
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 (the “Company”), you should at once hand this circular and the accompanying form of proxy 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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**MAJOR AND CONNECTED TRANSACTION,
CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Independent Financial Adviser to the Independent Board Committee



CSC Asia Limited

A letter from the board of directors of the Company is set out on pages 5 to 14 of this circular. A letter from the independent board committee of the Company (the “Independent Board Committee”) containing its recommendation is set out on pages 15 and 16 of this circular. A letter from CSC Asia Limited, the independent financial advisor, containing its advice and recommendation to the Independent Board Committee is set out on pages 17 to 33 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Wednesday, 29 December 2010 at 10:00 a.m. (the “EGM”) is set out on pages 51 and 52 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the head office and principal place of business of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

* *For identification purpose only*

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DEFINITIONS

Unless the context otherwise requires, terms or expressions used in this circular shall have the meanings ascribed to them below:

“Agreement”	the conditional sale and purchase agreement dated 25 November 2009 (as amended by four supplemental agreements dated 9 April 2010, 28 April 2010, 3 August 2010 and 1 November 2010) 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 circular
“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 as defined in the section headed “Consideration” in this circular for the Disposal
“Continuing Connected Transaction”	the processing of the Materials by the Processor with Annual Caps pursuant to the Master Processing Agreement
“CSC Asia”	CSC Asia Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity and the independent financial adviser appointed to advise the Independent Board Committee in respect of the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction and the Annual Caps

DEFINITIONS

“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 on 29 December 2010 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
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive Directors Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward, is established to advise the Independent Shareholders in respect of the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction and the Annual Caps
“Independent Shareholders”	Shareholders other than PME Investments (BVI) Co., Limited, Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and their associates
“Latest Practicable Date”	10 December 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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

DEFINITIONS

“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 (as amended by a supplemental agreement dated 22 November 2010) entered into between the Processor and the Supplier in relation to the Continuing Connected Transaction
“Materials”	the raw materials supplied by the Supplier to the Processor for processing pursuant to the Master Processing Agreement
“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 at Completion
“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
“Remaining Group”	the Group immediately after completion of the Disposal
“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.01 each in the capital of the Company

DEFINITIONS

“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 at Completion
“Vendors”	Best Chief, Teamcom and PMEI
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

LETTER FROM THE BOARD



(incorporated in the Cayman Islands with limited liability)
(Stock Code: 379)

Executive Directors:

Mr. Cheng Kwok Woo (*Chairman*)

Mr. Cheng Kwong Cheong
(*Vice-Chairman*)

Ms. Yeung Sau Han Agnes
(*Chief Executive Officer*)

Ms. Chan Shui Sheung Ivy

Mr. Tin Ka Pak

Independent Non-executive Directors:

Mr. Leung Yuen Wing

Mr. Soong Kok Meng

Mr. Chow Fu Kit Edward

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal
place of business:*

5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

13 December 2010

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION,
CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcements of the Company dated 9 December 2009, 12 April 2010, 30 April 2010, 3 August 2010, 1 November 2010 and 22 November 2010 in relation to the Disposal and the Continuing Connected Transaction.

On 25 November 2009, the Vendors entered into the Agreement with the Purchaser to which the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares and the Sale Loans at a Consideration. The Sale Shares represent 100% equity interest in Magic Horizon which, in turn, possesses 100% equity interest in Dongguan PME through PMESC. The Sale Loans represent (i) the amount due from Dongguan PME to PMEI at Completion; and (ii) the amount due from PMESC to Teamcom at Completion. On completion, Magic Horizon Group will cease to be subsidiaries of the Company and the Group will not have any interest in Magic Horizon Group.

* For identification purpose only

LETTER FROM THE BOARD

On 25 November 2009, 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 subsidiaries or nominees for further processing, for a term of three years commencing from the date of Completion. 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 three years commencing from the date of Completion.

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 substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder and a Shareholder at the Latest Practicable Date), 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 substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder and a Shareholder at the Latest Practicable Date) 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.

The purpose of this circular is to provide with the Shareholders, 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 recommendation from the Independent Board Committee of the Company in respect of the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction and the Annual Caps; and (iv) the advice from CSC Asia in respect of the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction and the Annual Caps; to enable Shareholders to make a properly informed decision on whether to vote for or against the relevant resolutions in the EGM.

I 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

LETTER FROM THE BOARD

- (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 substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder and a Shareholder at the Latest Practicable Date).

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 as defined in section headed "Consideration" below.

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 represent (i) the amount due from Dongguan PME to PMEI at Completion; and (ii) the amount due from PMESC to Teamcom at Completion.

Consideration:

The aggregate Consideration for the Sale Shares and the Sale Loans shall be calculated by using the following formula based on the consolidated management accounts of Magic Horizon as at the date of Completion:

Net asset value or net asset deficit + TG Sale Loan + PMEI Sale Loan + HK\$304,000

Where:

- (a) The consideration for the Sale Shares shall be HK\$10;
- (b) The consideration for the TG Sale Loan shall be calculated by using the following formula: $\text{TG Sale Loan} / (\text{TG Sale Loan} + \text{PMEI Sale Loan}) \times (\text{Consideration} - \text{HK\$10})$; and
- (c) The consideration for the PMEI Sale Loan shall be calculated by using the following formula: $\text{PMEI Sale Loan} / (\text{TG Sale Loan} + \text{PMEI Sale Loan}) \times (\text{Consideration} - \text{HK\$10})$.

LETTER FROM THE BOARD

According to the unaudited consolidated management accounts of Magic Horizon Group as at 30 June 2010, Magic Horizon Group recorded a net asset deficit of approximately HK\$35,674,000, and the TG Sale Loan and the PMEI Sale Loan were approximately HK\$44,442,000 and HK\$66,134,000 respectively. As such, the Consideration will be approximately HK\$75,206,000. The excess of the Consideration over the net book value of Magic Horizon Group and the Sale Loans is HK\$304,000.

The Consideration has been paid/shall be paid in cash to the relevant Vendors in the following manner:

- (a) HK\$6,600,001 shall be paid to the relevant Vendors within 30 calendar days after the execution of the Agreement (and which has been paid as at the date of this circular); and
- (b) the balance of the Consideration shall be paid to the relevant Vendors within fourteen (14) calendar days after Completion.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors with reference to (i) the consolidated net assets or net liabilities of Magic Horizon Group; (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.

LETTER FROM THE BOARD

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.

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 30 June 2010, Magic Horizon Group had unaudited net liabilities of approximately HK\$35,674,000. The attributable loss before and after taxation of Magic Horizon Group for the year ended 31 December 2009 are both approximately HK\$27,582,000, including an impairment loss on buildings of HK\$20,107,000. 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. Based on the property valuation report as set out in appendix II of this circular, it is expected that there will be a reversal of impairment loss on building of approximately HK\$1,300,000 for the year ending 31 December 2010. Save for the above, the Directors, having made all reasonable enquiries, confirm that there are no material changes to the financial position of Magic Horizon Group subsequent to 30 June 2010.

REASONS FOR AND BENEFITS OF THE DISPOSAL

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. The Directors are of the view that the terms and conditions of the Disposal are of normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the Magic Horizon Group is engaged in a very specialised industry (i.e. manufacturing and trading of polishing materials), the Company requires lengthy time to research for market comparables and the dispatch of this circular is delayed.

LETTER FROM THE BOARD

The current business model of the Group can be categorised into three business segments which comprises (i) manufacturing of abrasive products, polishing compounds and wheels; (ii) trading of polishing materials and polishing equipment; and (iii) investments in trading equity securities and long term strategic investment.

Upon completion of the Disposal, the Group will maintain the operations of all the three existing business segments which include (i) manufacturing of abrasive products, polishing compounds and wheels (under the subcontracting arrangement pursuant to the Master Processing Agreement); (ii) trading of polishing materials and polishing equipment; and (iii) investments in trading equity securities and long term strategic investment.

The Group also has the flexibility to outsource the manufacturing process to other independent processors for lower processing prices. However, other independent processors who can be easily identified are generally smaller in scale with limited production capacity and can only process limited types of products as compared to that of Magic Horizon Group. Therefore, the Group can only outsource processing process of certain products to other independent processors who possess relevant skills and processing capacity.

Reference is made to the announcements of the Company dated 8 November 2010 and 8 December 2010 in relation to the acquisition (the “Acquisition”) of 50% equity interest in 日照嵐山萬盛港業有限責任公司 (Rizhao Lanshan Wansheng Harbour Company Limited, “Rizhao Lanshan”) which constitutes a very substantial acquisition of the Company. Upon completion of the Acquisition, the Group will maintain the operations of all the existing business segments and will expand its business scope and will concurrently be engaged in port operation in Lanshan Harbour, Rizhao Port, Shandong Province of the PRC. The Company currently does not deploy related expertise of port operation. It is the Company’s intention to retain the existing management of Rizhao Lanshan for the daily management and operation of Rizhao Lanshan after the completion of the Acquisition.

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 including, but not limited to, the Acquisition.

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 assets or net liabilities of Magic Horizon Group as at Completion and (iii) the Sale Loans.

LETTER FROM THE BOARD

II 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 substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder and a Shareholder at the Latest Practicable Date).

