



PME GROUP LIMITED
必美宜集團有限公司*
(Incorporated in the Cayman Islands with limited liability)

**PLACING OF EXISTING SHARES
AND SUBSCRIPTION OF NEW SHARES,
PROPOSED GRANT OF GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES
AND
RESUMPTION OF TRADING**

Placing Agent
China Everbright Securities (HK) Limited

The Directors announce that PME Investments, a substantial shareholder of the Company, has agreed to place through China Everbright 160,000,000 Shares on a best endeavor basis to not less than six independent investors at a price of HK\$0.45 per Share. PME Investments will subscribe for 160,000,000 new Shares of the Company at the price of HK\$0.45 per Share.

The Placing Shares amount to 20% of the existing issued share capital of the Company of 800,000,000 Shares and approximately 16.67% of the issued share capital of 960,000,000 Shares as enlarged by the Subscription. At present, PME Investments is interested in 358,328,000 Shares, representing approximately 44.79% of the existing issued share capital of the Company. The entire issued share capital of PME Investments is owned as to one-third by each of Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng, each of whom also personally owns approximately 6.8% of the existing issued share capital of the Company. The aggregate holding of PME Investments and its concert parties which include Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng is approximately 65.19% of the existing issued share capital of the Company. Upon completion of the Placing and Subscription, PME Investments will hold approximately 37.32% of the enlarged issued share capital of the Company and the aggregate holding of PME Investments and its concert parties which include Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng is approximately 54.33% of the enlarged issued share capital of the Company.

Net proceeds of the Subscription is approximately HK\$69.5 million after deducting the professional fees and all related expenses of approximately HK\$2,500,000 which is to be borne by the Company. The Company intends to apply the net proceeds of approximately HK\$15 million to improve and expand the production facilities of the Group, approximately HK\$5 million to support the research and development of the Group's products, approximately HK\$8 million to explore and develop the market for the Group in the eastern part of the PRC, approximately HK\$5 million to reduce the Group's bank borrowings and the remaining of approximately HK\$36.5 million will be retained for future investment purposes as well as general working capital of the Group.

Completion of the Placing is unconditional. The Subscription is conditional upon (i) the completion of the Placing; (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the Shares to be issued under the Subscription; and (iii) if necessary, the granting of a waiver by the Executive for any obligation which might arise on PME Investments and/or any party acting in concert with it to make a general offer to acquire all the issued share capital of the Company under Rule 26 of the Code on Takeovers and Mergers.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 27th January 2004 pending the release of this announcement. Application has been made by the Company for the resumption of trading of the Shares on the Stock Exchange with effect from 9:30 a.m. on 29th January 2004.

PLACING AGREEMENT DATED 27TH JANUARY 2004

- Vendor**

PME Investments, a substantial shareholder of the Company, has agreed to place through China Everbright 160,000,000 existing Shares.
- Placing Agent**

China Everbright is the Placing Agent and will receive a commission and brokerage of 2.5% in total on the gross proceeds of the Placing. The Placing Shares are to be placed by the Placing Agent on a best endeavor basis. The Placing Agent is independent of and not a connected person (as defined in the Listing Rules) of the Company and does not have any beneficial shareholding in the Company. The Directors consider the commission and brokerage, which is agreed on after arm's length negotiation, are fair and reasonable.
- Placees**

The Placing Shares will be placed to not less than six placees (who are independent individual, corporate and/or institutional investors). The placees and their respective associates will not be connected person (as defined in the Listing Rules) of the Company. None of the placees nor their respective ultimate beneficial owners will become a substantial shareholder of the Company immediately following the completion of the Placing.
- Placing Price**

HK\$0.45 per Share. The placing price was arrived at after arm's length negotiation and represents a discount of approximately 7.22% to the closing price of HK\$0.485 per Share as quoted on the Stock Exchange on 26th January 2004, being the last trading day of the Shares before the publication of this announcement, and a premium of approximately 1.93% to the average of the closing price of the Shares of HK\$0.4415 per Share quoted on the Stock Exchange for the ten trading days up to and including 26th January 2004. The Directors consider that the placing price based on the market price of the Shares and the terms and conditions of the Placing and the Subscription are fair and reasonable and in the best interests of the Company and the Shareholders as a whole. The Directors also consider that the aforesaid discount of the placing price to the closing price of the Shares on 26th January 2004 is fair and reasonable based on the market price of the Shares and with reference to discounts of placing price of recent placings undertaken by other listed issuers.
- Placing Shares**

160,000,000 Shares to be placed, representing 20% of the existing issued share capital of the Company of 800,000,000 Shares and approximately 16.67% of the issued share capital of 960,000,000 Shares as enlarged by the Subscription. The Placing Agent will place the Placing Shares on a best endeavor basis.
- Completion of the Placing**

The Placing is unconditional. Completion of the Placing will take place on the second trading day after the first day on which trading of the Shares on the Stock Exchange shall have resumed after the release of this announcement.

SUBSCRIPTION AGREEMENT DATED 27TH JANUARY 2004

- Parties**

The Company will issue 160,000,000 new Shares and PME Investments will subscribe for 160,000,000 new Shares, representing 20% of the existing issued share capital of the Company and approximately 16.67% of the enlarged issued share capital of the Company.

At present, PME Investments is interested in 358,328,000 Shares, representing approximately 44.79% of the existing issued share capital of the Company. The entire issued share capital of PME Investments is owned as to one-third by each of Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng, each of whom also personally owns approximately 6.8% of the existing issued share capital of the Company. The aggregate holding of PME Investments and its concert parties which include Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng is approximately 65.19% of the existing issued share capital of the Company. Upon completion of the Placing and the Subscription, PME Investments will hold approximately 37.32% of the enlarged issued share capital of the Company. The aggregate holding of PME Investments and its concert parties which include Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng is approximately 54.33% of the enlarged issued share capital of the Company.
- Subscription Price**

HK\$0.45 per Share. The Company will bear all costs and expenses incurred in connection with the Subscription and reimburse PME Investments for all costs and expenses incurred by it in connection with the Placing and the Subscription.

- Mandate to issue new Shares**

The issue of new Shares under the Subscription is pursuant to the general mandate ("New Issue Mandate") granted to the Directors at the annual general meeting of the Company held on 23rd May 2003. The New Issue Mandate has not been used prior to the Placing and the Subscription.
- Ranking of new Shares**

The new Shares, when fully paid, will rank *pari passu* in all respects with the existing Shares of the Company in issue at the time of the issue and allotment of the new Shares.
- Condition of the Subscription**

The Subscription is conditional upon the followings:

 - the completion of the Placing;
 - the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the Shares to be issued pursuant to the Subscription; and
 - if necessary, the granting of a waiver by the Executive for any obligation which might arise on PME Investments and/or any party acting in concert with it to make a general offer to acquire all the issued share capital of the Company under Rule 26 of the Code on Takeovers and Mergers.
- Completion**

Completion of the Subscription is expected to be on or before 10th February 2004. Under Chapter 14 of the Listing Rules, completion of the Subscription is required to take place within 14 days after the date of the Placing Agreement; otherwise independent Shareholders' approval would be required for the Subscription and the relevant provisions of the Listing Rules in relation to connected transaction will apply.
- Application for listing**

Application will be made by the Company to the Stock Exchange granting the listing of and permission to deal in the new Shares to be issued pursuant to the Subscription.

EVENTS LEADING TO THE PLACING AND SUBSCRIPTION

At around 6:50 p.m. on 26th January 2004, the Company made the Announcement in relation to the exceptional turnover movement of its Shares on that day stating that the Directors were not aware of any reasons for such increase in the turnover of the Shares. At the time of making the Announcement, the Placing or any other placing exercise was not anticipated by the Directors. In the late evening at around 8:00 p.m. on 26th January 2004, Mr. K.C. Cheng, a Director, was approached by the Placing Agent and the Placing Agent indicated its interests in having a preliminary discussion with the Company for a possible placing of the Shares. The Company did not notify the Stock Exchange to modify or withdraw the publication of the Announcement after it has been sent to the Stock Exchange for publication at about 6:50 p.m.

The discussion on 26th January 2004 for a possible placing was then left opened and no conclusion had been made between the parties on the detailed terms and as to whether a placing would be materialised or not as both the Placing Agent and the Company required time to consider the details of the possible placing in particular the Placing Agent is required to explore the market and seek for interested investors in providing funding to the Company. As the present market sentiment for investment is favourable, both parties were aware that expeditious action had to be carried out so as to ride on the waves of such favourable market condition.

At around 9:15 a.m. on 27th January 2004, the Placing Agent contacted the Director again for a detailed discussion in relation to the possible placing and a preliminary mutual understanding on the maximum size of the placing shares and the possible range of placing price were then reached as the basis for further detailed discussion. The Placing Agent had arranged the Director to meet with some potential investors at 10:00 a.m. so as to allow the potential investors to understand more about the Company. It is the intention of both parties to conclude at the meeting, which was scheduled within trading hours of the Shares, whether or not to proceed with the proposed placing and, if so, to finalise all the relevant terms. In order to prevent any possible leakage of any information in relation to the proposed placing which constituted price sensitive information of the Company, the Company immediately as soon as practicable contacted the Stock Exchange and requested for a suspension of the trading of the Shares from 9:30 a.m. on 27th January 2004. Since the trading of the Shares had been suspended after the publication of the Announcement, the Directors are of the view that there would not be any implications on the interests of the Shareholders or potential investors despite the fact that the Announcement did not contain any information on the possible placing.

The Company carried out detailed discussion on the terms and conditions of the Placing with the Placing Agent, and at the same time negotiated with PME Investments in relation to the Subscription. The material terms of the Placing and the Subscription were finalised on 27th January 2004 at around 4:30 p.m. and the Placing Agreement and the Subscription Agreement were signed at around 7:00 p.m. among the parties.

USE OF PROCEEDS FROM THE SUBSCRIPTION

Net proceeds of the Subscription is approximately HK\$69.5 million after deducting the professional fees and all related expenses of approximately HK\$2,500,000 which is to be borne by the Company. The Company intends to apply the net proceeds of approximately HK\$15 million to improve and expand the production facilities of the Group, approximately HK\$5 million to support the research and development of the Group’s products, approximately HK\$8 million to explore and develop the market for the Group in the eastern part of the PRC, approximately HK\$5 million to reduce the Group’s bank borrowings and the remaining of approximately HK\$36.5 million will be retained for future investment purposes as well as general working capital of the Group.

REASON FOR THE PLACING AND THE SUBSCRIPTION

The Company is an investment holding company and its subsidiaries are principally engaged in the business of manufacturing of polishing compounds and polishing wheels in the PRC and trading of different types of industrial abrasive products in Hong Kong and the PRC.

The Company did not carry out any fund raising exercise in the past 12 months from the date of this announcement.

The Directors have considered other ways of fund raising exercise such as rights issue and debt financing. However, the Directors believe that the Placing and the Subscription is the most efficient and cost effective way for fund raising for the Company. The Directors consider that the Placing and the Subscription represent an opportunity to raise capital for the Company while broadening the Shareholder and the capital base of the Company.

EFFECT ON SHAREHOLDING

	Shareholding before the Placing and the Subscription		Shareholding after the Placing but before the Subscription		Shareholding after the Placing and the Subscription	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
PME Investments (Note 1)	358,328,000	44.79	198,328,000	24.79	358,328,000	37.32
Mr. K.W. Cheng (Note 2)	54,400,000	6.80	54,400,000	6.80	54,400,000	5.67
Mr. K.C. Cheng (Note2)	54,400,000	6.80	54,400,000	6.80	54,400,000	5.67
Ms. Cheng (Note 2)	54,400,000	6.80	54,400,000	6.80	54,400,000	5.67
PME Investments and concert parties (Note 3)	521,528,000	65.19	361,528,000	45.19	521,528,000	54.33
Mr. Charles Woo (Note 4)	16,342,667	2.04	16,342,667	2.04	16,342,667	1.70
Ms. Chan Yim Fan (Note 2)	8,205,333	1.03	8,205,333	1.03	8,205,333	0.85
Placees	–	–	160,000,000	20.00	160,000,000	16.67
Public	253,924,000	31.74	253,924,000	31.74	253,924,000	26.45
	800,000,000	100.00	800,000,000	100.00	960,000,000	100.00

- Notes:
- (1) The entire issued share capital of PME Investments is owned as to one-third by each of Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng.
 - (2) Mr. K.W. Cheng, Mr. K.C. Cheng, Ms. Cheng and Ms. Chan Yim Fan are executive Directors.
 - (3) Mr. K.W. Cheng, Mr. K.C. Cheng and Ms. Cheng are concert parties of PME Investments.
 - (4) Mr. Charles Woo is a non-executive Director.

General Mandates

In connection with the enlarged share capital of the Company as a result of the Subscription, the Directors will seek the approval of the Shareholders for the grant of the General Mandates to repurchase Shares and to issue further Shares not exceeding 10% and 20% respectively of the issued share capital of the Company as enlarged by the Subscription at a special general meeting of the Company to be convened for the purpose.

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 27th January 2004 pending the release of this announcement. Application has been made by the Company for the resumption of trading of the Shares on the Stock Exchange with effect from 9:30 a.m. on 29th January 2004.

TERMS USED IN THIS ANNOUNCEMENT

“Announcement”	the announcement of the Company dated 26th January 2004 in relation to paragraph 39.2 of the Listing Agreement as set out in the Listing Rules
“China Everbright”	China Everbright Securities (HK) Limited is a deemed licensed corporation to carry on type 1, 4, 6 and 9 regulated activities as defined in schedule 5 of the SFO
“Company”	PME Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“Executive”	Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“General Mandates”	the proposed grant of the general mandates to the Directors to issue and repurchase Shares
“Group”	the Company and its subsidiaries
“Listing Rules”	Rules governing the Listing of Securities on the Stock Exchange
“Mr. K.C. Cheng”	Mr. Cheng Kwong Cheong, an executive Director
“Mr. K.W. Cheng”	Mr. Cheng Kwok Woo, an executive Director
“Ms. Cheng”	Ms. Cheng Wai Ying, an executive Director
“PRC”	People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong and Macau
“Placing”	the placing of 160,000,000 Shares pursuant to the Placing Agreement
“Placing Agent”	China Everbright
“Placing Agreement”	the placing agreement dated 27th January 2004 entered between PME Investments and China Everbright in relation to the Placing
“Placing Shares”	160,000,000 Shares to be placed pursuant to the Placing
“PME Investments”	PME Investments (BVI) Co., Ltd., a company incorporated in the British Virgin Islands with limited liability
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	shares in the Company of HK\$0.01 each
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 160,000,000 new Shares by PME Investments pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 27th January 2004 entered between PME Investments and the Company for the subscription of 160,000,000 new Shares by PME Investments

By Order of the Board
PME Group Limited
Cheng Kwong Cheong
Director

Hong Kong, 28th January 2004

* For identification purpose only