statement of Standard Accounting Practice ("SSAP"), in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to the defined contribution retirement benefits schemes are charged as an expense as they fall due.

4. TURNOVER

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and polishing wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service

Segment information about these businesses is presented below.

Income statement for the year ended 31st December, 2004

	Manufacturing	**Trading**	**Technical service**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	91,997	67,074	4,569	163,640
Result				
Segment result	14,461	5,596	3,826	23,883
Other operating income				866
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement				554
Profit from operations				25,303
Finance costs				(896)
Profit before taxation				24,407
Taxation				(3,169)
Net profit for the year				21,238

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Balance sheet at 31st December, 2004

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	158,100	42,009	1,903	202,012
Unallocated corporate assets				60,477
Consolidated total assets				262,489
Liabilities				
Segment liabilities	2,903	1,909	130	4,942
Unallocated corporate liabilities				21,727
Consolidated total liabilities				26,669

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	15,220	159	11	15,390
Depreciation and amortisation	5,696	1,397	95	7,188
Allowance for obsolete inventories	159	–	–	159

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Income statement for the year ended 31st December, 2003

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	75,454	75,746	3,876	155,076
Result				
Segment result	23,584	9,120	3,176	35,880
Other operating income				624
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement				56
Profit from operations				36,560
Loss on disposal of a subsidiary				(30)
Finance costs				(1,233)
Profit before taxation				35,297
Taxation				(4,664)
Net profit for the year				30,633

Balance sheet at 31st December, 2003

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	143,230	34,495	1,116	178,841
Unallocated corporate assets				25,356
Consolidated total assets				204,197
Liabilities				
Segment liabilities	4,147	2,007	103	6,257
Unallocated corporate liabilities				36,561
Consolidated total liabilities				42,818

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	9,045	679	33	9,757
Depreciation and amortisation	4,696	1,140	62	5,898
Allowance for doubtful debts	511	514	26	1,051
Allowance for obsolete inventories	452	–	–	452

Geographical segments

The Group's operations are located in Hong Kong and Mainland China. The Group's trading divisions are mainly located in Hong Kong and Mainland China. Manufacturing and technical service are carried out in Mainland China.

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

	Turnover	
	2004	2003
	HK$'000	*HK$'000*
Hong Kong	**96,923**	95,269
Mainland China	**58,874**	48,939
Other Asian regions	**3,865**	7,471
North America and Europe	**1,490**	1,446
Other countries	**2,488**	1,951
	163,640	155,076

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**134,904**	85,909	**371**	1,343
Mainland China	**127,585**	118,288	**15,019**	8,414
	262,489	204,197	**15,390**	9,757

6. OTHER OPERATING INCOME

	2004	2003
	HK$'000	*HK$'000*
Other operating income comprises:		
Interest income from banks	**76**	73
Other interest income	**67**	126
Net foreign exchange gains	**124**	153
Dividend income from listed investments	**61**	–
Sundry income	**538**	272
	866	624

7. PROFIT FROM OPERATIONS

	2004	2003
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Owned assets	**7,003**	5,850
Asset held under a finance lease	**185**	48
	7,188	5,898
Staff costs, including directors' remuneration	**19,062**	18,699
Auditors' remuneration	**824**	780
Allowance for doubtful debts	**–**	1,051
Allowance for obsolete inventories	**159**	452
Loss on disposals of property, plant and equipment	**8**	94
Cost of inventories recognised as expenses	**105,287**	82,833

Contributions to retirement benefits schemes of HK$715,000 (2003: HK$728,000) are included in staff costs.

8. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	**869**	1,225
Finance lease charges	**27**	8
	896	1,233

9. DIRECTORS' EMOLUMENTS

	2004 HK$'000	2003 HK$'000
Fees	**274**	334
Other emoluments:		
Salaries and other benefits	**4,472**	3,658
Retirement benefits scheme contributions	**284**	264
	4,756	3,922
Total	**5,030**	4,256

The directors' fees disclosed above include an amount of HK$224,000 (2003: HK$84,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	**10**	10
HK$1,000,001 to HK$1,500,000	**2**	–
	12	10

No director has waived any remunerations during the year (2003: Nil).

