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**PROPOSED PLACING OF CONVERTIBLE BONDS,
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
AND
RESUMPTION OF TRADING**

**Placing Agent
Fortune (HK) Securities Limited**

PROPOSED PLACING OF CONVERTIBLE BONDS

On 7 January 2010 (after trading hours), the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent agreed to procure, on a best effort basis, the Placee(s) to subscribe in cash for the Convertible Bonds up to a principal amount of HK\$264,000,000.

Assuming completion of the Placing, upon full conversion of the Convertible Bonds at the Conversion Price, a total of 8,800,000,000 Conversion Shares will be issued, representing approximately 487.48% of the existing issued share capital of the Company and approximately 82.98% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares at the Conversion Price.

The Placing is conditional upon (i) the increase in the authorised share capital of the Company from HK\$100,000,000 divided into 10,000,000,000 Shares to HK\$150,000,000 divided into 15,000,000,000 Shares; (ii) the Placing Agent successfully procuring Placee(s) to subscribe the Convertible Bonds during the Placing Period; (iii) the Company's compliance with and procurement of the compliance of all conditions imposed by the Stock Exchange or by any other competent authority (in Hong Kong or elsewhere) for approval of the issuance of the Convertible Bonds or for the listing of and permission to deal in the Shares issued or to be issued on the exercise of the Convertible Bonds and ensure the continued compliance thereof; and (iv) the Shareholders' approving the Placing Agreement and all other transactions contemplated under the Placing Agreement.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

In anticipation of the issue of the Conversion Shares upon Conversion of the Convertible Bonds, the Directors proposed to increase the authorised share capital of the Company from HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each to HK\$150,000,000 divided into 15,000,000,000 Shares of HK\$0.01 each by creation of an additional HK\$50,000,000 divided into 5,000,000,000 Shares of HK\$0.01 each. The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

GENERAL

A circular containing, among other things, details of the proposed placing of, the terms and conditions relating to the Convertible Bonds, the increase in authorised share capital and the notice of the EGM to consider and, if thought fit, to approve the issue of the Convertible Bonds and the increase in authorized share capital pursuant to the Placing Agreement will be sent to the Shareholders as soon as practicable. So far as the Directors are aware, no Director or Shareholder has a material interest in the proposed issue of the Convertible Bonds.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 8 January 2010, pending the issue of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 12 January 2010.

PLACING AGREEMENT**Date**

7 January 2010 (after trading hours)

Parties

- (a) the Company; and
- (b) the Placing Agent

Basis of Placing

The Placing Agent has agreed, inter alias, to procure the Placee(s) to subscribe in cash for the Convertible Bond on a best effort basis.

Placing Agent

The Placing Agent is a wholly-owned subsidiary of China Fortune Group Limited, the issued shares of which are listed on the main board of the Stock Exchange and the Company together with its subsidiaries are interested in 263,738,000 shares of China Fortune, representing approximately 18.9% of its total issued shares as at the date of this announcement. The Placing Agent will receive a placing commission of 1.25% of the principal amount of the Convertible Bonds being placed which will be payable by the Company upon completion of the Placing.

Conditions Precedent

Completion of the Placing Agreement shall be conditional upon fulfillment of the following conditions:

- (a) the increase in the authorised share capital of the Company from HK\$100,000,000 divided into 10,000,000,000 Shares to HK\$150,000,000 divided into 15,000,000,000 Shares;
- (b) the Placing Agent successfully procuring Placee(s) to place the Convertible Bonds during the Placing Period (or such later time and date as the Placing Agent and the Company shall agree in writing);
- (c) the Company's compliance with and procurement of the compliance of all conditions imposed by the Stock Exchange or by any other competent authority (in Hong Kong or elsewhere) for approval of the issuance of the Convertible Bonds or for the listing of and permission to deal in the Shares issued or to be issued on the exercise of the Convertible Bonds and ensure the continued compliance thereof (provided in each case that the Placee(s) comply with and satisfies all such conditions); and
- (d) the Company's shareholders approving the Placing Agreement and all other transactions contemplated under the Placing Agreement.

If any of the conditions has not been satisfied on or before the expiry of the Placing Period, or such later date as the parties may agree, the Placing Agreement shall lapse and be of no further effect and the parties thereto shall be released from all obligations thereunder save for liabilities for any prior breaches thereof.

The Company will issue further announcement(s) once the amount of Convertible Bonds finally issued and placed is confirmed. Subsequent announcement(s) will be made in accordance with the provision of the Listing Rules and other relevant regulatory requirements.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The following is a summary of the principal terms of the Convertible Bonds:

Aggregate principal amount of the Convertible Bonds : Not more than HK\$264,000,000

Conversion : The Bondholder may, at any time during the Conversion Period, convert the whole or part of the outstanding principal amount of the relevant Convertible Bonds into new Shares, as determined by dividing the principal amount, in multiples of HK\$1,200,000, of the relevant Convertible Bond outstanding at the time of conversion by the Conversion Price.

The Conversion Shares will be allotted and issued pursuant to a specific mandate to be granted to the Directors by the Shareholders at the EGM.

Conversion Price : The initial Conversion Price of HK\$0.03 per Conversion Share was arrived at after arm's length negotiation between the Company and the Placing Agent and represents:

(i) a discount of approximately 92.4% to the closing price of HK\$0.395 per Share quoted on the Stock Exchange on 7 January 2010, being the last full trading day for the Shares before the date of suspension of dealings in the Shares;

(ii) a discount of approximately 91.1% to the average closing price per Share of approximately HK\$0.337 per Share as quoted on the Stock Exchange for the last five (5) trading days of the Shares ended on 7 January 2010; and

(iii) a discount of approximately 91.0% over the average closing price per Share of approximately HK\$0.331 per Share as quoted on the Stock Exchange for the last ten (10) trading days of the Shares ended on 7 January 2010.

The Conversion Price was determined in consideration of the continuous loss in the year 2007 and 2008. The Directors consider that the terms of the Convertible Bonds, including the Conversion Price, are fair and reasonable.

The initial Conversion Price may be subject to adjustment for amongst other things, consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves of the Company, capital distributions made by the Company, rights issues of Shares or other securities of the Company, and other issues of securities carrying rights of conversion into, or exchange or subscription for, Shares at less than market price (including modification of rights of conversion). The Company or the holder of the relevant Convertible Bonds may require adjustment to the initial Conversion Price to be certified by a merchant bank.

Conversion Period : The period commencing from the 90th day after the date of initial issue of the Convertible Bonds and ending on the date that falls on the fifth day immediately before the maturity date, both dates inclusively.

Redemption : Unless previously converted, the Company shall redeem the relevant Convertible Bonds at its principal amount outstanding on maturity date.

Interest rate : The Convertible Bonds does not bear any interest.

Listing : No application will be made for the listing of the Convertible Bonds on the Stock Exchange. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares (if any) to be issued as a result of the exercise of the conversion rights attached to the Convertible

Bonds.

- Maturity Date** : The third anniversary of the date of the initial issue of the Convertible Bonds.
- Ranking** : The Conversion Shares will rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.
- Security** : The Convertible Bonds are unsecured.
- Status** : The Convertible Bonds constitute general and unsecured obligations of the Company and shall rank equally among themselves and *pari passu* with all other present and future secured and subordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.
- Transferability** : The Convertible Bonds may not be assigned or transferred in whole or in part except with the prior written consent of the Company. Any assignment and/or transfer of the Convertible Bonds is subject to (1) the Listing Rules for so long as the Shares are listed on the Stock Exchange (and the rules of any other stock exchange on which the Shares may be listed at the relevant time); and (2) the approval of the Shareholders in a general meeting if so required and in compliance with the Listing Rules if such assignment and/ or transfer is proposed to be made to a Connected Person of the Company.
- Voting** : No holder of the Convertible Bonds will be entitled to receive notice of, attend or vote at any meeting of the Company by reason only it being the holder of the Convertible Bonds.
- Limitation on conversion** : The Bondholder shall not convert the Convertible Bond and the Company shall not issue any Conversion Shares if, upon such issue, (a) the Bondholder and the parties acting in concert with it shall be interested in 30% (or such amount as may from time to time that may trigger a mandatory general offer or considered by the SFC as a change in control of the Company) or more of the then enlarged issued share capital of the Company at the date of the relevant conversion, (b)(i) each of any of the shareholders holding more than 20% or more of the voting rights of the Company; and (ii) the Bondholder and the parties acting in concert with it will hold 20% or more of the voting rights of the Company respectively; or (c) the public float of the Company falls below 25% of the issued share capital of the Company.

CONVERSION SHARES

Upon full conversion of the Convertible Bonds at the Conversion Price, a total of 8,800,000,000 new Conversion Shares will be issued, representing approximately 487.48% of the existing issued share capital of the Company and approximately 82.98% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares at the Conversion Price.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table shows the shareholding structure of the Company (i) as at the date of this announcement and (ii) upon full conversion of the Convertible Bonds.

<i>Name of Shareholders</i>	As at the date of this announcement		Assuming completion of the Placing and full conversion of the Convertible Bonds with principal amount of HK\$264,000,000, and no further changes in the shares capital of the Company from the date of this announcement till the date of full conversion	
	<i>No. of Shares</i>	<i>Approximate % of shareholding</i>	<i>No. of Shares</i>	<i>Approximate % of shareholding</i>
PME Investments (BVI) Co. Ltd and its associates	460,638,000	25.52	460,638,000	4.34
Bondholders	-	-	8,800,000,000	82.98
Other public Shareholders	<u>1,344,559,600</u>	<u>74.48</u>	<u>1,344,559,600</u>	<u>12.68</u>
Total	<u>1,805,197,600</u>	<u>100.00</u>	<u>10,605,197,600</u>	<u>100.00</u>

USE OF PROCEEDS FROM THE ISSUE OF THE CONVERTIBLE BONDS

The net proceeds from the proposed issue of the Convertible Bonds (after deducting related expenses) will be approximately HK\$260,700,000. The Company intends to use the funds raised from the Placing for the Company's general working capital.

REASONS FOR THE PLACING AND ISSUE OF THE CONVERTIBLE BONDS

The Directors consider that the issue of the Convertible Bonds will provide (i) the Company with immediate funding in a more cost efficient manner than debt financing; and (ii) an opportunity for the Company, if the conversion rights attached to the Convertible Bonds are exercised, to enlarge and strengthen its capital base and also broaden its Shareholders base by the introduction of new investors. The Directors consider that the entering into the Placing Agreement is in the interests of the Company and the Shareholders as a whole

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST TWELVE MONTHS

The Company has not successfully carried out any equity fund raising activity in the 12 months immediately preceding the date of this announcement.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the date of this announcement, the authorised share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each. In anticipation of the issue of the Conversion Shares upon conversion of the Convertible Bonds, the Directors propose to increase the authorised share capital of the Company from HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each to HK\$150,000,000 divided into 15,000,000,000 Shares of HK\$0.01 each by creation of an additional HK\$50,000,000 divided into 5,000,000,000 Shares of HK\$0.01 each.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

GENERAL

The Company and its subsidiaries are 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.

A circular containing, among other things, details of the proposed placing of the Convertible Bonds, the terms and conditions of the Convertible Bonds, the increase in authorised share capital and the notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules. No Shareholder is required to abstain from voting at the EGM. So far as the Directors are aware, no Director or Shareholder has a material interest in the proposed issue of the Convertible Bonds.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 8 January 2010 pending the issue of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 12 January 2010.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Board”	the board of Directors
“Bondholder”	the registered holder of the Convertible Bonds
“Business Day(s)”	a day (excluding Saturdays and Sundays) on which banks are generally open for business in Hong Kong
“China Fortune”	China Fortune 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.
“Company”	PME Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Connected Person(s)”	has the meaning ascribed thereto under the Listing Rules
“Convertible Bonds”	the convertible bonds of up to an aggregate principal amount of HK\$264,000,000 to be issued by the Company
“Conversion Price”	the conversion price of the Convertible Bonds, being HK\$0.03 per Conversion Share subject to adjustments
“Conversion Share(s)”	new Share(s) to be issued by the Company upon the exercise of the conversion rights attaching to the Convertible Bonds by the Bondholders thereof
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held and convened for the Shareholders to consider and, if thought fit, approve, amongst other things, the issue of the Convertible Bonds pursuant to the Placing Agreement and the increase in authorised share capital
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	a person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the knowledge, information and belief of Directors, having made all reasonable enquiries, third parties who are not Connected Persons of the Company and are independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Placee(s)”	any individual(s), institutional(s) or other professional investor(s) procured by the Placing Agent, pursuant to the Placing Agent’s obligations under the Placing Agreement, to subscribe for any part of the Convertible Bonds
“Placing”	the placing of the Convertible Bonds, on a best effort basis, by the Placing Agent (pursuant to the Placing Agreement) under specific mandate.
“Placing Agreement”	the agreement dated 7 January 2010 and entered into between the Company and the Placing Agent in relation to the Placing
“Placing Agent”	Fortune (HK) Securities Limited, a corporation licensed to carry on Type 1 regulated activities under SFO
“Placing Period”	The period commencing upon the execution of the Placing Agreement and terminating at 5:00 p.m. on the day falling on 90 days after the date of execution of the Placing Agreement, unless terminated earlier in writing pursuant to terms in the Placing Agreement
“SFO”	the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning attributed to it under the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	Per cent

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

Hong Kong, 11 January 2010

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

** For identification purpose only*