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**MAJOR AND CONNECTED TRANSACTION,  
CONTINUING CONNECTED TRANSACTION  
AND  
RESUMPTION OF TRADING**

**THE DISPOSAL**

The Board announces that on 25 November 2009 (after trading hours), the Vendors and the Purchaser entered into the Agreement pursuant to which the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares and the Sale Loans at an aggregate consideration of HK\$66,000,010.

The Disposal constitutes a major transaction for the Company under Rule 14.06 of the Listing Rules. As the Purchaser is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive Directors) and Ms. Cheng Wai Ying (all of whom are substantial Shareholders), the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Agreement and the transactions contemplated thereunder are therefore subject to reporting, announcement and independent Shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules.

**THE CONTINUING CONNECTED TRANSACTION**

On 25 November 2009 (after trading hours), the Supplier, a wholly-owned subsidiary of the Company, entered into the Master Processing Agreement with the Processor pursuant to which the Supplier and/or its subsidiaries and nominees conditionally agreed to supply the Materials each year to the Processor and/or its subsidiaries or nominees for further processing, for a term of three years ending 31 December 2012.

Pursuant to the Master Processing Agreement, the charges to be paid by the Supplier to the Processor for processing the Materials shall not exceed the Annual Caps of HK\$14,000,000 for each of the financial years ended 31 December 2010, 2011 and 2012.

Taking into account the Processor is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive Directors) and Ms. Cheng Wai Ying (all of whom are substantial Shareholders) and the Annual Caps, the transaction under the Master Processing Agreement constitutes a non-exempt continuing connected transaction for the Company under Rule 14A.35 of the Listing Rules and is subject to independent Shareholders'

approval at the EGM and be the subject of advice from the independent board committee and the fairness opinion of an independent financial adviser.

## **GENERAL**

An extraordinary general meeting of the Company will be held and convened for the Shareholders to consider and, if thought fit, approve the transactions contemplated under the Agreement and the Master Processing Agreement. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder have a material interest in the Agreement and the Master Processing Agreement, other than Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and their respective associates. Accordingly, other than Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and their respective associates, no Shareholder is required to abstain from voting to approve the Agreement and the Master Processing Agreement at the EGM.

An independent board committee of the Company will be established to advise the independent Shareholders in relation to the Agreement and the Master Processing Agreement. An independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in respect of the Agreement and the Master Processing Agreement.

A circular containing, among other matters, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) further details of the Master Processing Agreement and the transactions contemplated thereunder; (iii) the advice from an independent financial adviser in respect of the Agreement and the Master Processing Agreement; and (iv) the recommendation from the independent board committee of the Company in respect of the Agreement and the Master Processing Agreement, together with a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 26 November 2009 pending for the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 10 December 2009.

## **THE AGREEMENT**

**Date:** 25 November 2009 (after trading hours)

**Parties:**

**Vendors:** (1) Best Chief Ventures Limited, a wholly-owned subsidiary of the Company  
(2) Teamcom Group Limited, a wholly-owned subsidiary of the Company  
(3) PME International Company Limited, a wholly-owned subsidiary of the Company

**Purchaser:** Billionlink Holdings Limited

The Purchaser is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. The entire issued share capital of the Purchaser is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive Directors) and Ms. Cheng Wai Ying (all of whom are substantial Shareholders).

**Assets to be disposed:**

Pursuant to the Agreement, the Vendors conditionally agreed to sell and the Purchaser agreed to purchase the Sale Shares and the Sale Loans at an aggregate consideration of HK\$66,000,010.

The Sale Shares represent 100% equity interest in Magic Horizon which, in turn, possesses 100% equity interest in Dongguan PME through PMESC. As at the date of the Agreement, Best Chief is the sole legal and beneficial owner of Magic Horizon.

The Sale Loans in the aggregate amount of HK\$93,207,000 represent (i) the amount due from Dongguan PME to PMEI in the sum of HK\$50,872,000 as at 31 August 2009; and (ii) the amount due from PMESC to Teamcom in the sum of HK\$42,335,000 as at 31 August 2009.

