PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

PME makes everything sparkle

Annual Report 2003

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
Mr. Chung Kam Fai, Raymond

NON-EXECUTIVE DIRECTOR

Mr. Zheng Jin Hong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Anthony Francis Martin Conway
Mr. Li Kin, Kent

COMPANY SECRETARY

Mr. Li Chak Hung

AUTHORISED REPRESENTATIVES

Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong

AUDIT COMMITTEE

Mr. Anthony Francis Martin Conway
Mr. Li Kin, Kent

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of America (Asia) 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
3rd Floor, 36C Bermuda House
British American Centre
George Town
Grand Cayman
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

379

WEBSITE

http://www.pme8.com

Chairman's Statement

I am pleased to present the second report to our shareholders following the successful listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited and the audited consolidated results of the Group for the year ended 31st December, 2003.

For the year 2003, the Group recorded a turnover of approximately HK$155.1 million and the net profit attributable to the shareholders amounted to approximately HK$30.6 million, representing 27.8% and 27.6% increases respectively compared to that of last year.

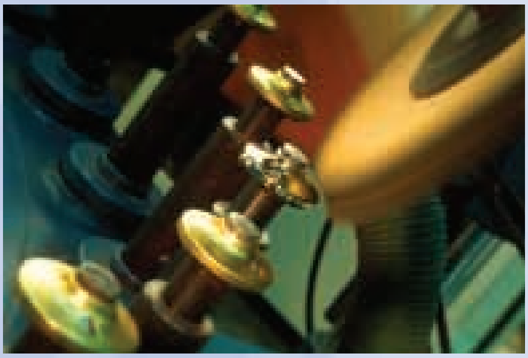
GROUP BUSINESS

- Hong Kong and Pearl River Delta are our major markets. These accounted for over 90% of total turnover and profit contribution.
- Manufacturing and selling of ***Pme*** branded polishing compounds, polishing wheels and abrasive products represented 49% of total turnover.
- Trading of various branded industrial abrasive products represented 49% of total turnover.
- We not only sell polishing products, but also provide total solutions for product processing, aiming at meeting customers' product quality requirements. Provision of technical support services represented 2% of total turnover.
- The Group maintains a huge customer database. Our largest end-product buyer accounts for less than 2% of total turnover. This means that our income is not controlled by a few buyers' orders and our business will not be greatly affected by the loss of several buyers.
- 80% of our sales are direct sales, only 20% are indirect sales (i.e. products sold through distributors). Regardless whether the buyers are direct buyers or indirect buyers, the Group still provides them with direct technical support services. This shows that we are fully aware of market changes and devise and adopt new strategies in a timely manner.

REVIEW OF THE YEAR

Winning in Adverse Times

I am pleased to announce that the Group's turnover in 2003 was the highest since its establishment.



This was achieved despite the many unfavourable factors affecting the economy in 2003. For example, oil prices escalated due to outbreak of war in the Middle East, which increased our production costs; the occurrence of SARS badly hurt the economy of Hong Kong and Mainland China. Prospects seemed to be pessimistic. In spite of this, we were determined to take on the difficulties and challenges. In order to fulfil our mission to maximise shareholders' return on investment, we devised and implemented various strategies aimed at minimising risks and exploring opportunities in 2003. We developed a detailed plan, fully utilised resources obtained from the Listing as well as enlisting staff participation to achieve growth. As a result, we overcame the difficulties and achieved remarkable performance this year.

PROSPECTS

Losses by Pride Gains by Modesty

Doubtlessly, Mainland China is heading for prosperous economic growth and development. The CEPA signed last year is definitely a "cardiac stimulant" for economic exchanges between Hong Kong and Mainland China. Spread of "avian flu" in the first quarter of 2004 slightly affected economic growth. A major crisis did not develop. There is general optimism for the economy for the rest of this year.

However, in times of economic growth, both opportunities and threats exist. We should not lower our awareness. We should guard against arrogance and rashness; be prepared for danger in times of peace; strive for growth; explore new business opportunities. All of these are our strategies in 2004.

Plans

It is expected that through implementing the following plans, the Group is able to stabilise and consolidate our business performance, and hopefully, achieve further growth:

– Making use of market intelligence to increase market share.

– Researching and developing the best mixes of various polishing products; seeking advanced and new products in American and European markets in order to meet the needs of various industries such as watches and clocks, spectacle frames and stainless steel holloware, etc.

– Focusing on exploring sales opportunities in the jewelry industry, in order to take advantage of increasing wealth of the PRC people.

– Searching for suitable China and overseas investment projects: upstream production, downstream distribution.

– Extending our marketing and sales efforts to show that the Group has the ability to provide one-stop procurement and on-site technical support services.

– Developing the market in the Yangtze River Delta through our Shanghai representative office.

APPRECIATION

We have a very hard working and dedicated team at PME. I would like to take this opportunity to thank the directors, management and all staff for their contributions which are much appreciated.

We will never forget that without customers, suppliers and trading partners, we do not have a business. Therefore, we will work diligently to continue to gain their trust and support.

Finally, I thank you, our shareholders, for your trust in the Group. We will definitely try our best to achieve continuing outstanding performance on your behalf.

