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 a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Cosmos Machinery Enterprises Limited, you should at once hand this circular to the purchaser or 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 transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Cosmos Machinery Enterprises Limited.

大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 118)

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS; (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) NOTICE OF EGM

Financial Adviser to Cosmos Machinery Enterprises Limited

中國泛海企業融資有限公司
OCEANWIDE CAPITAL LIMITED

Independent Financial Adviser to the Code Independent Board Committee, the LR Independent Board Committee and the Independent Shareholders

信溢投資策劃有限公司
CHALLENGE CAPITAL MANAGEMENT LIMITED

A letter from the Board is set out on pages 5 to 19 of this circular. A letter from the Code Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 20 to 21 of this circular. A letter from the LR Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 22 to 23 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Code Independent Board Committee, the LR Independent Board Committee, and the Independent Shareholders is set out on pages 24 to 55 of this circular.

A notice convening the EGM of the Company to be held at Ballroom A, 2/F, The Langham, Hong Kong, 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong on Thursday, 7 June 2018 at 10:15 a.m. or immediately after conclusion of the Company's annual general meeting to be held on the same day, whichever is later, is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.cosmel.com). Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but 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 shareholders from attending and voting at the meeting if they so wish.

19 May 2018

CONTENTS

In this circular, unless the context otherwise requires, the following terms have the corresponding definitions listed below:

"acting in concert"	has the same meaning ascribed thereto under the Takeovers Code
"Announcement"	the announcement of the Company dated 30 April 2018 in relation to, among other things, the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver
"associate(s)"	have the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (excluding a Saturday) on which banks generally are open for business in Hong Kong
"Code Independent Board Committee"	the independent committee of the Board which comprises Mr. Qu Jinping, being a non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, all being independent non-executive Directors, established to advise the Independent Shareholders in respect of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver
"Company"	Cosmos Machinery Enterprises Limited, a company incorporated under the laws of Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 118)
"Completion"	completion of the Subscription
"connected person(s)"	has the meaning ascribed to this term under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting to be held on Thursday, 7 June 2018 at 10:15 a.m. or immediately after conclusion of the Company's annual general meeting to be held on the same day, whichever is later, for the Independent Shareholders to consider, and if thought fit, to approve the ordinary resolution(s) in respect of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver

"Executive"	the executive director of the Corporate Finance Division of the SFC or any delegate of the executive director
"First Subscriber"	Cosmos Machinery (Holdings) Limited, a company incorporated under the laws of Hong Kong with limited liability and a controlling shareholder of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Financial Adviser"	Challenge Capital Management Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver
"Independent Shareholders"	shareholder(s) other than (i) the Subscribers and their associates; (ii) any parties acting in concert with the Subscribers; and (iii) parties involved or interested in the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and/or the Whitewash Waiver
"Independent Third Party(ies)"	independent third party who is not connected person (as defined in the Listing Rules) of the Company and is independent of and not connected with the connected persons of the Company
"Last Trading Day"	30 April 2018, being the last trading day of the Shares immediately prior to the entering into of the Subscription Agreement
"Latest Practicable Date"	17 May 2018, being the latest practicable date for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Stop Date"	31 August 2018

"LR Independent Board Committee"	the independent committee of the Board which comprises all the independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, established to advise the Independent Shareholders in respect of the Subscription Agreement and transactions contemplated thereunder (including the Specific Mandate)
"Relevant Period"	the period commencing from 30 October 2017, being six months prior to the date of the Announcement and up to and including the Latest Practicable Date
"SFC"	The Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"Second Subscriber"	Saniwell Holding Inc., a company incorporated under the laws of Cook Islands
"Share(s)"	ordinary share(s) of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders at the EGM to grant the authority to the Board for the allotment and issue of the Subscription Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	the First Subscriber and the Second Subscriber
"Subscription(s)"	the conditional subscription of the Subscription Share by the Subscribers pursuant to the terms of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 30 April 2018 entered into between the Company and the Subscribers in relation to the Subscription
"Subscription Price"	the subscription price of HK$0.55 per Subscription Share
"Subscription Share(s)"	a total of 145,000,000 new Shares to be allotted and issued by the Company to the Subscribers pursuant to the Subscription Agreement

"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscribers to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by the Subscribers and any parties acting in concert with them under Rule 26 of the Takeovers Code which would, if the Subscriptions proceed, otherwise arise as a result of the of the Subscription
"%"	per cent

大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

Executive Directors:
Tang To
Wong Yiu Ming
Tang Yu, Freeman

Non-executive Directors:
Kan Wai Wah
Qu Jinping

Independent non-executive Directors:
Yeung Shuk Fan
Cheng Tak Yin
Ho Wei Sem
Huang Zhi Wei

Registered Office:
10/F, Billion Plaza 2
No. 10 Cheung Yue Street
Cheung Sha Wan
Kowloon, Hong Kong

19 May 2018

To the Shareholders of the Company

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS;
(2) APPLICATION FOR WHITEWASH WAIVER;
AND
(3) NOTICE OF EGM

INTRODUCTION

Reference is made to the Announcement in which it was disclosed that the Company had on 30 April 2018 entered into the Subscription Agreement with the Subscribers in relation to the Subscription.

The purpose of this circular is to:

(i) provide further details of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver;

(ii) set out (i) the letter of advice from the Code Independent Board Committee to the Independent Shareholders on the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver; (ii) the letter of advice from the LR Independent Board Committee to the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder (including the

Specific Mandate); (iii) the letter of advice from the Independent Financial Adviser to the Code Independent Board Committee, the LR Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver; and

(iii) give you notice of the EGM to consider and, if thought fit, pass the resolution to approve, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate); (ii) the allotment and issuance of the Subscription Shares in accordance with the Subscription Agreement; (iii) the Specific Mandate under which the Subscription Shares will be issued; and (iv) the Whitewash Waiver.

THE SUBSCRIPTION AGREEMENT

On 30 April 2018 (after trading hours), the Company entered into the Subscription Agreement with the First Subscriber and the Second Subscriber, pursuant to which the Company will allot and issue, and the First Subscriber and the Second Subscriber will subscribe for 108,750,000 Shares and 36,250,000 Shares respectively, at the Subscription Price of HK$0.55 per Subscription Share.

Set out below are the principal terms of the Subscription Agreement:

Date

30 April 2018

Parties

(i) the Company, being the issuer;

(ii) Cosmos Machinery (Holdings) Limited, being the First Subscriber; and

(iii) Saniwell Holding Inc., being the Second Subscriber.

The Subscription Shares

The 145,000,000 Subscription Shares represent (i) approximately 20.23% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 16.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The aggregate consideration of the Subscription Shares is HK$79,750,000.

The Subscription Shares to be allotted and issued shall rank pari passu in all respects among themselves and with all existing Shares in issue as at the date of Completion, including the right to rank in full for all distributions declared, made or paid by the Company at any time after the date of the Subscription Agreement.

The Subscription Price

The Subscription Price of HK$0.55 per Subscription Share represents:

(i) a discount of approximately 12.7% to the closing price of HK$0.63 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 11.1% to the closing price of HK$0.495 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 6.8% to the average closing price of approximately HK$0.515 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 10.4% to the average closing price of approximately HK$0.498 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 12.0% to the average closing price of approximately HK$0.491 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;

(vi) a discount of approximately 63.5% to the audited net asset value attributable to owners of the Company as at 31 December 2017 of approximately HK$1.507 per Share; and

(vii) a discount of approximately 64.0% to the adjusted net asset value attributable to owners of the Company as at 31 December 2017 after taking into account the market value of the properties of the Group as at 31 March 2018 as set out in the property valuation report in Appendix II to this circular of approximately HK$1.528 per Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers with reference to recent market trading prices of the Shares.

Based on the Subscription Price of HK$0.55 per Subscription Share and the 108,750,000 Subscription Shares and 36,250,000 Subscription Shares to be allotted and issued to the First Subscriber and Second Subscriber respectively, the total Subscription monies payable by the First Subscriber and the Second Subscriber to the Company pursuant to the Subscription Agreement amount to approximately HK$59,812,500 and approximately HK$19,937,500 respectively, which will be settled in cash.

Lock-up period

Pursuant to the terms of the Subscription Agreement:

(i) Each of the Subscribers undertakes to the Company that from the date of the Completion and on or prior to the date being 6 months after the date of the Completion, it will not and will procure that none of its nominees and companies controlled by it or trusts associated with it (whether individually or together and whether directly or indirectly) will (a) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or (otherwise) any Shares or any interests therein or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Shares or interests or (b) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (a) or (b) above is to be settled by delivery of Shares or such other securities, in cash or otherwise or (c) announce any intention to enter into or effect any such transaction described in (a) or (b) above; and

(ii) The Company undertakes to each of the Subscribers that (except for (a) the new Shares to be allotted and issued to each of the Subscribers and (b) any Shares or other securities or rights issued or granted to shareholders by way of bonus or under any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with its articles of association or on the exercise of rights existing at the date of the Subscription Agreement) from the date of the Completion and on or prior to the date being 6 months after the date of the Completion it will not (x) allot or issue or offer to allot or issue or grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or (otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares or (y) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the transaction described in (x) above or (z) announce any intention to enter into or effect any such transaction described in (x) or (y) above.

Conditions precedent to the Subscription Agreement

Completion is conditional upon:

(i) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares (and such listing and permission not subsequently revoked prior to Completion);

(ii) the passing of resolution(s) by the Independent Shareholders at the EGM to approve the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver;

(iii) the Executive granting or agreeing to grant the Whitewash Waiver in accordance with the requirements of the SFC and the Takeovers Code; and

(iv) the representations and warranties of the Subscribers being true and accurate and not misleading at all times from the date of the Subscription Agreement up to and including the date of Completion.

The Company may waive in writing the condition set out in (iv) above. Save as aforementioned, none of the conditions precedent can be waived by any parties to the Subscription Agreement.

In the event that the conditions precedent above are not fulfilled or waived (as the case may be) by 5:00 p.m. on the Long Stop Date (or such later date as may be agreed by the Subscribers and the Company), the Subscription Agreement and all rights and obligations thereunder shall cease and terminate and none of the parties thereto shall have any claim against the other.

As at the Latest Practicable Date, none of the conditions precedent has been fulfilled.

Completion of the Subscription

Completion shall take place at 10:00 am (Hong Kong time) on the fifth Business Day after the date on which all the conditions precedent to the Subscription Agreement set out above have been fulfilled or waived (as the case may be) (or such other location, time and/or date as the Subscribers and the Company may agree in writing), and in any event not later than the Long Stop Date (or such later date as may be agreed by the Subscribers and the Company).

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

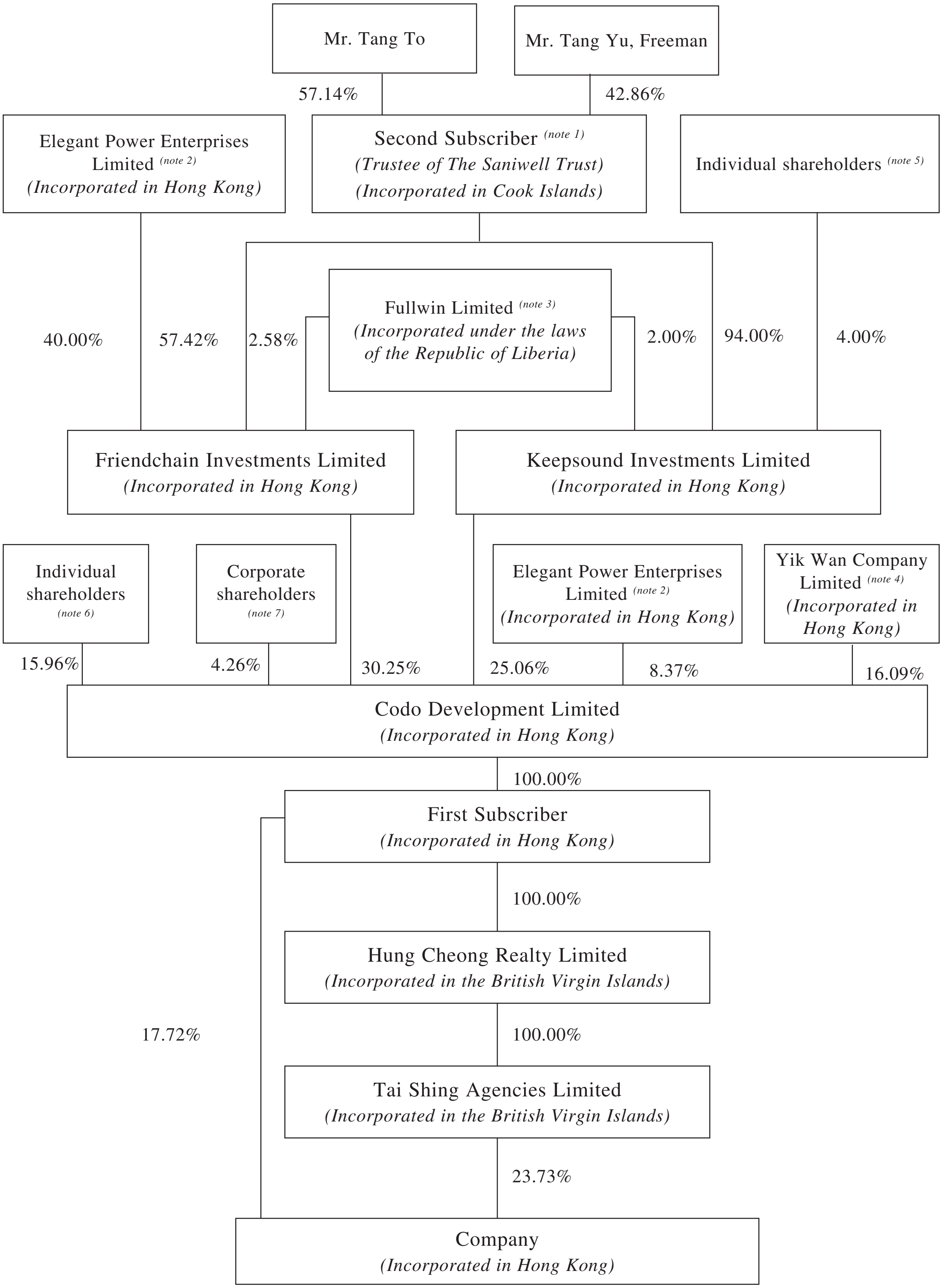
INFORMATION ON THE SUBSCRIBERS

The First Subscriber is a company incorporated under the laws of Hong Kong with limited liability and is principally engaged in the business of investment holding. As at the Latest Practicable Date, the First Subscriber directly holds 127,052,600 Shares (representing approximately 17.72% of the total issued share capital of the Company) and indirectly holds 170,104,452 Shares (representing approximately 23.73% of the total issued share capital of the Company), together representing approximately 41.45% of the total issued share capital of the Company and therefore is a controlling shareholder of the Company.

The Second Subscriber is a company incorporated under the laws of Cook Islands and is owned as to approximately 57.14% by Mr. Tang To and approximately 42.86% by Mr. Tang Yu, Freeman, both executive Directors. It is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members. Prior to the Subscription, the Second Subscriber does not directly hold any Shares. Upon Completion, the Second Subscriber will directly hold 36,250,000 Shares for investment holding purposes. The Second Subscriber through its intermediate holding companies indirectly controls the First Subscriber. As such, the Second Subscriber is a connected person of the Company.

As at Latest Practicable Date, the First Subscriber, the Second Subscriber and their associates and parties acting in concert with them are interested in a total of 485,066,904 Shares, representing approximately 67.66% of the issued share capital of the Company. Upon Completion, the First Subscriber, the Second Subscriber and their associates and parties acting in concert with them will be interested in a total of 450,949,858 Shares, representing approximately 52.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

For illustration purpose, the simplified shareholding structure of the Subscribers as at the Latest Practicable Date is set out below:



Notes:

(1) The Second Subscriber is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To, an executive Director, and certain of his family members.

(2) Elegant Power Enterprises Limited is owned as to 0.002% by Mr. Kan Wai Wah, a non-executive Director, and 99.998% by Ms. Law Kit Fong, one of Mr. Kan Wai Wah's associate.

(3) Fullwin Limited is owned as to 50% by Mr. Tang To, an executive Director, and 50% by his spouse.

(4) Yik Wan Company Limited is owned directly and indirectly by several associates of Mr. Kan Wai Wah, a non-executive Director. Each associate holds between 0.04% to 14.29% shareholding interests in Yik Wan Company Limited.

(5) The individual shareholders of Keepsound Investments Limited are associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors. Each individual shareholder holds between 0.33% to 2.00% shareholding interests in Keepsound Investments Limited.

(6) The individual shareholders of Codo Development Limited include several associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors, holding in aggregate 15.48% shareholding interests in Codo Development Limited, and an Independent Third Party, holding 0.48% shareholding interests in Codo Development Limited. Each individual shareholder holds between 0.48% to 4.24% shareholding interests in Codo Development Limited.

(7) The corporate shareholders of Codo Development Limited are Cranswick Holdings Limited and Silver View Investment Limited, holding 2.60% and 1.67% shareholding interests in Codo Development Limited respectively.

According to public information available to the Company, Cranswick Holdings Limited is incorporated in Hong Kong and is owned by associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors. Silver View Investment Limited is incorporated in Hong Kong and is owned by Independent Third Parties.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The principal activities of the Group are manufacturing of machineries, manufacturing of plastic processing products, processing and trading of printed circuit boards and trading of industrial supplies.

The gross proceeds from the Subscription are expected to be approximately HK$79,750,000 (based on the Subscription Price of HK$0.55 per Share). The net proceeds of the Subscription (after deducting related professional fees and related transaction expenses) are expected to be approximately HK$76,800,000 and the net Subscription Price per Subscription Share will be approximately HK$0.53.

The Group has achieved a turnaround with net profit of approximately HK$43,850,000 for the financial year ended 31 December 2017 as compared with a net loss of approximately HK$333,885,000 for the financial year ended 31 December 2016. It has made considerable progress in the restructuring of its plastic products and processing segments, as well as machinery manufacturing segment in the financial year ended 31 December 2017. The Board considers that the Subscription could raise a substantial amount of additional capital and funding to equip the Group with more resources to further develop the Group's existing businesses and additional investments in research and development for further growth.

The Company intends to use the net proceeds from the Subscription as follows:

(a) 20% – 30% of the net proceeds for funding and working capital to support existing businesses of the Group in order to increase market share in high potential niche markets in its machinery manufacturing business, to expand business scale in its plastic products and processing business, to increase business scale and to enhance solution based business model in its industrial supplies trading business;

(b) 15% – 20% of the net proceeds for investment in research and development of the Group in order to enhance product features and functionalities in its machinery manufacturing business such as applications enhancement, production quality/efficiency upgrade and development of new product series, and to ramp up industrial digitalization solutions research and developments in its machinery manufacturing business such as refinement and enhancement of real time machine data monitoring, analytics functions, and software/hardware integration solutions;

(c) 15% – 25% of the net proceeds for investments in plants and machineries and other business in order to upgrade and expand manufacturing plants in Wuxi in its machinery manufacturing business, to invest in new machineries for the production plants in Zhuhai and Dongguan for the plastic processing business, to invest in digital systems in the manufacturing, warehousing, distribution facilities in its machinery manufacturing, plastic products and processing, as well as industrial supplies trading businesses; and

(d) 5% – 10% of the net proceeds for funding for restructuring in order to further support restructuring of machinery business, which includes asset relocation and optimization, organizational restructuring and production efficiency enhancement.

Besides, in anticipation of the possible interest rate hike in Hong Kong, the Board may consider to use 5% – 15% of the net proceeds from the Subscription to repay bank loans to reduce the finance cost of the Group.

The Subscription would also enhance the general working capital of the Group without incurring additional interest burden and the capital base of the Group would be strengthened. The Company intends to use the remaining net proceeds for the general working capital of the Group.

The Board has also considered other ways of fund raising such as bank borrowing, rights issue or open offer. In regards to bank borrowing, while it continues to play a key role to support ongoing operating working capital for the Group, the Board considers that it is not appropriate to solely rely on bank borrowings to fund product research and development. Furthermore, having considered the contemplated rise in interest rate, the Board considers that it would result in additional interest burden to and higher gearing ratio of the Group, rendering it not the optimal method for the Group. As regards to the viability of a rights issue or an open offer, the Board considers that a rights issue or open offer would result in less favourable terms to the Company than the Subscription as well as incur more transaction costs including but not limited to underwriting commission and other additional costs for the preparation of the listing documents and that such corporate exercises would have a relatively more time consuming process which may affect the overall business plan of the Group.

The Board is of the view that the Subscription reflects the confidence and commitment of the controlling shareholders of the Company towards the long-term and sustainable growth of the Group, and that the continuing support of the controlling shareholders of the Company would be beneficial to the long-term business development of the Group.

Based on the above, the Board considers that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The executive Directors are of the view that the proceeds from the Subscription together with the internal financial resources can satisfy the Group's expected funding needs for the next twelve months, taking into account the following key assumptions and factors:

(i) the existing financial position and operation performance of the Group;

(ii) there being no material adverse change to the Group's existing businesses;

(iii) there being no premature reduction of the existing loan facilities from financial institutions; and

(iv) there will be no material change in the economic environment or market conditions in Hong Kong, the Mainland China or other countries in which the Group operates or intends to operate.

Based on the existing information available to the executive Directors, unless the Company identifies any potential investment opportunities which require substantial amount of funds in the next twelve months, the Company does not have other existing plan to conduct further fund raising activities in the next twelve months.

It is the intention of the Subscribers that the Company will maintain its existing businesses after Completion. The Subscribers have no intention to introduce any major changes to the existing operation of the Company, dispose of nor downsize any of the Company's existing business. As at the Latest Practicable Date, the Subscribers and parties acting in concert with them have no intention to re-deploy the fixed assets, or to discontinue the employment of the employees of the Group other than in the ordinary course of business of the Group.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activity in the past 12 months immediately preceding the Latest Practicable Date.

EFFECT ON THE SHAREHOLDING STRUCTURE

As at the Latest Practicable Date:

(i) the Company had 716,930,692 Shares in issue; and

(ii) the Company did not have any outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

Set out below are the shareholding structures of the Company (i) as at Latest Practicable Date; and (ii) immediately upon Completion (assuming no other change in the shareholding of the Company):

Shareholders	**As at the Latest Practicable Date**		**Immediately upon Completion**	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*
The First Subscriber, the Second Subscriber and parties acting in concert with them				
The First Subscriber	127,052,600	17.72	235,802,600	27.36
The Second Subscriber	–	–	36,250,000	4.21
Tai Shing Agencies Limited *(note 1)*	170,104,452	23.73	170,104,452	19.73
Mr. Tang To *(note 2)* and his associates *(note 3)* (other than the First Subscriber, Tai Shing Agencies Limited and the Second Subscriber)	8,656,406	1.21	8,656,406	1.00
Mr. Wong Yiu Ming *(note 4)*	9,468,000	1.32	9,468,000	1.10
Mr. Kan Wai Wah *(note 5)*	136,400	0.02	136,400	0.02
China Resources (Holdings) Company Limited *(note 6)*	169,649,046	23.66	169,649,046	19.68
Sub-total:	**485,066,904**	**67.66**	**630,066,904**	**73.10**
Director				
Mr. Cheng Tak Yin *(note 7)*	1,406,000	0.20	1,406,000	0.16
Public Shareholders	230,457,788	32.15	230,457,788	26.74
Total:	**716,930,692**	**100.00**	**861,930,692**	**100.00**

Notes:

(1) Tai Shing Agencies Limited is an indirect wholly-owned subsidiary of the First Subscriber.

(2) Mr. Tang To is an executive Director and a director of both the First Subscriber and the Second Subscriber.

(3) Out of these 8,656,406 Shares, 4,970,000 Shares are personally held by Mr. Tang To, 2,000 Shares are held by his spouse, 224,000 Shares are jointly held by Mr. Tang To and his spouse while 3,460,406 Shares are held by Ginta Company Limited, which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.

(4) Mr. Wong Yiu Ming is an executive Director and is presumed to be acting in concert with the Subscribers under class (6) presumption under the definition of "acting in concert" under the Takeovers Code until Completion. This class (6) presumption will cease to apply after Completion.

(5) Mr. Kan Wai Wah is a non-executive Director and a director of the First Subscriber.

(6) China Resources (Holdings) Company Limited is presumed to be a party acting in concert with the Subscribers under Note 1 to the definition of "acting in concert" under the Takeovers Code. This presumption will cease to apply after Completion since China Resources (Holdings) Company Limited will hold less than 20% of the voting rights of the Company upon Completion.

(7) Mr. Cheng Tak Yin is an independent non-executive Director.

IMPLICATIONS UNDER THE LISTING RULES AND THE TAKEOVERS CODE

Listing Rules Implications

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

The First Subscriber is a controlling shareholder of the Company. As at Latest Practicable Date, it directly holds 127,052,600 Shares (representing approximately 17.72% of the total issued share capital of the Company) and indirectly holds 170,104,452 Shares (representing approximately 23.73% of the total issued share capital of the Company), together representing approximately 41.45% in the issued share capital of the Company. Therefore the First Subscriber is a connected person of the Company pursuant to the Listing Rules.