**Consideration:**

The aggregate Consideration for the Sale Shares and the Sale Loans is HK\$66,000,010 which shall be satisfied in cash by the Purchaser as follow:

- (a) HK\$10 for the Sale Shares;
- (b) HK\$30,500,000 for the TG Sale Loan; and
- (c) HK\$35,500,000 for the PMEI Sale Loan.

The Consideration shall be paid to the relevant Vendors in the following manner:

- (a) a refundable deposit of 10% of the Consideration shall be paid to the relevant Vendors within 30 calendar days after the execution of the Agreement; and
- (b) the balance of the Consideration shall be paid to the relevant Vendors upon Completion.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors with reference to (i) the consolidated net liabilities of Magic Horizon Group of HK\$27,511,000 as at 31 August 2009; (ii) the TG Sale Loan; and (iii) the PMEI Sale Loan.

**Conditions precedent:**

Completion of the Disposal is conditional upon the satisfaction of the following:

- (a) the passing by the board of directors of the Purchaser and the Vendors in a board meeting of a resolution approving the Agreement and the implementation thereof;
- (b) the passing of all necessary resolutions of the shareholders of the Vendors and their holding companies (where applicable) to approve the terms of the Agreement to enable the Vendors to complete and implement the terms of the Agreement;

- (c) the Master Processing Agreement, to which the transaction(s) enshrined and/or contemplated therein are subject to, becoming unconditional; and
- (d) the results of a due diligence investigation on Magic Horizon Group to the reasonable satisfaction of the Purchaser.

The Purchaser may waive all or any of such conditions, except the conditions (a) to (c) set out above, at any time by notice in writing to the Vendors. If the conditions are not fulfilled (or waived by the Purchaser by notice in writing to the Vendors) within 90 Business Days of the execution of the Agreement (or such later date as may be agreed between the Vendors and the Purchaser), the Agreement and everything therein contained shall, subject to the liability of any party to the others in respect of any antecedent breaches of the terms thereof, be null and void and of no effect.

**Completion:**

Completion is expected to take place on the 30th Business Day after the Agreement has become unconditional or such later date as the Vendor and the Purchaser may agree in writing.

Upon Completion, Magic Horizon Group will cease to be subsidiaries of the Company and the Group will not have any interest in Magic Horizon Group.

**THE MASTER PROCESSING AGREEMENT**

**Date:** 25 November 2009 (after trading hours)

**Parties:**

**Processor:** Billionlink Holdings Limited

**Supplier:** Best Chief Ventures Limited, a wholly-owned subsidiary of the Company

The Processor is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. The entire issued share capital of the Processor is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive Directors) and Ms. Cheng Wai Ying (all of whom are substantial Shareholders).

**Processing of Materials:**

Pursuant to the Master Processing Agreement, the Supplier and/or its subsidiaries and nominees conditionally agreed to supply the following raw materials (the "Materials") each year to the Processor and/or its subsidiaries or nominees for further processing, for a term of three years ending 31 December 2012 at the following consideration:

- (a) 3,200 tons of polishing compounds at HK\$2,913 per ton;
- (b) 110 tons of polishing wheels at HK\$34,244 per ton; and
- (c) 80 tons of polishing sand at HK\$6,725 per ton.

The quantities above represent the maximum tons of materials to be processed under the Master Processing Agreement while the processing price per ton is fixed under the agreement.

## **Annual Caps:**

Pursuant to the Master Processing Agreement, the charges to be paid by the Supplier to the Processor for processing the Materials shall not exceed the Annual Caps of HK\$14,000,000 for each of the financial years ended 31 December 2010, 2011 and 2012.