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2003: four) were directors of the Company, details of whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining one highest paid individual in 2003 were as follows:

	2004 HK$'000	2003 HK$'000
Salaries and other benefits	**–**	416
Retirement benefits scheme contributions	**–**	18
	–	434

During the year, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. TAXATION

	2004 *HK$'000*	2003 *HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**2,613**	5,437
Overprovision in prior year	**(202)**	(558)
	2,411	4,879
Deferred taxation *(note 24)*		
Current year	**758**	(264)
Attributable to a change in tax rate	**–**	49
	758	(215)
	3,169	4,664

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

In accordance with the relevant tax laws and regulations of The People's Republic of China ("PRC"), the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. No provision for PRC EIT has been made in the financial statements as the subsidiary is within the tax exemption period.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2004 *HK$'000*	2003 *HK$'000*
Profit before taxation	**24,407**	35,297
Tax at Hong Kong Profits Tax rate of 17.5%	**4,271**	6,177
Tax effect of expenses not deductible for tax purpose	**23**	142
Tax effect of income not taxable for tax purpose	**(111)**	(12)
Tax effect of tax loss not recognised	**127**	–
Utilisation of tax losses previously not recognised	**(5)**	–
Effect of tax exemptions granted to the PRC subsidiary	**(904)**	(1,280)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	**–**	49
Overprovision in respect of prior year	**(202)**	(558)
Others	**(30)**	146
Tax charge for the year	**3,169**	4,664

The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

12. DIVIDENDS

	2004 *HK$'000*	2003 *HK$'000*
Interim dividend paid at HK0.3 cent (2003: HK0.3 cent) per ordinary share	**2,880**	2,400
Proposed final dividend – Nil (2003: HK1.25 cents per ordinary share)	**–**	12,000
	2,880	14,400

The directors do not recommend payment of a final dividend for the year ended 31st December, 2004.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2004 *HK$'000*	2003 *HK$'000*
Earnings for the purposes of basic earnings per share and diluted earnings per share	**21,238**	30,633

	Number of shares	
	2004 *'000*	2003 *'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**942,359**	800,000

There is no difference between the basic and diluted earnings per share as the Company has no potential dilutive ordinary shares during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Yachts HK$'000	Total HK$'000
THE GROUP						
AT COST OR VALUATION						
At 1st January, 2004	104,350	22,178	10,940	4,520	1,317	143,305
Additions	2,821	12,180	389	–	–	15,390
Disposals	–	(15)	(76)	(54)	–	(145)
Decrease in revaluation	(4,331)	–	–	–	–	(4,331)
At 31st December, 2004	102,840	34,343	11,253	4,466	1,317	154,219
Comprising:						
At cost	–	34,343	11,253	4,466	1,317	51,379
At valuation 2004	102,840	–	–	–	–	102,840
	102,840	34,343	11,253	4,466	1,317	154,219
ACCUMULATED DEPRECIATION AND AMORTISATION						
At 1st January, 2004	–	10,678	8,223	3,854	1,317	24,072
Provided for the year	2,219	3,629	1,064	276	–	7,188
Eliminated on disposals	–	(8)	(77)	(49)	–	(134)
Eliminated on revaluation	(2,219)	–	–	–	–	(2,219)
At 31st December, 2004	–	14,299	9,210	4,081	1,317	28,907
NET BOOK VALUES						
At 31st December, 2004	102,840	20,044	2,043	385	–	125,312
At 31st December, 2003	104,350	11,500	2,717	666	–	119,233

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
The carrying amount of leasehold land and building comprises:		
Properties held under medium-term leases:		
– in Hong Kong	**14,188**	13,950
– elsewhere in the PRC	**88,652**	90,400
	102,840	104,350

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31st December, 2004 on an open market existing use basis. The revaluation gave rise to a net revaluation deficit of HK$2,112,000 of which approximately HK$2,666,000 has been debited to the property revaluation reserve and HK$554,000 has been credited to the income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Cost	**106,411**	103,590
Accumulated depreciation and amortisation	**(14,382)**	(12,163)
Net book values	**92,029**	91,427

Motor vehicles include an amount of HK$385,000 (2003: HK$570,000) in respect of asset held under a finance lease.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**118,850**	118,850
Amount due from a subsidiary	**86,017**	23,219
	204,867	142,069

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Company as at the date on which the Company became the ultimate holding company of the Group.