Prior to the Subscription, the Second Subscriber does not hold any Shares. The Second Subscriber is owned as to approximately 57.14% by Mr. Tang To and approximately 42.86% by Mr. Tang Yu, Freeman, both executive Directors. The Second Subscriber, through its intermediate holding companies, indirectly controls the First Subscriber. As such, the Second Subscriber is a connected person of the Company pursuant to the Listing Rules.

Accordingly, the Subscription Agreement and the transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the announcement, reporting and Independent Shareholders' approval requirements.

The Whitewash Waiver

Upon Completion:

(i) The First Subscriber will directly hold 235,802,600 Shares and indirectly hold 170,104,452 Shares, together representing approximately 47.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Second Subscriber will directly hold 36,250,000 Shares, representing approximately 4.21% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

(ii) The First Subscriber, the Second Subscriber and their associates and parties acting in concert with them will be interested in a total of 450,949,858 Shares respectively representing approximately 52.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by them or parties acting in concert with them as their aggregate direct and indirect shareholding interests in the Company would increase from the existing approximately 41.45% to approximately 51.30% upon Completion, unless the Whitewash Waiver is granted by the Executive. In this regard, the Subscribers have made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders of the Subscription and the Whitewash Waiver at the EGM by way of poll.

Upon Completion, Mr. Wong Yiu Ming and China Resources (Holdings) Company Limited will no longer be presumed to be acting in concert with the Subscribers under class (6) presumption under the definition of "acting in concert" under the Takeovers Code and under Note 1 to the definition of "acting in concert" under the Takeovers Code respectively.

As at the Latest Practicable Date, other than 485,066,904 Shares held by the Subscribers and parties acting in concert with them as disclosed in the section headed "EFFECT OF THE SHAREHOLDING STRUCTURE" in this circular and all the transactions contemplated under the Subscription Agreement as disclosed in the section headed "THE SUBSCRIPTION AGREEMENT" in this circular, neither the Subscribers nor any parties acting in concert with them:

(i) held, owned, controlled or directed any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company nor has entered into any outstanding derivatives in respect of the securities in the Company;

(ii) had secured any irrevocable commitment from any Independent Shareholders to vote in favour of or against the resolution(s) approving the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver;

(iii) had any arrangement as referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with any persons;

(iv) had any agreement or arrangement to which the Subscribers or any parties acting in concert with them is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver; and

(v) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

As at the Latest Practicable Date, the Company did not believe that the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver do not comply with other applicable rules and regulations.

Dealing in the Company's Securities

The Subscribers have confirmed that none of the Subscribers nor the parties acting in concert with them has acquired any voting rights in the Company nor dealt in any securities of the Company in the 6 months prior to the Latest Practicable Date which would constitute disqualifying transaction under paragraph 3 of the Whitewash Guidance Note set out in Schedule VI of the Takeovers Code.

The Executive may or may not grant the Whitewash Waiver and in the event that it is not granted, the Subscription Agreement shall lapse and the Subscription will not proceed.

THE EGM

The EGM will be convened for the Independent Shareholders to consider, and if thought fit, approve the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver. The resolution(s) in relation to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver will be voted by the Independent Shareholders by way of poll.

By virtue of the Subscribers' interest in the Subscription Agreement, the Subscribers and their respective associates and parties acting in concert with them, including Mr. Tang To, Mr. Wong Yiu Ming and Mr. Kan Wai Wah, shall abstain from voting on the resolution(s) to be proposed at the EGM in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Save as the Subscribers and their respective associates and parties acting in concert with them, no other Shareholder has a material interest in or is involved in or interested in the Subscription Agreement and the transactions contemplated thereunder, or the Whitewash Waiver, and will be required to abstain from voting on the resolution(s) at the EGM.

As at the Latest Practicable Date, the First Subscriber, the Second Subscriber and their respective associates and parties acting in concert with them were interested in a total of 485,066,904 Shares, representing approximately 67.66% of the issued share capital of the Company.

Furthermore, Mr. Tang To, Mr. Tang Yu, Freeman and Mr. Kan Wai Wah, being associates of the Subscribers, were abstained from voting on the Board resolutions in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

Save as disclosed above, as at the Latest Practicable Date, no other Director has a material interest in the Subscription Agreement which requires any of them to abstain from voting on the Board resolutions in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Mr. Wong Yiu Ming, an executive Director, was involved in the discussions and negotiations on behalf of the Company with the Subscribers in relation to the Subscription. However, since Mr. Wong Yiu Ming does not have a material interest in the Subscription Agreement, he is not required to abstain from voting on the Board resolutions in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

A notice convening the EGM of the Company to be held at Ballroom A, 2/F, The Langham, Hong Kong, 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong on Thursday, 7 June 2018 at 10:15 a.m. or immediately after conclusion of the Company's annual general meeting to be held on the same day, whichever is later, is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.cosmel.com). Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the meeting.

An announcement on the results of the EGM will be made by the Company following the EGM in accordance with the Listing Rules and the Takeovers Code.

The Subscription Agreement and the transactions contemplated thereunder are subject to the fulfillment or waiver (as the case may be) of a number of conditions, including but not limited to approval of the Subscription, the Specific Mandate and the Whitewash Waiver by the Independent Shareholders at the EGM, and the grant of the Whitewash Waiver by the Executive. As such, the Subscription may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

As announced by the Company on 4 May 2018, the register of members of the Company will be closed from Friday, 1 June 2018 to Thursday, 7 June 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the EGM, all transfer of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. (Hong Kong time) on Thursday, 31 May 2018.

RECOMMENDATIONS

Your attention is drawn to (i) the letter of advice from the Code Independent Board Committee to the Independent Shareholders on the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver; (ii) the letter of advice from the LR Independent Board Committee to the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate); and (iii) the letter of advice from the Independent Financial Adviser to the Code Independent Board Committee, the LR Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

The Board (including members of the Code Independent Board Committee and LR Independent Board Committee after considering the advice of the Independent Financial Adviser) is of the view that although the Subscription is not in the ordinary and usual course of business of the Company, the terms of the Subscription Agreement are fair, reasonable and on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole; and considers that (i) the execution, delivery and performance of the Subscription Agreement; (ii) the allotment and issue of the Subscription Shares in accordance with the Subscription Agreement; (iii) the Specific Mandate under which the Subscription Shares will be issued; and (iv) with respect to the Code Independent Board Committee, the Subscription and the Whitewash Waiver, are in the interests of the Company and the Shareholders as a whole, accordingly, recommends that the Independent Shareholders to vote in favor of the resolution(s) relating thereto at the EGM.

FURTHER INFORMATION

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

Yours faithfully,
By order of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

The following is the text of a letter from the Code Independent Board Committee setting out its recommendation to the Independent Shareholders for the purpose of inclusion in this circular.

大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

19 May 2018

To the Independent Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS; AND (2) APPLICATION FOR WHITEWASH WAIVER;

INTRODUCTION

We refer to the circular dated 19 May 2018 issued by the Company (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

Pursuant to the Takeovers Code, we have been appointed to form the Code Independent Board Committee to consider the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver, to advise the Independent Shareholders as to whether, in our opinion the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and to recommend how the Independent Shareholders should vote regarding the relevant proposed resolution(s) at the EGM.

Challenge Capital Management Limited has been appointed as the Independent Financial Adviser of the Company to advise the Code Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

We, being the members of the Code Independent Board Committee, have no direct or indirect interest in the Whitewash Waiver other than Mr. Cheng Tak Yin who is interested in 1,406,000 Shares, representing approximately 0.20% of the entire issued share capital of the Company as at the Latest Practicable Date. Save for the aforesaid interest of Mr. Cheng Tak Yin in the Shares, we do not have any conflict of interest in respect of the Whitewash Waiver, and are therefore independent and able to consider the terms of the Whitewash Waiver and make recommendation to the Independent Shareholders.

RECOMMENDATION

We wish to draw your attention to the letter from the Board set out on pages 5 to 19 of the Circular which contains, among others, information on the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver as well as the letter from the Independent Financial Adviser set out on pages 24 to 55 of the Circular which contains its advice in respect of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

Having considered the principal factors and reasons and the advice of the Independent Financial Adviser as set out in the letter from the Independent Financial Adviser, we are of the view that the Subscription reflects the confidence and commitment of the controlling shareholders of the Company towards the long-term and sustainable growth of the Group, and that the continuing support of the controlling shareholders of the Company would be beneficial to the long-term business development of the Group. We consider that the terms of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and have been entered into on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM in respect of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

Yours faithfully,
For and on behalf of the Code Independent Board Committee of
Cosmos Machinery Enterprises Limited

Mr. Qu Jinping	**Ms. Yeung Shuk Fan**	**Mr. Cheng Tak Yin**	**Mr. Ho Wei Sem**	**Mr. Huang Zhi Wei**
Non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter from the LR Independent Board Committee setting out its recommendation to the Independent Shareholders for the purpose of inclusion in this circular.

大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

19 May 2018

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS

INTRODUCTION

We refer to the circular dated 19 May 2018 issued by the Company (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

Pursuant to the Listing Rules, we have been appointed to form the LR Independent Board Committee to consider the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate), to advise the Independent Shareholders as to whether, in our opinion, the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) are fair and reasonable so far as the Independent Shareholders are concerned, and to recommend how the Independent Shareholders should vote regarding the relevant proposed resolution(s) at the EGM.

Challenge Capital Management Limited has been appointed as the Independent Financial Adviser of the Company to advise the LR Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate).

RECOMMENDATION

We wish to draw your attention to the letter from the Board set out on pages 5 to 19 of the Circular which contains, among others, information on the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) as well as the letter from the Independent Financial Adviser set out on pages 24 to 55 of the Circular which contains its advice in respect of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate).

Having considered the principal factors and reasons and the advice of the Independent Financial Adviser as set out in the letter from the Independent Financial Adviser, we are of the view that the Subscription reflects the confidence and commitment of the controlling shareholders of the Company towards the long-term and sustainable growth of the Group, and that the continuing support of the controlling shareholders of the Company would be beneficial to the long-term business development of the Group. We consider that although the Subscription is not in the ordinary and usual course of business of the Company, the terms of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) are fair and reasonable so far as the Independent Shareholders are concerned, and have been entered into on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM in respect of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate).

Yours faithfully,
For and on behalf of the LR Independent Board Committee of
Cosmos Machinery Enterprises Limited

Ms. Yeung Shuk Fan	**Mr. Cheng Tak Yin**	**Mr. Ho Wei Sem**	**Mr. Huang Zhi Wei**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Challenge Capital Management Limited to (i) the Code Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver; and (ii) the LR Independent Board Committee and the Independent Shareholders in respect of the Subscription, which has been prepared for the purpose of inclusion in this circular.

信溢投資策劃有限公司
CHALLENGE CAPITAL MANAGEMENT LIMITED

3/F, Kailey Tower,
16 Stanley Street,
Central, Hong Kong

19 May 2018

*To: The Code Independent Board Committee,
the LR Independent Board Committee and
the Independent Shareholders
of Cosmos Machinery Enterprises Limited*

Dear Sirs,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to (i) the Code Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver; and (ii) the LR Independent Board Committee and the Independent Shareholders in respect of the Subscription, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 19 May 2018 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

On 30 April 2018 (after trading hours), the Company entered into the Subscription Agreement with the First Subscriber and the Second Subscriber, pursuant to which the Company will allot and issue, and the First Subscriber and the Second Subscriber will subscribe for 108,750,000 Shares and 36,250,000 Shares respectively, at the Subscription Price of HK$0.550 per Subscription Share.

The 145,000,000 Subscription Shares represent (i) approximately 20.23% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 16.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

The First Subscriber is a controlling shareholder of the Company. As at the Latest Practicable Date, it directly holds 127,052,600 Shares (representing approximately 17.72% of the total issued share capital of the Company) and indirectly holds 170,104,452 Shares (representing approximately 23.73% of the total issued share capital of the Company), together representing approximately 41.45% in the issued share capital of the Company. Prior to the Subscription, the Second Subscriber does not directly hold any Shares. The Second Subscriber is owned as to 57.14% by Mr. Tang To and 42.86% by Mr. Tang Yu, Freeman, both executive Directors, and through its intermediate holding companies, the Second Subscriber indirectly controls the First Subscriber. Therefore the First Subscriber and the Second Subscriber are connected persons of the Company pursuant to the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder constitute non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and are subject to the announcement, reporting and Independent Shareholders' approval requirements.

Upon Completion, the First Subscriber will directly hold 235,802,600 Shares and indirectly hold 170,104,452 Shares, together representing approximately 47.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Second Subscriber will directly hold 36,250,000 Shares, representing approximately 4.21% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The First Subscriber, the Second Subscriber and their associates and parties acting in concert with them will be interested in a total of 450,949,858 Shares in aggregate, representing approximately 52.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by them or parties acting in concert with them as their aggregate direct and indirect shareholding interests in the Company would increase from the existing approximately 41.45% to approximately 51.30% upon Completion, unless the Whitewash Waiver is granted by the Executive. In this regard, the Subscribers have made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders of the Subscription and the Whitewash Waiver at the EGM by way of poll.

Pursuant to the Takeovers Code, the Code Independent Board Committee, which comprises Mr. Qu Jinping, being a non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, all being independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Since Mr. Kan Wai Wah, a non-executive Director, is a director of the First Subscriber, Mr. Kan Wai Wah has not been included in the Code Independent Board Committee. Pursuant to the Listing Rules, the LR Independent Board Committee, which comprises all the independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, has been established to advise the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder. We, Challenge Capital Management Limited, have been appointed as the independent financial adviser to advise the Code Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver, and to advise the LR Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder. Our appointment has been approved by the Code Independent Board Committee and the LR Independent Board Committee.

We have not acted as a financial adviser or independent financial adviser to the Company within the last two years. We are independent from and not connected with the Company, the First Subscriber, the Second Subscriber, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Subscription and the Whitewash Waiver. Apart from normal advisory fees payable to us for our services to the Company in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company, the First Subscriber, the Second Subscriber or any of their respective associates.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided to us by the Company, and the opinions expressed by its management. We have assumed that all information, facts and representations contained or referred to in the Circular, and the information, facts and representations provided by the Company, and the opinions expressed by its management, are true, accurate and complete in all material respects as at the Latest Practicable Date and that they may be relied upon in formulating our opinion. The Company will notify the Shareholders of any material changes during the offer period (as defined under the Takeovers Code) as soon as possible in accordance with Rule 9.1 of the Takeovers Code. Independent Shareholders will also be notified of any material changes to such information and representations provided and our opinion as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all views, opinions and statements of intention provided by the Directors, advisors and representatives of the Company have been arrived at after due and careful enquiries. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Company and its management, nor have we conducted independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The 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 the 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 in the Circular misleading.

The Circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of the information (other than those relating to the Subscribers and the parties acting in concert with them) contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Subscribers) in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

This letter is issued as our advice for the Code Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription and the Whitewash Waiver, and the LR Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Subscription and the Whitewash Waiver, we have considered the following principal factors and reasons:

1. Background to and reasons for the Subscription

(a) Information of the Group

The principal activities of the Group are manufacturing of machineries, manufacturing of plastic processing products, processing and trading of printed circuit boards and trading of industrial supplies.

Financial performance of the Group

Set out below is a summary of the audited consolidated financial performance of the Company for the three years ended 31 December 2015, 2016, and 2017 as extracted from the Company's annual reports for the year ended 31 December 2016 (the "**2016 Annual Report**") and 2017 (the "**2017 Annual Report**"):

	For the year ended 31 December		
	2015	**2016**	**2017**
	HK$	*HK$*	*HK$*
	in thousands	*in thousands*	*in thousands*
	(audited)	(audited)	(audited)
Revenue	2,395,166	2,192,287	2,446,848
Segment revenue:			
Industrial consumables	356,085	340,539	346,582
Plastic processing products	449,469	393,403	388,857
Machinery	720,835	713,477	896,153
Printed circuit boards	845,766	721,005	788,612
Other operations	23,011	23,863	26,644
Gross profit	379,019	313,591	409,439
Gross profit margin	15.8%	14.3%	16.7%
(Loss)/profit for the year	(38,818)	(333,885)	43,850
(Loss)/profit attributable to equity shareholders of the Company	(49,601)	(303,160)	27,284

For the year ended 31 December 2016

The revenue of the Group decreased from approximately HK$2,395.1 million for the year ended 31 December 2015 to approximately HK$2,192.3 million for the year ended 31 December 2016, representing a decrease of approximately 8.5%. According to the 2016 Annual Report, such decrease was mainly attributable to (i) the slowdown of the economy in the Mainland China with a slump in the manufacturing sector; and (ii) the restructuring of certain business operations in the plastic products and processing segment and machinery manufacturing segment of the Group during the year of 2016.

The gross profit for the year ended 31 December 2015 and 2016 amounted to approximately HK$379.0 million and HK$313.6 million respectively, with a gross profit margin of approximately 15.8% and 14.3% respectively. With reference to the 2016 Annual Report and as confirmed by the management of the Company, despite the decrease in revenue, the gross profit margin recorded a comparatively mild drop of 1.5 percentage points due to the Group's continuous adjustment of sales strategy by focusing on higher-margin products and associated customers, and strengthening control over production costs during the year of 2016.

Net loss of the Group increased from approximately HK$38.8 million for the year ended 31 December 2015 to approximately HK$333.9 million for the year ended 31 December 2016. According to the 2016 Annual Report, such result was mainly attributable to the restructuring exercise of the Group's plastic products and processing segment and machinery manufacturing segment, which included the cessation of operation of certain manufacturing businesses. Accordingly, an amount of approximately HK$135.2 million including the provision and payment for employee compensation, impairment of certain fixed assets, potential obsolete stocks and relocation expenses was incurred for the year ended 31 December 2016 in relation to the restructuring exercise.

For the year ended 31 December 2017

The revenue of the Group increased from approximately HK$2,192.3 million for the year ended 31 December 2016 to approximately HK$2,446.8 million for the year ended 31 December 2017, representing an increase of approximately 11.6% which was mainly attributable to the improvement in performance of the machinery manufacturing segment and the printed circuit board processing and trading segment during the year of 2017. In particular, revenue generated from the machinery manufacturing segment increased by approximately 25.6% as compared to that of the previous year. With reference to the 2017 Annual Report and as confirmed by the management of the Company, such increase was mainly attributable to (i) the enhanced overall production capacities as a result of the product re-alignment and adjustments in the Group's two main production plants of injection moulding machines; (ii) increase in sales of the Group's two-platen injection moulding machines product series; and (iii) increase in sales of injection moulding machines tailored-made for specific industries.

The gross profit for the year ended 31 December 2016 and 2017 amounted to approximately HK$313.6 million and HK$409.4 million respectively, with a gross profit margin of approximately 14.3% and 16.7% respectively. According to the 2017 Annual Report, the increase in gross profit margin was mainly due to the increased utilisation of production capacities and the strengthened control over production costs and operating overheads during the year.

For the year ended 31 December 2017, the Group achieved a turnaround with a net profit of approximately HK$43.9 million as compared to a net loss of approximately HK$333.9 million recorded for the year ended 31 December 2016. According to the 2017 Annual Report, such turnaround was mainly attributable to the improvement in revenue, gross profit margin, and control over the operating overheads. Furthermore, an amount of approximately HK$135.2 million including payment and provision for restructuring costs in relation to the restructuring exercise of the Group was incurred for the year ended 31 December 2016. The unutilised portion of such provision was subsequently reversed and recorded as a non-recurring income of approximately HK$31.1 million for the year ended 31 December 2017. The Group also incurred a non-recurring loss net of insurance recovery of approximately HK$17.6 million for the year ended 31 December 2017 due to the damages caused by typhoon "Hato" to one of the production plants of the Group.

Financial position of the Group

Set out below is a summary of the audited consolidated financial position of the Company as at 31 December 2015, 2016, and 2017 as extracted from the 2016 Annual Report and the 2017 Annual Report:

	As at 31 December		
	2015	**2016**	**2017**
	HK$	*HK$*	*HK$*
	in thousands	*in thousands*	*in thousands*
	(audited)	(audited)	(audited)
Non-current assets	929,267	835,330	827,876
Current assets	2,016,954	1,584,473	1,942,783
Total assets	2,946,221	2,419,803	2,770,659
Non-current liabilities	79,281	81,234	70,277
Current liabilities	1,299,120	1,181,657	1,408,243
Total liabilities	1,378,401	1,262,891	1,478,520
Net current assets	717,834	402,816	534,540
Net assets	1,567,820	1,156,912	1,292,139
Cash and bank balances	607,567	332,723	348,746
Bank borrowings	571,800	355,324	425,723

As at 31 December 2017, total assets of the Group amounted to approximately HK$2,770.7 million, representing an increase of approximately HK$350.9 million as compared to that as at 31 December 2016. Such increase was mainly contributed by the increase in trade and bills receivable of approximately HK$125.8 million and the increase in inventory of approximately HK$122.8 million primarily as a result of increase in raw materials for sales orders. Total liabilities of the Group increased from approximately HK$1,262.9 million as at 31 December 2016 to approximately HK$1,478.5 million as at 31 December 2017, representing an increase of approximately HK$215.6 million. Such increase was mainly due to the combined effect of the increase in trade and bills payable of approximately HK$117.9 million and the increase in bank borrowings of approximately HK$70.4 million, which was partly offset by the decrease in provision for restructuring of approximately HK$38.8 million. Net debt (calculated by bank borrowings less cash and bank balances) of the Group increased from approximately HK$22.6 million as at 31 December 2016 to approximately HK$77.0 million as at 31 December 2017, representing an increase of approximately HK$54.4 million. The Group's gearing ratio (calculated by bank borrowings over net assets of the Group) increased from approximately 30.7% as at 31 December 2016 to approximately 32.9% as at 31 December 2017.

Having taken into account the above, in particular, (i) the turnaround achieved in the Group's results for the year ended 31 December 2017 after having recorded net losses consecutively during the past two financial years; and (ii) the increase in bank borrowings and net debt position of the Group as at 31 December 2017, we concur with Board that the Subscription could raise additional capital and funding to equip the Group with more resources to further develop the Group's existing businesses and make additional investments in research and development for further growth without incurring additional interest burden to the Group and strengthen its capital base.

(b) Industry Prospects

In 2015, the China State Council issued the "Made in China 2025" (the "**Made in China 2025**") strategy which is a ten-year action plan with the aim to remedy the PRC's manufacturing problems with a comprehensive upgrading of the sector to international standard. One of the core objectives of the Made in China 2025 strategy is to improve and enhance the quality of products which are manufactured in China and make China's manufacturing sector more innovative, efficient and competitive in the global market. The strategy involves the deepening restructuring of the manufacturing industry through promoting traditional manufacturers to move up the value chain to medium and high-end manufacturing stage and gradually solve the problem of excessive production capacity. Localisation is another objective, with the plan aiming to raise the domestic content of core components and materials to 40% by 2020, and 70% by 2025. Under the Made in China 2025 strategy, the PRC government identified ten key industries with development priority including information technology, numerical control tools and robotics, aerospace equipment, ocean engineering equipment and high-tech ships, railway equipment, energy saving and new energy vehicles, power equipment, new materials, medicine and medical devices, and agricultural machinery. The initiative spans the entire manufacturing industry, including processes, standards, intellectual property rights and human capital, and has a strong focus on integrating production chains and factories. Furthermore, China's Thirteenth Five-Year Plan adopted in 2016 aims to deepen the implementation of the Made in China 2025 strategy over the next five-year period (2016-2020), with a focus on technological progress and improvements in quality, using high-end equipment to spearhead the development of China's advanced manufacturing sector. The Made in China 2025 strategy, together with the Thirteenth Five-Year Plan, are believed to create a favourable environment for the growth of new strategic industries, and optimise modern industrial systems. Based on the above, the management of the Company is of the view, and we concur, that the future prospect of the manufacturing industry in the PRC is generally positive.

(c) Reasons for and benefits of the Subscription and use of proceeds

According to the Letter from the Board, the Group has made considerable progress in the restructuring of its plastic products and processing segment and machinery manufacturing segment in the financial year ended 31 December 2017. With reference to the 2017 Annual Report, the Group commenced a restructuring exercise of its plastic products and processing segment and machinery manufacturing segment since 2016, which included the cessation of operation of certain manufacturing businesses and the optimisation of the production capacities in its Dongguan and Wuxi machinery manufacturing plants. In particular, the restructuring included assets relocation and optimisation, organisational restructuring and production efficiency enhancement. Through the re-alignment and adjustments of products in the two main production plants of injection moulding machines, the existing resources were able to be utilised more effectively and the overall production capacities of the two main production plants increased in 2017. Additionally, the Group strengthened the product development and optimisation of its plastic injection moulding machine business. Through the capability optimisation, the efficiency, speed and reliability of the Group's two-platen injection moulding machines product series were significantly enhanced to meet the demand of two major industries – auto parts and household electrical appliances, and became the sales growth driver in 2017. The plastic injection moulding machine business recorded growth of approximately 25.6% in revenue as compared to that of previous year with its results turned around to profit-making in 2017.