Processing of Materials:

Pursuant to the Master Processing Agreement, the Supplier and/or its subsidiaries and nominees conditionally agreed to supply the following Materials each year to the Processor and/or its subsidiaries or nominees for further processing, for a term of three years commencing from the date of Completion at the following consideration:

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

The charge to be paid by the Supplier and/or its subsidiaries and nominees to the Processor and/or its subsidiaries or nominees for processing the Materials shall be paid within thirty (30) calendar days upon the delivery of the processed Materials and presentation of the invoice/demand note to the Supplier and/or its subsidiaries or nominees by the Processor and/or its subsidiaries and nominees.

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 three years commencing from the date of Completion.

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

LETTER FROM THE BOARD

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.

The historical processing costs incurred by the Group for the year 2009 and the first-half of 2010 were approximately HK\$12,041,000 and HK\$6,638,000 respectively. The decrease in the historical processing costs in 2009 as compared to that in 2008 was mainly due to decrease in quantities of Materials processed in 2009 as a result of the global financial crisis caused by the credit crunch arising from the collapse of the US sub-prime market at the end of 2008. For the the first-half of 2010, the historical processing costs was increased by approximately 29.9% as compared to that of the corresponding period in 2009 as a result of approximately 9.2% increase in revenue generated from the division of polishing products and equipment of the Group.

The Directors anticipated that the demand for the polishing products will only grow in only a slow pace in coming years and the proposed Annual Caps have included buffers to allow flexibility for the Materials to be processed in the event that the demand for the polishing products of the Group increases. The Directors considers that the proposed Annual Caps are sufficient along the three-year term under the Master Processing Agreement.

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.

REASONS FOR AND BENEFITS OF THE TRANSACTION

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 (under the subcontracting arrangement), (ii) trading of polishing materials and polishing equipment, and (iii) investments in trading equity securities and long-term strategic

LETTER FROM THE BOARD

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. The Directors are of the view that the terms and conditions of the Continuing Connected Transaction are of normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

I. The Agreement

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 substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder and a Shareholder at the Latest Practicable Date), 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.

II The Master Processing Agreement

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 substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder and a Shareholder at the Latest Practicable Date) 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.

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, Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and their respective associates, are required to abstain from voting to approve the Agreement, the Master Processing Agreement and the transactions contemplated thereunder at the EGM.

As Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong have material interests in the Disposal and the Continuing Connected Transaction, they have abstained from voting on the board resolutions for approving the Agreement, the Master Processing Agreement and the transactions contemplated thereunder.

EGM

A notice convening an extraordinary general meeting of the Company to be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pai Wan Street, Fo Tan, Shatin, Hong Kong on Wednesday, 29 December 2010 at 10:00 a.m. is set out on pages 51 and 52 of this circular. Ordinary resolutions will be proposed at the EGM to consider and, if thought fit, approve the Agreement, the Master Processing Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

A form of proxy for the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the head office and principal place of business of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

VOTING AT EGM

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at the EGM must be taken by poll.

RECOMMENDATION

The Directors consider that the terms of the Agreement and the Master Processing Agreement contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to approve the Disposal and the Continuing Connected Transaction contemplated thereunder at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the “Letter from the Independent Board Committee”, “Letter from CSC Asia”, notice of EGM and the information set out in the appendices to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the transaction contemplated under the Agreement and the Master Processing Agreement:



13 December 2010

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company dated 13 December 2010 (the “Circular”), of which this letter forms part. Unless otherwise stated, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee to advise you as to whether, in our opinion, the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction and the Annual Caps contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

CSC Asia has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 17 to 33 of this Circular.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the details of the Agreement, the details of the Master Processing Agreement and the independent advice of CSC Asia in relation thereto, we are of the opinion that the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction and the Annual Caps contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Agreement, the Master Processing Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee of
PME Group Limited
Leung Yuen Wing
Independent non-executive Director

Soong Kok Meng
Independent non-executive Director

Chow Fu Kit Edward
Independent non-executive Director

LETTER FROM CSC ASIA

The following is the text of a letter of advice from CSC Asia which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee in relation to the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction together with the proposed Annual Caps.



CSC Asia Limited
Units 3204-7, 32/F
Cosco Tower
183 Queen's Road Central
Hong Kong

13 December 2010

To: The Independent Board Committee

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in relation to the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction together with the proposed Annual Caps. Details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 13 December 2010 issued by the Company, of which this letter forms part. Terms used in this letter should have the same meanings as defined in this Circular unless the context otherwise requires.

The Disposal

On 25 November 2009, the Vendors and the Purchaser entered into the Agreement (supplemented by four agreements dated 9 April 2010, 28 April 2010, 3 August 2010 and 1 November 2010), pursuant to which the Purchaser agreed to purchase the Sale Shares, being the entire equity interest in Magic Horizon which in turn possesses 100% equity interest in Dongguan PME through PMESC, and the Sale Loans, comprising of the TG Sale Loan and the PMEI Sale Loan, from the Vendors at the Consideration. As at the Latest Practicable Date, a refundable deposit of HK\$6,600,001 has been paid by the Purchaser. The remaining balance of the Consideration will be payable to the Vendors within 14 calendar days after Completion which is subject to the fulfillment of the conditions, as set out in the Letter from the Board, by no later than 31 December 2010. Upon Completion, the Company will cease to have any interest in Magic Horizon. Accordingly, Magic Horizon will cease to be a subsidiary of the Company.

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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 the substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder as at the date of the Agreement), the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Agreement and the Disposal are subject to reporting, announcement and independent Shareholders' approval under Rules 14A.45 to 14A.48 of the Listing Rules.

The Continuing Connected Transactions

On 25 November 2009, the Supplier and the Processor also entered into the Master Processing Agreement (as amended by a supplemental agreement dated 22 November 2010), pursuant to which the Supplier agreed to supply the Materials to the Processor for further processing for the three years commencing from the date of Completion subject to the conditions as set out in the Letter from the Board. The annual aggregate charges to be paid by the Supplier to the Processor shall not exceed the Annual Caps of HK\$14.0 million for each of the three years under the Master Processing Agreement.

As the Processor is ultimately beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive Directors and the substantial Shareholders) and Ms. Cheng Wai Ying (a then substantial Shareholder as at the date of the Master Processing Agreement), accordingly, the Processor is a connected person of the Company under the Listing Rules. The relevant percentage ratios (as defined in Rule 14A.35 of the Listing Rules) in respect of the transactions contemplated under the Master Processing Agreement exceed 2.5% and the proposed Annual Caps is more than HK\$10 million, therefore, the transactions contemplated under the Master Processing Agreement constitute a non-exempt continuing connected transaction for the Company under Rule 14A.35 of the Listing Rules. Accordingly, the Master Processing Agreement and the Continuing Connected Transaction together with the proposed Annual Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As advised by the Directors, Ms. Cheng Wai Ying has ceased to be a substantial Shareholder but remains as a Shareholder of the Company. Accordingly, Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms. Cheng Wai Ying and their respective associates will abstain from voting on all resolutions in respect of the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction together with the proposed Annual Caps.

The Independent Board Committee, comprising of independent non-executive Directors, namely Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward, has been formed to advise the Independent Shareholders in respect of the the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction together with the proposed Annual Caps. We have been appointed as the independent financial adviser to advise the Independent Board Committee on these matters.

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CSC Asia is independent from, and not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective associate and therefore is considered suitable to give independent advice to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts supplied and the opinion expressed by the executive Directors and management of the Group and have assumed that all information and facts supplied and representations made to us are true, accurate and complete. We have also assumed that the information and representations contained or referred to in the Circular (including the appendices to the Circular) were true and accurate at the time they were prepared or made and will continue to be so up to the date of EGM. We have also been advised by the executive Directors that no material facts have been omitted from the Circular and in the information provided to us. There is no reason for us to believe that any of the information (including information in the public domain) relied on by us in forming our opinion, or any of the information relied on by any third party expert on whose opinion or advice we rely in forming our opinion is untrue, inaccurate or incomplete or has omitted any material fact.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for advice and have taken reasonable steps as required under Rule 13.80 of the Listing Rules in forming our opinion. We have not, however, conducted any independent investigation into the businesses and affairs or future prospects of the Group, nor have we carried out any independent verification of the information supplied by the Group or obtained from the public domain.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction together with the proposed Annual Caps, we have taken the following principal factors and reasons into consideration:

1. The Disposal

On 25 November 2009, the Vendors entered into the Agreement (supplemented by four agreements dated 9 April 2010, 28 April 2010, 3 August 2010 and 1 November 2010) with the Purchaser, pursuant to which the Purchaser agreed to purchase the Sale Shares, representing the entire issued share capital of Magic Horizon which in turn possesses 100% equity interest in Dongguan PME through PMESC, and the Sale Loans, comprising of the TG Sale Loan and the PMEI Sale Loan, from the Vendors at cash Consideration payable in two instalments. As at the Latest Practicable Date, a refundable deposit of HK\$6,600,001 has been paid by the Purchaser. The remaining balance of the Consideration will be payable to the Vendors within 14 calendar days after Completion which is subject to the fulfilment of conditions, as set out in the Letter from the Board, by no later than 31 December 2010. Upon Completion, Magic Horizon Group

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will cease to be subsidiaries of the Company and the Group will no longer have any interest in Magic Horizon Group. Accordingly, the results of Magic Horizon Group will no longer be consolidated into the financial statements of the Group.

