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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in PME Group Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**PME GROUP LIMITED**

**必美宜集團有限公司\***

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

**DISCLOSEABLE TRANSACTION INVOLVING  
FORMATION OF A JOINT VENTURE COMPANY**

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A letter from the Board of Directors of PME Group Limited is set out on pages 3 to 5 of this circular.

\* For identification purpose only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Company”	PME Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and all of its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JV Agreement”	the joint venture agreement dated 29 September 2006 and entered into between PME International and Shanghai Xin Hua with respect to the formation of PME-XINHUA
“Latest Practicable Date”	25 October 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers
“PME International”	PME International Company Limited, a limited liability company incorporated in Hong Kong, a wholly owned subsidiary of the Company
“PME-XINHUA”	Shanghai PME-XINHUA Polishing Materials Systems, a joint venture to be established pursuant to the JV Agreement in Shanghai, PRC, which name is subject to the approval of relevant authorities

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## DEFINITIONS

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“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Xin Hua”	上海新華化工廠 (Shanghai Xin Hua Chemical Factory <sup>#</sup> ), a local company established in Shanghai, PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1.00 to RMB1.029. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.*

# The English translation of Chinese names or words in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words

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LETTER FROM THE BOARD

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**PME GROUP LIMITED**

**必美宜集團有限公司\***

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

*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

*Non-executive Director:*

Mr. Zheng Jin Hong

*Independent Non-executive Directors:*

Mr. Anthony Francis Martin Conway

Mr. Leung Yuen Wing

Mr. Lam Hon Ming Edward

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

5th Floor

Unison Industrial Centre

Nos. 27-31 Au Pui Wan Street

Fo Tan

Shatin

Hong Kong

25 October 2006

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION INVOLVING  
FORMATION OF A JOINT VENTURE COMPANY**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 4 October 2006 in which the Board announced that a JV agreement was entered into between PME International and Shanghai Xin Hua, pursuant to which PME-XINHUA will be established in Shanghai, PRC.

The entering into the JV Agreement constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with further details regarding the JV Agreement and the Group.

### **THE JV AGREEMENT**

Date: 29 September 2006

Parties: (i) PME International

(ii) Shanghai Xin Hua

PME International is principally engaged in the trading of polishing materials and equipment. The principal business activities of Shanghai Xin Hua are manufacturing and trading of polishing materials.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Shanghai Xin Hua and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

### **Formation of joint venture company**

Pursuant to the JV Agreement, a joint venture company PME-XINHUA will be set up in Shanghai, PRC. PME-XINHUA will be principally engaged in the research and development, manufacturing of various polishing materials and equipment, sales of self-manufactured products and provision of related technical services. PME-XINHUA will be beneficially owned as to 60% by PME International and 40% by Shanghai Xin Hua. Upon establishment, PME-XINHUA will become a jointly-controlled entity of the Company and the Group will recognise its interests in PME-XINHUA using equity method as the Directors are of the opinion that the Group is unable to control the board of PME-XINHUA pursuant to the terms of the JV Agreement.

### **Registered capital of PME-XINHUA**

Pursuant to the terms of the JV Agreement, the registered capital of PME-XINHUA will be RMB10,000,000 (equivalent to approximately HK\$9,718,173). PME International will contribute 60% of the registered capital, equivalent to approximately HK\$5,830,904, in cash, which will be funded by internal resources. The contribution of PME International will be payable within one month after the approval of the establishment of the joint venture company. Shanghai Xin Hua will contribute 40% of the registered capital by way of plant and machinery, inventories and cash. The value of plant and machinery and inventories is determined by an independent valuer Shanghai Oriank Assets Appraisal Co. Ltd. (上海財瑞資產評估有限公司) appointed by the management of Shanghai Xin Hua.

Apart from the contribution towards the registered capital set out above, there are no further capital commitments that are required to be contributed by the parties to the JV Agreement at this stage. If there is any further capital commitments to be put up by the parties to the PME-XINHUA, further announcement will be made if and when appropriate to comply with the requirements under the Listing Rules.

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## LETTER FROM THE BOARD

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### **Board of directors of PME-XINHUA**

The board of directors of PME-XINHUA will comprise five directors, of which three will be nominated by PME International and two by Shanghai Xin Hua.