According to the 2017 Annual Report, under the Made in China 2025 strategy put forward by the PRC government, the Group expects that the industrial operating environment in the PRC will continue to improve. The support to the development of strategic emerging industries and the promotion of transformation and upgrade of traditional competitive industries by the Thirteenth Five-Year plan on technological innovations across the country, together with the plan on Guangdong-Hong Kong-Macao Greater Bay Area, are expected to further improve the business and investment environment in Guangdong and Hong Kong and also create new business opportunities for the market. Considering the overall macro situation, it is expected that innovative technologies will continue to emerge, resulting in advancements in the traditional operating models, products and services.

With the implementation of the supply-side structural reform by the PRC government, the large-scale enterprises in the PRC are encouraged to proactively develop high-end products, replace and purchase equipment for capacity expansion and optimise the supply chain selection. Such measures can improve the operating environment of the industrial sector in the PRC, and result in demand for good quality and high performance industrial products.

We understand from the Company that the Group will continue to align its business strategy with the Made in China 2025 initiative and the Thirteenth Five-Year Plan. In particular, it plans to continue to invest in research and development and innovation works of which include information technology, and strive to launch quality products with excellent performance to meet the demand of new markets. The Group will also apply new information and manufacturing technologies to optimise the automation, intelligence and information management of the internal production processes, with an aim to improve product and service quality and, at the same time, effectively control production and management costs. While maintaining the growth of existing businesses, the Group plans to further develop new business sectors such as new energy vehicles, medical equipment and robotic arms and, at the same time, secure orders for the "Industrial 4.0" system integration projects, such as digital real-time monitoring systems and other notification and analytic functions.

Nevertheless, the Group sees and will remain cautious of the key challenges lying ahead including the continuous increasing of manufacturing costs (in particular the raw materials cost), shorter life cycle of consumer products, the fluctuations of currencies and exchange rates, the upward trend of corporates' borrowing costs, and volatile capital market. As such, we concur with the view of the management of the Company that the future performance of the Group remains conservatively optimistic.

The gross proceeds from the Subscription are expected to be approximately HK$79,750,000 (based on the Subscription Price of HK$0.550 per Share). The net proceeds of the Subscription (after deducting related professional fees and related transaction expenses) are expected to be approximately HK$76,800,000 and the net Subscription Price per Subscription Share will be approximately HK$0.530.

The Board considers that the Subscription could raise a substantial amount of additional capital and funding to equip the Group with more resources to further develop the Group's existing businesses and additional investments in research and development for further growth.

The Company intends to use the net proceeds from the Subscription as follows:

(a) 20% – 30% of the net proceeds for funding and working capital to support existing businesses of the Group in order to increase market share in high potential niche markets in its machinery manufacturing business, to expand business scale in its plastic products and processing business, to increase business scale and to enhance solution based business model in its industrial supplies trading business;

(b) 15% – 20% of the net proceeds for investment in research and development of the Group in order to enhance product features and functionalities in its machinery manufacturing business such as applications enhancement, production quality/efficiency upgrade and development of new product series, and to ramp up industrial digitalisation solutions research and developments in its machinery manufacturing business such as refinement and enhancement of real-time machine data monitoring, analytics functions, and software/hardware integration solutions;

(c) 15% – 25% of the net proceeds for investments in plants and machineries and other business in order to upgrade and expand manufacturing plants in Wuxi in its machinery manufacturing business, to invest in new machineries for the production plants in Zhuhai and Dongguan for the plastic processing business, to invest in digital systems in the manufacturing, warehousing, distribution facilities in its machinery manufacturing, plastic products and processing, as well as industrial supplies trading businesses; and

(d) 5% – 10% of the net proceeds for funding for restructuring in order to further support restructuring of machinery business, which includes asset relocation and optimisation, organisational restructuring and production efficiency enhancement.

Besides, in anticipation of the possible interest rate hike in Hong Kong, the Board may consider to use 5% – 15% of the net proceeds from the Subscription to repay bank loans to reduce the finance cost of the Group.

As stated in the Letter from the Board, the Subscription would also enhance the general working capital of the Group without incurring additional interest burden and the capital base of the Group would be strengthened. The Company intends to use the remaining net proceeds for the general working capital of the Group.

Having considered the above, including (i) the future prospect of the manufacturing industry in the PRC is generally positive in view of the relevant policies put forward by the PRC government; (ii) the Subscription and the use of proceeds can complement the business strategy of the Group; and (iii) the Subscription represents an opportunity to raise readily available capital for the Company to enhance its capital base, we are of the view that the reasons for the Subscription is justifiable and the Subscription is in the interests of the Company and the Shareholders as a whole.

(d) Financing alternatives of the Group

As disclosed in the Letter from the Board and as advised by the management of the Company, the Board has considered other ways of fund raising methods apart from the Subscription such as bank borrowing, rights issue and open offer.

With regards to bank borrowing, having considered the contemplated interest rate hike, the Board considers that an increase in bank borrowings would result in additional interest burden to the Group, which could have an adverse effect on the profitability and gearing ratio of the Group. As such, while bank borrowing continues to play a key role to support ongoing operating working capital for the Group, the Board considers that it is not the optimal method for the Group to fund its product research and development plans. In contrast, (i) the Subscription is expected to improve the gearing ratio of the Group upon Completion as discussed under the section headed "4. Financial effects of the Subscription" below; and (ii) the Subscription would not incur interest expenses to the Group and would not require repayment of principal.

As regards to the viability of equity financing by way of rights issue or open offer, the Board considers that a rights issue or open offer would result in less favourable terms to the Company than the Subscription as well as incur more transaction costs including but not limited to underwriting commission and other additional costs for the preparation of the listing documents and that such corporate exercises would have a relatively more time consuming process which may affect the overall business plan of the Group. As advised by the management of the Company, given the thin trading volume of the Shares, it would be difficult to identify underwriter(s) which is/are interested to underwrite a rights issue or open offer with a fund raising size and issue price comparable to that of the Subscription as the subscription price of shares under a rights issue or open offer is normally at a discount to the prevailing market prices while the Subscription Price represents a premium to the most recent closing prices of the Shares prior to the date of the Announcement. Moreover, in contrast to rights issue and open offer, (i) the Subscription will not incur costly underwriting commission; and (ii) the Subscription can provide more certainty to the Company to raise the required fund.

Taking into account the above, we concur with the Board's view that equity financing by way of the Subscription is comparatively a more appropriate and viable means of raising additional capital.

2. Principal terms of the Subscription Agreement

The major terms and conditions of the Subscription Agreement are summarised below. For further details, please refer to the section headed "The Subscription Agreement" in the Letter from the Board.

Date

30 April 2018

Parties

(i) the Company, being the issuer;

(ii) Cosmos Machinery (Holdings) Limited, being the First Subscriber; and

(iii) Saniwell Holding Inc., being the Second Subscriber.

The Subscription Shares

The 145,000,000 Subscription Shares represent (i) approximately 20.23% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 16.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The aggregate consideration of the Subscription Shares is HK$79,750,000.

The Subscription Shares to be allotted and issued shall rank pari passu in all respects among themselves and with all existing Shares in issue as at the date of Completion, including the right to rank in full for all distributions declared, made or paid by the Company at any time after the date of the Subscription Agreement.

The Subscription Price

The Subscription Price of HK$0.550 per Subscription Share was arrived at after arm's length negotiations between the Company and the Subscribers with reference to recent market trading prices of the Shares.

Based on the Subscription Price of HK$0.550 per Subscription Share and the 108,750,000 Subscription Shares and 36,250,000 Subscription Shares to be allotted and issued to the First Subscriber and Second Subscriber respectively, the total subscription monies payable by the First Subscriber and the Second Subscriber to the Company pursuant to the Subscription Agreement amount to approximately HK$59,812,500 and approximately HK$19,937,500 respectively, which will be settled in cash.

Lock-up period

Pursuant to the terms of the Subscription Agreement:

(i) Each of the Subscribers undertakes to the Company that from the date of the Completion and on or prior to the date being 6 months after the date of the Completion, it will not and will procure that none of its nominees and companies controlled by it or trusts associated with it (whether individually or together and whether directly or indirectly) will (a) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or (otherwise) any Shares or any interests therein or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Shares or interests or (b) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (a) or (b) above is to be settled by delivery of Shares or such other securities, in cash or otherwise or (c) announce any intention to enter into or effect any such transaction described in (a) or (b) above; and

(ii) The Company undertakes to each of the Subscribers that (except for (a) the new Shares to be allotted and issued to each of the Subscribers and (b) any Shares or other securities or rights issued or granted to shareholders by way of bonus or under any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with its articles of association or on the exercise of rights existing at the date of the Subscription Agreement from the date of the Completion and on or prior to the date being 6 months after the date of the Completion it will not (x) allot or issue or offer to allot or issue or grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or (otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares or (y) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the transaction described in (x) above or (z) announce any intention to enter into or effect any such transaction described in (x) or (y) above.

Conditions precedent to the Subscription Agreement

Completion is conditional upon:

(i) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares (and such listing and permission not subsequently revoked prior to Completion);

(ii) the passing of resolution(s) by the Independent Shareholders at the EGM to approve the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver;

(iii) the Executive granting or agreeing to grant the Whitewash Waiver in accordance with the requirements of the SFC and the Takeovers Code; and

(iv) the representations and warranties of the Subscribers being true and accurate and not misleading at all times from the date of the Subscription Agreement up to and including the date of Completion.

The Company may waive in writing the condition set out in (iv) above. Save as aforementioned, none of the conditions precedent can be waived by any parties to the Subscription Agreement.

In the event that the conditions precedent above are not fulfilled or waived (as the case may be) by 5:00 p.m. on the Long Stop Date (or such later date as may be agreed by the Subscribers and the Company), the Subscription Agreement and all rights and obligations thereunder shall cease and terminate and none of the parties thereto shall have any claim against the other.

As at the Latest Practicable Date, none of the conditions precedent has been fulfilled.

Completion of the Subscription

Completion shall take place at 10:00 am (Hong Kong time) on the fifth Business Day after the date on which all the conditions precedent to the Subscription Agreement set out above have been fulfilled or waived (as the case may be) (or such other time and/or date as the Subscribers and the Company may agree in writing), and in any event not later than the Long Stop Date (or such later date as may be agreed by the Subscribers and the Company).

3. Evaluation of the Subscription Price

(a) Comparison of the Subscription Price to market price

The Subscription Price of HK$0.550 per Subscription Share represents:

(i) a discount of approximately 12.7% to the closing price of HK$0.630 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 11.1% to the closing price of HK$0.495 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 6.8% to the average closing price of approximately HK$0.515 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 10.4% to the average closing price of approximately HK$0.498 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 12.0% to the average closing price of approximately HK$0.491 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;

(vi) a discount of approximately 63.5% to the audited net asset value attributable to owners of the Company as at 31 December 2017 of approximately HK$1.507 per Share; and

(vii) a discount of approximately 64.0% to the adjusted net asset value attributable to owners of the Company as at 31 December 2017 after taking into account the market value of the properties of the Group as at 31 March 2018 as set out in the property valuation report in Appendix II to the Circular of approximately HK$1.528 per Share.

(b) Review of the historical Share price performance

The chart below depicts the daily closing prices of the Shares as quoted on the Stock Exchange for the period from 3 May 2016 (being the first trading day of the 24-month period prior to the Last Trading Day) up to and including the Latest Practicable Date (the "**Review Period**"):

Source: Website of the Stock Exchange

As shown in the chart above, during the Review Period, the closing prices of the Shares fluctuated between HK$0.420 per Share and HK$0.630 per Share, with an average closing price of approximately HK$0.503 per Share. The Subscription Price is within the range of the lowest and highest closing prices, and represents a premium of approximately 31.0% over the lowest closing price, a discount of approximately 12.7% to the highest closing price and a premium of approximately 9.3% over the average closing price per Share during the Review Period. In addition, we also noted that the closing prices of the Shares were generally below the Subscription Price, which accounted for 442 trading days out of 504 trading days during the Review Period.

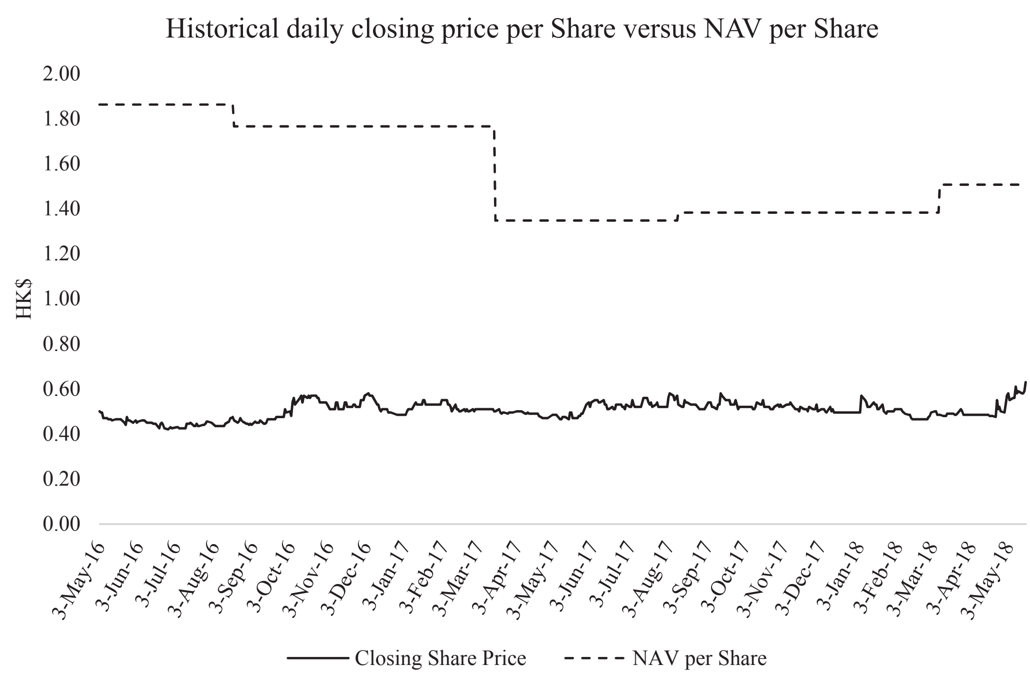
Starting from 3 May 2016, the closing price of the Shares decreased gradually from HK$0.500 to the lowest level during the Review Period of HK$0.420 on 27 June 2016. Since 28 June 2016, the closing prices showed an upward trend in general and closed at HK$0.570 on 24 October 2016. During this period, the Company published an announcement in relation to cessation of operation of a wholly-owned subsidiary of the Group on 8 July 2016 and the interim results announcement of the Company for the six months ended 30 June 2016 on 18 August 2016. From 24 October 2016 to the Last Trading Day, the closing prices fluctuated within the range of HK$0.465 per Share and HK$0.580 per Share, and closed at HK$0.495 per Share on the Last Trading Day.

Subsequently, the Announcement was published on 2 May 2018 (before trading hours). The Share price closed at HK$0.570 per Share on 2 May 2018, representing an increase of approximately 15.2% from the closing price of HK$0.495 per Share on the Last Trading Day.

The Share price closed at HK$0.630 per Share as at the Latest Practicable Date. The Subscription Price represents a discount of approximately 12.7% to the closing price per Share as at the Latest Practicable Date.

(c) Review of the historical Share price performance to the net asset value attributable to owners of the Company per Share ("NAV per Share")

The following chart depicts the historical NAV per Share and the historical performance of the daily closing prices of the Shares during the Review Period:



Source: Website of the Stock Exchange

As illustrated in the chart above, we noted that the Shares have continuously traded below the historical NAV per Share during the Review Period. Details of the above chart have been summarised in the table set out below:

Release date of interim/ annual results	Period	NAV per Share	Daily closing price per Share			Discount of closing Share price to NAV per Share		
			Highest	Lowest	Average	Lowest	Highest	Average
		(HK$)	*(HK$)*	*(HK$)*	*(HK$)*	*(%)*	*(%)*	*(%)*
31-Mar-16	3-May-16 to 18-Aug-16	1.863	0.500	0.420	0.449	73.2	77.5	75.9
18-Aug-16	19-Aug-16 to 16-Mar-17	1.766	0.580	0.440	0.512	67.2	75.1	71.0
16-Mar-17	17-Mar-17 to 10-Aug-17	1.348	0.580	0.465	0.511	57.0	65.5	62.1
10-Aug-17	11-Aug-17 to 8-Mar-18	1.383	0.580	0.465	0.514	58.1	66.4	62.9
8-Mar-18	9-Mar-18 to Latest Practicable Date	1.507	0.630	0.475	0.514	58.2	68.5	65.9
3-May-16 to Latest Practicable Date						57.0	77.5	67.2

Source: Website of the Stock Exchange

As illustrated in the above table, we noted that during the Review Period, the highest, lowest and average daily closing price of the Shares for each of the respective periods indicated above have been at a discount to the then NAV per Share. Such discounts ranged from approximately 57.0% to approximately 77.5%, with an average discount of approximately 67.2% (the "**Historical Average Discount to NAV**"). The Subscription Price of HK$0.550 represents a discount of approximately 63.5% to the NAV per Share of approximately HK$1.507 as at 31 December 2017, which is lower than the Historical Average Discount to NAV as shown above.

(d) Review of the trading liquidity of the Shares

The table below sets out (i) the average daily trading volume of the Shares for each month and the respective percentage to the total number of issued Shares and the total number of issued Shares held by public Shareholders; and (ii) the average daily turnover of Hong Kong listed securities for each month and the respective percentage to the total market capitalisation of Hong Kong listed securities, during the Review Period:

Month	Total trading volume	Number of trading days	Average daily trading volume	Percentage of the average daily trading volume over total number of issued Shares as at the end of the month/period	Percentage of the average daily trading volume over total number of issued Shares held by public Shareholders as at the end of the month/period	Average daily turnover of Hong Kong listed securities for the month	Total market capitalisation of Hong Kong listed securities as at the end of the month	Percentage of the average daily turnover over total market capitalisation of Hong Kong listed securities as at the end of the month
	(Number of Shares)	*(Number of days)*	*(Number of Shares)* *(Note 1)*	*(Approx. %)* *(Note 2)*	*(Approx. %)* *(Note 3)*	*(HK$ in billions)* *(Note 4)*	*(HK$ in billions)*	*(Approx. %)*
2016								
May *(Note 5)*	1,193,000	21	56,810	0.01%	0.02%	60	23,131	0.26%
June	4,363,000	21	207,762	0.03%	0.09%	62	23,063	0.27%
July	1,466,000	20	73,300	0.01%	0.03%	62	24,055	0.26%
August	6,896,000	22	313,455	0.04%	0.14%	69	25,197	0.27%
September	5,678,965	21	270,427	0.04%	0.12%	74	25,595	0.29%
October	7,605,000	19	400,263	0.06%	0.17%	61	25,413	0.24%
November	3,492,200	22	158,736	0.02%	0.07%	68	25,526	0.27%
December	3,837,350	20	191,868	0.03%	0.08%	64	24,761	0.26%
2017								
January	2,242,000	19	118,000	0.02%	0.05%	57	26,125	0.22%
February	6,941,200	20	347,060	0.05%	0.15%	82	26,680	0.31%
March	2,112,890	23	91,865	0.01%	0.04%	82	27,236	0.30%
April	2,426,000	17	142,706	0.02%	0.06%	74	27,665	0.27%
May	8,038,800	20	401,940	0.06%	0.17%	79	28,542	0.28%
June	7,713,105	22	350,596	0.05%	0.15%	80	28,681	0.28%
July	4,173,200	21	198,724	0.03%	0.09%	85	30,263	0.28%
August	4,061,000	22	184,591	0.03%	0.08%	99	31,020	0.32%
September	7,498,950	21	357,093	0.05%	0.15%	95	31,412	0.30%
October	2,248,510	20	112,426	0.02%	0.05%	96	32,253	0.30%
November	3,033,000	22	137,864	0.02%	0.06%	120	33,003	0.36%
December	1,304,400	19	68,653	0.01%	0.03%	105	33,999	0.31%

Month	Total trading volume	Number of trading days	Average daily trading volume	Percentage of the average daily trading volume over total number of issued Shares as at the end of the month/period	Percentage of the average daily trading volume over total number of issued Shares held by public Shareholders as at the end of the month/period	Average daily turnover of Hong Kong listed securities for the month	Total market capitalisation of Hong Kong listed securities as at the end of the month	Percentage of the average daily turnover over total market capitalisation of Hong Kong listed securities as at the end of the month
	(Number of Shares)	*(Number of days)*	*(Number of Shares)* *(Note 1)*	*(Approx. %)* *(Note 2)*	*(Approx. %)* *(Note 3)*	*(HK$ in billions)* *(Note 4)*	*(HK$ in billions)*	*(Approx. %)*
2018								
January	3,726,495	22	169,386	0.02%	0.07%	161	37,197	0.43%
February	1,240,000	18	68,889	0.01%	0.03%	145	35,155	0.41%
March	2,314,000	21	110,190	0.02%	0.05%	132	34,402	0.38%
April	6,358,200	19	334,642	0.05%	0.15%	108	34,870	0.31%
May *(Note 6)*	23,697,000	12	1,974,750	0.28%	0.86%	N/A	N/A	N/A

Source: Website of the Stock Exchange and Bloomberg

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period
2. Based on 716,930,692 Shares in issue as at Latest Practicable Date
3. Based on 716,930,692 Shares in issue, 485,066,904 Shares held by the First Subscriber and parties acting in concert with it, 1,406,000 Shares held by Mr. Cheng Tak Yin and 230,457,788 Shares held by public Shareholders as at the end of relevant month/period and up to the Latest Practicable Date
4. Average daily turnover of Hong Kong listed securities is calculated by dividing the total turnover of Hong Kong listed securities for the month by the number of trading days in respective month
5. Since the beginning of the Review Period, i.e. 3 May 2016
6. Since the beginning of the month up to the Latest Practicable Date

As illustrated in the above table, the average daily trading volume of the Shares during the period from May 2016 to April 2017 ranged from of approximately 56,810 Shares to approximately 401,940 Shares, representing approximately 0.01% to 0.06% of the total number of Shares in issue as at the end of the relevant month/period (the "**Range to Total Issued Shares**") and approximately 0.02% to 0.17% of the total number of issued Shares held by public Shareholders as at the end of the relevant month/period (the "**Range to Public Float**"). Furthermore, we noted that the Range to Total Issued Shares and the Range to Public Float were below the range of percentage of average daily turnover over the total market capitalisation of Hong Kong listed securities as at the end of the month of approximately 0.22% to 0.43%. Since the publication of the Announcement (before trading hours) on 2 May 2017 (being the first trading day of the month of May 2017) and up to the Latest Practicable Date, the average daily trading volume of the Shares increased significantly to approximately 1,974,750 Shares, representing approximately 0.28% of the total number of Shares in issue as at the end of the period and approximately 0.86% of the total number of issued Shares held by public Shareholders as at the end of the period. Save for during the aforesaid period, which represents the trading period of the Shares after the publication of the Announcement, the trading of the Shares was generally thin during the Review Period. The low liquidity of the Shares may imply the lack of interest from potential investors to invest in the Shares. As such, it may be difficult for the Company to conduct equity fund raising activities in the market with similar pricing to that of the Subscription.

(e) Comparable issues analysis

We have performed an analysis of comparable issues by searching the website of the Stock Exchange for all transactions announced during the 18 month period immediately prior to the Last Trading Day by companies listed on the Stock Exchange involving (i) subscription of new shares of the listed companies by subscriber(s) with cash under specific mandate; and (ii) the application of a whitewash waiver by the subscriber(s) (the "**Comparable Issues**"). We have excluded those transactions (i) announced by companies which were under prolonged suspension as at the date of announcement; (ii) involving only convertible securities; (iii) involving open offers or rights issues; and (iv) involving H-share companies. We have identified nine Comparable Issues which we consider an exhaustive list based on the aforesaid criteria.