The amounts due from a subsidiary is unsecured, interest free and have no fixed terms of repayment. The Company agreed not to demand for repayment within the next twelve months from the balance sheet date, and accordingly, the amount was shown as non-current.

Particulars of the Company's principal subsidiaries at 31st December, 2004 are set out in note 34.

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong, at market value	**6,144**	–

17. OTHER ASSETS

THE COMPANY AND THE GROUP

Other assets represent deposits with life insurance funds with attached insurances policies.

The insured persons are the directors of the Company and the Company is the beneficiary of the life insurance policies. The life insurance funds have guaranteed returns over the respective policy periods.

18. INVENTORIES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**7,941**	5,627
Work in progress	**71**	121
Finished goods	**20,165**	12,428
	28,177	18,176

Included in inventories are raw materials of HK$148,000 (2003: HK$188,000) carried at net realisable value.

19. 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$44,271,000 (2003: HK$39,254,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**26,281**	16,382
31 to 60 days	**11,383**	13,641
61 to 90 days	**4,012**	5,460
Over 90 days	**2,595**	3,771
	44,271	39,254
Other debtors, deposits and prepayments	**8,122**	6,144
	52,393	45,398

20. LOAN RECEIVABLE

The Group

The loan, made to an independent third party, bears interest at prevailing market rate and is repayable in five instalments within one year.

21. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK$4,942,000 (2003: HK$6,257,000) which are included in the Group's creditors and accruals is as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**2,600**	2,214
31 to 60 days	**723**	1,276
61 to 90 days	**812**	2,192
Over 90 days	**807**	575
	4,942	6,257
Other creditors and accruals	**3,434**	3,642
	8,376	9,899

22. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**183**	183	**165**	156
More than one year, but not exceeding two years	**183**	182	**175**	165
More than two years, but not exceeding five years	**60**	244	**60**	235
	426	609	**400**	556
Less: Future finance charges	**(26)**	(53)	**–**	–
Present value of lease obligations	**400**	556	**400**	556
Less: Amount due within one year shown under current liabilities			**(165)**	(156)
Amount due after one year			**235**	400

23. BANK BORROWINGS

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Bank borrowings comprise:		
Bank overdrafts	**–**	1,210
Trust receipt loans	**6,574**	1,495
Other bank loans	**5,716**	19,527
	12,290	22,232
Analysed as:		
Secured	**4,486**	17,888
Unsecured	**7,804**	4,344
	12,290	22,232

All bank borrowings are due for repayment within one year.

24. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	**Revaluation of properties**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
At 1st January, 2003	661	4,320	(134)	4,847
Charge (credit) to income statement for the year	53	–	(317)	(264)
Charge to equity for the year	–	8	–	8
Effect of a change in tax rate charge (credit) to the income statement	62	–	(13)	49
At 31st December, 2003 and 1st January, 2004	776	4,328	(464)	4,640
Charge (credit) to income statement for the year	825	–	(67)	758
Credit to equity for the year	–	(720)	–	(720)
At 31st December, 2004	1,601	3,608	(531)	4,678

24. DEFERRED TAXATION (Continued)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Deferred tax liabilities	**5,209**	5,104
Deferred tax assets	**(531)**	(464)
	4,678	4,640

25. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Nominal value	
	2004	2003	**2004**	2003
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At beginning and end of year	**10,000,000**	10,000,000	**100,000**	100,000
Issue and fully paid:				
At beginning of year	**800,000**	800,000	**8,000**	8,000
Issue of shares by placement	**160,000**	–	**1,600**	–
Shares repurchased and cancelled	**(2,000)**	–	**(20)**	–
At end of year	**958,000**	800,000	**9,580**	8,000