### **Reasons for the JV Agreement**

The Group is principally engaged in the manufacturing and trading of polishing materials and equipment. Its revenue is mainly derived from Hong Kong and the Pearl River Delta Region.

The Directors have always been proactive in seeking opportunities for expanding its business in the PRC. The Directors consider that entering into the JV Agreement offers the Group a good business opportunity to expand its business to the eastern China.

The Directors consider that the terms of the JV Agreement are entered into upon normal commercial terms following arm's length negotiations among the parties and that the terms of the JV Agreement are fair and reasonable and are in the interests of the Company and the Shareholders of the Company as a whole.

### **Financial effect**

Since PME-XINHUA has not yet been established and commenced operation as at the Latest Practicable Date, it is not expected to have any immediate financial or operational impact on the Group. The formation of PME-XINHUA will not have any material effect on the net asset position of the Group.

After the establishment of PME-XINHUA, it is expected that PME-XINHUA will contribute positively to the results of the Group as a jointly-controlled entity of the Company.

### **ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully  
For and on behalf of the Board of  
**PME Group Limited**  
**Cheng Kwok Woo**  
*Chairman*

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## APPENDIX

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### 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

### 2. DISCLOSURE OF INTERESTS

#### (a) Directors' and chief executive's interests

As at the Latest Practicable Date, 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 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.

Long positions in the ordinary shares of the Company:

Directors	Number of shares held			Percentage of interests
	Personal Interests	Corporate interests	Total interests	
Mr. Cheng Kwok Woo	54,400,000	318,438,000 <i>(note)</i>	372,838,000	38.92%
Mr. Cheng Kwong Cheong	54,400,000	318,438,000 <i>(note)</i>	372,838,000	38.92%
Ms. Cheng Wai Ying	54,400,000	318,438,000 <i>(note)</i>	372,838,000	38.92%
Ms. Chan Yim Fan	8,205,333	–	8,205,333	0.86%

*Note:* These shares are held by PME Investments (BVI) Co., Ltd., a company incorporated in the British Virgin Islands. The entire issued share capital of PME Investments (BVI) Co., Ltd. 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.



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### (b) Substantial shareholders

As at the Latest Practicable Date, 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 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	Notes	Number of shares held	Percentage of interests
PME Investments (BVI) Co., Ltd.	1	318,438,000	33.24%
Mr. Cheng Kwok Woo	2	372,838,000	38.92%
Mr. Cheng Kwong Cheong	2	372,838,000	38.92%
Ms. Cheng Wai Ying	2	372,838,000	38.92%
Ms. Tsang Sui Tuen	3	372,838,000	38.92%
Ms. Wan Kam Ping	4	372,838,000	38.92%
Mr. Cheng Yau Kuen	5	372,838,000	38.92%

Notes:

1. PME Investments (BVI) Co., Ltd. is an investment holding company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.
2. Each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying personally holds 54,400,000 shares of the Company, being approximately 5.68% of the entire issued share capital of the Company. Each of them is further beneficially interested in one-third of PME Investments (BVI) Co., Ltd. and is accordingly deemed to be interested in the entire interests of PME Investments (BVI) Co., Ltd. in the Company.
3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 372,838,000 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 372,838,000 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 372,838,000 shares of the Company that Ms. Cheng Wai Ying has interest in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at the Latest Practicable Date.

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## APPENDIX

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### 3. DIRECTORS' SERVICE CONTRACTS

Each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying, Mr. Chow Yin Kwang and Ms. Chan Yim Fan had entered into a service agreement with the Company for a term of 3 years commencing from 1 October 2002 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of Mr. Zheng Jin Hong, Mr. Anthony Francis Martin Conway, Mr. Leung Yuen Wing and Mr. Lam Hon Ming Edward have entered into a service contract with the Company pursuant to which his term of appointment shall continue until 30 September 2007 subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service agreement with any member of the Group, which will expire or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

### 4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries were engaged in any litigation, arbitration or claim of material importance and there is no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

### 5. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or, any other conflicts of interest within the Group.

### 6. OTHERS

- (a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The head office and principal place of business of the Company is situated at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.
- (b) The principal share registrar and transfer office of the Company is situated at P.O. Box 513 GT, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The branch share registrar and transfer office of the Company is situated at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Mr. Li Chak Hung, *CPA, FCCA*. The qualified accountant of the Company is Ms. Yip Chui Ling, *CPA, ACCA*.