It should be noted that all the subject companies involved in the Comparable Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company. The circumstances leading to the subject companies to proceed with the subscription/issue may also be different from that of the Company. However, as (i) there are nine Comparable Issues identified during the period which provide a reasonable number of comparables for comparison purposes; and (ii) the Comparable Issues fulfill the above criteria with similar deal structures to the Subscription and can provide a reference of the recent market trend in relation to the subscription price of the subscription shares issued by Hong Kong listed companies as compared to their relevant prevailing market share prices of this type of transaction in Hong Kong equity capital market, we consider them to be an appropriate basis to assess the fairness of the Subscription Price. Details of the Comparable Issues are summarised in the table set out below:

Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the last trading day	Premium/(discount) of the subscription price over/to the closing price of the shares as at the last trading day	average closing price of the shares for the last five consecutive trading days up to and including the last trading day
				(HK$ in millions)	*(Approx. %)*	*(Approx. %)*
			(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 3)*
26 March 2018	Central China Real Estate Limited	832	Real estate development and sales in the PRC.	8,352	7.0	8.2
14 December 2017	TSC Group Holdings Limited	206	Developing, manufacturing, marketing, installing and servicing a comprehensive line of products for the onshore and offshore oil and gas exploration and production and decommissioning industries.	679	(30.2)	(21.2)

Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the last trading day	Premium/(discount) of the subscription price over/to the closing price of the shares as at the last trading day	Premium/(discount) of the subscription price over/to the average closing price of the shares for the last five consecutive trading days up to and including the last trading day
				(HK$ in millions)	*(Approx. %)*	*(Approx. %)*
			(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 3)*
9 November 2017	Trinity Limited	891	Retailing and wholesale of premium menswear in Greater China, Singapore and Europe, as well as licensing its fully owned brands globally.	1,310	60.0	80.7
29 September 2017	Lenovo Group Limited	992	Sales and manufacturing of personal computers, tablets, smartphones, servers and related information technology products and provision of advanced information services across the world.	47,878	0.0	1.2
21 March 2017	Jutal Offshore Oil Services Limited	3303	Provision of technical support services in offshore oil and gas industry, fabrication of oil and gas facilities and oil and natural gas processing skid equipment, and provision of technical support services to the shipbuilding industry.	1,601	(40.0)	(39.4)
6 January 2017	Addchance Holdings Limited	3344	Production and sale of dyed yarns, knitted sweaters, cotton yarns, provision of dyeing and knitting services, and trading of cotton and yarns.	813	(91.7)	(92.1)
21 December 2016	A8 New Media Group Limited	800	Provision of digital entertainment services, including game publishing services and music-based entertainment services as well as property investment in the PRC.	863	(12.8)	(13.1)
16 November 2016	Ozner Water International Holding Limited	2014	Provision of water purification services and air sanitization services in the PRC.	2,889	2.4	7.6
11 November 2016	Yue Da Mining Holdings Limited	629	Exploration, mining and processing of zinc, lead, iron, gold and stone for construction.	266	31.0	35.2
		Maximum			60.0	80.7
		Minimum			(91.7)	(92.1)
		Median			0.0	1.2
		Average			(8.2)	(3.7)
30/4/2018	**The Subscription**			355	**11.1**	**6.8**

Source: Website of the Stock Exchange

Note:

1. The principal activities of the companies were extracted from the relevant circulars of the Comparable Issues.

2. The market capitalisation of the companies were calculated based on their respective number of shares in issue and their respective closing share price immediately prior to the publication of the relevant announcements.

3. For the Comparable Issues with share trading halted prior to the publication of relevant announcements, the last trading day refers to their respective last trading day of shares on the Stock Exchange immediately prior to the publication of relevant announcements. For the Comparable Issues without share trading halted prior to the publication of relevant announcements, the last trading day refers to the respective date of subscription agreement as the relevant subscription agreements were entered into among relevant parties after trading hours on the same date.

As illustrated in the table above, we noted that the premium/discount represented by the subscription prices of the Comparable Issues over/to their respective closing share prices on their respective last trading day (the "**Premium/Discount to Last Trading Day**") ranged from a discount of approximately 91.7% to a premium of approximately 60.0%, with an average of a discount of approximately 8.2%. Similarly, we noted that the premium/discount represented by the subscription prices of the Comparable Issues over/to their respective average closing share prices for the last five consecutive trading days up to and including their respective last trading day (the "**Premium/Discount to Last Five Trading Days**") ranged from a discount of approximately 92.1% to a premium of approximately 80.7%, with an average of a discount of approximately 3.7%.

The Subscription Price represents (i) a premium of approximately 11.1% to the closing Share price on the Last Trading Day; and (ii) a premium of approximately 6.8% to the average closing price for the last five consecutive trading days up to and including the Last Trading Day. Such premiums represented by the Subscription Price, therefore, falls within the range of the Premium/Discount to Last Trading Day and the Premium/Discount to Last Five Trading Days respectively, and are more favourable than the average and median of the Premium/Discount to Last Trading Day and the Premium/Discount to Last Five Trading Days, respectively.

(f) Comparable companies analysis

As mentioned under the section headed "1.(a) Information of the Group" above, the Group is principally engaged in manufacturing of machineries (such as plastic injection moulding machines), manufacturing of plastic processing products (such as plastic moulded products), processing and trading of printed circuit boards and trading of industrial supplies. According to the 2017 Annual Report, revenue derived from the manufacturing of machineries, manufacturing of plastic processing products, processing and trading of printed circuit boards, and trading of industrial supplies business segments represented approximately 36.6%, 15.9%, 32.2%, and 14.2% of the total revenue of the Group for the year ended 31 December 2017, respectively. Accordingly, we have researched for companies (the "**Comparable Companies**") (i) listed on the Stock Exchange; and (ii) either having not less than (a) 30% of their respective total revenue derived from plastic moulding related business, including plastic moulded products and plastic moulding machines as these two segments are closely related to each other; and/or (b) 30% of their respective total revenue derived from processing and trading of printed circuit boards related business for their respective latest financial year as set out in their respective latest published annual report. We have identified 12 Comparable Companies which we consider an exhaustive list based on the aforesaid criteria, and have compared the historical price-to-earnings ("**P/E**") multiple and the historical price-to-book ("**P/B**") multiple of the Comparable Companies to that implied by the Subscription Price.

It should be noted that the business, operation, and prospect of the Comparable Companies are not exactly the same as that of the Company and thus the P/E and P/B multiples of the Comparable Companies are used only to provide a reference of the recent valuation multiples of the Hong Kong-listed companies operating in the relevant industry to that of the Group. We have not conducted any in-depth investigation into the business and operation of the Comparable Companies save for the selection criteria above.

The list of the Comparable Companies and their respective P/E and P/B multiples are set out in the table below:

Comparable Companies (Stock code)	**Principal business**	**Market capitalisation as at the Last Trading Day**	**Closing share price as at the Last Trading Day**	**Historical P/E**	**Historical P/B**
		(HK$ in millions)	*(HK$)*	*(times) (Note 1)*	*(times) (Note 2)*
Tongda Group Holdings Limited (698)	Design and production of plastic and metal casings and components for electrical appliance products; provision of metallic casings and other ironware parts for electrical and electronic appliances; and provision of plastic set top boxes and manufacturing of sports products.	10,591	1.75	10.53	1.82
China HKBridge Holdings Limited (2323)	Manufacturing and sale of a broad range of printed circuit boards; investment and trading of securities and related treasury activities; and advising on securities and asset management services.	4,858	2.2	10.65	1.46
China Aerospace International Holdings Limited (31)	Production and sale of plastic products, liquid crystal display, printed circuit boards, and intelligent chargers; property investment; and internet of things applications and cross-border e-commerce logistics	2,591	0.84	5.33	0.37

Comparable Companies (Stock code)	Principal business	Market capitalisation as at the Last Trading Day *(HK$ in millions)*	Closing share price as at the Last Trading Day *(HK$)*	Historical P/E *(times)* *(Note 1)*	Historical P/B *(times)* *(Note 2)*
AKM Industrial Company Limited (1639)	Manufacturing and sale of flexible printed circuits, flexible packaging substrates and their respective components.	2,230	1.45	28.23	3.02
Chen Hsong Holdings (57)	Manufacturing and sale of plastic injection moulding machines and related products.	1,438	2.28	27.92	0.53
CMMB Vision Holdings Limited (471)	Provision of mobile multimedia and data services and trading of printed circuit board components.	502	0.191	N/A	0.37
VS International Group Limited (1002)	Manufacturing and sale of plastic moulded products and parts, assembling of electronic products, and mould design and fabrication.	452	0.196	27.05	0.70
Tian Chang Group Holdings Limited (2182)	Provision of integrated plastic solutions including mould design and fabrication services, and plastic component design and manufacturing services; and manufacturing and sale of e-cigarette products.	279	0.45	13.90	0.98
Daisho Microline Holdings Limited (567)	Manufacturing and trading of printed circuit boards and trading of petroleum and energy products and related business.	213	0.37	N/A	1.06
IAG Holdings Limited (8513)	Manufacturing and sale of injection moulded plastic parts for disposable medical devices and provision of tooling services.	158	0.395	N/A	9.43
TC Orient Lighting Holdings Limited (515)	Manufacturing and trading of printed circuit boards and light emitting diode lighting and trading of tower and electric cables.	210	0.102	N/A	0.69

Comparable Companies (Stock code)	Principal business	Market capitalisation as at the Last Trading Day	Closing share price as at the Last Trading Day	Historical P/E	Historical P/B
		(HK$ in millions)	*(HK$)*	*(times)*	*(times)*
				(Note 1)	*(Note 2)*
			Maximum	28.23	9.43
			Minimum	5.33	0.37
			Median	13.90	0.98
			Average	17.66	1.86
The Subscription		**394**	**0.550**	**14.45**	**0.36**
		(Note 3)		*(Note 4)*	*(Note 5)*

Source: Website of the Stock Exchange

Notes:

1. The historical P/E multiple of the Comparable Companies is calculated based on their respective market capitalisation as at the Last Trading Day divided by their respective latest published net profit attributable to owners of the Comparable Company as extracted from their respective latest published annual report. "N/A" represents Comparable Companies with net losses recorded in their respective latest published annual report.

2. The historical P/B multiple of the Comparable Companies is calculated based on their respective market capitalisation as at the Last Trading Day divided by their latest published equity attributable to owners of the respective Comparable Company as extracted from their respective latest published annual or interim report.

3. Theoretical market capitalisation of the Company is calculated based on the sum of the Subscription Price of HK$0.550 per Subscription Share times the number of Shares in issue as at the Last Trading Day.

4. The implied P/E multiple of the Subscription Price is calculated based on the theoretical market capitalisation of the Company divided by the net profit attributable to owners of the Company for the year ended 31 December 2017 as extracted from the 2017 Annual Report.

5. The implied P/B multiple of the Subscription Price is calculated based on the theoretical market capitalisation of the Company divided by the equity attributable to owners of the Company as at 31 December 2017 as extracted from the 2107 Annual Report.

6. For the purpose of this table, the translation of (i) RMB into HK$ is based on an exchange rate of RMB1.00 = HK$1.24; (ii) USD into HK$ is based on an exchange rate of USD1.00 = HK$7.85; and (iii) SGD into HK$ is based on an exchange rate of SGD1.00 = HK$5.92 for the purpose of illustration only.

As set out in the table above, the historical P/E multiples of the Comparable Companies ranged from approximately 5.33 times to approximately 28.23 times, with a median of approximately 13.90 times and average of approximately 17.66 times. We noted that the implied P/E multiple of the Subscription Price of approximately 14.45 times is within the range, higher than the median, and lower than the average of the historical P/E multiples of the Comparable Companies. As such, we consider the implied P/E multiple of the Subscription Price is in line with the market, having also taken into account (i) the turnaround achieved in the Group's results for the year ended 31 December 2017 after having recorded net losses consecutively during the past two financial years; and (ii) the net profit of approximately HK$43.9 million recorded for the year ended 31 December 2017 included a non-recurring income of approximately HK$31.1 million relating to the reversal of unutilised portion of the provision for restructuring costs and a non-recurring loss net of insurance recovery of approximately HK$17.6 million due to the damages caused by typhoon "Hato" as discussed under the section headed "1.(a) Information of the Group" above.

The historical P/B multiples of the Comparable Companies ranged from approximately 0.37 times to approximately 9.43 times, with a median of approximately 0.98 times and an average of approximately 1.86 times. We noted that the implied P/B multiple of the Subscription Price of approximately 0.36 times is below the range of the historical P/B multiples of the Comparable Companies. However, as discussed under the section headed "3.(c) Review of the historical Share price performance to the net asset value attributable to owners of the Company per Share" above, we noted that the closing price of the Shares has traded continuously below the NAV per Share since 3 May 2016 and the discount represented by the Subscription Price to the NAV per Share as at 31 December 2017 is lower than the Historical Average Discount to NAV, which is favourable to the Company.

(g) Conclusion

After taking into account the above, in particular, that:

(i) the closing price of the Shares have been fluctuating within a range of HK$0.465 per Share and HK$0.580 per Share since 24 October 2016 until the Last Trading Day and was generally below the Subscription Price for 442 trading days out of 504 trading days during the Review Period;

(ii) the discount represented by the Subscription Price to the NAV per Share as at 31 December 2017 of approximately 63.5% is lower than the Historical Average Discount to NAV of approximately 67.2%, which is favourable to the Company;

(iii) the generally thin trading volume of the Shares during the Review Period may imply the lack of interest from potential investors to invest in the Shares and hence it may be difficult for the Company to conduct equity fund raising activities in the market with similar pricing to that of the Subscription;

(iv) for reference purpose, while the average of the Premium/Discount to Last Trading Day of the Comparable Issues represents a discount of approximately 8.2% and the average of the Premium/Discount to Last Five Trading Days of the Comparable Issues represent a discount of approximately 3.7%, the Subscription Price represents (i) a premium of approximately 11.1% to the closing Share price on the Last Trading Day; and (ii) a premium of approximately 6.8% to the average closing price for the last five consecutive trading days up to and including the Last Trading Day, which is more favourable to the Company; and

(v) the implied P/E multiple of the Subscription Price of approximately 14.45 times is within the range the range and higher than the median of the historical P/E multiples of the Comparable Companies of approximately 13.90 times, which is in line with the market,

we consider that the Subscription Price of HK$0.550 per Subscription Share is fair and reasonable. As such, we are of the view that the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

4. Financial effects of the Subscription

(a) Working capital

According to the 2017 Annual Report, as at 31 December 2017, cash and bank balances of the Group amounted to approximately HK$348.7 million. Upon Completion, it is expected that the net proceeds of approximately HK$76,800,000 from the Subscription will enhance the cash position and therefore working capital of the Group.

(b) Gearing ratio

The gearing ratio of the Group is calculated as bank borrowings divided by net assets of the Group. As at 31 December 2017, the Group's gearing ratio was approximately 32.9%. Upon Completion, the Group's net assets is expected to be increased by the amount of net proceeds from the Subscription and therefore the gearing ratio and capital structure of the Group are expected to improve.

(c) Net asset value

According to the 2017 Annual Report, net assets attributable to equity shareholders of the Company (the "**NAV**") was approximately HK$1,080.5 million as at 31 December 2017. Upon Completion, it is expected that the NAV will increase by the amount of net proceeds from the Subscription. Accordingly, the Subscription is expected to have a positive impact on the NAV. On a per Share basis, given that the Subscription Price is lower than the NAV per Share as at 31 December 2017 of approximately HK$1.507 per Share, the NAV per Share is expected to decrease upon Completion. However, having considered (i) the benefits of the Subscription as discussed under the section headed "1.(c) Reasons for and benefits of the Subscription and use of proceeds" above; and (ii) as discussed under the section headed "3. Evaluation of the Subscription Price" above, the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable so far as the Independent Shareholders are concerned, we consider the decrease in NAV per Share is commercially justifiable.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon Completion.

5. Potential dilution effect on the shareholding interests of the existing public Shareholders

The following table summarises the effect of the Subscription on the shareholding structure of the Company immediately upon Completion, assuming that there is no change in the issued share capital of the Company (other than the issue of the Subscription Shares) between the Latest Practicable Date and Completion. Please refer to the section headed "Effect on the shareholding structure" in the Letter from the Board for further details of the effect of the Subscription on the shareholding structure of the Company.

Shareholders	As at the Latest Practicable Date		Immediately upon Completion	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*
The First Subscriber, the Second Subscriber and parties acting in concert with them				
The First Subscriber	127,052,600	17.72	235,802,600	27.36
The Second Subscriber	–	–	36,250,000	4.21
Tai Shing Agencies Limited *(note 1)*	170,104,452	23.73	170,104,452	19.73
Mr. Tang To *(note 2)* and his associates *(note 3)* (other than the First Subscriber, Tai Shing Agencies Limited and the Second Subscriber)	8,656,406	1.21	8,656,406	1.00
Mr. Wong Yiu Ming *(note 4)*	9,468,000	1.32	9,468,000	1.10
Mr. Kan Wai Wah *(note 5)*	136,400	0.02	136,400	0.02
China Resources (Holdings) Company Limited *(note 6)*	169,649,046	23.66	169,649,046	19.68
Sub-total:	**485,066,904**	**67.66**	**630,066,904**	**73.10**
Director				
Mr. Cheng Tak Yin *(note 7)*	1,406,000	0.20	1,406,000	0.16
Public Shareholders	230,457,788	32.15	230,457,788	26.74
Total:	**716,930,692**	**100.00**	**861,930,692**	**100.00**

Notes:

(1) Tai Shing Agencies Limited is an indirect wholly-owned subsidiary of the First Subscriber.

(2) Mr. Tang To is an executive Director and a director of both the First Subscriber and the Second Subscriber.

(3) Out of these 8,656,406 Shares, 4,970,000 Shares are personally held by Mr. Tang To, 2,000 Shares are held by his spouse, 224,000 Shares are jointly held by Mr. Tang To and his spouse while 3,460,406 Shares are held by Ginta Company Limited, which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.

(4) Mr. Wong Yiu Ming is an executive Director and is presumed to be acting in concert with the Subscribers under class (6) presumption under the definition of "acting in concert" under the Takeovers Code until Completion. This class (6) presumption will cease to apply after Completion.

(5) Mr. Kan Wai Wah is a non-executive Director and a director of the First Subscriber.

(6) China Resources (Holdings) Company Limited is presumed to be a party acting in concert with the Subscribers under Note 1 to the definition of "acting in concert" under the Takeovers Code. This presumption will cease to apply after Completion since China Resources (Holdings) Company Limited will hold less than 20% of the voting rights of the Company upon Completion.

(7) Mr. Cheng Tak Yin is an independent non-executive Director.

As illustrated in the table above, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 32.15% as at the Latest Practicable Date to approximately 26.74% immediately upon Completion.

Nonetheless, having considered (i) the benefits of the Subscription as discussed under the section headed "1.(c) Reasons for and benefits of the Subscription and use of proceeds" above; and (ii) as discussed under the section headed "3. Evaluation of the Subscription Price" above, the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the dilution effect on the shareholding of existing public Shareholders as a result of the Subscription is acceptable.

6. Whitewash Waiver

As set out in the section headed "Implications under the Listing Rules and the Takeovers Code" in the Letter from the Board, upon Completion, (i) the First Subscriber will directly hold 235,802,600 Shares and indirectly hold 170,104,452 Shares, together representing approximately 47.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares; the Second Subscriber will directly hold 36,250,000 Shares, representing approximately 4.21% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares; and (ii) the First Subscriber, the Second Subscriber and their associates and parties acting in concert with them will be interested in a total of 450,949,858 Shares respectively representing approximately 52.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by them or parties acting in concert with them as their aggregate direct and indirect shareholding interests in the Company would increase from the existing approximately 41.45% to approximately 51.30% upon Completion, unless the Whitewash Waiver is granted by the Executive. In this regard, the Subscribers have made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders of the Subscription and the Whitewash Waiver at the EGM by way of poll.

It should be noted that the Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent, including the approval of the Whitewash Waiver by the Independent Shareholders at the EGM and the granting of the Whitewash Waiver by the Executive, which cannot be waived. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription will not proceed. Accordingly, the Company will then lose all the benefits that are expected to be brought to the Group by the Subscription, including but not limited to the availability of the funds to be raised from the Subscription.

Having taken into consideration (i) the benefits of the Subscription as discussed under the section headed "1.(c) Reasons for and benefits of the Subscription and use of proceeds" above; (ii) the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable so far as the Independent Shareholders are concerned as discussed under the section headed "3. Evaluation of the Subscription Price" above; and (iii) the dilution to the existing public Shareholders is acceptable as discussed under the section headed "5. Potential dilution effect on the shareholding interests of the existing public Shareholders" above, we are of the view that the Whitewash Waiver (the granting of which is one of the conditions precedent of the Subscription) is fair and reasonable, so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that although the Subscription is not in ordinary and usual course of business of the Company, (i) the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Code Independent Board Committee and the LR Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Subscription Agreement, the Specific Mandate and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Challenge Capital Management Limited

Jackson Woo
Managing Director

Wilson Fok
Managing Director

Mr. Jackson Woo is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and have over 10 years of experience in corporate finance.

Mr. Wilson Fok is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance.

1. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2015, 2016 AND 2017

Financial information of the Group for the three years ended 31 December 2015, 2016 and 2017 is set out in the following documents which are also available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.cosmel.com):

(i) pages 71 to 227 of the annual report for the year ended 31 December 2017 of the Company published on 9 April 2018 (http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0409/LTN20180409901.pdf);

(ii) pages 73 to 219 of the annual report for the year ended 31 December 2016 of the Company published on 30 March 2017 (http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0330/LTN20170330537.pdf);

(iii) pages 50 to 143 of the annual report for the year ended 31 December 2015 of the Company published on 18 April 2016 (http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0418/LTN20160418660.pdf).

The following summary of financial information for each of the three years ended 31 December 2015, 2016 and 2017 is extracted from the consolidated financial statements of the Company as set forth in the annual reports of the Company for the years ended 31 December 2015, 2016 and 2017, respectively.

	For the year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
INCOME STATEMENT			
Revenue	2,395,166	2,192,287	2,446,848
Profit/(loss) before tax	(26,662)	(279,260)	49,926
Taxation	(12,156)	(54,625)	(6,076)
Profit/(loss) for the year	(38,818)	(333,885)	43,850
Non-controlling interests	10,783	(30,725)	16,566
Profit/(loss) attributable to equity shareholders of the Company	(49,601)	(303,160)	27,284
STATEMENT OF FINANCIAL POSITION			
Total assets	2,946,221	2,419,803	2,770,659
Total liabilities	(1,378,401)	(1,262,891)	(1,478,520)
Total equity	1,567,820	1,156,912	1,292,139
Non-controlling interests	232,507	190,318	211,645

No dividend was declared, distributed or paid by the Company for the years ended 31 December 2015, 2016 and 2017.

The auditors of the Company have issued unqualified opinions on the audited consolidated financial statements of the Group for the years ended 31 December 2015, 2016 and 2017.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2017 extracted from the annual report of the Company for the year ended 31 December 2017.

Consolidated Income Statement
For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5&6	2,446,848	2,192,287
Cost of sales	25(b)	(2,037,409)	(1,878,696)
Gross profit		409,439	313,591
Other income and gains, net	6	43,840	21,352
Selling and distribution costs		(145,043)	(147,904)
Administrative expenses		(244,887)	(322,145)
Restructuring costs	7	–	(135,157)
Operating profit/(loss)		63,349	(270,263)
Finance costs	8	(20,483)	(16,559)
Investment income	9	3,736	4,360
Share of results of associates		3,324	568
Gain on disposal of a subsidiary	37(a)	–	122
Gain on deregistration of a subsidiary		–	2,512
Profit/(loss) before tax	10	49,926	(279,260)
Taxation	12	(6,076)	(54,625)
Profit/(loss) for the year		43,850	(333,885)
Profit/(loss) attributable to:			
– Equity shareholders of the Company		27,284	(303,160)
– Non-controlling interests		16,566	(30,725)
		43,850	(333,885)
Earnings/ (Loss) per share for profit/(loss) attributable to the equity shareholders of the Company during the year	13		
– Basic		3.80 HK cents	(42.29 HK cents)

The notes on pages I-10 to I-81 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Profit/(loss) for the year		43,850	(333,885)
Other comprehensive income/(expense) for the year, net of tax:	14		
Items that have been reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of financial statements of foreign operations		74,040	(75,096)
Changes in fair value of available-for-sale financial asset		(129)	655
Share of reserves of associates		1,956	(2,191)
Reclassification adjustments:			
Release of translation reserve upon disposal of a subsidiary		–	(55)
Release of translation reserve upon deregistration of a subsidiary		–	(1,966)
Release of fair value reserve upon disposal of available-for-sale financial asset		(930)	–
		74,937	(78,653)
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of properties held for own use		21,240	4,281
		96,177	(74,372)
Total comprehensive income/ (expense) for the year		140,027	(408,257)
Profit/(loss) attributable to:			
– Equity shareholders of the Company		113,900	(370,207)
– Non-controlling interests		26,127	(38,050)
Total comprehensive income/ (expense) for the year		140,027	(408,257)

The notes on pages I-10 to I-81 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current Assets			
Property, plant and equipment	16	644,876	618,372
Leasehold land and land use rights	18	43,320	43,796
Goodwill	19	53,483	53,483
Intangible assets	20	7,838	9,221
Interests in associates	21	32,369	29,179
Available-for-sale financial assets	22	–	1,389
Finance lease receivables	23	16,472	54,220
Deferred tax assets	24	29,518	25,670
		827,876	835,330
Current Assets			
Inventories	25	524,571	401,738
Finance lease receivables	23	100,965	57,935
Trade and other receivables	26	923,611	788,101
Other financial assets	27	20,277	2,875
Current tax recoverable		1,473	1,101
Cash and bank balances	28	348,746	332,723
		1,919,643	1,584,473
Assets of disposal group classified as held for sale	38	23,140	–
		1,942,783	1,584,473
Current Liabilities			
Trade and other payables	29	928,635	740,372
Provision for restructuring	30	52,956	91,727
Amount due to an associate		865	565
Bank borrowings	31	380,598	320,149
Obligations under finance leases	32	2,696	5,441
Deferred consideration payable		8,148	8,148
Current tax payable		7,622	15,255
		1,381,520	1,181,657
Liabilities directly associated with the assets classified as held for sale	38	26,723	–
		1,408,243	1,181,657
Net Current Assets		534,540	402,816
Total Assets less Current Liabilities		1,362,416	1,238,146

	Notes	2017 HK$'000	2016 HK$'000
Non-current Liabilities			
Bank borrowings	31	45,125	35,175
Obligations under finance leases	32	–	2,694
Deferred tax liabilities	24	25,152	43,365
		70,277	81,234
Net Assets		1,292,139	1,156,912
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital	33	532,903	532,903
Reserves		547,591	433,691
		1,080,494	966,594
Non-controlling Interests		211,645	190,318
Total Equity		1,292,139	1,156,912

The consolidated financial statements on pages I-2 to I-81 were approved and authorised for issue by the Board of Directors on 8 March 2018 and were signed on its behalf by:

TANG TO	**TANG YU, FREEMAN**
DIRECTOR	*DIRECTOR*

The notes on pages I-10 to I-81 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Attributable to equity shareholders of the Company					
	Share capital	Reserves (Note 34)	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2016	532,903	132,311	670,099	1,335,313	232,507	1,567,820
Loss for the year	–	–	(303,160)	(303,160)	(30,725)	(333,885)
Other comprehensive (expense)/income for the year:						
Fair value gain:						
– Available-for-sale financial asset	–	655	–	655	–	655
Share of reserves of associates	–	(2,191)	–	(2,191)	–	(2,191)
Surplus on revaluation of properties held for own use	–	3,761	–	3,761	1,426	5,187
Deferred taxation adjustment	–	(688)	–	(688)	(218)	(906)
Exchange differences arising from translation of financial statements of foreign operations	–	(66,563)	–	(66,563)	(8,533)	(75,096)
Reclassification adjustments:						
Release of translation reserve upon deregistration of a subsidiary	–	(1,966)	–	(1,966)	–	(1,966)
Release of translation reserve upon disposal of a subsidiary	–	(55)	–	(55)	–	(55)
Total other comprehensive expense for the year	–	(67,047)	–	(67,047)	(7,325)	(74,372)
Total comprehensive expense for the year	–	(67,047)	(303,160)	(370,207)	(38,050)	(408,257)
Dividend paid to the non-controlling shareholders	–	–	–	–	(3,360)	(3,360)
Partial disposal of a subsidiary without loss of control	–	1,488	–	1,488	(712)	776
Disposal of a subsidiary	–	–	–	–	(67)	(67)
Balance at 31 December 2016	532,903	66,752	366,939	966,594	190,318	1,156,912

Details of reserves of the Group during the year are set out in Note 34 to the consolidated financial statements.