1.1 Information of the Group

Set out below is the summary of the audited consolidated financial information of the Group for the two years ended 31 December 2009 and the six months ended 30 June 2009 and 30 June 2010 respectively as extracted from the annual report for the year ended 31 December 2009 (the “Annual Report 2009”) and the interim report for the six months ended 30 June 2010 (the “Interim Report 2010”) of the Company.

	For the year ended		For the six months	
	31 December		ended 30 June	
	2008	2009	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue generated from:				
Polishing materials and equipment	211,017	176,707	55,243	60,344
Investment	239	2	1,125	3
Results generated from:				
Polishing materials and equipment	(28,842)	(42,995)	(13,492)	(6,783)
Investment	(236,176)	240,460	146,313	(59,162)
Profit/(loss) attributable to owners of the Company				
	(268,371)	158,359	108,683	(70,485)

The year ended 31 December 2009 versus the year ended 31 December 2008

As shown in the table above, the Group recorded segmental revenue of approximately HK\$176.7 million in the polishing materials and equipment division for the year ended 31 December 2009, representing a decrease of approximately 16.3% as compared to that of the previous year in 2008. Loss in this segment for the year ended 31 December 2009 had been enlarged by approximately 149% from approximately HK\$28.8 million to approximately HK\$43.0 million which, as disclosed in the Annual Report 2009, was mainly due to the loss on revaluation of buildings amounting to approximately HK\$20.1 million for the year ended 31 December 2009. According to the Annual Report 2009, the Group recorded a profit attributable to owners of the Company of approximately HK\$158.4 million in 2009 as compared to the loss of approximately HK\$268.4 million recorded in 2008 which was mainly attributable to the decrease in impairment losses recognised in respect of available-for-sale investments and goodwill on acquisition of subsidiaries and associate.

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The six months ended 30 June 2010 versus the six months ended 30 June 2009

For the six months ended 30 June 2010, the Group recorded segmental revenue of approximately HK\$60.3 million in the polishing materials and equipment division, representing an increase of approximately 9.2% as compared to that of the preceding year in 2009. As stated in the Interim Report 2010, such increase in revenue of polishing materials and equipment division was due to increase in demand for the Group's products as a result of the economic recovery in the first half of 2010. Segmental loss of the polishing materials and equipment division decreased from approximately HK\$13.5 million for the six months ended 30 June 2009 to approximately HK\$6.8 million period-on-period in 2010. The unaudited loss attributable to the owners of the Company for the six months ended 30 June 2010 amounted to approximately HK\$70.5 million which represents a drop of approximately HK\$179.2 million from profit of approximately HK\$108.7 million for the respective period in 2009 which, as disclosed in the Interim Report 2010, was mainly due to decrease in fair value of held for trading investments, decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss and decrease in gain on disposals of associates as compared to the same period last year.

1.2 Information of Magic Horizon Group

Magic Horizon, is a company incorporated in the British Virgin Islands with limited liability which together with its subsidiaries is principally engaged in the manufacturing and trading of polishing materials. As at the Latest Practicable Date, Magic Horizon owned 100% equity interest in Dongguan PME through PMESC.

According to the consolidated management accounts of Magic Horizon Group, net losses after taxation, current assets, current liabilities, net liabilities and the Sale Loans for the two years ended 31 December 2009 and the six months ended 30 June 2010 are as follows:

	For the six months ended 30 June 2010 (HK\$'000)	For the year ended 31 December	
		2009 (HK\$'000)	2008 (HK\$'000)
Net losses after taxation	(5,033)	(27,582)	(7,067)

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	As at 30 June 2010 (HK\$'000)	As at 31 December 2009 (HK\$'000)	2008 (HK\$'000)
Non-current assets	64,759	66,428	93,722
Current assets	<u>18,598</u>	<u>16,408</u>	<u>16,011</u>
Total assets	<u>83,357</u>	<u>82,836</u>	<u>109,733</u>
Non-current liabilities	406	62	1,367
Current liabilities	<u>118,625</u>	<u>113,415</u>	<u>109,205</u>
Total liabilities	<u>119,031</u>	<u>113,477</u>	<u>110,572</u>
Net liabilities	(35,674)	(30,641)	(839)
The PMEI Sale Loan	66,134	61,633	61,418
The TG Sale Loan	<u>44,442</u>	<u>43,359</u>	<u>40,959</u>
Sale loans	<u>110,576</u>	<u>104,992</u>	<u>102,377</u>
Cash and cash equivalents	<u>534</u>	<u>1,479</u>	<u>1,458</u>

As shown in the table above, Magic Horizon Group has been making losses for the two years ended 31 December 2009 and the six months ended 30 June 2010. The net loss for the year ended 31 December 2009 amounted to approximately HK\$27.6 million which was nearly 4 times of net loss of approximately 7.1 million for the year ended 31 December 2008 as a result of an impairment loss on leasehold buildings of approximately HK\$20.1 million recorded in 2009. For the six months ended 30 June 2010, Magic Horizon Group recorded net loss after taxation of approximately HK\$5.0 million, which accounted for approximately 66.7% of the recurring net operating loss of approximately HK\$7.5 million (excluding the impairment loss on leasehold buildings of approximately HK\$20.1 million) for the previous year in 2009. Based on the valuation report on the property interests of the Group set out in Appendix II of the Circular, the Directors envisaged that there will be a reversal of impairment loss of approximately HK\$1.3 million for the year ending 31 December 2010.

The net liabilities of Magic Horizon Group increased from approximately HK\$30.6 million as at 31 December 2009 to approximately HK\$35.7 million as at 30 June 2010. The Sale Loans have been accumulated and increased year by year and reached approximately HK\$110.6 million as at 30 June 2010. Cash and cash equivalents held by Magic Horizon as at 30 June 2010 was approximately HK\$0.5 million, representing only approximately 0.5% of the aggregate amount of the Sale Loans. The current ratio of Magic Horizon as at 30 June 2010 (by calculation of current assets over current liabilities) was approximately 0.2. As such, we consider Magic Horizon Group may have insufficient cash or current assets to cover its current liabilities including the Sale Loans.

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1.3 Reasons for the Disposal

The Company is an investment holding company of which its subsidiaries are principally engaged in (i) manufacture of abrasive products, polishing compounds and wheels; (ii) trading of polishing materials and polishing equipment; and (iii) investments in trading equity securities and long term strategic investment.

The Group has been making segmental losses in the polishing materials and equipment division for the three years ended 31 December 2009 and the six months ended 30 June 2010. As stated in the interim report of the Company for the six months ended 30 June 2010 (the "Interim Report 2010"), the cost of raw materials are increasing and it is difficult to shift the costs burden to the customers as the market competition is very keen and the Directors envisaged that the demand for consumer products will only grow in a slow pace. Based on the management accounts of Magic Horizon Group for the six months ended 30 June 2010, there were approximately HK\$15.2 million of sales made to independent third parties, representing approximately 58.2% of total sales of Magic Horizon Group and approximately HK\$10.9 million which accounted for the remaining 41.8% of the total sales were made to intragroup companies which, as advised by the Directors, will then be sold to end customers who are independent third parties. After Completion, all existing customers of Magic Horizon Group will remain as customers of the Group and all sales of Magic Horizon Group will be carried out by the Group. With a majority of the Group's revenue was generated from the PRC market, we have reviewed the relevant statistics based on the PRC Industrial Polishing Materials and Equipment Yearbook 2009 (中國磨料磨具工業年鑑 2009) and found that the growth rate in sales revenue generated from the polishing market in the PRC has slowed down from 26.4% in 2007 to 18.2% in 2008 while the growth rate of net profit in this polishing field dropped from 35.8% in 2007 to 17.8% in 2008. The growth rate in total industrial output of polishing products also decreased from 25.3% in 2007 to 23.0% in 2008. According to the National Bureau of Statistics of China, the purchasing prices for raw materials, fuel and power in October 2010 grew by 8.1% year-on-year.

As advised by the Directors, the Group will record further loss in the manufacturing division should the existing manufacturing model continues. To survive under the keen competition in the polishing industry, the Group has adopted various costs control measures in Magic Horizon Group, being the only manufacturing arm of the Group, in the past two years including, but not limited to, (i) restructuring the manufacturing process to improve efficiency; (ii) addition of plant and machinery in order to reduce labour costs; (iii) merging of departments to reduce management personnel; and (iv) reduction of headcount of non-production posts. It is however that the financial performance of Magic Horizon Group remained unsatisfactory. Net loss after taxation of Magic Horizon Group for the six months ended 30 June 2010 amounted to approximately HK\$5.0 million, which accounted for approximately 66.7% of the recurring net operating loss of approximately HK\$7.5 million (excluding the impairment loss on leasehold buildings of approximately HK\$20.1 million) for the previous year in 2009. The net liabilities of Magic Horizon Group as at 30 June 2010 amounted to approximately HK\$35.7 million. In addition, cash and cash equivalents held by Magic Horizon as at 30 June 2010 was approximately HK\$0.5 million, representing only approximately 0.5% of the aggregate amount of the Sale Loans. As such, the recoverability of the Sale Loans is doubtful.