Cheng Kwok Woo
Chairman

Hong Kong, 21st April, 2004

History and Milestones

2003	Three group companies were awarded ISO9001: 2000 certification.
2002	The shares of PME Group Limited were listed on the Main Board of the Stock Exchange of Hong Kong Limited.
1999	Three group companies were awarded ISO9002: 1994 certification.
1993	Established a wholly foreign-owned enterprise, "Dongguan PME Polishing Materials & Equipment Co., Ltd." in Dongguan, Guangdong Province, the PRC. The Group's production facilities in Taiwan, Zhanjiang and Haikou were all relocated to the production plant in Dongguan. The relocation was completed in 1997.
1991	Established "Lea (Hai Kou) Polishing Materials Company Limited" in Haikou, Hainan Province, the PRC engaging in the manufacturing of other abrasive products.
1989	Established a joint venture company, "Lea Golden-Star Company Limited", in Zhanjiang, Guangdong Province, the PRC engaging in the manufacturing of sisal polishing wheels and cotton polishing wheels.
	Established "Fook Cheong Ho International Limited", a principal trading company of the Group.
1988	Established "PME International Company Limited"; the structure of PME Group evolved.
	Established "Learok Enterprise Limited" in Taiwan aimed at increasing the capacity of polishing compounds manufacturing and extending the market network in Taiwan.
	Established "Shun Tien (H.K.) Mechanical Co. Limited" aimed at exploring sales opportunities for cutlery machines in Hong Kong and Mainland China.
1987	Established "Hong Kong Polishing Materials & Equipments Co. Limited" aimed at extending sales network in the Asian region.
1985	Established "Lea (Hong Kong) International Limited" with Lea Manufacturing Company aimed at exploring manufacturing and sales businesses in the Asia Pacific region.
	A Sino-foreign co-operative joint venture was formed together with Shanghai Jiao Tong University Industrial Group Corporation and Lea Manufacturing Company for the purpose of setting up a plant in Shanghai, the PRC for the production of cotton and synthetic fabric polishing wheels.
1983	Acted as an industrial abrasive products distributor for 3M Hong Kong in Hong Kong.
1980	Obtained license from Lea Manufacturing Company to manufacture "Lea" brand polishing compounds and acted as an authorised agent in the Asian region.
	Established "Learok Enterprise Limited" in Hong Kong to manufacture and develop polishing compounds.
Early 1960's	Acted as the sole import agent of Lea Manufacturing Company, a well-known US polishing materials manufacturer, in Hong Kong.
1957	Founders of the Group established "Fook Cheong Ho" in Hong Kong for trading of polishing materials.

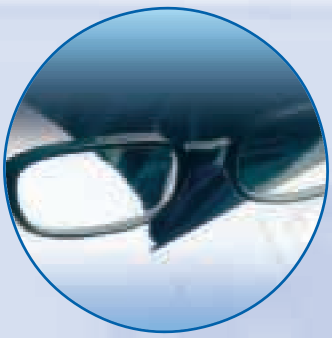
Our Professionalism

The following five groups of customers are our main marketing focuses. They demand not only the finest products, but also professional advice and value-added services. In view of this, we provide one-stop shopping services to our customers where no other local and overseas competitors can provide similar scope of services to customers in Hong Kong and Mainland China.

Our marketing focuses:

Watch Components Manufacturers

Cutlery Manufacturers



Optical Frame Manufacturers

Holloware Manufacturers

Jewelry & Ornaments Manufacturers

Staff Training

We believe professionalism is one of the major key success factors in today's competitive environment. In 2003, we launched a campaign promoting internal customer services culture and offered about 160 training programmes to staff. Included were:

– Induction courses • Staff handbook knowledge • Safety
– Work procedures • Basic job knowledge • Social skills
– Language • Products • Customer services • Computers
  • Sales skills • ISO9000
– Sales management skills • Management techniques, etc

All these efforts were to ensure that our services are of the highest quality in the polishing materials and equipment industry.

PROMOTION OF INTERNAL CUSTOMER SERVICES CULTURE

In order to provide the "best in class" services to our customers, it is essential to ensure provision of the "best in class" internal customer services. With this in mind, we launched a series of activities promoting internal customer services culture in 2003. The promotion will continue in 2004.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group is principally engaged in the manufacturing of polishing compoundsand 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 profit were contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

The year 2003 was a challenging year. There were many unfavourable factors affecting the economy including increase in oil prices due to outbreak of war in the Middle East and the occurrence of SARS over Hong Kong and Mainland China during the first half-year. The Group has devised and implemented various strategies to manage the risks and to explore opportunities. The Group has achieved a remarkable performance in 2003. The Group's turnover for the year 2003 has increased by 27.8% from approximately HK$121.3 million in 2002 to approximately HK$155.1 million. The net profit for the year under review was approximately HK$30.6 million, representing an increased of 27.6% as compared with the net profit of approximately HK$24.0 million in last year. The increase in turnover was mainly due to the development of new customer sectors and the enhancement of the quality of the Group's products. During the year of 2003, the Group has invested over HK$8 million during 2003 to improve its production facilities and the technical application center in Dongguan, China in order to meet the changing needs of the customers. The successful marketing plans together with additional input of resources for technical support services also increase the customers' awareness of and confidence on the Group's products and services.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st December, 2003, the Group had interest-bearing bank borrowings of approximately HK$22.2 million (31st December, 2002: HK$26.7 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, 2003, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$104.3 million (31st December, 2002: HK$101.9 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 31st December, 2003, current assets of the Group amounted to approximately HK$82.8 million (31st December, 2002: HK$76.5 million). The Group's current ratio was approximately 2.19 as at 31st December, 2003 as compared with 2.80 as at 31st December, 2002. At 31st December, 2003, the Group had total assets of approximately HK$204.2 million (31st December, 2002: HK$192.3 million) and total liabilities of approximately HK$42.8 million (31st December, 2002: HK$47.2 million), representing a gearing ratio (measured as total liabilities to total assets) of 21.0% as at 31st December, 2003 as compared with 24.5% as at 31st December, 2002.

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 amounted to approximately HK$69.7 million after deducting the professional fees and all related expense will be applied as to approximately HK$15 million to improve and expand the production facilities of the Group, as to approximately HK$5 million to support the research and development of the Group's products, as to approximately HK$8 million to explore and develop the market for the Group in the eastern China, as to approximately HK$5 million to reduce the Group's bank borrowings and the remaining of approximately HK$36.7 million will be retained for future investment purposes as well as general working capital of the Group.

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 31st December, 2002.

CAPITAL COMMITMENTS

At 31st December, 2003, the Group had capital commitment of HK$1,957,000 (2002: HK$37,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

OUTLOOK

Mainland China is still heading for prosperous economic growth and development. The CEPA signed last year is definitely a "cardiac stimulant" for economic exchanges between Hong Kong and Mainland China. Spread of avian flu in the first quarter of 2004 slightly affected the economic growth. The management is optimistic for 2004 and the years after.

We plan to research and develop the best mixes of various polishing products and seek for advanced and new products in American and European markets in order to meet the increasing needs of various industries.

The Group has set up a representative office in Shanghai and will focus on development of the market in the Yangtze River Delta in Eastern China during 2004.

The placing of new shares of the Company in February 2004 has broadened the shareholders' base of the Company and provided additional funding for the Group to further improve its productivity and its market competitiveness. It also enables the Group to seek for suitable investment opportunities in China and overseas in order to diversify its product types and to increase the market share of the Group.

EMPLOYEES AND REMUNERATION

At 31st December, 2003, the Group had approximately 280 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 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

Executive Directors

Mr. Cheng Kwok Woo, aged 47, 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 43, 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 45, 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 65, joined the Group in 1995. He is responsible for the project development of the Group. He has approximately 9 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 53, joined the Group in 1990. She is responsible for the logistics of the Group including product supply, delivery, storage and raw materials procurement. She has over 15 years' experience in logistics management.

Mr. Chung Kam Fai, Raymond, aged 55, joined the Group in 2002. He is responsible for the operational management of the Group. Before joining the Group, Mr. Chung had worked in the senior management of various telecoms and technology operators in Hong Kong, Macau, Taiwan and Mainland China for about 25 years.

Non-executive Director

Mr. Zheng Jin Hong, aged 40, 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 64, was appointed as an independent non-executive director in May 2003. He has over 39 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. Li Kin, Kent, aged 40, was appointed as an independent non-executive director in May 2003. He has been a solicitor and consultant at Messrs. Chan and Cheng, Solicitors since 1990, mainly handling commercial law practices as well as commercial litigations.

SENIOR MANAGEMENT

Mr. Fong Siu Chung, aged 42, 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 40, 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 45, is the purchasing manageress 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 45, 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 46, 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 University. He has 17 years' experience in the manufacturing industry.

Mr. Tsang Lok Chuen, aged 55, 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 17 years' experience in logistics management.

Mr. Lee Kam Wing, aged 38, 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 28, joined the Group in 1995. She is the administration and personnel manageress of the Group 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.

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2003.

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 different types of 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 33 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31st December, 2003 is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 22 of the annual report.

During the year, final dividend of HK1.125 cents per share (totaling HK$9,000,000) and special dividend of HK0.375 cent per share (totaling HK$3,000,000) for the year ended 31st December, 2002 have been approved and paid to the shareholders of the Company.

An interim dividend of HK0.3 cent per share (totaling HK$2,400,000) for the year ended 31st December, 2003 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK1.25 cents per share (totaling HK$12,000,000) to the shareholders on the register of members on 28th May, 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 pages 57 and 58 of the annual report.

FIXED ASSETS

During the year, the Group spent approximately HK$8.4 million on leasehold land and buildings and plant and machinery to improve its production facilities. The Group revalued its self-occupied leasehold land and buildings at 31st December, 2003 and there was no material change arising from the revaluation.

Details of the movements in the fixed assets of the Group during the year 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, 2003 and up to the date of this report together with the reasons therefore, are set out in notes 23 and 32 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$135,828,000.

Movements in the share premium and reserves of the Company for the year ended 31st December, 2003 are set out in note 25 to the financial statements. Movements in the share premium and reserves of the Group for the year ended 31st December, 2003 are set out on pages 25 and 26 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 24 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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 9 per cent and 27 per cent respectively 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 13 per cent and 31 per cent respectively of the Group's total purchases for the year.

None of the directors, chief executive, 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 customers and 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 of Hong Kong Limited (the "Stock Exchange") on 13th November, 2002, after deduction of related expenses, amounted to approximately HK$23.6 million. Part of the net proceeds has been applied as follows:

– as to approximately HK$8 million to improve the production facilities of Dongguan PME Polishing Materials & Equipments Co., Ltd. and the technical application center of the Group;

– as to approximately HK$2.5 million to expand the Group's sales and marketing network and set up representative office in the PRC;

– 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.

The remaining balance of the net proceeds of approximately HK$3.5 million, which has been placed with licensed banks in Hong Kong as at 31st December, 2003, will be applied in accordance with the plans set out in the Company's prospectus dated 31st October, 2002.

DIRECTORS

The directors of the Company during the year ended 31st December, 2003 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	(re-designated on 28th May, 2003)

Non-executive directors

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

Independent non-executive directors

Mr. Anthony Francis Martin Conway	(appointed on 28th May, 2003)
Mr. Li Kin Kent	(appointed on 28th May, 2003)
Mr. Chow Chun Kwong	(resigned on 28th May, 2003)
Mr. Chung Kam Fai Raymond	(re-designated on 28th May, 2003)

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Chow Yin Kwang and Ms. Chan Yim Fan shall retire from offices by rotation 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. Anthony Francis Martin Conway and Li Kin Kent shall retire from offices 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 11 and 12 of the annual report.

DIRECTORS' SERVICES CONTRACTS

Except for Mr Chung Kam Fai Raymond, 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. Mr. Chung Kam Fai Raymond has entered into a service agreement with the Company for an initial term of three years commencing from 28th May, 2003, and will renew for one year 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions during the year are set out in note 31 to the financial statements.

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, 2003, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), 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	358,328,000 *(note)*	412,728,000	51.59%
Mr. Cheng Kwong Cheong	54,400,000	358,328,000 *(note)*	412,728,000	51.59%
Ms. Cheng Wai Ying	54,400,000	358,328,000 *(note)*	412,728,000	51.59%
Ms. Chan Yim Fan	8,205,333	–	8,205,333	1.03%
Mr. Charles Woo	16,342,667	–	16,342,667	2.04%

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

Saved 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

At 31st December, 2003, 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 ("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 of the Company:

Name	Number of shares held	Percentage of interests
PME Investments *(note 1)*	358,328,000	44.79%
Mr. Cheng Kwok Woo *(note 2)*	412,728,000	51.59%
Mr. Cheng Kwong Cheong *(note 2)*	412,728,000	51.59%
Ms. Cheng Wai Ying *(note 2)*	412,728,000	51.59%
Ms. Tsang Sui Tuen *(note 3)*	412,728,000	51.59%
Ms. Wan Kam Ping *(note 4)*	412,728,000	51.59%
Mr. Cheng Yau Kuen *(note 5)*	412,728,000	51.59%

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 6.8% 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 412,728,000 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 412,728,000 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 412,728,000 shares of the Company that Ms. Cheng Wai Ying has interest in.

Saved 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, 2003.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 32 to the financial statements.

CODE OF BEST PRACTICE

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 Rules Governing the Listing of Securities on the Stock Exchange through out the year, except that the current 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.

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 comprises two independent non-executive directors of the Company.

AUDITORS

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

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 21st April, 2004

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

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

We have audited the financial statements on pages 22 to 56 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 Society of 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, 2003 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, 21st April, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
Turnover	4	**155,076**	121,310
Cost of sales		**(82,833)**	(60,462)
Gross profit		**72,243**	60,848
Other operating income	6	**624**	646
Selling and distribution expenses		**(9,004)**	(4,354)
Administrative expenses		**(27,359)**	(25,213)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement		**56**	–
Revaluation decrease on leasehold land and buildings		**–**	(334)
Profit from operations	7	**36,560**	31,593
Loss on disposal of a subsidiary		**(30)**	–
Finance costs	8	**(1,233)**	(2,172)
Profit before taxation		**35,297**	29,421
Taxation	11	**(4,664)**	(5,423)
Net profit for the year		**30,633**	23,998
Dividends	12	**14,400**	67,000
Earnings per share	13		
Basic and diluted		**HK3.83 cents**	HK3.45 cents

Consolidated Balance Sheet

At 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	*14*	**119,233**	115,424
Other investment	*16*	**1,829**	–
Club debentures		**350**	350
		121,412	115,774
Current assets			
Inventories	*17*	**18,176**	20,332
Debtors, deposits and prepayments	*18*	**45,398**	35,753
Taxation recoverable		**32**	43
Bank balances and cash		**19,179**	20,350
		82,785	76,478
Current liabilities			
Creditors and accruals	*19*	**9,899**	10,527
Taxation payable		**5,491**	5,071
Obligations under a finance lease – due within one year	*20*	**156**	–
Bank borrowings – due within one year	*21*	**22,232**	11,729
		37,778	27,327
Net current assets		**45,007**	49,151
Total assets less current liabilities		**166,419**	164,925
Non-current liabilities			
Obligations under a finance lease – due after one year	*20*	**400**	–
Bank borrowings – due after one year	*21*	**–**	14,953
		400	14,953
Deferred taxation	22	**4,640**	4,847
		161,379	145,125
Capital and reserves			
Share capital	*23*	**8,000**	8,000
Share premium and reserves		**153,379**	137,125
		161,379	145,125

The financial statements on pages 22 to 56 were approved and authorised for issue by the Board of Directors on 21st April, 2004 and are signed on its behalf by:

CHENG KWOK WOO
DIRECTOR

CHENG KWONG CHEONG
DIRECTOR

Balance Sheet

At 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current assets			
Interests in subsidiaries	*15*	**142,069**	126,797
Other investment	*16*	**1,829**	–
		143,898	126,797
Current assets			
Prepayments		**19**	19
Amounts due from subsidiaries		**–**	280
Bank balances and cash		**31**	15,713
		50	16,012
Current liabilities			
Accruals		**120**	290
Amount due to a subsidiary		**–**	117
		120	407
Net current (liabilities) assets		**(70)**	15,605
		143,828	142,402
Capital and reserves			
Share capital	*23*	**8,000**	8,000
Share premium and reserves	*25*	**135,828**	134,402
		143,828	142,402

CHENG KWOK WOO
DIRECTOR

CHENG KWONG CHEONG
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2002						
– as previously reported	234	–	80,035	14,961	60,432	155,662
– prior period adjustment *(Note 2)*	–	–	–	(4,040)	117	(3,923)
– as restated	234	–	80,035	10,921	60,549	151,739
Revaluation increase on leasehold land and buildings	–	–	–	1,038	–	1,038
Deferred tax liability arising on revaluation of leasehold land and buildings	–	–	–	(280)	–	(280)
Net gain not recognised in the consolidated income statement	–	–	–	758	–	758
Premium arising on the Group Reorganisation	(224)	118,840	(118,616)	–	–	–
Shares issued at premium on Placing and Public Offer	1,200	28,800	–	–	–	30,000
Issue of shares arising from capitalisation of share premium	6,790	(6,790)	–	–	–	–
Share issue expenses	–	(6,370)	–	–	–	(6,370)
Net profit for the year	–	–	–	–	23,998	23,998
Dividend paid	–	–	–	–	(55,000)	(55,000)
At 31st December, 2002 and 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	8,000	134,480	(38,581)	11,700	45,780	161,379

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31st December, 2003

Special reserve as at 1st January, 2002 included HK$72,835,000 which represented the difference between the nominal amount of the share capital issued by PME International (BVI) Company Limited, the then holding company of the Group, and the aggregate of the nominal amount of the issued share capital and other reserves accounts of the subsidiaries which was acquired by PME International (BVI) Company Limited pursuant to the group reorganisation carried out in 1997.

The remaining amount of special reserve as at 1st January, 2002 of HK$7,200,000 represented the capitalisation of shareholders' loans during the year ended 31st December, 2001.

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	Note	2003 HK$'000	2002 HK$'000
Operating activities			
Profit from operations		**36,560**	31,593
Adjustments for:			
Interest income		**(199)**	(118)
Depreciation and amortisation		**5,898**	5,616
Loss on disposal of property, plant and equipment		**94**	2
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement		**(56)**	–
Revaluation decrease on leasehold land and buildings		**–**	334
Allowance for doubtful debts		**1,051**	995
Operating cash flows before movements in working capital		**43,348**	38,422
Decrease (increase) in inventories		**2,156**	(2,843)
Increase in debtors, deposits and prepayments		**(13,911)**	(3,336)
Decrease in creditors and accruals		**(508)**	(1,880)
Cash generated from operations		**31,085**	30,363
Interest paid		**(1,225)**	(2,172)
Finance lease charges paid		**(8)**	–
Hong Kong Profits Tax paid		**(2,174)**	(5,380)
Net cash generated from operating activities		**27,678**	22,811
Investing activities			
Interest received		**199**	118
Purchase of property, plant and equipment		**(9,757)**	(1,506)
Purchase of other investment		**(1,829)**	–
Proceeds from disposal of property, plant and equipment		**41**	84
Disposal of a subsidiary	*26*	**791**	–
Repayment from former ultimate holding company		**–**	40,715
Net cash (used in) generated from investing activities		**(10,555)**	39,411

Consolidated Cash Flow Statement (Continued)

For the year ended 31st December, 2003

	2003	2002
	HK$'000	*HK$'000*
Financing activities		
New bank loans raised	**17,237**	8,219
Repayment of bank loans	**(22,238)**	(18,430)
Loan raised under finance lease arrangement	**670**	–
Repayment of obligations under a finance lease	**(114)**	–
Dividends paid	**(14,400)**	(55,000)
Proceeds from issue of shares	**–**	30,000
Share issue expenses	**–**	(6,370)
Net cash used in financing activities	**(18,845)**	(41,581)
Net (decrease) increase in cash and cash equivalents	**(1,722)**	20,641
Cash and cash equivalents at beginning of the year	**19,691**	(950)
Cash and cash equivalent at end of the year	**17,969**	19,691
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**19,179**	20,350
Bank overdrafts	**(1,210)**	(659)
	17,969	19,691

Notes to the Financial Statements

For the year ended 31st December, 2003

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27th February, 2002 under the Companies Law (Revised) Chapter 22 of the Cayman Islands.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 33.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire issued share capital of PME International (BVI) Company Limited, the former holding company of the Group, and thereby became the holding company of the Group on 23rd October, 2002.

The shares of the Company were listed on the Stock Exchange with effect from 13th November, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary 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, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. As a result of this change in policy, the balance of retained profits at 1st January, 2002 has been increased by HK$117,000, representing the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The balance on the Group's property revaluation reserve at 1st January, 2002 has been decreased by HK$4,040,000 representing the deferred tax liability recognised in respect of the revaluation increase of certain of on the Group's leasehold land and buildings at that date. The change has resulted in an increase in profit and a decrease in property revaluation reserve of HK$330,000 and HK$8,000 respectively for the year ended 31st December, 2003 (2002: decrease in HK$390,000 and decrease in HK$280,000 respectively).

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

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 amount, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (continued)

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 terms of the relevant leases
Buildings	Over the shorter of the terms 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.

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.

Other investments

Other investments represent investment in life insurance fund which are held 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 the 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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (continued)

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (continued)

Income statement for the year ended 31st December, 2002

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)
Turnover				
External sales	57,525	62,381	1,404	121,310
Result				
Segment result	20,765	9,362	1,154	31,281
Other operating income				646
Revaluation decrease on leasehold land and buildings				(334)
Profit from operations				31,593
Finance costs				(2,172)
Profit before taxation				29,421
Taxation				(5,423)
Net profit for the year				23,998

Balance sheet at 31st December, 2002

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)
Assets				
Segment assets	129,844	37,628	492	167,964
Unallocated corporate assets				24,288
Consolidated total assets				192,252
Liabilities				
Segment liabilities	4,234	2,738	61	7,033
Unallocated corporate liabilities				40,094
Consolidated total liabilities				47,127

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	871	621	14	1,506
Depreciation and amortisation	4,620	974	22	5,616
Allowance for doubtful debts	472	512	11	995

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	
	2003	2002
	HK$'000	*HK$'000*
Hong Kong	**95,269**	70,448
Mainland China	**48,939**	44,829
Other Asian region	**7,471**	3,244
North America and Europe	**1,446**	1,014
Other countries	**1,951**	1,775
	155,076	121,310

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	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**85,877**	87,028	**1,343**	690
Mainland China	**118,288**	105,181	**8,414**	816
	204,165	192,209	**9,757**	1,506

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2003

6. OTHER OPERATING INCOME

	2003 HK$'000	2002 HK$'000
Other operating income comprises:		
Interest income from banks	**73**	32
Other interest income	**126**	86
Net foreign exchange gains	**153**	245
Sundry income	**272**	283
	624	646

7. PROFIT FROM OPERATIONS

	2003 HK$'000	2002 HK$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Owned assets	**5,850**	5,616
Asset held under a finance lease	**48**	–
	5,898	5,616
Staff costs, including directors' remuneration	**18,699**	15,554
Auditors' remuneration	**780**	852
Allowance for doubtful debts	**1,051**	995
Loss on disposal of property, plant and equipment	**94**	2
Cost of inventories recognise as expense	**82,833**	60,462

Contributions to retirement benefits schemes of HK$728,000 (2002: HK$591,000) are included in staff costs.

8. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Finance costs comprise:		
Interest on bank borrowings wholly repayable within five years	**1,225**	2,172
Finance lease charges	**8**	–
	1,233	2,172

9. DIRECTORS' EMOLUMENTS

	2003 HK$'000	2002 HK$'000
Fees	334	–
Other emoluments:		
Salaries and other benefits	**3,658**	2,980
Retirement benefits scheme contributions	**264**	222
	3,922	3,202
Total	**4,256**	3,202

The director's fees disclosed above include an amount of HK$84,000 (2002: nil) payable to independent non-executive directors.

The aggregate emoluments of each of the directors for both years were within the emoluments band ranging from nil to HK$1,000,000.

No director has waived any remunerations during the year.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2002: 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 (2002: one) highest paid individual are as follows:

	2003 HK$'000	2002 HK$'000
Salaries and other benefits	**416**	364
Retirement benefits scheme contributions	**18**	17
	434	381

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

	2003	2002
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**5,437**	5,210
Overprovision in prior year	**(558)**	(2)
	4,879	5,208
Deferred taxation *(note 22)*		
Current year	**(264)**	215
Attributable to a change in tax rate	**49**	–
	(215)	215
	4,664	5,423

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

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 the PRC EIT has been made in the financial statements as the subsidiary is within the tax exemption period.

11. TAXATION (Continued)

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

	2003 HK$'000	2002 HK$'000
Profit before taxation	**35,297**	29,421
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	**6,177**	4,707
Tax effect of expenses not deductible for tax purpose	**142**	4
Tax effect of income not taxable for tax purpose	**(12)**	(5)
Utilisation of tax losses previously not recognised	**–**	(6)
Effect of tax exemptions granted to the PRC subsidiary	**(1,974)**	(168)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	**49**	–
Effect of different tax rate of the subsidiary operating in other jurisdiction	**694**	69
Overprovision in respect of prior year	**(558)**	(2)
Others	**146**	824
Tax charge for the year	**4,664**	5,423

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

12. DIVIDENDS

	2003 HK$'000	2002 HK$'000
Interim dividend paid	**2,400**	–
Proposed final dividend	**12,000**	9,000
Proposed special dividend	**–**	3,000
Interim dividend paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation	**–**	55,000
	14,400	67,000

The final dividend of HK$0.0125 (2002: HK$0.01125) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

	2003	2002
	HK$'000	*HK$'000*
		(Restated)
Earnings for the purposes of basic earnings per share and diluted earnings per share	**30,633**	23,998

	Number of shares	
	2003	2002
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**800,000**	696,438

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic and diluted
	HK cents
Reconciliation of 2002 earnings per share:	
Reported figures before adjustments	3.50
Adjustments arising from the adoption of SSAP12 (Revised)	(0.05)
Restated	3.45

The weighted average number of shares for 2002 was based on the assumption that the group reorganisation to rationale the structure of the Company and its subsidiaries in preparing for the listing of the Company shares on the Stock Exchange which took place on 23rd October, 2002 and capitalisation issue had been completed on 1st January, 2002.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Leasehold improve-ments, furniture and fixtures	Motor vehicles	Yachts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
AT COST OR VALUATION						
At 1st January, 2003	101,940	18,363	10,169	4,408	1,317	136,197
Additions	4,387	3,981	771	618	–	9,757
Disposals	–	(166)	–	(506)	–	(672)
Decrease in revaluation	(1,977)	–	–	–	–	(1,977)
At 31st December, 2003	104,350	22,178	10,940	4,520	1,317	143,305
Comprising:						
At cost	–	22,178	10,940	4,520	1,317	38,955
At valuation 2003	104,350	–	–	–	–	104,350
	104,350	22,178	10,940	4,520	1,317	143,305
ACCUMULATED DEPRECIATION AND AMORTISATION						
At 1st January, 2003	–	8,720	7,112	3,756	1,185	20,773
Provided for the year	2,062	2,012	1,111	581	132	5,898
Eliminated on disposals	–	(54)	–	(483)	–	(537)
Eliminated on revaluation	(2,062)	–	–	–	–	(2,062)
At 31st December, 2003	–	10,678	8,223	3,854	1,317	24,072
NET BOOK VALUES						
At 31st December, 2003	104,350	11,500	2,717	666	–	119,233
At 31st December, 2002	101,940	9,643	3,057	652	132	115,424

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
The carrying amount of leasehold land and buildings comprises:		
Properties held under medium-term leases:		
– in Hong Kong	**13,950**	14,210
– elsewhere in the PRC	**90,400**	87,730
	104,350	101,940

The leasehold land and buildings of the Group were revalued by Messrs. Castores Magi Surveyors Limited, an independent firm of registered professional surveyors, at 31st December, 2003 on an open market existing use basis. The revaluation gave rise to the revaluation surplus of HK$85,000 of which approximately HK$29,000 has been credited to the property revaluation reserve and HK$56,000 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	
	2003	2002
	HK$'000	*HK$'000*
Cost	**103,590**	99,204
Accumulated depreciation and amortisation	**(12,163)**	(10,101)
Net book values	**91,427**	89,103

Motor vehicles include an amount of HK$570,000 (2002: nil) in respect of asset held under a finance lease.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**118,850**	118,850
Amount due from a subsidiary	**23,219**	7,947
	142,069	126,797

15. INTERESTS IN SUBSIDIARIES (Continued)

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 under the Group Reorganisation as set out in note 1.

The amount due from a subsidiary is unsecured, interest free and has 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, 2003 are set out in note 33.

16. OTHER INVESTMENT

THE GROUP AND THE COMPANY

Other investment represents investment in life insurance fund which is held for long-term purpose.

17. INVENTORIES

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**5,627**	5,018
Work in progress	**121**	109
Finished goods	**12,428**	15,205
	18,176	20,332

Included in inventories are raw materials of HK$188,000 (2002: HK$584,000) carried at net realisable value.

18. 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$39,254,000 (2002: HK$31,858,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Within 30 days	**16,382**	16,106
Between 31 to 60 days	**13,641**	7,489
Between 61 to 90 days	**5,460**	5,293
Over 90 days	**3,771**	2,970
	39,254	31,858
Other debtors, deposits and prepayments	**6,144**	3,895
	45,398	35,753

19. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK$6,257,000 (2002: HK$6,975,000) which are included in the Group's creditors and accruals is as follows:

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Within 30 says	**2,214**	2,991
Between 31 to 60 days	**1,276**	1,657
Between 61 to 90 days	**2,192**	1,399
Over 90 days	**575**	928
	6,257	6,975
Other creditors and accruals	**3,642**	3,552
	9,899	10,527

20. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**183**	–	**156**	–
More than one year, but not exceeding two years	**182**	–	**165**	–
More than two years, but not exceeding five years	**244**	–	**235**	–
	609	–	**556**	–
Less: future finance charges	**(53)**	–	**–**	–
Present value of lease obligations	**556**	–	**556**	–
Less: Amount due within one year shown under current liabilities			**(156)**	–
Amount due after one year			**400**	–

21. BANK BORROWINGS

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Bank borrowings comprise:		
Bank overdrafts	**1,210**	659
Trust receipt loans	**1,495**	1,030
Other bank loans	**19,527**	24,993
	22,232	26,682
Analysed as:		
Secured	**17,888**	24,340
Unsecured	**4,344**	2,342
	22,232	26,682
The maturity of the above loans and overdrafts is as follows:		
On demand or within one year	**22,232**	11,729
More than one year, but not exceeding two years	**–**	8,411
More than two years, but not exceeding five years	**–**	6,542
	22,232	26,682
Less: amounts due within one year shown under current liabilities	**(22,232)**	(11,729)
Amounts due after one year	**–**	14,953

22. 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, 2002				
– as previously reported	429	–	–	429
– adjustment on adoption of SSAP 12 (Revised)	–	4,040	(117)	3,923
– as restated	429	4,040	(117)	4,352
Charge (credit) to income for the year	232	–	(17)	215
Charge to equity for the year	–	280	–	280
At 1st January, 2003	661	4,320	(134)	4,847
Charge (credit) to income 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	776	4,328	(464)	4,640

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	
	2003	2002
	HK$'000	*HK$'000*
Deferred tax liabilities	**5,104**	4,981
Deferred tax assets	**(464)**	(134)
	4,640	4,847

23. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	Nominal value
		HK$'000
Authorised:		
On incorporation	40,000,000	400
Increase in authorised share capital	9,960,000,000	99,600
At 31st December, 2002 and 31st December, 2003	10,000,000,000	100,000
Issued and fully paid:		
Allotted and issued nil paid on 13th March, 2002	1	–
Issue of shares upon the Group Reorganisation	999,999	10
Issue of new shares	120,000,000	1,200
Capitalisation issue	679,000,000	6,790
At 31st December, 2002 and 31st December, 2003	800,000,000	8,000

The following changes in the share capital of the Company took place during the period from 27th February, 2002 (date of incorporation) to 31st December, 2003:

(a) The Company was incorporated on 27th February, 2002 with an authorised share capital of HK$400,000 divided into 40,000,000 ordinary shares of HK$0.01 each, one of which was allotted and issued nil paid on 13th March, 2002.

(b) Pursuant to written resolutions of all shareholders of the Company passed on 23rd October, 2002:

(i) the authorised share capital of the Company was increased from HK$400,000 to HK$100,000,000 by the creation of an additional 9,960,000,000 new ordinary shares of HK$0.01 each. The new shares rank pari passu in all respects with the existing shares;

(ii) as consideration for the acquisition of the entire issued share capital of PME International (BVI) Company Limited, the then holding company of the Group, the directors were authorised to allot and issue an aggregate of 999,999 ordinary shares and together with the 1 ordinary share, which was allotted and issued nil paid on 13th March, 2002, credited as fully paid under the Group Reorganisation which took place on 23rd October, 2002;

(iii) the placing and public offer of 120,000,000 new shares of the Company of HK$0.01 each at a price of HK$0.25 per share, were approved and, the directors were authorised to allot and issue the new shares in connection with the Placing and Public Offer; and

23. SHARE CAPITAL (Continued)

(iv) the directors were also authorised to allot and issue a total of 679,000,000 new shares credited as fully paid at par to the holders of shares on the register of members at the close of business on 23rd October, 2002 in proportion to their then existing holding by way of capitalisation of the sum of HK$6,790,000 standing to the credit of the share premium account of the Company following the Placing and Public Offer mentioned in (iii) above.

