



PME GROUP LIMITED

必美宜集團有限公司*

(incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

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 2002 and comparative figures for last year as follows:

AUDITED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
Turnover	3	121,310	119,064
Cost of sales		(60,462)	(61,259)
Gross profit		60,848	57,805
Other operating income		646	2,064
Selling and distribution expenses		(4,354)	(3,180)
Administrative expenses		(25,213)	(23,585)
Revaluation decrease on leasehold land and buildings		(334)	(183)
Profit from operations	3, 5	31,593	32,921
Finance costs		(2,172)	(2,258)
Profit before taxation		29,421	30,663
Taxation	4	(5,033)	(4,657)
Net profit for the year		24,388	26,006
Dividend	6	55,000	5,000
Earnings per share			
Basic	7	3.50 cents	3.82 cents

Notes:

1. Group restructuring and basis of preparation 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.

During the year ended 31 December 2002, the Company undertook a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Company and its subsidiaries 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 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 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants.

2. Adoption of accounting policies

In current year, the Group has adopted for the first time the following Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants which are effective for the accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of these new or revised standards has had no material effect on the results for the current or prior accounting periods.

3. Segmental information

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

	Turnover		Segment result	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Operating divisions				
Manufacturing products	57,525	46,168	20,765	15,884
Trading products	62,381	71,366	9,362	13,851
Technical service	1,404	1,530	1,154	1,305
	121,310	119,064	31,281	31,040
Other operating income			646	2,064
Revaluation decrease in leasehold land and buildings			(334)	(183)
Profit from operations			31,593	32,921
Finance costs			(2,172)	(2,258)
Profit before tax			29,421	30,663
Tax			(5,033)	(4,657)
Net profit for the year			24,388	26,006

The Group’s operations are located in Hong Kong and The People’s Republic of China (the “PRC”). The Group’s trading divisions are mainly located in Hong Kong. Manufacturing and technical service are carried out in the PRC.

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

	Sales revenue by geographical market		Contribution to profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	70,448	73,764	18,060	18,227
The PRC	44,829	34,037	11,501	9,525
Other Asian countries	3,244	5,918	716	1,606
North America and Europe	1,014	2,611	262	691
Other countries	1,775	2,734	742	991
	121,310	119,064	31,281	31,040

Other operating income	646	2,064
Revaluation decrease on leasehold land and buildings	(334)	(183)

Profit from operations	31,593	32,921
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4. Taxation

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax		
Current year	5,210	4,603
(Over) underprovision in prior year	(2)	54
	5,208	4,657
Deferred taxation	(175)	–
	5,033	4,657

Hong Kong Profits Tax is calculated at 16% (2001: 16%) on the estimated assessable profit for the year.

In accordance with the relevant tax laws and regulations of the PRC, the PRC subsidiary of the Group 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 are eligible for a 50% relief on the EIT in the following three years. No provision for PRC EIT has been made in the financial statements as the subsidiary is within the tax exemption period.

Deferred tax has not been provided on the revaluation increase or decrease arising on the revaluation of land and buildings as profit arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

5. Profit from operations

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	5,616	5,503
Staff costs, including directors’ remuneration	15,554	15,799
Auditors’ remuneration	852	418
Allowance for doubtful debts	995	–
Loss on disposal of property, plant and equipment	2	–

Contributions to retirement benefit schemes of HK\$591,000 (2001: HK\$475,000) are included in staff costs.

6. Dividend

	2002 HK\$'000	2001 HK\$'000
Dividend paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation	55,000	5,000

The Directors recommended the payment of a final dividend of HK\$0.01125 (2001: Nil) per share and a special dividend of HK\$0.00375 (2001: Nil) per share for the year ended 31 December 2002 to the members in the Register of Members of the Company at 23 June 2003. The proposed payment of the final dividend and the special dividend is subject to the approval by the members at the Annual General Meeting to be held on 23 June 2003.

7. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the year of HK\$24,388,000 (2001: HK\$26,006,000) and on the weighted average number of 696,438,356 (2001: 680,000,000) ordinary shares in issue during the year on the assumption that the Group Reorganisation and capitalisation issue had been completed on 1 January 2001.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Performance

The Group is primarily engaged in the manufacturing and sale of polishing compounds and polishing wheels under its own brand name “Pme” and the trading of various industrial abrasive products in Hong Kong and the PRC. Its major market lies along the Pearl River Delta in the PRC, including Hong Kong, which accounts for over 90% of the Group’s total turnover and profit contributions.

The Group’s turnover for the year ended 31 December 2002 was approximately HK\$121 million, representing an increase of 1.9% as compared with last year. The increase in turnover is mainly attributable to the increase in sales to the PRC market.

Net profit for the year ended 31 December 2002 decreased slightly from HK\$ 26.0 million in 2001 to HK\$24.3 million mainly due to the increase in competition in the industry after China’s accession to the WTO and the shrunken demand due to the sluggish conditions of all sectors in Hong Kong, in particular those of relevance to the industry of the Group.