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As stated in the Annual Report 2009, the Group intends to dispose of its manufacturing facilities and outsource its manufacturing process in order to better control the manufacturing costs. We have enquired the Directors on whether they had approached other potential buyers other than the Purchaser. As advised by the Directors, it is difficult to approach any other potential buyers given the special business nature of Magic Horizon Group which requires high level of industrial knowledge and experience to manage its operations. Further, the Directors claimed that the scale of Magic Horizon Group is relatively large as compared to other market practitioners which may not be able to take over the entire Magic Horizon Group. The Disposal allows the Group an opportunity to exit from subsidizing the continuous lossmaking division of manufacturing of polishing products and equipment and free up its resources for development and investment in other potential business development including, but not limited to, the Acquisition. By entering into the Agreement and the Master Processing Agreement, the Group can retain its manufacturing business through subcontracting the further processing of Materials to the Processor on a non-exclusive basis and on terms which are more favourable to the Group than to other independent suppliers for the three years commencing from the date of Completion. (Detailed discussions on the reasons for the Continuing Connected Transaction and the terms thereof are set out in section headed “2. The Continuing Connected Transaction” on page 11 of this letter.) Given that Magic Horizon Group is the only manufacturing arm of the Group, we have enquired about the impact on the manufacturing business of the Group after the Disposal in particular that, due to the special business nature of the Magic Horizon Group, it may not be easy for the Group to identify other processors which provide further processing of the Materials. However, as advised by the Directors, there are independent processors in smaller scale producing similar types of products as that of Magic Horizon Group which can be identified easily in the market though their production capacity may not be sufficient to cater to the orders from the Group. In the event that the Master Processing Agreement will not be renewed upon expiry, the Group may need to outsource the further processing of the Materials to several smaller independent processors as an alternative based on the product types and the volume of any particular order. As advised by the Directors, the Group will continue to look for other independent subcontractors for further processing the Materials along the three-year term under the Master Processing Agreement. Furthermore, as disclosed in the circular of the Company dated 25 October 2006, the Group has invested approximately HK\$6 million to set up a joint venture company in Shanghai (the “JV”) which is principally engaged in research and development, manufacturing of various polishing materials and equipment, sales of self-manufactured products and provision of related technical services. As discussed in the section headed “2.1 Background of and reasons for the Continuing Connected Transaction” of this letter, the JV can be one of the Group’s subcontractors in eastern China market subject to negotiations with the other venturer of the JV and the availability of further processing services of the JV. Further, the financial results of Magic Horizon will no longer be consolidated into the accounts of the Group upon Completion. The Group will record a gain of approximately HK\$0.3 million from the Disposal and the net asset value, working capital, gearing and liquidity level of the Remaining Group will be enhanced upon Completion (please refer to section headed “Possible financial effects of the Disposal on the Remaining Group” of this letter for details).

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Having considered the above, in particular that (i) the Group has been making segmental losses in the polishing materials and equipment division for the three years ended 31 December 2009 and the six months ended 30 June 2010; (ii) the performance of Magic Horizon remained unsatisfactory even various costs control measures have been adopted; (iii) it is difficult to approach potential buyers given the special business nature and the relatively large scale of Magic Horizon Group and the Disposal allows the Group an opportunity to exit from subsidizing a continuous lossmaking subsidiary; (iv) the Group can free up its resources from the continuous lossmaking Magic Horizon Group for development and investment in other potential business opportunities including, but not limited to, the Acquisition; (v) as discussed under section headed “Possible financial effects of the Disposal on the Remaining Group” in this letter, the financial impacts of the Disposal on the Remaining Group are positive in general; and (vi) there will be a gain of approximately HK\$0.3 million from the Disposal, we are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole.

1.4 Principal terms of the Agreement

Pursuant to the Agreement (as amended by four supplemental agreements dated 9 April 2010, 28 April 2010, 3 August 2010 and 1 November 2010), the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares and the Sale Loans at the Consideration payable by way of cash in two instalments. The Consideration shall be calculated with the formula of consolidated net asset value or net liabilities of Magic Horizon plus the TG Sale Loan plus the PMEI Sale Loan as at the date of Completion plus HK\$304,000. As at the Latest Practicable Date, a refundable deposit of HK\$6,600,001 has been paid to the Vendors. The remaining balance of the Consideration will be payable within 14 calendar days after Completion which is subject to the fulfilment of conditions as set out in the Letter from the Board by no later than 31 December 2010.

As stated in the Letter from the Board, the Consideration was arrived at after arm’s length negotiations between the Purchaser and the Vendors taking into account (i) the consolidated net assets or net liabilities of Magic Horizon Group; (ii) the TG Sale Loan; and (iii) the PMEI Sale Loan. As at 30 June 2010, Magic Horizon Group recorded net liabilities of approximately HK\$35.7 million with the TG Sale Loan and the PMEIC Sale Loan amounted to approximately HK\$44.4 million and approximately HK\$66.1 million respectively.

In assessing the fairness and reasonable of the Consideration, we considered using P/E ratio and P/B ratio for comparisons with other market comparables. However, to our best knowledge and effort on market research and as confirmed by the Directors, there are no other polishing companies listed in Hong Kong that can be used as market reference. Further, we consider that both P/B ratio and P/E ratio comparisons are not applicable given the net liabilities position of Magic Horizon Group and that it has recorded a loss for the year ended 31 December 2009 and the six months ended 30 June 2010.

Alternatively, we have reviewed the financial performance of Magic Horizon Group. Based on the consolidated management accounts of Magic Horizon Group for the three years ended 31 December 2009 and the six months ended 30 June 2010, Magic Horizon Group has

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been making losses of approximately HK\$2.4 million HK\$7.1 million and HK\$27.6 million for the three years ended 31 December 2009 respectively. As at 30 June 2010, a net liabilities of approximately HK\$35.7 million was recorded with cash and cash equivalents amounted to approximately HK\$0.5 million, representing approximately 0.5% of the Sale Loans. As such, we are of the view that (i) the recoverability of the Sale Loans is doubtful given the poor financial performance of Magic Horizon and its limited cash and cash equivalents held as at 30 June 2010; (ii) the Consideration, which will be based on the book values of Magic Horizon Group, the TG Sale Loan, and the PMEI Sale Loan as at the date of Completion plus HK\$304,000, represents a premium over net liabilities of the continuous lossmaking Magic Horizon Group as at 30 June 2010; (iii) the Group will record a gain of approximately HK\$0.3 million from the Disposal; and (iv) net proceeds from the Disposal will be used for general working capital of the Group and/or any other future potential business opportunities including, but not limited to, the Acquisition, we consider that the Consideration is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole.

1.5 Possible financial effects of the Disposal on the Remaining Group

Based on the unaudited proforma financial information of the Remaining Group provided by the Company and on the assumption that the Disposal has been completed on 30 June 2010, for illustration purpose, the financial impacts on the Remaining Group are discussed as follows:

(i) Net asset value

As at 30 June 2010, the unaudited net asset value of the Group was approximately HK\$834.9 million. Based on the unaudited proforma financial position of the Remaining Group, the net asset value of the Remaining Group will be enhanced by approximately HK\$0.3 million, which is the gain from the Disposal, to HK\$835.2 million upon Completion.

(ii) Earnings

Upon Completion, Magic Horizon Group will cease to be subsidiaries of the Company and thus its results will no longer be consolidated into the financial statements of the Group.

For the six months ended 30 June 2010, the Group recorded unaudited loss of approximately HK\$70.5 million. Based on the unaudited proforma consolidated statement of comprehensive income of the Remaining Group, the unaudited proforma loss of the Remaining Group will be decreased to approximately HK\$70.2 million after a gain of approximately HK\$0.3 million from the Disposal.

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(iii) Gearing and Working capital

As at 30 June 2010, the gearing ratio (measured as total liabilities over total assets) of the Group was 29.2%. Upon Completion, the proforma gearing ratio of the Remaining Group will be decreased to 28.3%. Further, the net proceeds from the Disposal, which are estimated to be approximately HK\$75 million, would provide additional working capital to the Remaining Group and allows the Remaining Group to be in a better position to look for investment opportunities which are beneficial to the Group and the Shareholders as a whole.

(iv) Liquidity

As at 30 June 2010, the current assets and current liabilities of the Group were approximately HK\$698.8 million and approximately HK\$57.6 million respectively, translating into a current ratio (current assets/current liabilities) of approximately 12.1 times. Based on the unaudited proforma consolidated statement of financial position of the Remaining Group, upon Completion, the Remaining Group's current assets and current liabilities will be decreased to approximately HK\$684.4 million and approximately HK\$43.0 million respectively which will translate into a current ratio of approximately 15.9. As such, we consider the liquidity position of the Remaining will be improved as a result of the Disposal.

Based on the above financial analysis, it indicated that, upon Completion, the loss of the Remaining Group will be decreased and there will be improvements in the net asset value, working capital, gearing and liquidity level of the Remaining Group. As confirmed by the Directors, there are no material changes to the financial position of Magic Horizon Group subsequent to 30 June 2010. Based on the above, we consider that the Disposal is favourable to the Company and the Independent Shareholders and is in the interest of the Company and the Shareholders as a whole.

2. The Continuing Connected Transaction

2.1 Background of and reasons for the Continuing Connected Transaction

On 25 November 2009, the Master Processing Agreement (as amended by a supplemental agreement dated 22 November 2010) was entered into between the Supplier and the Processor, pursuant to which the Supplier and/or its subsidiaries and nominees conditionally agreed to supply the Materials to the Processor and/or its subsidiaries or nominees for further processing for a three-year term commencing from the date of Completion during which the respective annual charges to be paid by the Supplier to the Processor in aggregate shall not exceed the Annual Caps of HK\$14 million.