	Attributable to equity shareholders of the Company					
	Share capital	Reserves (Note 34)	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2017	532,903	66,752	366,939	966,594	190,318	1,156,912
Profit for the year	–	–	27,284	27,284	16,566	43,850
Other comprehensive income/(expense) for the year:						
Fair value loss:						
– Available-for-sale financial asset	–	(129)	–	(129)	–	(129)
Share of reserves of associates	–	1,956	–	1,956	–	1,956
Surplus on revaluation of properties held for own use	–	23,075	–	23,075	2,266	25,341
Deferred taxation adjustment	–	(3,750)	–	(3,750)	(351)	(4,101)
Exchange differences arising from translation of financial statements of foreign operations	–	66,394	–	66,394	7,646	74,040
Reclassification adjustment:						
Release of fair value reserve upon disposal of available-for-sale financial asset	–	(930)	–	(930)	–	(930)
Total other comprehensive income for the year	–	86,616	–	86,616	9,561	96,177
Total comprehensive income for the year	–	86,616	27,284	113,900	26,127	140,027
Dividend paid to the non-controlling shareholders	–	–	–	–	(4,800)	(4,800)
Balance at 31 December 2017	532,903	153,368	394,223	1,080,494	211,645	1,292,139

Details of reserves of the Group during the year are set out in Note 34 to the consolidated financial statements.

The notes on pages I-10 to I-81 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Profit/(loss) before tax		49,926	(279,260)
Adjustments for:			
Interest income	9	(3,519)	(3,579)
Finance costs	8	20,483	16,559
Realised and unrealised gain on held-for-trading investments	9	(217)	(682)
Dividend income	9	–	(99)
Gain on disposal of a subsidiary		–	(122)
Gain on deregistration of a subsidiary		–	(2,512)
Gain on disposal of available-for-sale financial assets	6	(3,389)	–
Share of results of associates		(3,324)	(568)
Depreciation of property, plant and equipment	10	63,702	70,402
Amortisation of leasehold land and land use rights	10	1,379	1,390
Impairment loss of property, plant and equipment	10	–	3,073
Amortisation of intangible assets	10	1,383	1,383
Gain on disposal of property, plant and equipment	6	(57)	(1,701)
(Surplus)/deficit on revaluation of properties held for own use	10	(179)	955
(Unused provision for restructuring provision reversed)/restructuring provision	30	(31,101)	91,727
Loss and damage from typhoon			
– Property, plant and equipment written off		1,469	–
– Inventories written off		3,927	–
Allowance for impairment of bad and doubtful debts, net	10	6,075	51,789
Write-down of inventories, net	25(b)	2,400	69,465
Operating cash flows before changes in working capital		108,958	18,220
(Increase)/decrease in inventories		(102,005)	69,349
Increase in finance lease receivables		(4,221)	(17,691)
Increase in trade and other receivables		(95,585)	(94,858)
Increase in trade and other payables		144,828	46,979
Cash generated from operations		51,975	21,999
Restructuring costs paid	30	(8,606)	–
Hong Kong profits tax paid		(1,561)	(2,988)
Overseas tax paid		(12,493)	(10,027)
NET CASH GENERATED FROM OPERATING ACTIVITIES		29,315	8,984

	Notes	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Decrease in pledged bank deposits		8,054	205,450
Purchase of property, plant and equipment		(58,372)	(41,029)
Proceeds from disposal of property, plant and equipment		3,444	12,212
Interest received		3,519	3,579
(Increase)/decrease in other financial assets		(16,983)	6,248
Dividend received from associates		1,467	–
Dividend received from listed available-for-sale financial asset		–	99
Repayments from/(advances to) associates		1,474	(2,687)
Proceeds from partial disposal of a subsidiary	37	–	776
Proceeds from disposal of available-for-sale financial assets		3,719	–
Net cash outflow from disposal of a subsidiary	37	–	(2,494)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(53,678)	182,154
FINANCING ACTIVITIES			
Repayment of bank loans	36	(259,987)	(515,762)
Interest paid	36	(20,301)	(16,020)
Repayment of obligations under finance leases	36	(5,439)	(8,238)
Dividend paid to the non-controlling shareholders of subsidiaries	36	–	(3,360)
Bank loans raised	36	352,878	301,496
Advance from an associate	36	300	565
Finance charge paid	36	(182)	(493)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		67,269	(241,812)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		42,906	(50,674)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		264,829	327,393
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		8,187	(11,890)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	28	315,922	264,829

The notes on pages I-10 to I-81 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL

Cosmos Machinery Enterprises Limited (the "Company") is a public limited company domiciled and incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The address of its registered office is 10/F., Billion Plaza 2, No. 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong. The principal activities of its principal subsidiaries are set out in note 46.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(1) Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as "the Group") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties held for own use and certain financial assets, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRS that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

The HKICPA has issued certain new and amended HKFRS that are first effective for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

(2) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(3) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(4) Property, plant and equipment

Properties held for own use are stated at their revalued amounts, being their fair value at the date of revaluation less any subsequent accumulated depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (see note 2(9)).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in profit or loss during the financial period in which they are incurred.

Revaluations on properties held for own use are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from which would be determined using fair values at the end of the reporting period.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values (if any) over their estimated useful lives, as follows:

Leasehold land held for own use under finance leases	Unexpired term of the leases
Buildings held for own use	40 years or unexpired term of the leases, if shorter
Furniture, fixtures and equipment	3 – 10 years
Plant and machinery	5 – 10 years
Motor vehicles	3 – 10 years

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Assets under construction represent buildings, structures, plant and machinery and other fixed assets under construction or installation and are stated at cost less any accumulated impairment losses, and are not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Assets under construction are reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(9)).

(5) Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in certain lessee-occupied properties.

Leasehold land and land use rights relating to certain buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to profit or loss.

(6) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(7) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

(8) Intangible assets (Other than goodwill)

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation (where the estimated useful life is finite) and accumulated impairment losses (see note 2(9)(ii)), on the same basis as intangible assets that are acquired separately.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(9) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates recognised using the equity method (see note 2(3)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(9)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(9)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity financial assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the allowance for impairment of bad and doubtful debts is recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than leasehold land held for own use under finance leases and properties carried at revalued amounts);

– land and land use rights classified as being held under an operating lease;

– investments in subsidiaries and associates (except for those classified as held for sale or included in a disposal group that is classified as held for sale) in the Company's statement of financial position;

– goodwill;

– intangible assets; and

– investments in subsidiaries and associates in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(10) Financial assets

The Group classifies its financial assets other than investments in associates in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates their classification at every reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently carried at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Finance lease receivables, trade and other receivables, short-term bank deposits with maturity over three months, pledged bank deposits and cash and cash equivalents in the consolidated statement of financial position are classified as loans and receivables.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Regular purchases and sales of financial assets are recognised on the trade-date when the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are recognised initially at fair value, plus transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are reclassified through other comprehensive income to the income statement.

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Investments in unquoted equity instruments whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less any impairment losses.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, by reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(11) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Other borrowing costs are expensed in the period in which they are incurred. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

(12) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(13) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transactions for similar services, when such information is obtainable, is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(13)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(13)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or where not present obligations at the date of acquisition are disclosed in accordance with note 2(13)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(14) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

(15) Trade and other receivables

Trade and other receivables are initially recognised at fair value and, after initial recognition, at amortised cost less any allowance for impairment of bad and doubtful debts, except for the following receivables:

– interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any allowance for impairment of bad and doubtful debts, and

– short term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any allowance for impairment of bad and doubtful debts.

(16) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Pledged bank deposits are not included in cash and cash equivalents.

(17) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction (net of tax) from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity shareholders.

(18) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities (if any) measured in accordance with note 2(13)(i), trade and other payables are subsequently stated at amortised cost, except for the following payables:

– short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount; and

– interest-free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

(19) Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank and other borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(20) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(21) Employee benefits

(i) Retirement benefit costs

Payments to defined contribution plans under the mandatory provident fund scheme, the ORSO scheme and state-managed retirement benefits scheme are charged as expenses as they fall due.

(ii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Share-based compensation

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the Hull White Trinomial Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share capital) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits failing due more than 12 months after the end of the reporting period are discounted to their present value.

(22) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amount for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below:

(i) Sales of goods are recognised when a Group entity has delivered products to the customer and the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the period of the leases.

(iii) Handling and services income are recognised when services are provided.

(iv) Interest income is recognised as it accrues using the effective interest method. Interest income from the finance lease is recognised on a basis that reflects a constant periodic rate of return on the net investment in the finance lease.

(v) Dividend income is recognised when the shareholder's right to receive payment is established prior to the end of the reporting period.

(23) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the Group. All other leases are classified as operating leases.

(i) Leases of land and buildings

Whenever necessary, in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

The land element is classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. The building element is classified as a finance or operating lease in the same way as leases of other assets. The payments made on acquiring land held under an operating lease are recognised in the statement of financial position as leasehold land and land use rights which are stated at cost and are amortised on a straight-line basis over the period of the lease term.

If the lease payments on a lease of land and buildings cannot be allocated reliably between the land and building elements at the inception of the lease or the relevant lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(ii) ***Finance leases***

Lessee

Assets held under finance leases are recognised in the statement of financial position at amounts equal to the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liabilities, net of finance charges, on the finance leases are recorded as obligations under finance leases. All assets held under finance leases are classified as property, plant and equipment, except for those properties held to earn rental income which are classified as investment property, in the statement of financial position.

Depreciation and impairment losses are calculated and recognised in the same manner as the depreciation and impairment losses on property, plant and equipment as set out in note 2(4), except for the estimated useful lives cannot exceed the relevant lease terms, if shorter.

Minimum lease payments are apportioned between finance charge and the reduction of the outstanding liabilities. The finance charge is recognised in profit or loss over the period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

(iii) ***Operating leases***

Where the Group is the lessee, lease payments under an operating lease are recognised as an expense on a straight-line basis over the period of the lease term. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on a straight-line basis over the lease period. Contingent rentals are charged as an expense in the periods in which they are incurred.

(24) Dividend distribution

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(25) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria. A discontinued segment is separately presented from continuing segments.

(26) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and the Group's presentation currency. All values are rounded to the nearest thousand except when otherwise indicated, The comparative figures also have been rounded to the nearest thousand to conform with the changes in the presentation for the current year.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except those arising from qualifying cash flow hedges or qualifying net investment hedges which are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss when gain or loss on disposal is recognised.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate.

(27) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of revised HKFRS, which are generally effective for accounting periods beginning on or after 1 January 2017. The Group has adopted the following amendments to HKFRSs for the first time for the current year's consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014-2016 cycle

Except as described below, the application of the amendments to HKFRS in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. The Group has provided the information for the current period in note 36 for the year ended 31 December 2017 to satisfy the new disclosure requirements.

Amendments to HKAS 12: Recognition of deferred tax assets for unrealised losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained profits (or in another component of equity, as appropriate), without allocating the change between opening retained profits and other components of equity. Entities applying this relief must disclose that fact. The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

The Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period (see note 47).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The assumptions, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(9)(ii). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions. Where the expectation is different from the original estimate, such difference will impact the carrying amount of goodwill and the impairment (if any) in the period in which such estimate has been changed.

(ii) Allowance for impairment of trade and other receivables

The Group assesses impairment of trade and other receivables based upon evaluation of the recoverability of the trade and other receivables at the end of each reporting period. The estimates are based on the aging of the trade and other receivables and the historical write-off experience. If the financial condition of the debtors were to deteriorate, additional impairment may be required. A considerable level of judgment is exercised by the directors when assessing the financial condition and credit worthiness of each customer. An increase or decrease in the impairment loss would affect the net profit in future years.

(iii) Income taxes

The Group is subject to income taxes mainly in Hong Kong and the Mainland. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to allowance for doubtful debts and tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

(iv) Provision for inventories

The Group reviews the carrying amounts of inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 2(14). The directors estimate the net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

(v) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of such financial asset is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(vi) Estimated impairment of finance lease receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows expected to arise from the settlement of the finance lease receivables and fair value of the pledged assets less costs of disposal. The amount of the impairment loss is measured as the difference between the asset's carrying amount and higher of the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition) and the fair value of the pledged assets less costs of disposal. Where the actual future cash flows or the net selling price of the pledged assets are less than expected, a material impairment loss may arise.

During the year ended 31 December 2017, impairment loss that has been recognised for finance lease receivables is approximately HK$6,227,000 (2016: HK$7,829,000). As at 31 December 2017, the carrying amount of finance lease receivables is approximately HK$117,437,000 (2016: HK$112,155,000).

(vii) Provision for restructuring costs

The Group made the provision for restructuring costs amounting to HK$91,727,000 based on assessment of restructuring plan of the Group for the year ended 31 December 2016. The restructuring plan aims at reducing cost and enhancing operational efficiency. The balance of the respective provision was HK$52,956,000 as at 31 December 2017 in accordance with HKAS 37, based on the estimation and judgment made by management on the restructuring provision assessment.

5. SEGMENT REPORTING

The Group manages its business by a mixture of both business lines and geographical location. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified, on a product basis, the following four reportable segments.

(1) trading of industrial consumables;
(2) manufacturing of plastic processing products;
(3) manufacturing of machinery; and
(4) processing and trading of printed circuit boards.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's top executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets and corporate expenses.

The segment results for the year ended 31 December 2017 are as follows:

	Industrial consumables	**Plastic processing products**	**Machinery**	**Printed circuit boards**	**Other operations**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE							
External sales	346,582	388,857	896,153	788,612	26,644	–	2,446,848
Inter-segment sales	22,310	934	6,724	–	–	(29,968)	–
Total revenue	368,892	389,791	902,877	788,612	26,644	(29,968)	2,446,848

Inter-segment sales are determined at prevailing market rates.

RESULTS							
Segment results	16,154	(14,495)	52,423	17,866	7,776	–	79,724
Unallocated corporate expenses							(16,375)
Operating profit							63,349
Finance costs							(20,483)
Investment income							3,736
Share of results of associates							3,324
Profit before tax							49,926
Taxation							(6,076)
Profit before non-controlling interests							43,850

The segment assets and liabilities as at 31 December 2017 are as follows:

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	259,191	342,910	1,074,152	566,900	429,976	2,673,129
Interests in associates						32,369
Unallocated corporate assets						65,161
Consolidated total assets						2,770,659
LIABILITIES						
Segment liabilities	58,056	150,392	531,290	224,493	23,964	988,195
Current tax payable						7,622
Borrowings						428,419
Unallocated corporate liabilities						54,284
Consolidated total liabilities						1,478,520
OTHER INFORMATION						
Capital additions	840	12,968	7,964	34,131	2,469	58,372
Depreciation and amortisation	1,841	11,216	21,899	26,724	4,784	66,464
Allowance for impairment of bad and doubtful debts	(820)	(1,359)	1,228	799	6,227	6,075
Other non-cash expenses	509	(1,619)	3,510	–	–	2,400
Restructuring provision reversed	–	–	(31,101)	–	–	(31,101)
Share of results of associates	–	–	2,425	–	899	3,324
Interest income	826	1,065	642	216	770	3,519
Finance costs	983	6,303	8,467	586	4,144	20,483
Taxation	3,887	(260)	(6,725)	5,144	4,030	6,076

The segment results for the year ended 31 December 2016 are as follows:

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE							
External sales	340,539	393,403	713,477	721,005	23,863	–	2,192,287
Inter-segment sales	14,989	668	4,977	–	–	(20,634)	–
Total revenue	355,528	394,071	718,454	721,005	23,863	(20,634)	2,192,287

Inter-segment sales are determined at prevailing market rates.

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Consolidated
RESULTS							
Segment results	8,210	(44,296)	(236,354)	22,960	(296)	491	(249,285)
Unallocated corporate expenses							(20,978)
Operating loss							(270,263)
Finance costs							(16,559)
Investment income							4,360
Share of results of associates							568
Gain on disposal of a subsidiary							122
Gain on deregistration of a subsidiary							2,512
Loss before tax							(279,260)
Taxation							(54,625)
Loss before non-controlling interests							(333,885)

The segment assets and liabilities as at 31 December 2016 are as follows:

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
ASSETS						
Segment assets	235,786	308,734	825,221	512,244	374,410	2,256,395
Interests in associates						29,179
Available-for-sale financial assets						1,389
Unallocated corporate assets						132,840
Consolidated total assets						2,419,803
LIABILITIES						
Segment liabilities	51,364	81,130	481,266	198,173	23,057	834,990
Current tax payable						15,255
Borrowings						363,459
Unallocated corporate liabilities						49,187
Consolidated total liabilities						1,262,891
OTHER INFORMATION						
Capital additions	1,428	15,399	2,980	20,492	730	41,029
Depreciation and amortisation	1,747	10,857	28,130	27,950	4,491	73,175
Allowance for impairment of bad and doubtful debt	620	3,821	41,023	(1,504)	7,829	51,789
Other non-cash expenses	(32)	4,234	69,291	–	–	73,493
Restructuring provision	–	–	91,727	–	–	91,727
Share of results of associates	–	–	259	–	309	568
Interest income	757	575	931	244	1,072	3,579
Finance costs	1,084	4,143	8,455	717	2,160	16,559
Taxation	2,559	26,686	12,496	9,567	3,317	54,625

Geographical information

The Group's operations are located in Hong Kong, other regions in Mainland, other Asia-Pacific countries, North America and Europe. The Group's trading of industrial consumables division is located in Hong Kong and Mainland. The manufacturing of plastic processing products, machinery and printed circuit boards divisions are located in Mainland.

The following table provides an analysis of the Group's sales by geographical market:

	Sales revenue by geographical market	
	2017	**2016**
	HK$'000	*HK$'000*
Hong Kong	586,964	572,916
Mainland	1,639,852	1,376,572
Other Asia-Pacific countries	155,700	181,383
North America	14,526	27,962
Europe	49,806	33,454
	2,446,848	2,192,287

The following is an analysis of the Group's fixed assets, goodwill and intangible assets ("specified non-current assets"), and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Specified Non-current assets		**Additions to property, plant and equipment**	
	2017	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	200,873	182,799	494	2,048
Mainland	548,644	542,073	57,878	38,981
	749,517	724,872	58,372	41,029

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the year (2016: Nil) and no information about major customers is presented accordingly.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the amounts received and receivable for goods sold to customers, less returns and discounts and interest income from finance lease receivables during the year. An analysis of revenue, other income and gains, net is as follows:

		2017	2016
	Notes	*HK$'000*	*HK$'000*
Revenue			
Sales of goods		2,420,204	2,168,424
Finance lease income		26,644	23,863
		2,446,848	2,192,287
Other income			
Unused provision for restructuring reversed	30	31,101	–
Gross rental income from properties and equipment		1,319	1,055
Handling, tooling and sales of scrapped materials		5,533	8,571
Government grants		7,154	3,499
Sundry income		12,136	4,146
		57,243	17,271
Gains/(loss), net			
Gain on disposal of property, plant and equipment		57	1,701
Exchange gain, net		713	2,380
Gain on disposal of available-for-sales financial assets		3,389	–
Loss and damage from typhoon, net of insurance recovery*		(17,562)	–
		(13,403)	4,081
		43,840	21,352

* This amount represents the loss incurred for the fixed assets scrapped, inventories damaged, other operating overheads for major relevant repairs, etc. net of insurance claims as a result of the typhoon damage to the production plant in Zhuhai during the year.

7. RESTRUCTURING COSTS

During the year 2016, the Group announced a series of restructuring actions to reduce costs and enhance operational efficiency. Details of restructuring costs were as follows:

	2017	2016
	HK$'000	*HK$'000*
Employees compensation	–	104,716
Write-down of inventories	–	20,357
Impairment loss of plant and machinery	–	3,073
Relocation expenses	–	7,011
	–	135,157

8. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within 5 years	20,301	16,020
Finance leases	182	493
Imputed interest expense on deferred consideration payable	–	46
Total interest expense on financial liabilities not at fair value through profit or loss	20,483	16,559

9. INVESTMENT INCOME

	2017	2016
	HK$'000	*HK$'000*
Bank interest income	3,519	3,579
Total interest income on financial assets not at fair value through profit or loss	3,519	3,579
Realised and unrealised gain on held-for-trading investments	217	682
Dividend income from listed available-for-sale financial asset	–	99
	3,736	4,360

10. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging/(crediting) the following:

	2017	2016
	HK$'000	*HK$'000*
Staff costs (including directors' emoluments)		
– Salaries and other benefits	360,756	387,223
– Retirement benefits scheme contributions	35,482	23,547
Total staff costs	396,238	410,770
Allowances for impairment of bad and doubtful debts	6,075	51,789
Auditors' remuneration		
– Group auditor	2,380	2,280
(Surplus)/deficit on revaluation of properties held for own use	(179)	955
Depreciation and amortisation on:		
– Owned assets	60,878	65,688
– Assets held under finance leases	410	2,379
– Leasehold land held for own use under finance leases	2,414	2,335
– Leasehold land and land use rights	1,379	1,390
– Intangible assets	1,383	1,383
Impairment loss of property, plant and equipment	–	3,073
Operating lease payments – Land and buildings	21,890	20,755

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to the Listing Rules and section 383(1) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2017			
Name of Directors	**Directors' fees**	**Salaries and allowances**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Mr. Tang To	725	1,124	108	1,957
Mr. Wong Yiu Ming	1,372	3,399	274	5,045
Mr. Tang Yu, Freeman	579	1,625	18	2,222
Non-Executive Directors				
Mr. Kan Wai Wah	60	–	–	60
Mr. Ho Wei Sem	–	–	–	–
Ms. Yeung Shuk Fan	168	–	–	168
Mr. Cheng Tak Yin	60	–	–	60
Mr. Qu Jinping	–	–	–	–
Mr. Huang Zhi Wei	–	–	–	–
Total	2,964	6,148	400	9,512

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

	2016			
Name of Directors	**Directors' fees**	**Salaries and allowances**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Mr. Tang To	530	1,030	108	1,668
Mr. Wong Yiu Ming	720	2,712	238	3,670
Mr. Tang Yu, Freeman	–	1,625	18	1,643
Non-Executive Directors				
Mr. Kan Wai Wah	60	–	–	60
Mr. Ho Wei Sem	–	–	–	–
Ms. Yeung Shuk Fan	168	–	–	168
Mr. Cheng Tak Yin	60	–	–	60
Mr. Qu Jinping	–	–	–	–
Mr. Huang Zhi Wei	–	–	–	–
Total	1,538	5,367	364	7,269

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

(b) Employees' emoluments

The five highest paid individuals included three (2016: three) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2016: two) individuals are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	4,103	4,780
Retirement benefits scheme contributions	106	137
	4,209	4,917

The emoluments of the employees were within the following bands:

	Number of employees	
	2017	2016
HK$1,000,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$3,000,000	1	1
	2	2

12. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the Year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
Current year	1,381	1,582
(Over-provision)/under-provision in prior years	(59)	1,730
	1,322	3,312
Overseas tax		
Current year	10,996	10,772
Under-provision in prior years	1,390	8,544
	12,386	19,316
Deferred tax		
Deferred taxation relating to the (reversal) and origination of temporary differences *(note 24)*	(7,632)	31,997
	6,076	54,625

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the domestic taxation rates applicable to losses of the consolidated companies as follows:

	2017	2016
	HK$'000	*HK$'000*
Profit/(loss) before tax	49,926	(279,260)
Tax calculated at the domestic income tax rate of 16.5% (2016: 16.5%)	8,238	(46,078)
Tax effect of share of results of associates	(548)	(94)
Tax effect of expenses that are not deductible in determining taxable profit	6,146	9,307
Tax effect of income that is not taxable in determining taxable profit	(2,345)	(3,929)
Under-provision of current tax in current year, net	(105)	(209)
Under-provision of current tax in prior years, net	1,331	10,274
Tax effect of utilisation of deductible temporary differences not previously recognised	(4,540)	(1,863)
Tax effect of temporary differences/tax losses not recognised	2,526	83,531
Tax effect of utilisation of tax losses not previously recognised	(6,121)	(329)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,494	4,015
	6,076	54,625

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per ordinary share is based on the Group's profit/(loss) attributable to equity shareholders of the Company divided by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Weighted average number of ordinary shares in issue during the year	716,930,692	716,930,692
	HK$'000	*HK$'000*
Profit/(loss) attributable to the equity shareholders of the Company	27,284	(303,160)
	HK cents	*HK cents*
Basic earnings/(loss) per share	3.80	(42.29)

No diluted earnings/(loss) per share is presented as the Company did not have any potential ordinary shares outstanding.

14. OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX

Tax effects relating to each component of other comprehensive income/(expense):

	2017			2016		
	Before tax amount	**Tax expenses**	**Net-of-tax amount**	**Before tax amount**	**Tax expenses**	**Net-of-tax amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Change in fair value of available-for-sale financial asset	(129)	–	(129)	655	–	655
Share of other comprehensive income/(expense) of associates	1,956	–	1,956	(2,191)	–	(2,191)
Surplus on revaluation of properties held for own use	25,341	(4,101)	21,240	5,187	(906)	4,281
Exchange differences arising from translation of financial statements of foreign operations	74,040	–	74,040	(75,096)	–	(75,096)
Reclassification adjustments:						
Release of translation reserve upon disposal of a subsidiary	–	–	–	(55)	–	(55)
Release of translation reserve upon deregistration of a subsidiary	–	–	–	(1,966)	–	(1,966)
Release of fair value reserve upon disposal of available-for-sale financial asset	(930)	–	(930)	–	–	–
	100,278	(4,101)	96,177	(73,466)	(906)	(74,372)

15. DIVIDEND

No dividend was paid or proposed by the directors of the Company for both years nor has any dividend been proposed since the end of the reporting period.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land held for own use under finance leases	Buildings held for own use	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Assets under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION							
At 1 January 2016	75,380	357,950	213,780	663,228	39,120	1,089	1,350,547
Exchange realignment	–	(19,543)	(11,375)	(37,900)	(1,773)	(73)	(70,664)
On disposal of a subsidiary	–	–	(941)	–	(335)	–	(1,276)
Additions	–	2,998	12,207	24,139	1,685	–	41,029
Reclassifications	–	(8,219)	8,219	1,016	–	(1,016)	–
Disposals	–	–	(35,488)	(33,251)	(6,162)	–	(74,901)
Adjustment on revaluation	270	(2,019)	–	–	–	–	(1,749)
At 31 December 2016 and 1 January 2017	75,650	331,167	186,402	617,232	32,535	–	1,242,986
Exchange realignment	–	19,578	9,562	33,437	1,564	–	64,141
Additions	–	378	10,150	45,250	2,243	351	58,372
Transfer to assets of disposal group classified as held for sale *(note 38)*	–	(20,218)	–	–	–	–	(20,218)
Disposals	–	–	(3,460)	(30,018)	(3,561)	–	(37,039)
Adjustment on revaluation	16,420	(5,504)	–	–	–	–	10,916
At 31 December 2017	92,070	325,401	202,654	665,901	32,781	351	1,319,158
Analysis of cost or valuation:							
At 31 December 2017							
At cost	–	–	202,654	665,901	32,781	351	901,687
At valuation	92,070	325,401	–	–	–	–	417,471
	92,070	325,401	202,654	665,901	32,781	351	1,319,158
At 31 December 2016							
At cost	–	–	186,402	617,232	32,535	–	836,169
At valuation	75,650	331,167	–	–	–	–	406,817
	75,650	331,167	186,402	617,232	32,535	–	1,242,986

	Leasehold land held for own use under finance leases HK$'000	Buildings held for own use HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Assets under construction HK$'000	Total HK$'000
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 January 2016	–	–	177,644	449,138	32,015	–	658,797
Exchange realignment	–	(1,059)	(9,695)	(24,272)	(1,445)	–	(36,471)
On disposal of a subsidiary	–	–	(732)	–	(84)	–	(816)
Depreciation provided for the year	2,335	10,943	14,510	40,371	2,243	–	70,402
Impairment for the year	–	–	73	3,000	–	–	3,073
Reclassifications	–	(6,238)	6,238	–	–	–	–
Written back on disposals	–	–	(29,800)	(29,161)	(5,429)	–	(64,390)
Eliminated on revaluation	(2,335)	(3,646)	–	–	–	–	(5,981)
At 31 December 2016 and 1 January 2017	–	–	158,238	439,076	27,300	–	624,614
Exchange realignment	–	746	8,158	22,536	1,313	–	32,753
Depreciation provided for the year	2,414	11,444	10,475	37,611	1,758	–	63,702
Written back on disposals	–	–	(2,971)	(25,879)	(3,333)	–	(32,183)
Eliminated on revaluation	(2,414)	(12,190)	–	–	–	–	(14,604)
At 31 December 2017	–	–	173,900	473,344	27,038	–	674,282
NET BOOK VALUES							
At 31 December 2017	92,070	325,401	28,754	192,557	5,743	351	644,876
At 31 December 2016	75,650	331,167	28,164	178,156	5,235	–	618,372

The net book value of leasehold land held for own use under finance leases held by the Group:

	2017 *HK$'000*	**2016** *HK$'000*
In Hong Kong:		
– under medium-term leases	92,070	75,650

The leasehold land and buildings of the Group were revalued as at 31 December 2017 on the open market existing use basis by Cushman & Wakefield Limited and Roma Appraisals Limited, independent firms of professional valuers. The surplus arising on revaluation attributable to the Group has been credited to the other comprehensive income for the year and is accumulated separately in equity in property revaluation reserve.

Depreciation expense of approximately HK$45,697,000 (2016: HK$48,389,000) has been expensed in cost of sales, HK$807,000 (2016: HK$1,209,000) in selling and distribution costs and HK$17,198,000 (2016: HK$20,804,000) in administrative expenses.

Had leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold land and buildings would have been approximately HK$327,746,000 (2016: HK$337,046,000).

The net book value of the Group's plant and machinery includes an amount of approximately HK$1,449,000 (2016: HK$15,160,000) in respect of assets held under finance leases.

At 31 December 2017, certain of the Group's leasehold land held for own use under finance leases and buildings with an aggregate carrying value of HK$83,100,000 (2016: HK$68,000,000) and HK$70,638,000 (2016: HK$81,800,000) respectively were pledged to secure certain bank borrowings granted to the Group.

17. FAIR VALUE MEASUREMENT OF PROPERTIES

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2017	Fair value measurement at 31 December 2017 categorised into Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement of assets:				
Leasehold land held for own use under finance lease	92,070	–	–	92,070
Buildings held for own use	325,401	–	–	325,401

	Fair value at 31 December 2016	Fair value measurement at 31 December 2016 categorised into Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement of assets:				
Leasehold land held for own use under finance lease	75,650	–	–	75,650
Buildings held for own use	331,167	–	–	331,167

During the years ended 31 December 2016 and 2017, there were no transfers into or out of level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's leasehold land held for own use under finance lease and buildings held for own use were revalued as at 31 December 2017. The valuations were carried out by independent firms of professional valuers, Cushman & Wakefield Limited and Roma Appraisals Limited, which are a world-wide commercial real estate services firm with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussion with the valuers on the valuation assumptions and valuation results when the valuations are performed at the annual reporting date.

(ii) Information about Level 3 fair value measurement

	Valuation techniques	Unobservable input	Range
Leasehold land held for own use under finance leases and buildings held for own use	(a) Direct comparison approach	(Discount)/premium on quality of building	–10% to 10%
	(b) Income approach	Capitalisation rate	4% to 8.75%
	(c) Depreciated replacement cost approach	Age adjustment on the cost of buildings, taking into account the remaining useful life of buildings.	40% to 50%

(a) The fair value of properties located in Hong Kong is determined using direct comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's properties compared to the recent sales. The valuations take into account the characteristic of the properties which included the location, size, view, floor level, year of completion and other factors collectively. Higher premium for higher quality properties will result in a higher fair value measurement.

(b) The fair value of properties in the PRC is determined using (i) income approach by the capitalisation of the net rental income derived from the existing leases and/or achievable in existing market with reversionary income potential by adopting appropriate capitalisation rates. Capitalisation is estimated by the valuer based on the risk profile of the properties being valued. The higher the rates, the lower the fair value. Prevailing market rents are estimated based on recent lettings within the subject properties and other comparable properties. The lower the rents, the lower the fair value. (ii) depreciated replacement cost approach by reference to an estimate of the market value for the existing use of the land, plus the current cost of replacement of the existing structures less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of properties. Lower the age of properties will result in correspondingly higher fair value.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Leasehold land held for own use under finance leases:		
At 1 January	75,650	75,380
Depreciation provided for the year	(2,414)	(2,335)
Surplus on revaluation	18,834	2,605
At 31 December	92,070	75,650
Buildings held for own use:		
At 1 January	331,167	357,950
Additions	378	2,998
Exchange realignment	18,832	(18,484)
Reclassification	–	(1,981)
Transfer to assets of disposal group classified as held for sale	(20,218)	–
Depreciation provided for the year	(11,444)	(10,943)
Surplus on revaluation	6,686	1,627
At 31 December	325,401	331,167

Surplus on revaluation and currency adjustment of leasehold land held for own use under finance leases and buildings held for own use is recognised in other comprehensive income in "property revaluation reserve" and "translation reserve" respectively.

18. LEASEHOLD LAND AND LAND USE RIGHTS

	2017	2016
	HK$'000	*HK$'000*
COST		
At 1 January	57,207	60,333
Exchange realignment	3,105	(3,126)
Transfer to assets of disposal group classified as held for sale *(note 38)*	(2,609)	–
At 31 December	57,703	57,207
ACCUMULATED AMORTISATION		
At 1 January	13,411	12,666
Exchange realignment	728	(645)
Transfer to assets of disposal group classified as held for sale *(note 38)*	(1,135)	–
Amortisation for the year	1,379	1,390
At 31 December	14,383	13,411
NET BOOK VALUE		
At 31 December	43,320	43,796
At 1 January	43,796	47,667

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2017	2016
	HK$'000	*HK$'000*
Outside Hong Kong held on:		
Medium-term leases	43,320	43,796

At 31 December 2017, certain of the Group's leasehold land and land use rights with an aggregate carrying value of approximately HK$4,041,000 (2016: HK$3,983,000) were pledged to secure certain bank borrowings granted to the Group (note 43).

19. GOODWILL

	HK$'000
COST	
At 1 January 2016, 31 December 2016 and 31 December 2017	53,483
ACCUMULATED IMPAIRMENT	
At 1 January 2016, 31 December 2016 and 31 December 2017	–
CARRYING AMOUNT	
At 31 December 2017	53,483
At 31 December 2016	53,483

The amount represents goodwill arising from the acquisition of 100% equity interest in KFE Hong Kong Co., Limited ("KFE") in 2013. For the purpose of impairment testing, goodwill has been allocated to an individual cash generating unit ("CGU"), representing KFE, a subsidiary in the processing and trading of printed circuit boards segment.

The recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a pre-tax discount rate of 18.7% (2016: 19.6%) per annum. The cash flows beyond that five-year period have been extrapolated using a steady 3% (2016: 3%) per annum growth rate. This growth rate is based on the printed circuit boards industry growth forecasts and does not exceed the average long-term growth rate for the printed circuit boards industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimations are based on KFE's past performance and management's expectations for the market development. The directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of KFE to exceed the aggregate recoverable amount of KFE.

The directors reviewed the carrying value of the goodwill, taking into account an independent valuation report prepared by a professional valuer, Cushman & Wakefield Limited. Based on the assessment and the valuation report, the directors are of the opinion that no impairment loss is necessary as at 31 December 2017.

20. INTANGIBLE ASSETS

	Customer relationship *HK$'000*
COST	
At 1 January 2016, 31 December 2016 and 31 December 2017	13,831
ACCUMULATED AMORTISATION	
At 1 January 2016	3,227
Amortisation for the year	1,383
At 31 December 2016 and 1 January 2017	4,610
Amortisation for the year	1,383
At 31 December 2017	5,993
CARRYING AMOUNT	
At 31 December 2017	7,838
At 31 December 2016	9,221

Customer relationship is amortised on a straight-line basis over its useful life of 10 years.

21. INTERESTS IN ASSOCIATES

	2017 *HK$'000*	**2016** *HK$'000*
Unlisted shares, at cost	7,747	7,747
Share of post-acquisition profits and reserves, net of dividends received	22,079	18,266
	29,826	26,013
Amounts due from associates	10,337	11,811
Less: allowance for impairment of doubtful debts	(7,794)	(8,645)
	2,543	3,166
	32,369	29,179

(a) Amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within 12 months of the end of the reporting period and are accordingly classified as non-current. The individually impaired receivable of approximately HK$7,794,000 (2016: HK$8,645,000) is mainly a debt due from an associate which is of age over three years. The other amounts due from associates do not contain impaired assets.

(b) Interests in associates at the end of the reporting period include goodwill of approximately HK$313,000 (2016: HK$313,000).

Details of the principal associates of the Group at 31 December 2017 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of registered capital attributable to the Group %	Principal activities
Suzhou Sanguang Science & Technology Co., Ltd.	The PRC	21.1	Manufacturing of industrial machinery, equipment and supplies
廣州市普同實驗分析儀器有限公司	The PRC	22.5	Manufacturing and trading of the experimental analysis instrument
Cosmos i-Tech Solutions Limited	Hong Kong	30.0	Providing information technology consultancy service

The above table lists out the associates of the Group which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the net assets of the Group at the end of the year.

In the opinion of the directors, the associates of the Group are all individually not material. Aggregate financial information in respect of the Group's associates is set out below:

	2017 *HK$'000*	2016 *HK$'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	29,826	26,013
Aggregate amounts of the Group's share of those associates		
Profit from continuing operations	3,324	568
Other comprehensive income/(expense)	1,956	(2,191)
Total comprehensive income/(expense)	5,280	(1,623)

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 *HK$'000*	2016 *HK$'000*
Unlisted equity securities, at cost	420	6,622
Impairment losses	(420)	(6,622)
	–	–
Listed equity securities outside Hong Kong, at market value	–	1,389
	–	1,389

Unlisted equity securities of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Changes in listed equity securities are recognised in other comprehensive income.

As at 31 December 2017, all of the Group's unlisted available-for-sale equity securities were individually determined to be fully impaired on the basis of a material decline in their recoverable amounts below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investments in them may not be recovered.

23. FINANCE LEASE RECEIVABLES

	Minimum lease receipts		Present value of minimum lease receipts	
	2017	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts receivable under finance leases:				
Not later than one year	109,224	62,151	99,012	53,622
Later than one year and not later than five years	17,309	59,949	16,472	54,220
	126,533	122,100	115,484	107,842
Less: Unearned finance income	(11,049)	(14,258)	N/A	N/A
	115,484	107,842	115,484	107,842
Overdue finance lease receivables	16,770	11,803	16,770	11,803
Present value of minimum lease receipts	132,254	119,645	132,254	119,645
Less: Allowance for impairment of doubtful debts	(14,817)	(7,490)	(14,817)	(7,490)
	117,437	112,155	117,437	112,155
Less: Current finance lease receivables under current assets			(100,965)	(57,935)
Non-current finance lease receivables			16,472	54,220

The Group has entered into finance lease arrangements with their customers. The terms of finance leases entered into for periods ranging from one to three years.

The following is a credit quality analysis of finance lease receivables. In the event that an installment repayment of a finance lease receivable is past due, the entire outstanding balance of the finance lease receivable is classified as past due.

	2017	**2016**
	HK$'000	*HK$'000*
Neither past due nor impaired	115,484	107,842
Past due but not impaired	–	–
Past due and impaired	16,770	11,803
	132,254	119,645
Less: Allowance for impairment of doubtful debts	(14,817)	(7,490)
	117,437	112,155

The movements on the allowance for impairment of doubtful debts are as follows:

	2017	**2016**
	HK$'000	*HK$'000*
At 1 January	7,490	–
Exchange realignment	1,100	(339)
Impairment loss recognised	6,227	7,829
At 31 December	14,817	7,490

The above allowance for impairment of doubtful debts is a provision for impaired finance lease receivables. At 31 December 2017, finance lease receivables of approximately HK$16,770,000 (2016: HK$11,803,000) were impaired. The amount of allowance was approximately of HK$14,817,000 (2016: HK$7,490,000). It is assessed that a portion of the finance lease receivables is expected to be recovered from the secured leased assets. The secured leased assets for those past due receivables mainly include machineries.

For the finance lease receivables which are neither past due nor impaired, the directors assessed that the balances are with good credit quality according to their past repayment history.

All leases are on a fixed repayment basis and there were no unguaranteed residual values in connection with finance lease arrangements or contingent lease arrangements of the Group that need to be recorded as at 31 December 2017 (2016: Nil).

Finance lease receivable balances are secured over the plant and equipment leased. The Group is not permitted to sell or re-pledge the collateral in the absence of default by the lessee.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The effective interest rates are ranging from 9.3% to 13.4% per annum (2016: from 10.3% to 15.1% per annum).

24. DEFERRED TAX ASSETS/LIABILITIES

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2016: 16.5%).

The following are the major components of deferred tax assets/(liabilities) recognised by the Group and movements thereon during the current and prior years:

	Intangible assets arising from business combination	(Accelerated)/ decelerated tax depreciation	Revaluation of land and building	Tax losses	Others	Total
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
At 1 January 2016	(1,750)	(5,659)	(6,080)	6,020	22,960	15,491
Exchange realignment	–	51	37	(62)	(375)	(349)
Through disposal of of subsidiary	–	–	–	–	66	66
Charged to equity	–	–	(906)	–	–	(906)
Credited/(charged) to income statement *(note 12)*	228	5,021	–	(4,672)	(32,574)	(31,997)
At 31 December 2016 and 1 January 2017	(1,522)	(587)	(6,949)	1,286	(9,923)	(17,695)
Exchange realignment	–	–	(209)	–	477	268
Transfer to liabilities directly associated with the assets classified as held for sale *(note 38)*	–	–	–	–	18,262	18,262
Charged to equity	–	–	(4,101)	–	–	(4,101)
Credited to income statement *(note 12)*	228	1,088	–	64	6,252	7,632
At 31 December 2017	(1,294)	501	(11,259)	1,350	15,068	4,366

For the purposes of consolidated statement of financial position presentation, certain deferred tax assets/(liabilities) have been offset in accordance with the conditions set out in HKAS 12. The following is the analysis of the deferred tax balances shown in the consolidated statement of financial position:

	2017	2016
	HK\$'000	*HK\$'000*
Deferred tax assets	29,518	25,670
Deferred tax liabilities	(25,152)	(43,365)
	4,366	(17,695)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2017, the Group has unrecognised tax losses of approximately HK\$562,959,000 (2016: HK\$591,335,000) available for offset against future profits. Included in unrecognised tax losses are losses of approximately HK\$236,007,000 (2016: HK\$247,832,000) that will expire in five years and the remaining balance does not expire under the current tax legislation.

Included in unrecognised tax losses of approximately HK$80,566,000 (2016: HK$69,856,000) was an amount attributable to a subsidiary of the disposal groups classified as held for sale which is subject to the threat of transfer pricing tax audits. According to independent professional tax advice, possible transfer pricing adjustments may be instituted by the PRC tax authority against the subsidiary which is currently in the process of liquidation. The transfer pricing adjustments, if instituted, may use up the subsidiary's unrecognised tax losses of approximately HK$69,856,000 and generate additional PRC income tax liabilities of HK$7,790,000. During the year ended 31 December 2016, a full provision of the additional PRC income tax was made to take into account of this possible transfer pricing adjustments. In addition, a provision of deferred tax liabilities of HK$17,990,000 made by the subsidiary was charged to the income statement for the year ended 31 December 2016 arising from the expected net liquidation gains that will be crystallised upon the completion of its liquidation process. At 31 December 2017, the deferred tax liabilities of approximately HK$18,262,000 attributable to the subsidiary, have been transferred to disposal groups classified as held for sale and disclosed in note 38.

Temporary differences arising in connection with interests in associates are insignificant.

25. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2017	**2016**
	HK$'000	*HK$'000*
Trading inventories and finished goods	192,741	162,973
Work in progress	147,321	101,719
Raw materials	184,509	137,046
	524,571	401,738

At 31 December 2017, the carrying amount of inventories that were stated at fair value less costs to sell is approximately HK$74,566,000 (2016: HK$197,458,000).

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Carrying amount of inventories sold	2,035,009	1,809,231
Write-down of inventories	23,932	70,250
Reversal of write-down of inventories	(21,532)	(785)
	2,037,409	1,878,696

26. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade and bills receivables	924,630	795,427
Less: allowance for impairment of bad and doubtful debts	(111,959)	(108,588)
	812,671	686,839
Other receivables	106,878	90,370
Less: allowance for impairment of bad and doubtful debts	(24,802)	(19,963)
	82,076	70,407
Prepayments	28,814	30,818
Amounts due from related parties	50	37
	923,611	788,101

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values. All trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group grants an average credit period of 90 days to 120 days for customers. An aging analysis of the trade and bills receivables at the end of the reporting period based on the invoice date and net of allowance for impairment of bad and doubtful debts, is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 3 months	559,202	525,350
4 to 6 months	155,047	96,091
7 to 9 months	51,402	24,266
Over 9 months	47,020	41,132
	812,671	686,839

The movements on the allowance for impairment of bad and doubtful debts of the Group are as follows:

	Trade receivables	
	2017	2016
	HK$'000	*HK$'000*
At 1 January	108,588	87,597
Exchange realignment	6,759	(6,054)
Impairment loss recognised	4,903	29,616
Unused amounts reversed	(7,535)	(2,017)
Uncollectible amounts written off	(756)	(162)
Disposal of a subsidiary	–	(392)
At 31 December	111,959	108,588

	Other receivables	
	2017	**2016**
	HK$'000	*HK$'000*
At 1 January	19,963	13,343
Exchange realignment	1,508	(1,096)
Impairment loss recognised	6,364	7,716
Unused amounts reversed	(3,033)	–
At 31 December	24,802	19,963

The above allowance for impairment of bad and doubtful debts is a provision for individually impaired trade receivables and impaired other receivables. The individually impaired trade receivables mainly represent sales made to the PRC customers which have remained long overdue. The impaired other receivables relate to debtors that have been long outstanding without settlement or having any business relationship with the Group. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2017, trade and bills receivables of approximately HK$114,820,000 (2016: HK$116,983,000) were impaired. The amount of allowance was approximately HK$111,959,000 as at 31 December 2017 (2016: HK$108,588,000). It is assessed that a portion of the receivables is expected to be recovered.

The aging analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Neither past due nor impaired	663,880	369,492
Less than 6 months past due	117,977	282,744
6 months to 1 year past due	15,284	15,686
1 year to 3 years past due	8,495	5,961
Over 3 years past due	4,174	4,561
	809,810	678,444

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in trade and other receivables are the following amounts denominated in the following currencies:

	2017	**2016**
United States Dollars	21,010,000	20,553,000
Renminbi	586,688,000	498,466,000
Japanese Yen	154,180,000	263,842,000

27. OTHER FINANCIAL ASSETS

	2017	2016
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss:		
Unlisted unit trust funds, at fair value	59	2,875
Principal guaranteed investment funds, at fair value	20,218	–
	20,277	2,875

The principal guaranteed investment funds represent unlisted investments (the "Investments") placed with banks in the Mainland. The Investments are unlisted investment funds which mainly invested in unlisted treasury bonds, bank debentures, central bank bills and other investments in the Mainland with high credit rating. The Investments are principal guaranteed and bear interest at floating rate with expected return 2.2% to 3.2% per annum.

The fair values of the unlisted unit trust funds and principal guaranteed investment funds were based on net assets value of the investment funds at the end of the reporting period provided by the financial institutions.