(c) On 12th November, 2002, the Company completed the issue, allotment and despatchment of 120,000,000 shares of the Company of HK$0.01 each in connection with the Placing and Public Offer. The above resolutions became unconditional on 13th November, 2002 when the Company's shares were listed on the Main Board of the Stock Exchange. The proceeds from the shares issued above shall be used for financing the Group's expansion of the sales and marketing network and set up representative offices in the PRC, improvement of the production facilities and the technical application centre of the Group, reduction of the Group's bank borrowings and use as general working capital for the Group.

24. 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 any 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.

25. SHARE PREMIUM AND RESERVES

	Share premium	(Deficit) retained profit	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
Premium arising on the Group Reorganisation	118,840	–	118,840
Shares issued at premium on Placing and Public Offer	28,800	–	28,800
Issue of shares arising from capitalisation of share premium	(6,790)	–	(6,790)
Share issue expenses	(6,370)	–	(6,370)
Loss for the year	–	(78)	(78)
At 31st December, 2002	134,480	(78)	134,402
Profit for the year	–	15,826	15,826
Dividends paid	–	(14,400)	(14,400)
At 31st December, 2003	134,480	1,348	135,828

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$135,828,000 (2002: HK$134,402,000).

26. 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:

	2003 HK$'000	2002 HK$'000
NET ASSETS DISPOSED OF:		
Debtors, deposits and prepayments	**3,215**	–
Bank balances and cash	**9**	–
Creditors and accruals	**(120)**	–
Taxation	**(2,274)**	–
	830	–
Loss on disposal	**(30)**	–
	800	–
Satisfied by:		
Cash consideration	**800**	–
Net cash inflow arising on disposal:		
Cash consideration	**800**	–
Bank balances and cash disposed of	**(9)**	–
	791	–

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

27. CONTINGENT LIABILITIES

At 31st December, 2003, the Company had contingent liabilities of HK$10,189,000 (2002: HK$25,022,000) in respect of the extent of banking facilities utilised by subsidiaries in which corporate guarantees were given by the Company to certain banks.

28. PLEDGE OF ASSETS

THE GROUP

At 31st December, 2003, leasehold land and buildings with aggregate carrying value of HK$104,350,000 (2002: HK$101,940,000) were pledged to banks to secure banking facilities granted to the Group.

29. CAPITAL COMMITMENTS

At 31st December, 2003, the Group had capital commitment of HK$1,957,000 (2002: HK$37,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

30. 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.

31. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with the related companies:

Nature of transactions	**Name of related company**	*Notes*	**2003** ***HK$'000***	2002 *HK$'000*
Purchases of property, plant and equipment	Fook Cheong Ho Limited	(i)	**600**	–
Rental income from	GP Nano Composite Materials Limited	(ii)	**49**	–
Sales to	Kansource Limited	(iii)	**–**	1

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 and Kansource Limited. Messrs. Cheng Kwok Woo and Cheng Kwong Cheong are directors of GP Nano Composite Materials Limited up to 30th December, 2003.

31. RELATED PARTY TRANSACTIONS (Continued)

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.

(iii) Sales was based on cost plus a percentage of profit mark-up.

(b) Included in the balance of creditors and accruals as at 31st December, 2003, there is an amount due to GP Nano Composite Materials Limited of HK$7,000 (2002: Nil), which is unsecured, interest free and repayable on demand.

32. POST BALANCE SHEET EVENT

On 27th January, 2004, PME Investments (BVI) Co., Ltd. ("PME Investments"), a substantial shareholder of the Company of which its entire issued 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.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(notes a and b)*	Principal activities
Fook Cheong Ho International (BVI) Limited	British Virgin Islands	Ordinary shares US$3	Investment holding, trading of polishing materials and equipment and provision of technical consultancy service
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note c)* Ordinary shares HK$30	Trading of polishing materials and equipment

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(notes a and b)*	Principal activities
PME Abrasive Products Limited	Hong Kong	Ordinary shares HK$1,000,000	Trading of abrasive materials
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US$30,000	Investment holding and property investment
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.	PRC	Registered capital *(note d)* 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 enterprises.

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, 2003 or at any time during the year.

Financial Summary

	For the year ended 31st December,				
	1999	2000	2001	2002	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	122,451	123,363	119,064	121,310	**155,076**
Cost of sales	(73,286)	(70,092)	(61,259)	(60,462)	**(82,833)**
Gross profit	49,165	53,271	57,805	60,848	**72,243**
Other operating income	2,096	1,067	2,064	646	**624**
Selling and distribution expenses	(4,187)	(4,217)	(3,180)	(4,354)	**(9,004)**
Administrative expenses	(25,249)	(24,961)	(23,585)	(25,213)	**(27,359)**
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement	–	585	–	–	**56**
Revaluation decrease on leasehold land and buildings	(694)	–	(183)	(334)	**–**
Profit from operations	21,131	25,745	32,921	31,593	**36,560**
Loss on disposal of a subsidiary	(1,738)	–	–	–	**(30)**
Financial costs	65	(2,960)	(2,258)	(2,172)	**(1,233)**
Profit before taxation	19,458	22,785	30,663	29,421	**35,297**
Taxation	(2,214)	(3,329)	(4,540)	(5,423)	**(4,664)**
Net profit for the year	17,244	19,456	26,123	23,998	**30,633**

Financial Summary (Continued)

	At 31st December,				
	1999	2000	2001	2002	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	182,417	193,073	212,774	192,252	**204,197**
Total liabilities and deferred taxation	(84,605)	(73,854)	(56,995)	(47,127)	**(42,818)**
Equity	97,812	119,219	155,779	145,125	**161,379**

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 three years ended 31st December, 2001 and the balance sheet of the Group at 31st December, 1999, 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 Society of Accountants.