For the reasons discussed in the section headed "1.3 Reasons for the Disposal" above, the Vendors, being the wholly owned subsidiaries of the Company, and the Purchaser, who is also the Processor under the Master Processing Agreement, entered into the Agreement on 25

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November 2009 (supplemented by four agreements dated 9 April 2010, 28 April 2010, 3 August 2010 and 1 November 2010) in relation to the Disposal. As confirmed by the Directors, upon Completion, the Group will no longer operate manufacturing plant on its own and will concentrate on the trading of polishing products with higher profit margins while the manufacturing of the polishing products will be carried out by the Processor and other sub-contractors through OEM arrangement. As advised by the Directors, the Group is looking for regional subcontractors in eastern and northern part of the PRC to facilitate the expansion of the market in eastern and northern China and to reduce the transportation costs. We have enquired about the possibility of procuring the JV as the subcontractor of the Group for further processing of the Materials. As advised by the Directors, the JV does not provide further processing services for other suppliers. Further, the polishing products of the JV are different from those manufactured by the Group. Should the JV provide services on further processing the Materials in the future, subject to negotiations with another venturer of the JV, the JV can be one of the Group's subcontractors in eastern China market. As confirmed by the Directors, there is no formal sub-contracting agreement entered into with other independent subcontractors.

The Directors are of the view that, by entering into the Master Processing Agreement, the Group may benefit from having the processing prices of the Materials per ton fixed which may prevent the Group from suffering from potential increase in production costs as a result of future appreciations of Renminbi and increase in price of labour costs during the three-year period. Reversely speaking, in the event that the processing costs of the Materials fixed under the Master Processing Agreement were higher than those offered by other independent processors, the Company will be allowed with flexibility to outsource the manufacturing process to other independent processors given that the Master Processing Agreement was entered into on a non-exclusive basis. Based on the China Statistical Yearbook 2009 compiled by the National Bureau of Statistics of China, the average exchange rate of Hong Kong dollars to Renminbi in 2007 was approximately 0.98 and the respective average exchange rate in 2008 was only approximately 0.89, representing a depreciation of Hong Kong dollars to Renminbi by approximately 9.2%. As at the Latest Practicable Date, the exchange rate of Hong Kong dollars to Renminbi was 0.86. Further, based on our review on the historical figures, we found that the total costs of polishing compound, polishing wheels and polishing sand per ton manufactured by the Group increased by 20.9%, 19.7% and 5.7% respectively in 2009 as compared to that in 2008.

In addition, the Directors also believe that the Processor, owners of which are/used to be the executive Directors and/or substantial shareholders of the Company who have over 25 years of experience in the polishing industry, possesses in-depth knowledge in the polishing industry and is well familiar with the requirements of the Group for processing the Materials. As such, the standard for processing the Materials can be maintained even if it is outsourced and to be further processed by the Processor. The processing services provided by the Processor enable consistency of the processing standard and may add value to the quality of the polishing products which is a key factor affecting the brand name of the Group.

Based on the above in particular that (i) the Group's costs for processing of the Materials per ton have been increasing year by year; (ii) by entering into the Master Processing

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Agreement, the processing costs of the materials will be fixed regardless of any potential appreciations in Renminbi or increase in price of labour costs for the three years commencing from the date of Completion; (iii) in the event that the fixed processing prices of the Materials under the Master Processing Agreement were higher than those offered by other independent processors, the Group is also allowed flexibility on procuring other processors for further processing the Materials given the Master Processing Agreement is made on a non-exclusive basis; and (iv) the Processor is experienced in the polishing industry and is familiar with the requirements of the Group for further processing the Materials which may maintain the processing standard with consistency and in turn may strengthen the brand name of the Group, we are of the view that the entering into the Master Processing Agreement is in line with the Company's strategy on cost control stated in the Group's Annual Report 2009 and the Interim Report 2010 and is in ordinary and usual course of business of the Company and in the interests of the Company and the Independent Shareholders as whole.

2.2 Principle terms of the Master Processing Agreement

Pursuant to the Master Processing Agreement (as amended by a supplemental agreement dated 22 November 2010), subject to the conditions as set out in the Letter from the Board, the Supplier and/or its subsidiaries and nominees shall supply the Materials to the Processor and/or its subsidiaries or nominees for further processing at fixed processing price per ton of the Materials during the three-year term commencing from the date of Completion. The annual aggregate amount of charges for further processing the Materials for each of the three years under the Master Processing Agreement shall not exceed the Annual Caps of HK\$14.0 million. Set out below is the detailed discussion on the principle terms of the Master Processing Agreement.

(i) Processing price per ton

Pursuant to the terms of the Continuing Connected Transaction, the price per ton for further processing polishing compound, polishing wheels and polishing sand by the Processor have been fixed at HK\$2,913, HK\$34,244 and HK\$6,725 respectively which, as advised by the Directors, were determined based on average processing cost of the Group for each of the Materials for the three and half years ended 30 June 2009 and a 5% mark-up.

The following is the summary of the historical manufacturing costs of the Materials per ton for the four years ended 31 December 2009 and the six months ended 30 June 2010 and the processing price per ton for each of the Materials fixed under the Master Processing Agreement.

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Type of Materials	Historical manufacturing costs per ton					Processing price per ton fixed under the Master Processing Agreement (HK\$)
	2006	2007	2008	2009	2010	
	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(Note) (HK\$)	
Polishing compounds	2,155	2,673	2,846	3,440	3,814	2,913
Polishing wheels	25,313	31,465	33,378	39,939	44,779	34,244
Polishing sand	5,341	5,602	6,586	6,962	7,617	6,725

Note: The historical figures in relation to the manufacturing costs of the Materials per ton in 2010 are updated to 30 June 2010.

As shown in the table above, the manufacturing costs for each of the Materials per ton have been increasing year by year. The historical manufacturing costs of polishing compound, polishing wheels and polishing sand per ton amounted to approximately HK\$3,440, approximately HK\$39,939 and approximately HK\$6,962 in 2009, representing increases of approximately 20.9%, approximately 19.7% and approximately 5.7% as compared to that in 2008. The manufacturing costs for each of the Materials per ton for the six months ended 30 June 2010 exceeded the respective costs for the preceding year 2009. As advised by the Directors, the Materials processed in the first half of each year would absorb higher unit costs of administrative and finance expenses as, because of Chinese New Year Holiday, the tons of Materials processed in the first half of each year are usually less than the second half of each year. Hence, yearly figures would be more indicative. The processing price of polishing compound, polishing wheels and polishing sand per ton fixed under the Master Processing Agreement amounted to approximately 84.7%, approximately 85.7% and approximately 96.6% of the respective manufacturing costs per ton for the year ended 31 December 2009.

Further, we have also reviewed sample quotations from other independent processors to the Supplier for further processing the Materials. Based on our review, we found that the fixed prices for processing the respective Materials are lower than the prices quoted on the quotations from other independent processors to the Supplier.

Based on the above, we consider the processing price of the Materials per ton fixed under the Master Processing Agreement is fair and reasonable as far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

(ii) The Annual Caps

As stated in the Letter from the Board, the Annual Caps of HK\$14 million for each of the three years commencing from the date of Completion were determined by taking

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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.

In assessing the reasonableness of the proposed Annual Cap, we have discussed with the Directors and the management of the Company on the basis and underlying assumptions for setting the proposed Annual Cap and reviewed the historical manufacturing costs of the Group for processing the Materials for the four years ended 31 December 2009 and the six months ended 30 June 2009 and 30 June 2010 respectively (the “Historical Costs”) which are set out as follows:

	Year ended 31 December				Six months ended	
	2006	2007	2008	2009	30 June	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	2009	2010
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Historical						
Costs	<u>10,682.8</u>	<u>12,375.5</u>	<u>12,570.9</u>	<u>12,040.5</u>	<u>5,111.6</u>	<u>6,637.6</u>

As shown in the table above, the Historical Costs for the four years ended 31 December 2009 amounted to approximately HK\$10.7 million, approximately HK\$12.4 million, HK\$12.6 million and HK\$12.0 million respectively. As advised by the Directors, the decrease in Historical Costs in 2009 as compared to that in 2008 was mainly due to decrease in quantities of the Materials processed in 2009 as a result of the global financial crisis caused by the credit crunch arising from the collapse of the US sub-prime market in end of 2008. As such, the Directors consider using the yearly figures on quantities of the Materials processed by the Group in 2008 is more indicative. For the six months ended 30 June 2010, the Historical Costs was increased by approximately 29.9% to the amount of approximately HK\$6.6 million as compared to that of the corresponding period in 2009 as a result of approximately 9.2% increase in revenue generated from the division of polishing products and equipment of the Group.

The Annual Caps of HK\$14.0 million represents increments of approximately 11.4% and approximately 16.3% as compared to the Historical Costs in 2008 and 2009 respectively. We have enquired into and been advised by the Directors that buffers have been included in the Annual Caps of HK\$14.0 million to allow flexibility to the Group for supplying the Materials to the Processor for further processing in the event of economic recovery which leads to unexpected growth in demand for the polishing products of the Group. Since the Directors anticipated that the demand for the polishing products will only grow in a slow pace, the proposed Annual Caps of HK\$14.0 million are considered sufficient along the three-year term under the Master Processing Agreement.