28. CASH AND BANK BALANCES

	2017	2016
	HK$'000	*HK$'000*
Pledged bank deposits *(Note (a))*	31,104	36,605
Cash and cash equivalents *(Note (b))*	317,642	296,118
	348,746	332,723

(a) Pledged bank deposits

Included in pledged bank deposits in the consolidated statement of financial position are the following amounts denominated in the following currency:

	2017	2016
Renminbi	26,000,000	32,565,000

(b) Cash and cash equivalents

	2017	2016
	HK$'000	*HK$'000*
Bank balances and cash	317,642	296,118

Cash and cash equivalents include the following for the purpose of the consolidated statement of cash flows:

	2017	2016
	HK$'000	*HK$'000*
Bank balances and cash per above	317,642	296,118
Bank balances and cash included in assets classified as held for sale *(note 38)*	1,448	–
Less: Bank overdrafts *(note 31)*	(3,168)	(31,289)
	315,922	264,829

Included in bank balances and cash in the consolidated statement of financial position are the following amounts denominated in the following currencies:

	2017	2016
United States Dollars	11,281,000	9,026,000
Renminbi	159,904,000	97,367,000
Japanese Yen	34,928,000	33,856,000
Euro Dollars	210,000	23,000

29. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade and bills payables	590,258	472,330
Accruals and other payables	328,032	263,242
Amounts due to related parties	10,345	4,800
	928,635	740,372

The directors consider that the carrying amount of trade and other payables approximates to their fair values. All trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The aging analysis of the Group's trade and bills payables at the end of the reporting period is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 3 months	437,757	365,339
4 to 6 months	108,352	56,846
7 to 9 months	25,920	26,607
Over 9 months	18,229	23,538
	590,258	472,330

Included in trade and other payables are the following amounts denominated in the following currencies:

	2017	2016
United States Dollars	9,446,000	8,475,000
Renminbi	693,679,000	553,636,000
Japanese Yen	111,925,000	157,761,000
Euro Dollars	175,000	72,000

30. PROVISION FOR RESTRUCTURING

The Group recorded its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

Restructuring costs provision mainly comprises provision for employees compensation and relocation expenses, arising from a series of restructuring actions to reduce costs and enhance operational efficiency.

The following are restructuring provision of the Group and movements thereon during the current and prior years:

	HK$'000
At 1 January 2016	–
Provision made for the year	91,727
At 31 December 2016 and 1 January 2017	91,727
Exchange realignment	936
Restructuring costs paid	(8,606)
Unused provision for restructuring reversed	(31,101)
At 31 December 2017	52,956

31. BANK BORROWINGS

	2017 *HK$'000*	2016 *HK$'000*
Non-current		
Bank loans		
– secured	45,125	35,175
Current		
Bank loans		
– secured	98,598	66,953
– unsecured	278,832	221,907
Bank overdrafts *(note 28)*		
– unsecured	3,168	31,289
	380,598	320,149
Total borrowings	425,723	355,324

The aggregate carrying amount of the Group's bank loans as at 31 December 2017 (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) that have been reclassified as current liabilities is approximately HK$46,677,000 (2016: HK$37,283,000).

These loans are callable by the lenders, but the management does not expect the lenders to exercise their rights to demand repayment in normal circumstances.

The maturity of the bank borrowings based on the scheduled repayment date set out in the loan agreements ignoring the effect of any repayment on demand clause are as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Within 1 year	333,921	282,866
Between 1 and 2 years	87,802	26,989
Between 2 and 5 years	4,000	45,469
	425,723	355,324

The amount of bank borrowings repayable within one year of approximately HK$37,283,000 as contained in the comparative figures have been reclassified to between one and two years of approximately HK$16,939,000 and between two and five years of approximately HK$20,344,000 to conform with the current year's presentation.

The non-current bank borrowings are stated at amortised cost.

The effective interest rate as at 31 December 2017 for bank borrowings and overdrafts is 3.64% per annum (2016: 3.22% per annum).

The carrying amounts of borrowings are denominated in the following currencies:

	2017	**2016**
	HK$'000	*HK$'000*
Hong Kong Dollars	309,676	275,056
Renminbi	116,047	80,268
	425,723	355,324

The Group has the following undrawn borrowing facilities:

	2017	**2016**
	HK$'000	*HK$'000*
Floating rate		
– expiring within one year	368,626	406,039

The facilities expiring within one year are annual facilities subject to review at various dates during 2017.

Bank borrowings are secured by certain buildings and leasehold land and land use rights of the Group (notes 16 and 18).

32. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Not later than one year	2,750	5,619	2,696	5,441
Later than one year and not later than five years	–	2,743	–	2,694
	2,750	8,362	2,696	8,135
Less: Future finance charges	(54)	(227)	N/A	N/A
Present value of minimum lease payments	2,696	8,135	2,696	8,135
Less: Amount due for settlement within 1 year under current liabilities			(2,696)	(5,441)
Amount due for settlement after 1 year			–	2,694

It is the Group's policy to lease certain of its plant and machinery under finance leases. The lease terms are expiring from three to four years. For the year ended 31 December 2017, the average effective borrowing rate was 3.97% per annum (2016: 3.39% per annum). Interest is charged at one month HIBOR plus 3.25% per annum (2016: one month HIBOR plus 2.75% to 3.25% per annum) on the outstanding loan balances. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

33. SHARE CAPITAL

	2017		2016	
	Number of shares	Amount	Number of shares	Amount
		HK$'000		*HK$'000*
Ordinary shares, issued and fully paid:				
At 1 January	716,930,692	532,903	716,930,692	532,903
At 31 December	716,930,692	532,903	716,930,692	532,903

The holders of ordinary shares are entitled to receive dividends as declared from time to time and every member shall have one vote per share on a poll at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

34. RESERVES

	Property revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Others *HK$'000*	Total *HK$'000*
Balance at 1 January 2016	39,210	93,685	(584)	132,311
Fair value gain:				
– Available-for-sale financial asset	–	–	655	655
Share of reserves of associates	–	(2,191)	–	(2,191)
Partial disposal of a subsidiary without loss of control	–	(179)	1,667	1,488
Surplus on revaluation of properties held for own use	3,761	–	–	3,761
Deferred tax adjustment	(688)	–	–	(688)
Exchange differences arising from translation of financial statements of foreign operations	–	(66,563)	–	(66,563)
Reclassification adjustments:				
Release of translation reserve upon disposal of a subsidiary	–	(55)	–	(55)
Release of translation reserve upon deregistration of a subsidiary	–	(1,966)	–	(1,966)
Balance at 31 December 2016 and 1 January 2017	42,283	22,731	1,738	66,752
Fair value loss:				
– Available-for-sale financial asset	–	–	(129)	(129)
Share of reserves of associates	–	1,956	–	1,956
Surplus on revaluation of properties held for own use	23,075	–	–	23,075
Deferred taxation adjustment	(3,750)	–	–	(3,750)
Exchange differences arising from translation of financial statements of foreign operations	–	66,394	–	66,394
Reclassification adjustment:				
Release of fair value reserve upon disposal of available-for-sale financial asset	–	–	(930)	(930)
Balance at 31 December 2017	61,608	91,081	679	153,368

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Company-level statement of financial position

	2017	2016
	HK$'000	*HK$'000*
Non-current Assets		
Property, plant and equipment	1,423	2,091
Interests in subsidiaries	1,223,656	1,157,891
	1,225,079	1,159,982
Current Assets		
Other receivables	1,688	3,000
Amount due from an associate	904	1,994
Cash and bank balances	30,489	67,248
	33,081	72,242
Current Liabilities		
Other payables	1,188	1,057
Amounts due to subsidiaries	178,876	140,175
Bank borrowings	21,000	20,364
	201,064	161,596
Net Current Liabilities	(167,983)	(89,354)
Net Assets	1,057,096	1,070,628
Capital and Reserves		
Share capital	532,903	532,903
Reserves *(note 35(b))*	524,193	537,725
Total Equity	1,057,096	1,070,628

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 8 March 2018 and is signed on its behalf by:

TANG TO	**TANG YU, FREEMAN**
DIRECTOR	*DIRECTOR*

(b) Movement in components of equity of the Company

	Retained profits
	HK$'000
Balance at 1 January 2016	552,797
Loss for the year	(15,072)
Balance at 31 December 2016 and 1 January 2017	537,725
Loss for the year	(13,532)
Balance at 31 December 2017	524,193

(c) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was approximately HK$524,193,000 (2016: HK$537,725,000).

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans	Finance lease	Amount due to an associate	Amounts due to related parties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	324,035	8,135	565	4,800	337,535
Changes from financing cash flows:					
Bank loans raised	352,878	–	–	–	352,878
Repayment of bank loans	(259,987)	–	–	–	(259,987)
Bank loans interest paid	(20,301)	–	–	–	(20,301)
Capital element on obligation under finance lease paid	–	(5,439)	–	–	(5,439)
Finance charges on obligation under finance lease paid	–	(182)	–	–	(182)
Advance from an associate	–	–	300	–	300
Total changes from financing cash flows	72,590	(5,621)	300	–	67,269
Exchange adjustments	5,629	–	–	–	5,629
Other changes					
Bank loans interest *(note 8)*	20,301	–	–	–	20,301
Finance charges on obligation under finance lease *(note 8)*	–	182	–	–	182
Advance from a related party	–	–	–	745	745
Dividend payable to the non-controlling shareholders of subsidiaries	–	–	–	4,800	4,800
Total other changes	20,301	182	–	5,545	26,028
At 31 December 2017	422,555	2,696	865	10,345	436,461

37. DISPOSAL OF INTERESTS IN SUBSIDIARIES

(a) On 6 January 2016, the Group completed the disposal of 40% equity interest in Cosmos i-Tech Solutions Limited and since then Cosmos i-Tech Solutions Limited is no longer a subsidiary of the Group.

Net assets of Cosmos i-Tech Solutions Limited at the date of disposal were as follows:

	2016
	HK$'000
Cash and bank balances	2,650
Trade and other receivables	5,876
Property, plant and equipment	460
Trade and other payables	(3,800)
Amount due to shareholders	(4,916)
Tax recoverable	19
Deferred tax assets	235
Deferred tax liabilities	(301)
Non-controlling interests	(67)
	156
Gain on disposals of a subsidiary	122
Translation reserve realised upon disposal	(55)
Reclassified to interest in associates	(67)
Total consideration	156
Satisfied by:	
Cash	156
Net cash outflow arising on disposal:	
Cash consideration received	156
Cash and bank balances disposed of	(2,650)
	(2,494)

(b) On 29 December 2016, the Group completed the partial disposal of 10% equity interest in Mega Victor Limited and since then Mega Victor Limited is still a subsidiary of the Group.

Net assets of Mega Victor Limited at the date of partial disposal were as follows:

	2016
	HK$'000
Gain on partial disposals of a subsidiary	–
Other reserves	1,667
Release of translation reserve upon disposal	(179)
Non-controlling interests	(712)
Total consideration	776
Satisfied by:	
Cash	776
Net cash inflow arising on disposal:	
Cash consideration received	776
Cash and bank balances disposed of	–
	776

38. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS CLASSIFIED AS HELD FOR SALE

On 1 September 2017, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group conditionally agreed to dispose of its entire equity interest in its wholly-owned subsidiary, MS Plasticorp, which is included in the plastic processing products segment for a consideration of RMB82,000,000 (equivalent to approximately HK$94,860,000). Details are set out in the announcements of the Company dated 20 September 2017 and 22 December 2017.

The directors do not foresee any significant obstacle to satisfy the remaining conditions precedent to complete the transaction and the disposal is expected to be completed within one year from the end of the reporting period.

At 31 December 2017, the property revaluation reserve of the disposal group classified as held for sale amounted to HK$8,328,000.

The major classes of assets and liabilities of MS Plasticorp classified as held for sale as at 31 December 2017 are as follows:

	Notes	*HK$'000*
Assets		
Property, plant and equipment	16	20,218
Leasehold land and land use rights	18	1,474
Bank balances and cash	28	1,448
Assets classified as held for sale		23,140
Liabilities		
Deferred tax liabilities	24	18,262
Current tax payable	24	7,790
Other payables		671
Liabilities directly associated with the assets classified as held for sale		26,723
Net liabilities directly associated with the disposal group		(3,583)

39. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Not later than one year	18,923	17,255
Later than one year and not later than five years	53,471	45,458
Later than five years	32,497	40,490
	104,891	103,203

Operating lease payments represent rentals payable by the Group for certain of its office properties, factories and plant and machinery. Leases are negotiated mostly for terms ranging from 1 to 10 years and rentals are almost fixed for the said term.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease receipts under non-cancellable operating leases:

	2017	**2016**
	HK$'000	*HK$'000*
Not later than one year	1,349	230
Later than one year and not later than five years	5,663	49
	7,012	279

40. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	*HK$'000*
Capital expenditure:		
Contracted but not provided for	4,167	5,414
	4,167	5,414

41. CONTINGENT LIABILITIES

As at 31 December 2017, a dispute claim for outstanding payment of USD1,050,000 (approximately HK$8,123,000) was brought by the vendor of KFE Hong Kong Co., Limited ("KFE") to a subsidiary of the Group in relating to an alleged breach of payment obligations for the consideration as agreed pursuant to the sale and purchase agreement for the acquisition of the entire issued share capital of KFE in 2013. The directors, based on the advice from the legal counsel, believe that the subsidiary has a valid defence against the claim and, accordingly, has not provided for a claim arising from the litigation, other than the related legal and other costs. The Group has assessed the claim and considered that the ultimate outcome of such litigation will not have a material adverse effect on the financial position of the Group.

Except for the above, the Group does not have any litigations or claims of material importance and, so far as the directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

42. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5.0% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5.0% to 7.5% of the employee's basic salary, depending on the length of service with the Group.

Employees who are employed by subsidiaries in the PRC are members of the state-managed pension scheme operated by the PRC government. These subsidiaries are required to contribute 16% – 20% of payroll costs to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated income statement of approximately HK$35,482,000 (2016: HK$23,547,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2017, contributions of approximately HK$392,000 (2016: HK$2,318,000) due in respect of the reporting period had not been paid over to the schemes.

43. PLEDGE OF ASSETS

At the end of the reporting period, assets with the following carrying amounts were pledged by the Group to secure general banking facilities:

	2017	2016
	HK$'000	*HK$'000*
Buildings	70,638	81,800
Leasehold land held for own use under finance leases	83,100	68,000
Leasehold land and land use rights	4,041	3,983
Plant and machinery	1,449	15,160
Bank deposits	31,104	36,605
	190,332	205,548

44. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments by categories

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Available-for-sale financial assets	Financial assets designated as at fair value through profit or loss	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets as per consolidated statement of financial position				
31 December 2017				
Unlisted unit trust funds	–	–	59	59
Principal guaranteed investment funds	–	–	20,218	20,218
Amounts due from associates	2,543	–	–	2,543
Finance lease receivables	117,437	–	–	117,437
Trade and other receivables	891,273	–	–	891,273
Pledged bank deposits	31,104	–	–	31,104
Cash and cash equivalents	317,642	–	–	317,642
	1,359,999	–	20,277	1,380,276
31 December 2016				
Available-for-sale financial assets	–	1,389	–	1,389
Unlisted unit trust funds	–	–	2,875	2,875
Amounts due from associates	3,166	–	–	3,166
Finance lease receivables	112,155	–	–	112,155
Trade and other receivables	757,283	–	–	757,283
Pledged bank deposits	36,605	–	–	36,605
Cash and cash equivalents	296,118	–	–	296,118
	1,205,327	1,389	2,875	1,209,591

	Financial liabilities at amortised cost
	HK$'000
Liabilities as per consolidated statement of financial position	
31 December 2017	
Trade and other payables	773,872
Amount due to an associate	865
Bank borrowings	425,723
Obligations under finance leases	2,696
Deferred consideration payable	8,148
	1,211,304
31 December 2016	
Trade and other payables	643,815
Amount due to an associate	565
Bank borrowings	355,324
Obligations under finance leases	8,135
Deferred consideration payable	8,148
	1,015,987

(b) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk arising in the normal course of its business and financial instruments. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as summarised below.

(i) Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"), Hong Kong dollars ("HK$"), United States Dollars ("US$") and Japanese Yen ("YEN"). Such exposures arise from sales or purchases by subsidiaries other than the subsidiaries' functional currencies. This currency exposure is managed primarily through sourcing raw materials denominated in the same currency. In addition, certain recognised assets and liabilities are denominated in currencies other than the functional currencies of the entities to which they relate. The Group currently does not have a foreign currency hedging policy.

Certain assets and liabilities of the Group are principally denominated in US$. HK$ is pegged to US$, and thus foreign exchange exposure is considered as minimal.

At 31 December 2017, if HK$ had strengthened/weakened by 10% against the RMB, with all other variables held constant, post-tax profit for the year would have been approximately HK$2,624,000 lower or higher (2016: post-tax loss for the year would have been HK$860,000 higher or lower). There will be no impact on other components of equity.

At 31 December 2017, if HK$ had strengthened/weakened by 10% against the YEN, with all other variables held constant, post-tax profit for the year would have been approximately HK$203,000 lower or higher (2016: post-tax loss for the year would have been HK$66,000 higher or lower). There will be no impact on other components of equity.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In this respect, it is assumed that the pegged rate between the HK$ and the US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies. Results of the analysis as presented in above represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2016.

(ii) Interest rate risk

Except for pledged bank deposits, short-term bank deposits and cash and cash equivalents (note 28), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Prime or HIBOR arising from the Group's borrowings denominated in HK$ and RMB.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates and finance lease receivables expose the Group to fair value interest-rate risk. Details of the Group's borrowings and finance lease receivables have been disclosed in notes 31 and 23 respectively.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowings when it has surplus funds.

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank borrowings at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

At 31 December 2017, if interest rates on HK$-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$1,456,000 lower/higher (2016: post-tax loss for the year would have been HK$1,316,000 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2017, if interest rates on RMB-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$554,000 lower/higher (2016: post-tax loss for the year would have been HK$377,000 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The above changes in interest rates represent management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2016.

(iii) Price risk

The Group is exposed to equity securities price risk in its available-for-sale financial assets. As the Group's policy is only to invest on such investments by its surplus funds, the exposure may not have significant impact on the Group's financial position. The Group is not exposed to commodity price risk.

(iv) Credit risk

The Group's credit risk is principally attributable to trade and other receivables, finance lease receivables and amounts due from associates.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made and services are provided to customers with an appropriate credit history. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 26.

Before accepting any new finance lease borrowers, the Group assesses the credit quality of each potential finance lease borrower and defined limits for each finance lease borrower. The Group also demands certain finance lease borrowers to place security deposits with the Group at the time the finance lease arrangement is entered into. In addition, the Group has reviewed the repayment history of finance lease payments from each finance lease borrower with reference to the repayment schedule from the date of finance lease was initially granted up to the end of the reporting period to determine the recoverability of a finance lease receivable.

The credit risk on bank balances is limited because the counterparties are reputable banks with high quality external credit ratings in Hong Kong and the PRC.

(v) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The tables below categorised the Group's financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity date. The tabulated amounts are the contractual undiscounted cash flow payments of the Group.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017				
Trade and other payables	773,872	–	–	773,872
Amount due to an associate	865	–	–	865
Deferred consideration payable	8,148	–	–	8,148
Obligations under finance leases	2,750	–	–	2,750
Bank borrowings	387,139	41,991	4,025	433,155
	1,172,774	41,991	4,025	1,218,790
At 31 December 2016				
Trade and other payables	643,815	–	–	643,815
Amount due to an associate	565	–	–	565
Deferred consideration payable	8,148	–	–	8,148
Obligations under finance leases	5,619	2,743	–	8,362
Bank borrowings	325,394	10,625	25,373	361,392
	983,541	13,368	25,373	1,022,282

(c) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the carrying value of the Group's financial instruments measured at fair value at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value measurements as at 31 December 2017 categorised into			
	Fair value	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements:				
Other financial assets				
– Unlisted unit trust funds	59	–	59	–
– Principal guaranteed investment funds	20,218	–	20,218	–

	Fair value measurements as at 31 December 2016 categorised into			
	Fair value	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements:				
Available-for-sale financial assets				
– Listed shares	1,389	1,389	–	–
Other financial assets				
– Unlisted unit trust funds	2,875	–	2,875	–

The fair values of unlisted unit trust funds and principal guaranteed investment funds in level 2 are based on net assets value of the investment funds at the end of the reporting period provided by the financial institution.

During the year ended 31 December 2016 and 2017, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2017.

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the total debts ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current liabilities and non-current liabilities. Total capital includes total borrowings and total equity as shown in the consolidated statement of financial position.

The total debts ratios at 31 December 2017 and 2016 are as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Current liabilities	1,408,243	1,181,657
Non-current liabilities	70,277	81,234
Total borrowings	1,478,520	1,262,891
Total equity	1,292,139	1,156,912
Total capital	2,770,659	2,419,803
Total debts ratio	53%	52%

Neither the Company nor any of its subsidiaries are subject to externally or internally imposed capital requirements.

45. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the year, the Group had significant transactions with the following related parties, together with balances with them as at the end of the reporting period, details of which are as follows:

		2017	**2016**
	Notes	*HK$'000*	*HK$'000*
Company controlled by certain directors' relatives:			
Management fee paid *(note i)*		996	913
Non-controlling interests:			
Balances due from the Group *(note ii)*	29	10,345	4,800
Rental income		813	–
Service fee income		289	–
Consultancy fee paid		1,178	–
Associates:			
Balances due from the Group *(note ii)*		865	565
Balance due to the Group *(note ii)*	21	2,543	3,166
EDP charges paid		5,566	5,916
Rental income		104	210
Purchases		143	–
Purchase of fixed assets		53	–
Compensation of key management personnel of the Group *(note iii)*:			
Salaries and other short-term employee benefits		15,210	13,745

Further details of directors' and the chief executive's emoluments are included in note 11 to the consolidated financial statements.

Notes:

(i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.

(ii) The balances are unsecured, interest free and have no fixed terms of repayment.

(iii) Key management personnel whose profiles are included in Directors and Senior Management's Biographies section of this report.

(iv) No transaction, arrangement or contract of significance to which the Company was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the reporting period.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company*/ subsidiaries	attributable to the Group	Principal activities
				%	%	
Cosmos Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK$32,000,000	100.00*	100.00	Investment holding
Cosmos Machinery (Dongguan) Trading Co., Ltd. *(note a)*	The PRC	The PRC	HK$5,000,000	100.00	100.00	Trading of machinery
Cosmos Machinery (Wuxi) Trading Co., Ltd. *(note a)*	The PRC	The PRC	HK$5,000,000	100.00	100.00	Trading of machinery
Dekuma Rubber and Plastic Technology (Dongguan) Limited *(note a)*	The PRC	The PRC	HK$24,000,000	100.00	100.00	Manufacturing and trading of machinery
Dong Hua Machinery Ltd. *(note b)*	The PRC	The PRC	RMB146,199,955	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK$10,000	100.00	52.00	Trading of printed circuit boards
Grand Technology Products Limited	Hong Kong	Hong Kong	HK$9,500,000	100.00	100.00	Investment holding
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US$2	100.00*	100.00	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK$55,000,000	100.00	100.00	Investment holding and trading
Karmay Plastic Products (Zhuhai) Co., Ltd. *(note a)*	The PRC	The PRC	HK$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Industrial Supplies Company Limited	Hong Kong	Hong Kong	HK$1,500,000	100.00	100.00	Trading of industrial equipment and screws

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company*/ subsidiaries	attributable to the Group	Principal activities
				%	%	
美高工業器材(上海)有限公司 *(note a)*	The PRC	The PRC	US$600,000	100.00	100.00	Trading of industrial consumables
Guangzhou Melco Industrial Supplies Co., Ltd. *(note a)*	The PRC	The PRC	US$400,000	100.00	100.00	Trading of industrial consumables
Shenzhen Gainbase Printed Circuit Board Co., Ltd. *(note a)*	The PRC	The PRC	HK$140,000,000	100.00	52.00	Processing of printed circuit boards
Welltec Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Trading of machinery
KFE Hong Kong Co., Limited	Hong Kong	Hong Kong	US$7,776,000	100.00	52.00	Trading of printed circuit board
Wu Xi Grand Tech Machinery Group Ltd. *(note a)*	The PRC	The PRC	US$9,586,000	100.00	100.00	Manufacturing and trading of machinery
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. *(note a)*	The PRC	The PRC	US$2,850,000	100.00	100.00	Manufacturing and trading of machinery
合肥大同格蘭塑業有限公司 *(note a)*	The PRC	The PRC	HK$56,000,000	100.00	100.00	Manufacturing of plastic products
Dongguan Hua Qi Plastic Works Co., Ltd *(note a)*	The PRC	The PRC	USD1,000,000	100.00	51.00	Manufacturing of plastic products

Notes:

(a) The companies are registered in the form of wholly-owned foreign investment enterprises.

(b) The companies are registered in the form of sino-foreign cooperative enterprises.

The above table lists out the subsidiaries of the Group which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the net assets of the Group at the end of the year. To give details of other subsidiaries would, result in particulars of excessive length.

None of the subsidiaries had any debt capital in issue at the end of the year or at any time during the year.