Liquidity and Financial Resources

On 13 November 2002, the Company issued and allotted 120,000,000 new shares at HK\$0.25 per share. Net proceeds from the public issue of new shares amounted to approximately HK\$23,630,000 which have been retained by the Company as financing the Group’s expansion of the sales and marketing network and set up representative office in the PRC, improvement of the production facilities and the technical application center of the Group, reduction of the Group’s bank borrowings and application as general working capital for the Group.

At 31 December 2002, the Group had interest-bearing bank borrowings of approximately HK\$26.7 million (31 December 2001: HK\$39.1 million). Approximately HK\$11.7 million of the Group’s bank borrowings were of maturity within one year. The directors expect that all the bank borrowings will be either renewed or rolled over upon the maturity and continue to provide funding to the Group’s operation. The Group’s leasehold land and buildings have been pledged to banks to secure the Group’s bank borrowings.

At 31December 2002, the Group had current assets of approximately HK\$76.5 million (31 December 2001: HK\$93.5 million). The Group’s current ratio increased to 2.8 as at 31 December 2002 from 1.8 as at 31 December 2001. At 31 December 2002, the Group had total assets of approximately HK\$192.2 million (31 December 2001: HK\$212.8 million) and total liabilities of approximately HK\$42.5 million (31 December 2001: HK\$57.1 million), representing a gearing ratio of 22.1% as at 31 December 2002 as compared with 26.8% as at 31 December 2001.

At 31 December 2002, the Group has no material currency exchange risk exposures or contingent liabilities.

Prospects

The war in Middle East is fuelling the surge in oil prices. The higher manufacturing costs as result will most likely trigger a chain reaction in other sectors and finally lead to falling exports from Hong Kong and the PRC. The recent outbreak and spread of “atypical pneumonia” in Hong Kong and the PRC are making foreign investors cancelling their business trips. Trade fairs and exhibitions are called off too. Meanwhile, local businessmen are barred entry to foreign countries. Promotional activities have nearly

ground to a halt. This disease is really dealing another blow to the already sluggish economic environment in Hong Kong. It is not easy to foresee or quantify the impact of the disease on the local economy. What can be sure is that while we may not be heading for an economic crisis, the prospects are far from promising. We must accept the reality and be prepared for the challenges ahead. Yet it is also true that with challenges come opportunities amid an economic quagmire. The pressing issue for the Group at the moment is therefore how to take on the challenges and grasp the opportunities.

Employees and Remuneration

At 31 December 2002, the Group has employed approximate 350 employees in Hong Kong and the PRC. 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 options have been granted or exercised during the year ended 31 December 2002.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold 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”) since the listing of the Company’s shares in the Stock Exchange on 13 November 2002.

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 2002 have been reviewed and approved by the audit committee.

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.

By Order of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 15 April 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of shareholders of the Company will be held at 5/F, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong on 23 May 2003 at 10:00 a.m. for the following purposes:

- 1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 December 2002;
- 2. To declare a final dividend and a special dividend for the year ended 31 December 2002;
- 3. To re-elect directors and authorise the board of directors to fix their remuneration;
- 4. To re-appoint auditors and authorise the board of directors to fix their remuneration;
- 5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue or otherwise deal with additional shares in the capital of the Company, and to make or grant offers, agreements and options which might require the exercise of such power, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (aa) Rights Issue; or (bb) the exercise of rights of subscription or conversion under the terms of any warrants or other securities issued by the Company carrying a right to subscribe for or purchase shares of the Company; or (cc) the exercise of any option under any share option scheme of the Company adopted by its shareholders for the grant or issue to employees of the Company and/or any of its subsidiaries of options to subscribe for or rights to acquire shares of the Company; or (dd) any scrip dividend or other similar scheme implemented in accordance with the Articles of Association of the Company, shall not exceed 20% of the total aggregate nominal amount of the share capital of the Company in issue as at the date of the passing this Resolution and the said approval be limited accordingly; and
- (d) for the purpose of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - i. the conclusion of the next annual general meeting of the Company; or
 - ii. the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or
 - iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.”

“Rights Issue” means an offer of shares or other securities open for a period fixed by the directors of the Company to holders of shares on the Register of Members of the Company on a fixed recorded date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements the directors of the Company may deem necessary or expedient in relation to fractional entitlements of having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong).

- 6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of HK\$0.01 each in the capital of the Company be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - i. the conclusion of the next annual general meeting of the Company; or
 - ii. the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or
 - iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.”

- 7. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT the general mandate referred to in Resolution No. 5 above be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company since the granting of the general mandate referred to in Resolution No.6 above and pursuant to the exercise by the directors of the powers of the Company to purchase such shares provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution.”

By order of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 15 April 2003

Notes:

- (i) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies (who must be an individual or individuals) to attend and vote instead of him. A proxy does not need to be a member of the Company.
- (ii) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notorially certified copy of such power of attorney of authority, 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 not less than 48 hours before the time fixed for holding the meeting and any adjourned meeting.
- (iii) The Register of Members of the Company will be closed from 16 May 2003 to 23 May 2003, both days inclusive, during which no transfer of shares can be registered. To qualify for the final dividend and the special dividend (which will be payable on or about 10 June 2003) to be approved at the forthcoming Annual General Meeting, 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 15 May 2003.
- (iv) A circular containing details regarding Ordinary Resolutions nos. 5 to 7 will be sent to shareholders together with the 2002 Annual Report.