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Given the processing prices for each of the Materials per ton have been fixed under the Master Processing Agreement, the variable factor affecting the utilization of the proposed Annual Caps would be the quantities of the Materials to be processed by the Processor. Based on our review on the information contained in the outlook of the polishing materials markets provided by the Directors, we learnt that polishing is an essential stage for a large number of consumer and industrial products, the demand for polishing materials is closely related to the output of industrial products in particular metallic products. To gain a better understanding on the trend of polishing market in the PRC, we refer to the statistics conducted by the National Bureau of Statistics of China that the manufacture of metal products sector in the PRC recorded an increase of approximately 18.5% for the nine months ended 30 September 2010 as compared to that for the corresponding period in 2009. As such, we consider the increment of approximately 16.3% of the proposed Annual Caps to the Historical Costs in 2009 is fairly determined.

Based on the above, in particular that (i) the processing prices of the Materials per ton fixed under the Master Processing Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) the Annual Caps are determined based on the Historical Costs; and (iii) buffers are included to allow the Group with flexibility to cope with unexpected increase in demand for the polishing products of the Group in the three-year term under the Master Processing Agreement, we consider the Annual Caps are reasonably determined, fair and reasonable insofar as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

(iii) Payment terms

Pursuant to the Master Processing Agreement, the Supplier is allowed 30 days of credit period following the delivery of the processed Materials and presentation of invoice/demand note for cash settlement in relation to charges on processing the Materials by the Processor. Based on our review on samples of quotations from other independent processors to the Supplier for further processing each of the Materials, we noted that the Supplier is required to pay a certain amount of deposit upon supply of the Material for further processing by other independent processors and is normally allowed with a maximum of 7 days credit period following the date of delivery of the processed Materials.

Based on the above, we consider that the payment terms in terms of payment method by cash settlement with longer credit period than offered by other independent processors are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

Having considered the above, in particular that (i) the processing prices for each of the Materials per ton are lower than those offered by other independent processors; (ii) the Annual Caps are based on the Historical Costs with buffers included for flexibility

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granted to the Group for any unexpected increase in demand for its polishing products; (iii) the Supplier is allowed with longer credit period for cash settlement, we are of the view that the terms of the Continuing Connected Transaction including the proposed Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

2.3 Annual review of the Master Processing Agreement

As confirmed by the Directors, the Company will fulfil the annual review requirements as required under Rules 14A.37 to 14A.40 of the Listing Rules and will re-comply with the relevant Listing Rules if the proposed Annual Caps are exceeded or, when the Master Processing Agreement is renewed or, when there is a material change to the terms thereof. In light of the above, we are of the view that there are appropriate measures in place to govern the conduct of the Continuing Connected Transaction and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having taken into account the principal factors and reasons in respect of the Disposal and the Continuing Connected Transaction, we consider that the entering into the Agreement and the Master Processing Agreement are in the interest of the Company and the Independent Shareholders as a whole and the terms and conditions of the Agreement and the Master Processing Agreement including the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions relating to the Agreement, the Disposal, the Master Processing Agreement, the Continuing Connected Transaction together with the proposed Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
CSC Asia Limited
Andrew Chiu
Managing Director

1. INDEBTEDNESS STATEMENT

As at 31 October 2010, the Group had secured bank borrowings of approximately HK\$11,562,000, unsecured convertible bonds of approximately HK\$324,000,000 and unsecured promissory notes of approximately HK\$60,000,000.

As at 31 October 2010, the Group had pledged its leasehold land and buildings, bank deposit, interest in an associate and held-for-trading investments with carrying values of approximately HK\$58,652,000, HK\$6,500,000, HK\$16,879,000 and HK\$41,391,000 respectively to secure the general credit facilities granted to the Group.

As at 31 October 2010, the Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, as at 31 October 2010, the Group had no other outstanding mortgages, charges, debentures, loan capital or bank overdrafts, borrowings or other similar indebtedness, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or any material contingent liabilities.

2. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that after completion of the Disposal and after taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities and the proceeds from the Disposal, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed herein, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date of which the latest audited financial statements of the Group were made up.

4. FINANCIAL AND TRADING PROSPECTS

It is expected that economic recovery will continue but there is still full of uncertainty in terms of the sustainability of the recovery. It is expected that demand for consumer products will grow but in a slow pace. The costs of raw materials are increasing, but it is difficult to transfer all the cost increases to the customers as the market competition is very keen. The Directors remain cautious of the outlook of the polishing product business. The Group will continue to enforce cost-saving measures, concentrate on selling products with high profit margin and expand its distribution network.

The acquisition of 49% equity interests in Giant Billion Limited was completed in February 2010. In view of the fact that the PRC has one of the largest television viewing markets in the world and cable networks provide an important means of television transmission in the PRC, the Group believe that the cable television industry in the PRC has great potential for further development. The Directors consider that the investment in Giant Billion Limited will provide a good opportunity for the Group to participate in the media industry in the PRC and bring return to the Group. It is expected that the respective digital sports television channel will be ready for public broadcast in the 1st quarter of 2011.

The recovery of the global economy remains uncertain. As there are potential pitfalls in the external environment, the Directors will continue to adopt prudent investment strategies, but believe that attractive investment opportunities are available as companies and businesses may well be undervalued in a volatile financial market.

In May 2010, the Company successfully raised approximately HK\$260.7 million through issuing convertible bonds to an investor. The new fund raised has strengthened the cash flow of the Group and has provided funding for future investments.

In October 2010, the Group entered into a sale and purchase agreement to acquire indirectly 50% equity interest in Rizhao Lanshan at a consideration not higher than RMB500,000,000 (approximately HK\$583,500,000). On 8 December 2010, a supplemental agreement was entered by the Group to fix the final consideration at RMB343,679,250 (approximately HK\$401,073,685). Rizhao Lanshan is a sino-foreign joint venture company established in the PRC and is engaged in provision of terminal and logistic services including loading and discharging, storage and transfer of iron ore, steel products, timber and other goods and leasing of terminal facilities and equipment in Lanshan Harbour, Rizhao Port, Shandong province of the PRC. The acquisition of the interest in Rizhao Lanshan constitutes a very substantial acquisition for the Company under Listing Rules and is subject to Shareholders' approval and fulfillment (or waiver, if applicable) of the conditions set out in the sale and purchase agreement. More details are disclosed in the Company's announcements dated 8 November 2010 and 8 December 2010.

Upon completion of the acquisition of the 50% interest in Rizhao Lanshan, the Group will maintain the operations of all the existing business segments and will expand its business scope and will concurrently be engaged in port operation in Lanshan Harbour, Rizhao Port, Shandong Province of the PRC.

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Ample Appraisal Limited, an independent property valuer, in connection with its valuation of the property interests held by the Group as at 15 November 2010.

AmCap
Ample Appraisal Limited
豐盛評估有限公司

Unit A, 14/F, Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

Date: 13 December 2010

The Board of Directors
PME Group Limited
5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

Dear Sirs,

Re: An industrial compound located at No. 18 First High-Tech Road, High-Tech Industrial Zone, Xinlian, Humen Zhen, Dongguan Shi, Guangdong Province, The People's Republic of China ("the PRC")

In accordance with your instructions to prepare a report and valuation in respect of the market value of captioned property in which PME Group Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), in its existing state and assuming with the immediate benefit of vacant possession, in conjunction with a disposal exercise, we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing the market value of the property interests as at 15 November 2010 (the "date of valuation").

The valuation is our opinion of market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

Our valuation has been made on the assumption that the owner sells the property interests in the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

Due to the specific nature and uses for which the buildings and structures of the property were designated and constructed, we have adopted a combination of market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures erected thereon respectively. The sum of the two results represents the market value of the property as a whole. In assessing the land portion, reference has been made to the land sales evidence as available to us in the locality. As the nature of the buildings and structures can not be valued by market approach, they have therefore been valued on the basis of depreciated replacement cost which is our opinion of an estimate cost of the new replacement (reproduction) of the buildings, structures and other site works, including fees and finance charges, based on similar development projects and construction costs data available to us in the market, from which deductions are then made to allow for the age, condition and obsolescences.

The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales. However, it is subject to adequate potential profitability of the business having due regard to the value of the total assets employed and the nature of the operation.

We have been provided with copy of extract of the title document of the property interests and also we have been arranged to inspect the original title documents to verify ownership or to verify any amendments which may not appear on the copy handed to us. However, due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigation has been made for the title of the property interests and the material encumbrances that might be attached. In this regard, we have relied considerably on the advice given by the Company's PRC legal adviser – 廣東眾達律師事務所 (Guangdong Kingda Attorneys & Counselors), concerning the validity of title of the property.

We have relied a very considerable extent on the information given to us by the Group in the course of valuation. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We have accepted advice given to us on such matters as title, planning approvals, statutory notices, easements, tenure, leases, particulars of occupancy, identification of property, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made to verify their correctness. We have been advised by the Company that no material factors have been omitted from the information supplied to reach an informed view, and have no reason to suspect that any material information has been withheld.

In valuing the property interests, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. We have also assumed that the Company shall have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the property without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted.

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the property but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. We have also assumed that there was not any material change of the property in between date of our inspection and the valuation date.

We have carried out inspection of the appraised property. However, we must point out that we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible, we are therefore unable to report any such part of the property are free from rot, infestation or any other defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the property or on adjoining or neighbouring land or that the property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

We have not undertaken a survey to determine whether the mechanical and electrical systems within the property (or the buildings or development in which they are located) would be adversely affected on or after the year 2000 and as such have assumed that the property and those systems would be unaffected.