The following changes in the share capital of the Company took place during the year ended 31st December, 2004:

(a) On 27th January, 2004, PME Investments (BVI) Co., Ltd. ("PME Investments"), a substantial shareholder of the Company of which its entire capital is owned as to one-third by each of Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, directors and shareholders of the Company, entered into a Placing Agreement with China Everbright Securities (HK) Limited to place 160,000,000 existing shares of the Company (the "Placing") at HK$0.45 per share. PME Investments also entered into a Subscription Agreement with the Company to subscribe for 160,000,000 new shares of the Company (the "Subscription") at HK$0.45 per share. All the placed shares have been placed under the Placing Agreement and completion of the Placing took place on 2nd February, 2004. The Subscription also completed on 10th February, 2004. The new shares rank pari passu with the existing shares in all respects.

25. SHARE CAPITAL (Continued)

(b) In December 2004, the Company repurchased 2,000,000 its own shares through the Stock Exchange at an aggregate consideration of HK$300,000. The highest price and the lowest price per share are HK$0.150 and HK$0.149 respectively.

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

26. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 23rd October, 2002, the board of directors of the Company may, at its discretion, grant options to full-times employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein; and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK$1 is payable on acceptance of each grant.

No share options have been granted under the scheme since its adoption.

27. SHARE PREMIUM AND RESERVES

	Share premium HK$'000	Retained profits (deficit) HK$'000	Total HK$'000
THE COMPANY			
At 1st January, 2003	134,480	(78)	134,402
Profit for the year	–	15,826	15,826
Dividend paid	–	(14,400)	(14,400)
At 31st December, 2003 and 1st January, 2004	134,480	1,348	135,828
Shares issued at premium	70,400	–	70,400
Share issue expense	(2,304)	–	(2,304)
Shares repurchased and cancelled	(280)	–	(280)
Profit for the year	–	14,530	14,530
Dividend paid	–	(14,880)	(14,880)
At 31st December, 2004	202,296	998	203,294

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK$203,294,000 (2003: HK$135,828,000).

28. DISPOSAL OF A SUBSIDIARY

The Group disposed of a subsidiary during the year. The net assets of this subsidiary at the date of disposal were as follows:

	2004	2003
	HK$'000	*HK$'000*
NET ASSETS DISPOSED OF:		
Debtors, deposits and prepayments	**6,160**	3,215
Bank balances and cash	**4**	9
Creditors and accruals	**(2,806)**	(120)
Taxation payable	**(3,358)**	(2,274)
	–	830
Loss on disposal	**–**	(30)
	–	800
Satisfied by:		
Cash consideration	**–**	800
Net cash (outflow) inflow arising on disposal:		
Cash consideration	**–**	800
Bank balances and cash disposed of	**(4)**	(9)
	(4)	791

The subsidiary disposed of during the year did not contribute significantly to the Group's cash flows, turnover and profit from operations.

29. CONTINGENT LIABILITIES

THE GROUP

At 31st December, 2003 and 2004, the Group had no significant contingent liabilities.

THE COMPANY

At 31st December, 2004, the Company had contingent liabilities of HK$7,804,000 (2003: HK$10,189,000) in respect of the extent of banking facilities utilised by subsidiaries in which corporate guarantees were given by the Company to certain banks.

30. PLEDGE OF ASSETS

THE GROUP

At 31st December, 2004, leasehold land and buildings with an aggregate carrying value of HK$88,652,000 (2003: HK$104,350,000) were pledged to banks to secure banking facilities granted to the Group.

THE COMPANY

At 31st December, 2004, the Company had no pledged assets.

31. CAPITAL COMMITMENTS

THE GROUP

At 31st December, 2004, the Group had capital commitment of HK$96,000 (2003: HK$1,957,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

THE COMPANY

At 31st December, 2004, the Company had no significant capital commitments.

32. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contribution to the MPF Scheme at rates specified in the rules of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the income statement represents contributions payable to the MPF Scheme by the Group.