The Annual Caps serve as a maximum cap to the annual processing cost of the Materials while the actual charges and quantity supplied shall be subject to the internal procurement policy of the Group. Final total charges and quantity supplied are yet to be agreed upon though in any event, it will not exceed the Annual Caps. The Annual Caps are determined by taking into account of (i) the historical volume of Materials processed by the Group in the year 2008; (ii) the average processing cost of the Group for each of the Materials for the three and half years ended 30 June 2009, and (iii) 5% mark-up to historical average processing cost. The historical processing cost incurred by the Group for the year 2008 was approximately HK\$12,571,000. As such, the aforementioned consideration for the Materials in terms of price per ton has included the 5% mark-up.

## **Conditions precedent:**

The Master Processing Agreement is conditional upon fulfillment of the following conditions:

- (a) the Agreement becoming unconditional; and
- (b) the passing by the Shareholders in general meeting of the necessary resolutions approving the Master Processing Agreement as well as other transactions contemplated under the Disposal or incidental to it in accordance with the Listing Rules.

## **INFORMATION OF MAGIC HORIZON GROUP**

Magic Horizon is a company incorporated in the British Virgin Islands with limited liability. Magic Horizon Group is principally engaged in manufacturing and trading of polishing materials.

As stated in the consolidated management financial statements of Magic Horizon Group as at 31 August 2009, Magic Horizon Group had unaudited net liabilities of approximately HK\$27,511,000. The attributable loss before and after taxation of Magic Horizon Group for the year ended 31 December 2008 are both approximately HK\$7,067,000. The attributable loss before and after taxation of Magic Horizon Group for the year ended 31 December 2007 are both approximately HK\$2,406,000. The Directors, having made all reasonable enquiries, confirm that there are no material changes to the financial position of Magic Horizon Group subsequent to 31 August 2009.

## **REASONS FOR THE DISPOSAL AND THE TRANSACTION**

The Group is principally engaged in the manufacturing of abrasive products, polishing compounds and wheels, trading of polishing materials and polishing equipment, provision of technical consultancy service, and investments in trading equity securities and long-term strategic investment.

Taking into account the continuing losses incurred by Magic Horizon Group in the last two years and the Consideration, the Disposal represents a good opportunity for the Company to realize its investment in Magic Horizon Group and to release its resources for development and investment in other potential business opportunities. The Group will cease to own

manufacturing plant and will maintain its manufacturing business by outsourcing the manufacturing process to the Processor and other sub-contractors. By entering into the Master Processing Agreement, the Group will subcontract the manufacturing process to the Processor while placing a cap to the maximum processing price based on the estimated volume of Materials to be manufactured. Under this arrangement, the Group is able to benefit from possible lower processing price (per ton) of the Materials by negotiations with other sub-contractors available to the Group and cap its maximum costs when processing price of the Materials is rising.

Upon Completion, the Group will maintain its existing business of (i) manufacturing of abrasive products, polishing compounds and wheels under its own brand name through outsourcing the manufacturing process, (ii) trading of polishing materials and polishing equipment, (iii) provision of technical consultancy service, and (iv) investments in trading equity securities and long-term strategic investment. The Group has no intention to terminate its manufacturing business or its trading business and has not entered into any agreement, arrangement, understanding or undertaking to dispose of its trading business.

Having considered the above, the Directors (excluding the independent non-executive Directors who will form their view after considering the advice of the independent financial adviser) are of the view that the terms and conditions of the Disposal and the Transaction are of normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **USE OF PROCEEDS**

The Company expects that the net proceeds from the Disposal will be used for general working capital of the Group and investment in future potential business opportunities.

## **FINANCIAL EFFECT OF THE DISPOSAL**

Subject to audit, it is estimated that upon Completion, the Group will record a gain of approximately HK\$0.3 million calculated with reference to (i) the Consideration, (ii) the consolidated net liabilities of Magic Horizon Group as at 31 August 2009 and (iii) the Sale Loans amount.

## **LISTING RULES IMPLICATION**

The Disposal constitutes a major transaction for the Company under Rule 14.06 of the Listing Rules. As the Purchaser is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive Directors) and Ms. Cheng Wai Ying (all of whom are substantial Shareholders), the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Agreement and the transactions contemplated thereunder are therefore subject to reporting, announcement and independent Shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules.

Taking into account the Processor is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive Directors) and Ms. Cheng Wai Ying (all of whom are substantial Shareholders) and the Annual Caps, the transaction contemplated under the Master Processing Agreement constitutes a non-exempt continuing connected transaction for the Company under Rule 14A.35 of the Listing Rules and is subject to independent Shareholders' approval at the EGM and be the subject of advice from the independent board committee and the fairness opinion of an independent financial adviser.

## **GENERAL**

An extraordinary general meeting of the Company will be held and convened for the Shareholders to consider and, if thought fit, approve the transactions contemplated under the Agreement and the Master Processing Agreement. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder have a material interest in the Agreement and the Master Processing Agreement, other than Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and their respective associates. Accordingly, other than Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and their respective associates, no Shareholder is required to abstain from voting to approve the Agreement and the Master Processing Agreement thereunder at the EGM.

An independent board committee of the Company will be established to advise the independent Shareholders in relation to the Agreement and the Master Processing Agreement. An independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in respect of the Agreement and the Master Processing Agreement.

A circular containing, among other matters, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) further details of the Master Processing Agreement and the transactions contemplated thereunder; (iii) the advice from an independent financial adviser in respect of the Agreement and the Master Processing Agreement; and (iv) the recommendation from the independent board committee of the Company in respect of the Agreement and the Master Processing Agreement, together with a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 26 November 2009 pending for the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 10 December 2009.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“Agreement”	the conditional sale and purchase agreement dated 25 November 2009 entered into among the Purchaser and the Vendors in relation to the Disposal
“Annual Caps”	as defined in the section headed “Annual Caps” in this announcement
“Best Chief” or “Supplier”	Best Chief Ventures Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Board”	the board of Directors from time to time
“Business Day”	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours

“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
“Completion”	completion of the sale and purchase of the Sale Shares and the Sale Loans in accordance with the Agreement
“Consideration”	the aggregate consideration of HK\$66,000,010 for the Disposal
“Directors”	directors of the Company
“Disposal”	the disposal of the Sale Shares and the Sale Loans at the Consideration pursuant to the Agreement
“Dongguan PME”	Dongguan PME Polishing Materials & Equipment Co., Ltd. (東莞必美宜拋光材料器材有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company
“EGM”	the extraordinary general meeting of the Company to be held and convened for the Shareholders to consider and, if thought fit, approve the Agreement, the Master Processing Agreement and the respective transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Magic Horizon”	Magic Horizon Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Magic Horizon Group”	Magic Horizon and its subsidiaries, including PMESC and Dongguan PME
“Master Processing Agreement”	the conditional master processing agreement dated 25 November 2009 entered into between the Processor and the Supplier in relation to the Transaction
“PMEI”	PME International Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“PMEI Sale Loan”	the amount due from Dongguan PME to PMEI in the sum of HK\$50,872,000 as at 31 August 2009
“PMESC”	PME International Investment (South China) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China



“Purchaser” or “Processor”	Billionlink Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Sale Loans”	the TG Sale Loan and the PMEI Sale Loan
“Sale Shares”	1,000 shares of US\$1.00 each in the issued share capital of Magic Horizon, representing 100% equity interest in Magic Horizon as at the date of the Agreement
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.01 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Teamcom”	Teamcom Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“TG Sale Loan”	the amount due from PMESC to Teamcom in the sum of HK\$42,335,000 as at 31 August 2009
“Transaction”	the processing of raw materials by the Processor with Annual Caps pursuant to the Master Processing Agreement
“Vendors”	Best Chief, Teamcom and PMEI
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“%”	per cent.

By Order of the Board  
**PME Group Limited**  
**Cheng Kwok Woo**  
*Chairman*

Hong Kong, 9 December 2009

*As at the date of this announcement, the Board comprises Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Yeung Sau Han Agnes, Ms. Chan Shui Sheung Ivy and Mr. Tin Ka Pak as executive Directors; and Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward as independent non-executive Directors.*

*\* For identification purpose only*