We have not investigated any industrial safety, environmental and health related regulations in association with the existing and/or planned manufacturing process. It is assumed that all necessary licences, procedures and measures were implemented in accordance with the Government legislation and guidance.

When the property is located in a relatively under-developed market, such as the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised his professional judgement in arriving at the value, investors/report readers are urged to consider carefully the nature of such assumptions that are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their value.

In accordance with our standard practice, this valuation certificate is for the exclusive use of the party to whom it is addressed and no responsibility is accepted to the third party for the whole or any part of its contents.

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

Unless otherwise stated, all amounts are denominated in Hong Kong Dollars (HK\$). We have adopted an exchange rate of HK\$1:RMB0.8554 which was the prevailing exchange rate as at the valuation date.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
Ample Appraisal Limited
Evan Yuen MRICS MHKIS
Registered Professional Surveyor
General Manager – Real Estate

Note: Mr. Evan Yuen is a Chartered Valuation Surveyor and a Registered Professional Surveyor, who has more than 15 years' experience in the valuation of properties in the PRC, Hong Kong and the South East Asia. Mr. Evan Yuen is also a valuer on the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

VALUATION CERTIFICATE

Property interests held and occupied by the Group in the PRC

Property	Description and tenure	Particular of occupancy	Market value in existing state as at 15 November 2010 HK\$
1. An industrial compound located at No. 18 First High-Tech Road, High-Tech Industrial Zone, Xinlian, Humen Zhen, Dongguan Shi, Guangdong Province, the PRC	<p>The property comprises an industrial compound which was formed by 2 parcels of adjoined land and has an approximate total site area of 61,561.00 sq.m.. It was completed in about 1996.</p> <p>The industrial compound primarily consists of 3 blocks of 3-storey Workshop building, 1 block of 5-storey Dormitory Complex building, 1 block of 3-storey Administration Office building, 1 block of 2-storey transformer room, a single storey boiler room, 2 blocks of single storey/2-storey guard house, a water tank tower, recreational facilities, open carparking spaces, landscaping areas and fencing walls.</p> <p>In accordance with the Real Estate Ownership Certificates in question, the 3 blocks of 3-storey Workshop building, 1 block of 5-storey Dormitory Complex building and 3-storey Administration Office building of the property extends to an approximate total gross floor area of 44,981.37 sq.m. (484,179.47 sq.ft.).</p> <p>Pursuant to the 2 State-owned Land Use Rights Certificates in question both dated 30 August 1995, the term of land use rights of the property is 50 years commencing from July 1994 to July 2044.</p> <p>The permitted user of the land is industrial.</p>	<p>We have been informed that the property was occupied by the Group primarily as production, storage, dormitory and ancillary office uses, as at the date of valuation</p>	<p>63,030,000</p> <p>(100 % interest attributable to the Group: 63,030,000)</p>

Notes:

1. 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) has been approved by 廣東省人民政府 (Guangdong Provincial Government) via a certificate 商外資粵東外資証字 (1993) 0109號 (Approval No. 0109) in 1993 and registered with 東莞市工商行政管理局 (Dongguan Shi Administration Bureau for Industry and Commerce) as revealed by business licence Registration No.: 441900400073917 dated 28 March 2008. 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) was incorporated as a foreign limited liability enterprise with a registered capital of RMB40 million for an operation period commencing from

3 July 1993 to 1 July 2011. The scope of business includes principally engaged in manufacturing and trading of surface polishing materials and equipments.

2. The land use rights of the property is held under 2 State-owned Land Use Rights Certificates issued by 東莞市人民政府 (Dongguan Municipal Government) to 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) and also 5 subsequent Real Estate Ownership Certificates issued by 廣東省人民政府 (Guangdong Provincial Government) to 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.).

According to 東府國用 (1994) 第特 617號 (State-owned Land Use Rights Certificate No. Special 617 of 1994) dated 30 August 1995, a portion of land of the property is held by 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) subject to, *inter alia*, the following terms:

(a)	Use of the Land	:	Industrial
(b)	Land Area	:	44,581 sq.m.
(c)	Term	:	50 years commencing from July 1994 to July 2044

According to 東府國用 (1994) 第特618號 (State-owned Land Use Rights Certificate No. Special 618 of 1994) dated 30 August 1995, the remaining portion of land of the property is held by 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) subject to, *inter alia*, the following terms:

(a)	Use of the Land	:	Industrial
(b)	Land Area	:	16,980 sq.m.
(c)	Term	:	50 years commencing from July 1994 to July 2044

3. The building title of the property is held under 5 Real Estate Ownership Certificates issued by 廣東省人民政府 (Guangdong Provincial Government) to 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.).

According to 粵房地証字第C0374339號 (Real Estate Ownership Certificate No. C0374339), dated 21 November 2001, the legitimate owner of the 3-storey Workshop C building of the property is 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.). It covers a total gross floor area of about 7,776.00 sq.m..

According to 粵房地証字第C0374340號 (Real Estate Ownership Certificate No. C0374340), dated 21 November 2001, the legitimate owner of the 3-storey Workshop B building of the property is 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.). It covers a total gross floor area of about 7,776.00 sq.m..

According to 粵房地証字第C0374350號 (Real Estate Ownership Certificate No. C0374350), dated 21 November 2001, the legitimate owner of the 5-storey Dormitory Complex building of the property is 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.). It covers a total gross floor area of about 8,934.02 sq.m..

According to 粵房地証字第C0374352號 (Real Estate Ownership Certificate No. C0374352), dated 21 November 2001, the legitimate owner of the 3-storey Workshop A building of the property is 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.). It covers a total gross floor area of about 9,239.35 sq.m..

According to 粵房地証字第C0374357號 (Real Estate Ownership Certificate No. C0374357), dated 21 November 2001, the legitimate owner of the 3-storey Administration Office building of the property is 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.). It covers a total gross floor area of about 11,256.00 sq.m..

4. We have attributed no commercial value to the 2-storey transformer room, single storey boiler room and 2 blocks of single storey/2-storey guard house which, in accordance with the information provided to us, account for a total gross floor area of about 756.50 sq.m., for the reason as informed by the Group that they had not obtained any proper construction/development consent or title certificate.
5. We have been advised and confirmed by the Company that the 5 buildings of the property having real estate ownership certificate together with their land erected thereon had been pledged to 中國農業銀行股份有限公司東莞虎門支行 (Agricultural Bank of China Limited (Dongguan Humen Sub-Branch)) for obtaining a maximum banking facilities of RMB61,000,000 for a term of 5 years commencing from 4 November 2009 to 3 November 2014.
6. We have been provided with a legal opinion on legality of title of the property issued by the Company's PRC legal adviser, which contains, inter alia, the following:
- (i) 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) had already completed all the necessary procedures to obtain and holds a proper good legal title of the property.
- (ii) 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.) can occupy, use, lease, sell, charge, mortgage or otherwise dispose of the property during the remaining term of the land use rights.
- (iii) The 5 buildings of the property having real estate ownership certificate together with their land erected thereon had been pledged to 中國農業銀行股份有限公司東莞虎門支行 (Agricultural Bank of China Limited (Dongguan Humen Sub-Branch)).
7. The status of the title and grant of major approvals in accordance with the information provided by the Company are as follows:
- | | Type of Documents | Current Status | Date Obtained |
|-----|---|-----------------------|----------------------|
| (a) | State-owned Land Use Rights Certificate | Obtained | 30 August 1995 |
| (b) | Real Estate Ownership Certificate | Obtained | 21 November 2001 |
8. The Company holds 100% interest in 東莞必美宜拋光材料器材有限公司 (Dongguan PME Polishing Materials & Equipment Co., Ltd.).

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Number or attributable number of Shares/underlying Shares held or short positions	Nature of interests Interest of controlled corporation	Beneficial owner	Approximate percentage or attributable percentage of shareholding (%)
Mr. Cheng Kwok Woo	380,838,000(L)	318,438,000 <i>(Note 1)</i>	60,900,000 <i>(Note 2)</i> 1,500,000 <i>(Note 3)</i>	14.97
Mr. Cheng Kwong Cheong	374,338,000(L)	318,438,000 <i>(Note 1)</i>	54,400,000 <i>(Note 2)</i> 1,500,000 <i>(Note 3)</i>	14.71

Name of Director	Number or attributable number of Shares/underlying Shares held or short positions	Nature of interests		Approximate percentage or attributable percentage of shareholding (%)
		Interest of controlled corporation	Beneficial owner	
Ms. Yeung Sau Han Agnes	175,000,000(L)		175,000,000 (Note 3)	6.88
Ms. Chan Shui Sheung Ivy	550,000(L)		550,000	0.02

L: Long Position

Notes:

1. These Shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands. The entire issued share capital of PME Investments is beneficially owned as to 50% by each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.
2. Mr. Cheng Kwok Woo personally holds 60,900,000 Shares and Mr. Cheng Kwong Cheong personally holds 54,400,000 Shares.
3. These represent the Shares to be allotted and issued upon the exercise of the share options granted to Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Yeung Sau Han Agnes under the share option scheme of the Company, respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares

or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Number or attributable number of Shares/underlying Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
PME Investments	318,438,000(L) (Note 1)	Beneficial owner	12.52
Ms. Tsang Sui Tuen	380,838,000(L) (Note 2)	Interest of spouse	14.97
Ms. Wan Kam Ping	374,338,000(L) (Note 3)	Interest of spouse	14.71
Crown Sunny Limited	300,000,000(L)	Beneficial owner (Note 4)	11.79
Mr. Wu Jia Neng	300,000,000(L)	Interest of controlled corporation (Note 5)	11.79
Worldkin Development Limited	4,760,000,000(L) 3,000,000,000(S)	Beneficial owner (Note 6)	187.09 117.92
Mr. Wong Lik Ping	4,760,000,000(L) 3,000,000,000(S)	Interest of controlled corporation (Note 7)	187.09 117.92
Yardley Finance Limited	3,000,000,000(L)	Security interest (Note 8)	117.92
Mr. Chan Kin Sun	48,430,000(L)	Beneficial owner (Note 9)	1.90
	3,000,000,000(L)	Interest of controlled corporation (Note 10)	117.92
Shanxi Coal Transportation and Sales Group (HK) Co., Limited (“Shanxi Coal HK”) (山西煤炭運銷集團 (香港) 有限公司)	3,320,000,000(L)	Beneficial owner (Note 11)	130.49
Shanxi Coal Transportation and Sales Group Co., Limited (“Shanxi Coal”) (山西煤炭運銷集團有限公司)	3,320,000,000(L)	Interest of controlled corporation (Note 12)	130.49
Mr. Ng Leung Ho	520,000,000(L)	Beneficial owner	20.44
Mr. Ma Deguang	200,000,000(L)	Beneficial owner	7.86

L: Long Position

S: Short Position

Notes:

1. PME Investments is an investment holding company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned as to 50% by each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.
2. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interests in the Shares and the underlying Shares that Mr. Cheng Kwok Woo has interests in.
3. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interests in the Shares and the underlying Shares that Mr. Cheng Kwong Cheong has interests in.
4. The interests represent the convertible bonds issued by the Company at a principal amount of HK\$60,000,000 at a conversion price of HK\$0.2 per conversion share.
5. Mr. Wu Jia Neng holds entire equity interests of Crown Sunny Limited and is accordingly deemed to have interests in the underlying Shares that Crown Sunny Limited has interests in.
6. The interests represent the convertible bonds issued by the Company at a principal amount of HK\$142,800,000 at a conversion price of HK\$0.03 per conversion share.
7. Mr. Wong Lik Ping holds entire equity interests of Worldkin Development Limited and is accordingly deemed to have interests in the underlying Shares that Worldkin Development Limited has interests in.
8. The interests represent the convertible bonds issued by the Company at a principal amount of HK\$90,000,000 at a conversion price of HK\$0.03 per conversion share.
9. Mr. Chan Kin Sun personally holds 48,430,000 Shares.
10. Mr. Chan Kin Sun holds entire equity interests of Yardley Finance Limited and is accordingly deemed to have interests in the underlying Shares that Yardley Finance Limited has interests in.
11. The interests represent the convertible bonds issued by the Company at a principal amount of HK\$90,000,000 at a conversion price of HK\$0.03 per conversion share and 320,000,000 Shares.
12. Shanxi Coal holds entire equity interests of Shanxi Coal HK and is accordingly deemed to have interests in the Shares and the underlying Shares that Shanxi Coal has interests in.

(c) Persons who are interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of member of the Group	Name of shareholder	Approximate percentage
Host Luck Limited	Lau Kwan Ying, Dora	10%
Shanghai PME-XINHUA Polishing Materials Systems	上海新華化工廠 (Shanghai Xin Hua Chemical Factory [#])	40%

[#] The English translation of the Chinese name is included for information purpose only, and should not be regarded as official English translation of such Chinese name.

(d) Save as disclosed above, as at the Latest Practicable Date:

- (i) the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.
- (ii) none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors or their respective associates had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

5. DIRECTORS' INTERESTS IN CONTRACTS

Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong has entered into a service agreement with the Company for an initial term of three years commencing from 1 October 2002, and will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other.

Save as disclosed above, as at the Latest Practicable Date, no Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by the members of the Group within two years immediately preceding the date of this circular, which are or may be material:

- (i) the placing agreement dated 18 February 2009 entered into between Top Good Holdings Limited ("Top Good"), a wholly owned subsidiary of the Company, and Kingston Securities Limited as placing agent for the subscription of convertible bonds of China Fortune Group Limited ("China Fortune") (Stock Code: 290) at the principal amount of HK\$11,500,000 at a consideration of HK\$11,500,000;
- (ii) the sale and purchase agreement dated 12 March 2009 entered into between One Express Group Limited, a wholly owned subsidiary of the Company, as vendor and Vital-Gain Global Limited as purchaser for the disposal of 500,000,000 shares of China Bio-Med Regeneration Technology Limited (Stock Code: 8158) at a consideration of HK\$60,000,000. The disposal was completed on 5 June 2009;
- (iii) the subscription agreement dated 6 May 2009 entered into between Top Good, a wholly owned subsidiary of the Company, and China Fortune for the subscription of convertible bonds of China Fortune at the principal amount of HK\$32,000,000 at a subscription price of HK\$32,000,000;
- (iv) the placing agreement dated 21 May 2009 entered into between the Company and Fortune (HK) Securities Limited as placing agent for the placing of 159,000,000 new Shares at a placing price of HK\$0.35 per Share. This placing agreement lapsed on 20 August 2009;

- (v) the sale and purchase agreement dated 19 May 2009 (as amended by the supplemental agreement dated 2 June 2009) entered into among Crown Sunny Limited as vendor, Smart Genius Limited, a wholly owned subsidiary of the Company, as purchaser, Giant Billion Limited as target company and Mr. Wu Jia Neng as guarantor for the acquisition of 1,470 shares of Giant Billion Limited at a consideration of HK\$200,000,000. The acquisition was completed on 1 February 2010;
- (vi) the Agreement and the Master Processing Agreement;
- (vii) The placing agreement dated 7 January 2010 (as amended by the supplemental agreements dated 7 April 2010 and 20 April 2010) entered into between the Company and Fortune (HK) Securities Limited as placing agent for the placing of convertible bonds up to a principal amount of HK\$264,000,000 at a conversion price of HK\$0.03 per conversion share. The placing was completed on 27 May 2010; and
- (viii) The sale and purchase agreement dated 15 October 2010 (as amended by the supplemental agreement dated 8 December 2010) entered into between Able Winner International Limited, a wholly owned subsidiary of the Company, as purchaser and Ms. Li Li as vendor for the acquisition of 100% of the issued share capital of Upmove International Limited at a consideration of RMB343,679,250 (approximately HK\$401,073,685).

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
CSC Asia	A licensed corporation under the SFO permitted to carry out Type 6 (advising on corporate finance) regulated activities
Ample Appraisal Limited ("Ample")	Independent property valuer

As at the Latest Practicable Date, CSC Asia and Ample do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

CSC Asia and Ample have given and have not withdrawn their written consent to the issue of this circular, with the inclusion of the references to their name and/or their opinion in the form and context in which they are included.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (except Saturdays and public holidays) at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the letters of consent from CSC Asia and Ample referred to under “Experts and Consents” in this Appendix;
- (c) the directors’ service contracts referred to in the paragraph headed “Directors’ Interests in Contracts” in this Appendix;
- (d) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix;
- (e) the annual reports of the Company for each of the two financial years ended 31 December 2008 and 2009; and
- (f) the valuation report issued by Ample in respect of the property interests of the Group.

10. MISCELLANEOUS

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The head office and principal place of business of the Company is located at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.
- (c) Tricor Secretaries Limited, the transfer office of the Company in Hong Kong, is located at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (d) The joint company secretaries of the Company are Mr. Li Chak Hung, *CPA, FCCA*, and Mr. Lai Ka Fai, solicitor.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

NOTICE OF EGM



NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of PME Group Limited (the “**Company**”) will be held at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Wednesday, 29 December 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “THAT

- (a) the conditional sale and purchase agreement dated 25 November 2009 (as amended by four supplemental agreements dated 9 April 2010, 28 April 2010, 3 August 2010 and 1 November 2010) (the “**Agreement**”) entered into among Best Chief Ventures Limited, Teamcom Group Limited and PME International Company Limited, wholly-owned subsidiaries of the Company, as vendors and Billionlink Holdings Limited as purchaser, for the disposal of 1,000 shares of US\$1.00 each, representing 100% equity interest in Magic Horizon Investment Limited (a copy of the Agreement is produced to the EGM marked “A” and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any of the directors of the Company be and are hereby authorized to do all such acts and things and execute all such documents in its absolute discretion as it deems fit or appropriate to give effect to the Agreement and the transactions contemplated thereunder.”

2. “THAT

- (a) the conditional master processing agreement dated 25 November 2009 (as amended by a supplemental agreement dated 22 November 2010) (the “**Master Processing Agreement**”) entered into between Best Chief Ventures Limited, a wholly-owned subsidiary of the Company, as supplier and Billionlink Holdings Limited as processor, in respect of the provision of process manufacturing services to the Group (a copy of the Master Processing Agreement is produced to the EGM marked “B” and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

* *For identification purpose only*

NOTICE OF EGM

- (b) any of the directors of the Company be and are hereby authorized to do all such acts and things and execute all such documents in its absolute discretion as it deems fit or appropriate to give effect to the Master Processing Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 13 December 2010

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal

place of business:
5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the Articles of Association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the head office and principal place of business of the Company at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.