The PRC employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC local government. The subsidiary is required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

33. RELATED PARTY TRANSACTIONS

(a) During the year, the Group acquired the entire equity interest in PME Strategic Investment Company Limited from Panical Investment Limited at its carrying value of HK$2. Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, the directors and shareholders of the Company, have beneficial interests in Panical Investment Limited.

(b) In 2003, the Group had the following transactions with the related companies:

Nature of transactions	**Name of related company**	*Notes*	*HK$'000*
Purchases of property, plant and equipment	Fook Cheong Ho Limited	*(i)*	600
Rental income from	GP Nano Composite Materials Limited	*(ii)*	49

Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, the directors and shareholders of the Company, have beneficial interests in Fook Cheong Ho Limited. Messrs. Cheng Kwok Woo and Cheng Kwong Cheong are directors of GP Nano Composite Materials Limited up to 30th December, 2003.

Notes:

(i) Purchase of property, plant and equipment was based on the resell value estimated by an independent third party.

(ii) Rental income was charged based on terms agreed by the parties concerned.

(c) Included in the balance of creditors and accruals as at 31st December, 2003, there was an amount due to GP Nano Composite Materials Limited of HK$7,000, which was unsecured, interest free and repayable on demand.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2004 are as follows:

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(Notes a and b)*	Principal activities
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(Note c)* Ordinary shares HK$10,000	Trading of polishing materials and equipment
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US$30,000	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(Note c)* Ordinary shares HK$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK$60,000	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd. *(Note d)*	PRC	Registered capital HK$40,000,000	Manufacturing and trading of polishing materials

Notes:

(a) The Company directly holds the entire interest in PME International (BVI) Company Limited. The interests of all other subsidiaries are indirectly held by the Company.

(b) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all the principal subsidiaries operate principally in Hong Kong.

(c) The 5% non-voting deferred shares of HK$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.

(d) Established as a wholly foreign owned enterprise.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 31st December, 2004 or at any time during the year.

Financial Summary

	For the year ended 31st December,				
	2000	2001	2002	2003	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	123,363	119,064	121,310	155,076	**163,640**
Cost of sales	(70,092)	(61,259)	(60,462)	(82,833)	**(105,287)**
Gross profit	53,271	57,805	60,848	72,243	**58,353**
Other operating income	1,067	2,064	646	624	**866**
Selling and distribution expenses	(4,217)	(3,180)	(4,354)	(9,004)	**(7,886)**
Administrative expenses	(24,961)	(23,585)	(25,213)	(27,359)	**(26,584)**
Reversal of revaluation decrease on leasehold land and buildings previously charged to income statement	585	–	–	56	**554**
Revaluation decrease on leasehold land and buildings	–	(183)	(334)	–	**–**
Profit from operations	25,745	32,921	31,593	36,560	**25,303**
Loss on disposal of a subsidiary	–	–	–	(30)	**–**
Financial costs	(2,960)	(2,258)	(2,172)	(1,233)	**(896)**
Profit before taxation	22,785	30,663	29,421	35,297	**24,407**
Taxation	(3,329)	(4,540)	(5,423)	(4,664)	**(3,169)**
Net profit for the year	19,456	26,123	23,998	30,633	**21,238**

	At 31st December,				
	2000	2001	2002	2003	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	193,073	212,774	192,252	204,197	**262,489**
Total liabilities	(73,854)	(56,995)	(47,127)	(42,818)	**(26,669)**
Equity	119,219	155,779	145,125	161,379	**235,820**

Notes:

1. The Company was incorporated in the Cayman Islands on 27th February, 2002 and became the holding company of the Group with effect from 23rd October, 2002 upon completion of the Group Reorganisation as set out in the Company's prospectus dated 31st October, 2002.

2. The results of the Group for the two years ended 31st December, 2001 and the balance sheets of the Group at 31st December, 2000 and 2001 have been prepared on a merger basis and are extracted from the Company's prospectus dated 31st October, 2002.

3. The results, assets and liabilities for prior periods have been adjusted to reflect the change in accounting policy for the adoption of the new or revised Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants.