Pme

PME GROUP LIMITED

必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

The Board of Directors (the "Directors") of PME Group Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2003 and the comparative figures for last year as follows:

AUDITED CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	**2003** *HK$'000*	2002 *HK$'000* (Restated)
Turnover	3	**155,076**	121,310
Cost of sales		**(82,833)**	(60,462)
Gross profit		**72,243**	60,848
Other operating income		**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	3, 4	**36,560**	31,593
Loss on disposal of a subsidiary		**(30)**	–
Finance costs		**(1,233)**	(2,172)
Profit before taxation		**35,297**	29,421
Taxation	5	**(4,664)**	(5,423)
Net profit for the year		**30,633**	23,998
Dividends	6	**14,400**	67,000
Earnings per share – Basic	7	**HK3.83 cents**	HK3.45 cents

Notes:

1. Group restructuring and basis of presentation of financial statements

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

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 23 October 2002.

The shares of the Company have been listed on the Stock Exchange with effect from 13 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 ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

2. Adoption of SSAP

In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) "Income Taxes" issued by HKSA.

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 1 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 1 January 2002. The balance on the Group's property revaluation reserve at 1 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 31 December 2003 (2002: decrease in HK$390,000 and decrease in HK$280,000 respectively).

3. Segmental information

The analysis of the turnover and segment result of the Group by operating divisions during the financial year is as follows:

	Turnover		Segment result	
Operating divisions	**2003** *HK$'000*	2002 *HK$'000*	**2003** *HK$'000*	2002 *HK$'000* (Restated)
Manufacturing products	**75,454**	57,525	**23,584**	20,765
Trading products	**75,746**	62,381	**9,120**	9,362
Technical service	**3,876**	1,404	**3,176**	1,154
	155,076	121,310	**35,880**	31,281
Other operating income			**624**	646
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement			**56**	–
Revaluation decrease on lease hold land and buildings			**–**	(334)
Profit from operations			**36,560**	31,593
Loss on disposal of a subsidiary			**(30)**	–
Finance costs			**(1,233)**	(2,172)
Profit before taxation			**35,297**	29,421
Taxation			**(4,664)**	(5,423)
Net profit for the year			**30,633**	23,998

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 service are carried out in Mainland China.

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

	2003 *HK$'000*	2002 *HK$'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

4. 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 recognised as expenses	**82,833**	60,462

5. Taxation

	2003 *HK$'000*	2002 *HK$'000* (Restated)
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		
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%) on the estimated assessable profit for the year. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31 December 2003.

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

6. Dividend

	2003 *HK$'000*	2002 *HK$'000*
Interim dividend paid	**2,400**	–
Proposed 2003 final dividend	**12,000**	–
Final dividend paid for 2002	**–**	9,000
Special dividend paid for 2002	**–**	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 per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the year ended 31 December 2003 of HK$30,633,000 (2002: HK$23,998,000 as restated) and 800,000,000 (2002: weighted average 696,438,356) shares in issue during the year on the assumption that the Group Reorganisation and capitalisation issue had been completed on 1 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Performance

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name "*Pme*" and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover and profits was contributed from the markets in Hong Kong and 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. 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 31 December 2003, the Group had interest-bearing bank borrowings of approximately HK$22.2 million (31 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 31 December 2003, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$104.3 million (31 December 2002: HK$101.9 million) have been pledged to banks to secure the banking facilities granted to the Group.

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

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 31 December 2003 and 31 December 2002.

Capital Commitments

At 31 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.

Prospects

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 increase the market share of the Group.

Employees and Remuneration

At 31 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 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 year.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout 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. The Group's consolidated financial statements for the year ended 31 December 2003 have been reviewed and approved by the audit committee.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 May 2004 to 28 May 2004, both days inclusive, during which no transfer of shares can be registered. To qualify for the proposed final 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 4:00 p.m. on 24 May 2004.

FULL DETAILS OF FINANCIAL INFORMATION

All the information required by paragraphs 45(1) to 45(3) 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, 21 April 2004

* *For identification purpose only*