



PME GROUP LIMITED

必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

The Board of Directors (the “Directors”) of PME Group Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 (the “Period”) and the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2004	2003
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	63,656	55,775
Cost of sales		(35,091)	(29,437)
Gross profit		28,565	26,338
Other operating income		253	722
Selling and distribution expenses		(4,615)	(2,039)
Administrative expenses		(12,035)	(13,746)
Profit from operations	4	12,168	11,275
Finance costs	5	(505)	(682)
Profit before taxation		11,663	10,593
Taxation	6	(1,980)	(1,805)
Net profit for the period		9,683	8,788
Dividend	7	2,880	2,400
Earnings per share - Basic	8	HK1.05 cents	HK1.10 cents

Notes:

(1) Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

(2) Adoption of accounting policies

The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those adopted in the Group’s audited financial statements for the year ended 31 December 2003.

(3) Segmental information

The analysis of the turnover and segment results of the Group by operating divisions during the Period are as follows:

	Turnover		Segment results	
	2004 (Unaudited) HK\$’000	Six months ended 30 June 2003 (Unaudited) HK\$’000	2004 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000
Operating divisions				
Manufacturing products	27,378	25,404	7,735	7,518
Trading products	34,835	29,754	3,415	2,567
Technical services	1,443	617	765	468
	<u>63,656</u>	<u>55,775</u>	<u>11,915</u>	<u>10,553</u>
Other operating income			<u>253</u>	<u>722</u>
Profit from operations			<u>12,168</u>	<u>11,275</u>
Finance costs			<u>(505)</u>	<u>(682)</u>
Profit before taxation			<u>11,663</u>	<u>10,593</u>
Taxation			<u>(1,980)</u>	<u>(1,805)</u>
Net profit for the period			<u>9,683</u>	<u>8,788</u>

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

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the Period.

No provision for the PRC Enterprise Income Tax has been made as the PRC subsidiary of the Group is within the tax exemption period.

(7) Dividend

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend	<u>2,880</u>	<u>2,400</u>

The Directors resolved that an interim dividend of HK0.3 cent per share for the six months ended 30 June 2004 (2003: HK0.3 cent) to be paid to the shareholders whose names register in the Company's register of members on 15 October 2004. The dividend warrants will be dispatched at around 27 October 2004.

During the Period, final dividend for the year ended 31 December 2003 amounting to HK\$12,000,000 has been approved and paid to the shareholders.

(8) Earnings per share

The calculation of the basic earnings per share is based on the net profit for the Period of HK\$9,683,000 (2003: HK\$8,788,000) and the weighted average number of 924,835,165 (2003: 800,000,000) ordinary shares in issue during the Period and have been adjusted for placement of new shares on 10 February 2004.

No diluted earnings per share is presented as the Company does not have any dilutive potential ordinary shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial Review and Financial Performance

The Group is principally engaged in the manufacturing of **Pme** branded industrial abrasive products in the PRC and trading of various global brands of industrial abrasive products. More than 90% of the Group's turnover is contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

In the first six months of 2004, the Hong Kong economy has achieved noticeable growth. Although the recovery is at the early stage, there is no doubt that the Hong Kong economy has grown steadily and deflationary situation has ended. Through seizing the opportunities generated by the improved economic environment, the Group has accomplished the first-half year targets, and achieved reasonable financial performance as compared with that of last year.

The Group's turnover for the Period was approximately HK\$63.7 million, representing an increase of 14.1% as compared with the corresponding period in 2003. Net profit for the Period was approximately HK\$9.7 million, increased by 10.2% as compared with net profit of approximately HK\$8.8 million in the last corresponding period. The increase in net profit for the Period mainly contributed by effective cost control and the increase in turnover during the Period. The increase in turnover was mainly due to the increased demand of the Group's products and technical services from the customers in Hong Kong and Mainland China. A number of promotion campaigns had been launched during the Period, which had successfully attracted customers' focus on the Group's products and services and increased awareness of the Group's brand name *Pme* in Mainland China. During the Period, the Group had implemented a number of cost control measures which successfully reduced the administrative expenses by 12.4% as compared with the last corresponding period.

The encouraging performance for the Period was the results of the successful marketing plans and the effective cost control measures.

Liquidity and Financial Resources

At 30 June 2004, the Group had interest-bearing bank borrowings of approximately HK\$19.3 million (31 December 2003: HK\$22.2 million), which were of maturity within one year. The directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 30 June 2004, the Group's leasehold land and buildings with aggregate carrying value of approximately HK\$102.3 million (31 December 2003: HK\$104.4 million) have been pledged to banks to secure the banking facilities granted to the Group.

At 30 June 2004, current assets of the Group amounted to approximately HK\$139.1 million (31 December 2003: HK\$82.8 million). The Group's current ratio was approximately 4.00 as at 30 June 2004 as compared with 2.19 as at 31 December 2003. At 30 June 2004, the Group had total assets of approximately HK\$268.6 million (31 December 2003: HK\$204.2 million) and total liabilities of approximately HK\$39.9 million (31 December 2003: HK\$42.8 million), representing a gearing ratio (measured as total liabilities to total assets) of 14.9% as at 30 June 2004 as compared with 21.0% as at 31 December 2003.

Foreign Exchange Exposures

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

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2004 and 31 December 2003.

Capital Commitments

The Group had no material capital commitments as at 30 June 2004. At 31 December 2003, the Group had capital commitment of HK\$1,957,000 in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

Outlook for Second Half of 2004

Broadly speaking, current Hong Kong economic environment has firm foundation. Although the Chinese Government has intensified the macro-control measures, it is believed that the economic growth of Mainland China will still continue. It is perfectly obvious that the implementation of CEPA has injected vitality to the Hong Kong economy and facilitated the pace of recovery. The Group has an optimistic view on the long-term development of the local economy.

The Group will continue to focus on innovation and change, be prepared for danger in times of peace, grasp investment opportunities and develop new markets. The recent increase in the price of the crude oil has resulted in substantial increase in the prices of a number of chemical raw materials applied by the Group in its manufacturing. The Group is facing the challenges of the increase in product costs and the difficulties in transferring the increased costs to its customers as the customers are also facing the same difficulties, and there is increasing competition in the polishing materials market. The management is taking every effort to control the product costs in order to maintain the competitiveness of the Group's products in the market. All staff members of the Group will try our best to achieve the best return for our shareholders.

Employees and Remuneration

At 30 June 2004, the Group had approximately 310 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES

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

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Period, 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.

The unaudited condensed financial statements for the six months ended 30 June 2004 have been reviewed by the Audit Committee.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 October 2004 to 15 October 2004, both days inclusive, during which no transfer of shares can be registered. To qualify for the interim dividend, members must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 12 October 2004.

FULL DETAILS OF FINANCIAL INFORMATION

The detailed unaudited consolidated interim results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 24 September 2004

As at the date of this announcement, the Board comprises (1) Mr Cheng Kwok Woo, Mr Cheng Kwong Cheong, Ms Cheng Wai Ying, Mr Chow Yin Kwang, Ms Chan Yim Fan and Mr Chung Kam Fai Raymond as executive directors; (2) Mr Zheng Jin Hong as non-executive director; and (3) Messrs Anthony Francis Martin Conway and Li Kin Kent as independent non-executive directors.

* *For identification purpose only*

“Please also refer to the published version of this announcement in the International Herald Tribune”