The following table lists out the information relating to all subsidiaries of Major Success Company Limited, which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2017 HK$'000	2016 HK$'000
NCI percentage	48%	48%
Current assets	390,813	364,274
Non-current assets	176,577	163,418
Current liabilities	(252,910)	(222,738)
Non-current liabilities	(2,089)	(2,117)
Equity	312,391	302,837
Carrying amount of NCI	149,947	145,362
Revenue	788,612	721,005
Profit for the year	12,383	12,946
Total comprehensive income	19,552	5,914
Profit allocated to NCI	5,944	6,214
Cash generated from operating activities	36,101	13,067
Cash used in investing activities	(33,715)	(19,865)
Cash generated from/(used in) financing activities	8,659	(20,449)

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been early adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts	1 January 2018
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014-2016 cycle	1 January 2018
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019
Amendments to HKAS 40	Transfers of investment property	1 January 2018
Amendments to HKFRS 15	Clarifications to HKFRS 15	1 January 2018
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle	1 January 2019
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration	1 January 2018
HK(IFRIC) – Int 23	Uncertainty over income tax treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of their initial application. So far the Group has identified some aspects of the new standard which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets.

HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" measurement category for certain simple debt instruments.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

(a) Classification and measurement

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognizing ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. While the Group does not involve any hedging, it does not expect a significant impact on the accounting for its hedging relationships.

(d) Date of adoption by the Group

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

The adoption of this new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained profits as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

For the classification of cash flows, the Group currently presents operating lease payments and finance lease payments as operating cash flows and financing cash flows respectively. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Impact on the consolidated financial statements

As disclosed in note 2(23), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

At 31 December 2017, the Group, as lessee, has non-cancellable operating lease commitments of approximately HK$104,891,000 as set out in note 39 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments as shown in off-balance sheet item will be replaced by “right-of-use asset” and “lease liability” in the statement of financial position of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

(b) Date of adoption by the Group

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except for the above, the directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the Group’s future consolidated financial statements.

3. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS

Business Trend

The Group is principally engaged in the business of (i) machinery manufacturing, (ii) plastic products and processing, (iii) printed circuit board processing and trading, and (iv) industrial consumables trading.

As stated in the announcements of the Company dated 8 July 2016, 23 December 2016 and 17 February 2017, the Group planned to restructure its plastic products and processing segment and machinery manufacturing segment, including the cessation of operation of certain manufacturing businesses and optimization of the production capacities in its Dongguan and Wuxi machinery manufacturing plants. The restructuring projects including assets relocation and optimization, organizational restructuring and production efficiency enhancement are on track under the closely-monitoring of a designated task force. A nonrecurring item with amount of approximately HK$31,101,000 was reversed as income for the year ended 31 December 2017, after considering the progress of the respective restructuring exercise. The Group will continue to update the progress of the restructuring in due course.

The Group reported a turnaround with profit of approximately HK$43,850,000 for the year (2016: loss of HK$333,885,000). This was mainly resulted from the improvement in sales revenue, gross profit and also tight control over the operating overheads during the year.

Prospects

The global economy is still recovering with encouraging sentiment prevailing in manufacturing sector. The economic and trading relationship between the United States and the PRC is getting more dynamic with uncertainty. The Group expects several key challenges ahead including the continuous increasing of manufacturing costs (in particular the raw materials cost), shorter life cycle of consumer products, volatile capital market and currency fluctuations. The visibility of sales orders to be received is low and poses much difficulties in resources planning. Nevertheless, with the existing multi-business product platforms and the strong research and development capabilities, the Group will continue to widen the spectrum of applications for the existing manufacturing segments and develop new products with innovative material science technology. By leveraging on the existing well-established, unique and diversified product platform and extensive sales network across different industries, the Group will continue to adjust the sales strategies of different segments to niche markets and high-margin customers.

4. STATEMENT OF INDEBTEDNESS

Borrowings

At the close of business on 31 March 2018, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular, the Group had (i) secured and guaranteed interest-bearing borrowings from financial institutions of approximately HK$192,031,000; (ii) unsecured and guaranteed interest-bearing borrowings from financial institutions of approximately HK$226,685,000; and (iii) finance lease liability of approximately HK$1,971,000. These borrowings are denominated in Hong Kong Dollars and Renminbi.

Contingent liabilities

A dispute claim for outstanding payment of USD1,050,000 (approximately HK$8,123,000) was brought by the vendor of KFE Hong Kong Co., Limited ("**KFE**") to a subsidiary of the Group in relating to an alleged breach of payment obligations for the consideration as agreed pursuant to the sale and purchase agreement for the acquisition of the entire issued share capital of KFE in 2013. The directors, based on the advice from the legal counsel, believe that the subsidiary has a valid defence against the claim and, accordingly, has not provided for a claim arising from the litigation, other than the related legal and other costs. The Group has assessed the claim and considered that the ultimate outcome of such litigation will not have a material adverse effect on the financial position of the Group.

Pledge of assets

As at close of business on 31 March 2018, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular, the Group had pledged the assets with carrying amounts of approximately HK$216,517,000 to secure general banking facilities.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debt securities, term loans and overdrafts, hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, other borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 31 March 2018.

The Directors confirm that there was no material change in the indebtedness status of the Group since 31 March 2018 up to the Latest Practicable Date.

5. MATERIAL CHANGE

The Directors confirm that, save as and except for the completion of disposal of the entire issued share capital of MS Plasticorp as disclosed in the announcement of the Company dated 20 March 2018, which resulted in the derecognition of the Group's assets of disposal group classified as held for sale and liabilities directly associated with the assets classified as held for sale as at 31 December 2017, there was no material change in the financial or trading position or outlook of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

The following is the text of a letter, summary of valuations and valuation report prepared for the purpose of incorporation in this circular received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of value of the property interests of the Group as at 31 March 2018.

CUSHMAN & WAKEFIELD
戴德梁行

16/F
Jardine House
1 Connaught Place
Central
Hong Kong

19 May 2018

The Directors
Cosmos Machinery Enterprises Limited
10th Floor, Billion Plaza 2
No. 10 Cheung Yue Street
Cheung Sha Wan
Kowloon

Dear Sirs,

Re: Portfolio Valuation

Instructions, Purpose & Valuation Date

In accordance with the instructions from Cosmos Machinery Enterprises Limited (the "Company") for us to value the properties in which the Company or its subsidiaries (collectively the "Group") has interests in the People's Republic of China (the "PRC") and Hong Kong (as more particularly described in the attached valuation report), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such properties as at 31 March 2018.

The Company confirms that the Group does not have any properties outside Hong Kong and the PRC.

Valuation Basis

Our valuation of each of the properties represents its market value which in accordance with the HKIS Valuation Standards 2017 Edition issued by The Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We confirm that the valuations are undertaken in accordance with the requirements set out in Chapter 5 and Practice Note 12 Governing the Listing of Securities published by The Stock Exchange of the Hong Kong Limited and the HKIS Valuation Standards 2017 Edition issued by the Hong Kong Institute of Surveyors.

Our valuation of each of the properties is on an entirety interest basis.

Valuation Assumptions

Our valuation of each of the properties excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuation of the properties, we have relied on the information and advice given by the Company's legal adviser, Guangdong Guanxin Law Firm, in its legal opinion dated 11 May 2018 regarding the titles to the property and the interests of the Company in the property in the PRC. Unless otherwise stated in the respective legal opinion, in valuing the property, we have assumed that the Group has an enforceable title to the property and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Company are set out in the notes of the respective valuation report. We have assumed that all consents, approvals and licences from relevant government authorities for the developments have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the properties are in compliance with the local planning regulations and have been approved by the relevant authorities.

In valuing the properties in Hong Kong which are held under Government Leases expiring before 30 June 1997, we have taken account of the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30 June 2047 and that rents of three per cent of the then rateable value are charged per annum from the date of extension.

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

Method of Valuation

In valuing the properties in Group I which are held by the Group for owner occupation in Hong Kong, we have used Market Comparison Method by making reference to comparable sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, accessibility, age, quality, size, time and other relevant factors.

In valuing the properties in Group II which are held by the Group for investment purpose and Group III which is held by the Group for owner occupation in the PRC, we have used Income Capitalisation Method which operates by taking into account the rental income of the property derived from the existing tenancies with due allowance for the reversionary potential of the tenancies, which are then capitalised into the value at an appropriate capitalisation rate.

Source of Information

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenures, identification of land and buildings, completion date of buildings, particulars of occupancy, site and floor areas, site and floor plans, number of parking spaces, interests attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation report are based on the copies of documents or other information provided to us by the Company and are therefore only approximations. No on-site measurement has been carried out. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

We would point out that the copies of documents of the property in the PRC provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents.

Title Investigation

We have been provided by the Company with extracts of documents in relation to the titles to the property in the PRC but have not carried out any title searches. In respect of the properties in Hong Kong, we have caused searches to be made at the Land Registry in Hong Kong. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us for all properties. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the advice given by the Company regarding the Company's interests in the PRC properties.

Site Inspection

We have inspected the exterior and, whenever possible, the interior of each of the properties. However, no structural survey has been made, but in the course of our inspections, we did not note any serious defects. We are, however, not able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Potential Tax Liability

For the purpose of compliance with Rule 11.3 of the Code on Takeovers and Mergers and as advised by the Group, the potential tax liabilities which may arise from the sale of the properties are listed below:

Hong Kong

(i) Profits tax: 8.25% on assessable profits up to $2,000,000; and 16.5% on any part of assessable profits over $2,000,000; and (ii) Stamp duty at progressive rates from 1.5% to 8.5% on the transaction amount (of which both the seller and the buyer are jointly and severally liable).

The PRC

(i) Value-added Tax ("VAT") (as the properties are all owned by the Group before the implementation of VAT, a simplified taxation method, which is 5% VAT rate, is expected to be used) plus other surcharge at approximately 11% of VAT; (ii) stamp duty at 0.05% on the transaction amount; (iii) land appreciation tax at progressive rates from 30% to 60% on the appreciation in property value; (iv) Enterprise income tax at 25% on gain; and (v) Withholding tax at 10% if the net proceeds (minus taxes and statutory contributions) are repatriated outside the PRC as dividends (reduced to 5% if the Hong Kong-PRC double tax arrangement applies).

The likelihood of the potential tax liability being crystallized is remote as the Company has no intention to dispose of its property interests.

Currency

Unless otherwise stated, all monetary sums stated in our valuations are in Renminbi ("RMB") for the properties in the PRC and Hong Kong Dollars ("HKD") for the properties in Hong Kong, the official currencies of the PRC and Hong Kong respectively.

Other Disclosure

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuations have no pecuniary or other interests that could conflict with the proper valuations of the properties or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Intended Use of Report

This valuation report is issued for the use of the Company for its public disclosure purpose only.

We enclose herewith a summary of valuations and valuation report for your attention.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Andrew K.F. Chan
MSc, MRICS, MHKIS, MCIREA, RPS(GP)
Regional Director
Valuation & Advisory Services, Greater China

Note: Mr. Andrew K.F. Chan is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors, a Member of China Institute of Real Estate Appraisers and Agents and a Registered Professional Surveyor (General Practice). Mr. Chan has over 30 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries. Mr. Chan has sufficient current national knowledge of the market, and the skills and understanding to undertake the valuations competently.

SUMMARY OF VALUATIONS

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

No.	Property	Market value in existing state as at 31 March 2018	Interest attributable to the Group	Market value in existing state attributable to the Group as at 31 March 2018
1.	Workshop 3 on 6/F, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong	HKD3,800,000	52%	HKD1,976,000
2.	Workshop 4 on 6/F, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong	HKD3,800,000	52%	HKD1,976,000
3.	Workshop 18 on 7/F, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong	HKD3,800,000	52%	HKD1,976,000
4.	Office A on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	HKD34,900,000	100%	HKD34,900,000
5.	Office B on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	HKD21,100,000	100%	HKD21,100,000
6.	Office C on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	HKD16,400,000	100%	HKD16,400,000
7.	Office D on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	HKD21,200,000	100%	HKD21,200,000
8.	Office E on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	HKD27,000,000	100%	HKD27,000,000
	Sub-total for Group I:	**HKD132,000,000**		**HKD126,528,000**

SUMMARY OF VALUATIONS

GROUP II – PROPERTIES HELD BY THE GROUP FOR INVESTMENT IN THE PRC

No.	Property	Market value in existing state as at 31 March 2018	Interest attributable to the Group	Market value in existing state attributable to the Group as at 31 March 2018
9.	An industrial complex and portion of a composite building occupied by Dong Hua Machinery Limited located at Nos. 2, 4 and 6 Yinzhu Road (formerly known as Erhuan Road), Zhouwu Industrial Area, Dongguan Fu Town, Dongguan, Guangdong Province, The PRC	RMB87,900,000	75.56%	RMB66,417,240
10.	Units 413, 415 and 417, Block 15, Cui Wei Zhong Li (formerly known as Block 1 of No. 16 Cui Wei Zhong Li), Haidian District, Beijing, The PRC	RMB2,860,000	75.56%	RMB2,161,016
11.	Unit 7 of No. 35 Bei Da Jie, Wu Yi Road, Taiyuan, Shanxi Province, The PRC	RMB1,470,000	75.56%	RMB1,110,732
12.	Room 10 on Level 19, Tong Mei Building, Jian She Bei Road, Chengdu, Sichuan Province, The PRC	RMB640,000	100%	RMB640,000
	Sub-total for Group II:	**RMB92,870,000**		**RMB70,328,988**

SUMMARY OF VALUATIONS

GROUP III – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN THE PRC

No.	Property	Market value in existing state as at 31 March 2018	Interest attributable to the Group	Market value in existing state attributable to the Group as at 31 March 2018
13.	Room 901, No. 369 Fu Xing Zhong Road, Luwan District, Shanghai, The PRC	RMB17,000,000	100%	RMB17,000,000
14.	An industrial complex occupied by Cosmos Grand Plastics Co. Ltd. located at Lot No. NG8-3 West of Shuangtang Road, Nangang Science and Technology Park, Gaoxin District, Hefei, Anhui Province, The PRC	RMB21,700,000	100%	RMB21,700,000
15.	An industrial complex located at Lot No. 1010030, Jinhu South Road, Sanzao Town, Jinwan District, Zhuhai, Guangdong Province, The PRC	RMB43,600,000	100%	RMB43,600,000
16.	Flats 1801, 1802 and 1803 on Level 18 of Datong Commercial Building, No. 36 Yangong Jie, Yuexiu District, Guangzhou, Guangdong Province, The PRC	RMB10,400,000	100%	RMB10,400,000
17.	An industrial complex located at Lot No. B7-C of Wuxi National High-Tech Industrial Development Zone, Wuxi, Jiangsu Province, The PRC	RMB160,000,000	100%	RMB160,000,000
	Sub-total for Group III:	**RMB252,700,000**		**RMB252,700,000**

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
1. Workshop 3 on 6/F, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong *14/6,640th shares of and in Sha Tin Town Lot No. 137*	The property comprises a workshop on 6th Floor of a 16-storey industrial building completed in about 1988. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 1,407 square feet (130.71 square meters) Saleable Area: 977 square feet (90.76 square meters) The locality of the property is served by public transport services and characterised by industrial developments of various ages. The property is held under New Grant No. 11633 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as a workshop.	HKD3,800,000 (Hong Kong Dollars Three Million And Eight Hundred Thousand Only) (Please see Remark No. 4) (52% attributable to the Group: HKD1,976,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is Gainbase Industrial (Holding) Limited.

3. The property is zoned for "Industrial" use under Sha Tin Outline Zoning Plan No. S/ST/33 dated 13 January 2017.

4. The Company indirectly owns 52% of the total issued share capital of Gainbase Industrial (Holding) Limited. The remaining 48% is owned by an independent third party.

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

Property		Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
2.	Workshop 4 on 6/F, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong *14/6,640th shares of and in Sha Tin Town Lot No. 137*	The property comprises a workshop on 6th Floor of a 16-storey industrial building completed in about 1988. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 1,407 square feet (130.71 square meters) Saleable Area: 977 square feet (90.76 square meters) The locality of the property is served by public transport services and characterised by industrial developments of various ages. The property is held under New Grant No. 11633 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as a workshop.	HKD3,800,000 (Hong Kong Dollars Three Million And Eight Hundred Thousand Only) (Please see Remark No. 4) (52% attributable to the Group: HKD1,976,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is Gainbase Industrial (Holding) Limited.

3. The property is zoned for "Industrial" use under Sha Tin Outline Zoning Plan No. S/ST/33 dated 13 January 2017.

4. The Company indirectly owns 52% of the total issued share capital of Gainbase Industrial (Holding) Limited. The remaining 48% is owned by an independent third party.

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
3. Workshop 18 on 7/F, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong *14/6,640th shares of and in Sha Tin Town Lot No. 137*	The property comprises a workshop on 7th Floor of a 16-storey industrial building completed in about 1988. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 1,407 square feet (130.71 square meters) Saleable Area: 977 square feet (90.76 square meters) The locality of the property is served by public transport services and characterised by industrial developments of various ages. The property is held under New Grant No. 11633 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as a workshop.	HKD3,800,000 (Hong Kong Dollars Three Million And Eight Hundred Thousand Only) (Please see Remark No. 4) (52% attributable to the Group: HKD1,976,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is Gainbase Industrial (Holding) Limited.

3. The property is zoned for "Industrial" use under Sha Tin Outline Zoning Plan No. S/ST/33 dated 13 January 2017.

4. The Company indirectly owns 52% of the total issued share capital of Gainbase Industrial (Holding) Limited. The remaining 48% is owned by an independent third party.

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
4. Office A on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong *332/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720*	The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 3,323 square feet (308.71 square meters) Saleable Area: 2,253 square feet (209.31 square meters) The locality of the property is served by public transport services and characterised by office and industrial developments of various ages. The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as an office.	HKD34,900,000 (Hong Kong Dollar Thirty-Four Million And Nine Hundred Thousand Only) (100% attributable to the Group: HKD34,900,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is State Good Inc Limited, a wholly-owned subsidiary of the Company.

3. The property is subject to a Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030056 dated 31 October 2014.

   The mortgage loan was a five-year term loan starting in November 2014 of HKD67,000,000 to be repaid in 57 monthly instalments.

4. The property is zoned for "Other Specified Uses" use under Cheung Sha Wan Outline Zoning Plan No. S/KS/37 dated 6 December 2016.

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
5. Office B on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong *201/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720*	The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 2,009 square feet (186.64 square meters) Saleable Area: 1,362 square feet (126.53 square meters) The locality of the property is served by public transport services and characterised by office and industrial developments of various ages. The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as an office.	HKD21,100,000 (Hong Kong Dollars Twenty-One Million And One Hundred Thousand Only) (100% attributable to the Group: HKD21,100,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is Triumph Time Inc Limited, a wholly-owned subsidiary of the Company.

3. The property is subject to a Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030041 dated 31 October 2014.

   The mortgage loan was a five-year term loan starting in November 2014 of HKD67,000,000 to be repaid in 57 monthly instalments.

4. The property is zoned for “Other Specified Uses” use under Cheung Sha Wan Outline Zoning Plan No. S/KS/37 dated 6 December 2016.

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
6. Office C on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong *(156/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720)*	The property comprises an office unit on 10th Floor of a 29-storey office tower which was completed in about 2014. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 1,559 square feet (144.83 square meters) Saleable Area: 1,057 square feet (98.20 square meters) The locality of the property is served by public transport services and characterised by office and industrial developments of various ages. The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as an office.	HKD16,400,000 (Hong Kong Dollars Sixteen Million And Four Hundred Thousand Only) (100% attributable to the Group: HKD16,400,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is Joint Easy Limited, a wholly-owned subsidiary of the Company.

3. The property is subject to a Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030037 dated 31 October 2014.

   The mortgage loan was a five-year term loan starting in November 2014 of HKD67,000,000 to be repaid in 57 monthly instalments.

4. The property is zoned for "Other Specified Uses" use under Cheung Sha Wan Outline Zoning Plan No. S/KS/37 dated 6 December 2016.

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
7. Office D on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong *202/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720*	The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 2,021 square feet (187.76 square meters) Saleable Area: 1,370 square feet (127.28 square meters) The locality of the property is served by public transport services and characterised by office and industrial developments of various ages. The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as an office.	HKD21,200,000 (Hong Kong Dollars Twenty-One Million And Two Hundred Thousand Only) (100% attributable to the Group: HKD21,200,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is Citron Holdings Limited, a wholly-owned subsidiary of the Company.

3. The property is subject to a Mortgage in favour of BNP Paribas to the extent of all moneys registered vide Memorial No. 14111202030029 dated 31 October 2014.

   The mortgage loan was a five-year term loan starting in November 2014 of HKD67,000,000 to be repaid in 57 monthly instalments.

4. The property is zoned for "Other Specified Uses" use under Cheung Sha Wan Outline Zoning Plan No. S/KS/37 dated 6 December 2016.

VALUATION REPORT

GROUP I – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN HONG KONG

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
8.	Office E on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong *258/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720*	The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014. The gross floor area and saleable area of the property are approximately as follows: Gross Floor Area: 2,575 square feet (239.22 square meters) Saleable Area: 1,745 square feet (162.11 square meters) The locality of the property is served by public transport services and characterised by office and industrial developments of various ages. The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commenced from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group as an office.	HKD27,000,000 (Hong Kong Dollars Twenty Seven Million Only) (100% attributable to the Group: HKD27,000,000)

Remarks:

1. The property was inspected in March 2018 by Mr. Ross Chan, Assistant Valuer with 1 year of property valuation experience.

2. The registered owner of the property is First Cosmos Limited, a wholly-owned subsidiary of the Company.

3. The property is subject to a Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030014 dated 31 October 2014.

   The mortgage loan was a five-year term loan starting in November 2014 of HKD67,000,000 to be repaid in 57 monthly instalments.

4. The property is zoned for “Other Specified Uses” use under Cheung Sha Wan Outline Zoning Plan No. S/KS/37 dated 6 December 2016.

VALUATION REPORT

GROUP II – PROPERTIES HELD BY THE GROUP FOR INVESTMENT IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
9. An industrial complex and portion of a composite building occupied by Dong Hua Machinery Limited located at Nos. 2, 4 and 6 Yinzhu Road (formerly known as Erhuan Road), Zhouwu Industrial Area, Dongguan Fu Town, Dongguan, Guangdong Province, The PRC	The property comprises two parcels of land with a total site area of 66,616.08 square meters on which is built with 8 buildings and various ancillary structures completed in various stages in between 1992 and 2012. The property also comprises a 6-storey composite building, which is erected on another parcel of land with a site area of 2,583 square meters completed in about 1992. The total gross floor area ("GFA") of the buildings is 71,340.17 square meters. The GFA breakdown of the respective portions of the property is as follows:	Portions of the composite building, factories and office are subject to various tenancy agreements for various terms with the latest expiry on 31 December 2018, yielding a total monthly rent of about RMB168,000, exclusive of utility outgoings. The remaining portions of the property were occupied by the Group as workshop, warehouse, staff quarter and ancillary office.	RMB87,900,000 (Renminbi Eighty-Seven Million And Nine Hundred Thousand Only) (Please see Remark Nos. 5, 6, 7 and 9) (75.56% attributable to the Group: RMB66,417,240)

Buildings with land use right certificates and real estate title certificates		**GFA** *(sq m)*
Factory No. 1	:	12,506.00
Factory No. 2A	:	5,461.34
Factory No. 2B	:	3,505.50
Factory No. 3	:	4,557.60
Factory No. 4	:	19,663.20
Generator room	:	1,335.40
Office	:	6,849.71
Sub-Total	**:**	**53,878.75**

VALUATION REPORT

GROUP II – PROPERTIES HELD BY THE GROUP FOR INVESTMENT IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
9. (cont'd)	**Buildings with land use right certificates and real estate title certificates** — **GFA** *(sq m)* Composite Building : 16,783.92 Two ancillary buildings : 537.50 Three Guardhouses : 140.00 **Sub-Total : 17,461.42** **Grand Total : 71,340.17** The property is located in Zhouwu Industrial Area. Developments nearby are mainly industrial in nature. The land use rights of the property with a total site area of 66,616.08 square meters were granted for terms due to expire on 29 July 2043 for industrial use.	–	–

Remarks:

1. The property was inspected in May 2018 by Ms. Vicky Wang, Senior Valuer with 1 year of property valuation experience.

2. Pursuant to State-owned Land Use Rights Certificate Dong Fu Guo Yong (1994) No. Te 11 (東府國用(1994)第特11號) issued by the People's Government of Dongguan on 22 October 2010, the land use rights of portions of the property with a site area of approximately 33,337 square meters were vested in Dong Hua Machinery Ltd. (東華機械有限公司) for a term due to expire on 29 July 2043 for industrial uses.

   Pursuant to State-owned Land Use Rights Certificate Dong Fu Guo Yong (1994) No. Te 10 (東府國用(1994)第特10號) issued by the People's Government of Dongguan on 22 October 2010, the land use rights of portions of the property with a site area of approximately 33,279.08 square meters were vested in Dong Hua Machinery Ltd. (東華機械有限公司)for a term due to expire on 29 July 2043 for industrial uses.

3. Pursuant to 7 Real Estate Title Certificates issued by the Real Estate Administrative Bureau of Dongguan, the real estate title of 7 buildings of the property with a total gross floor area of 53,878.75 square meters was vested in Dong Hua Machinery Ltd. (東華機械有限公司).

Real Estate Title Certificate No.	Building	Date of Issue	GFA (sq m)
Yue Fang Di Quan Zheng Guan Zi No. 0200347865 (粵房地權證莞字第0200347865號)	Single-storey ancillary building	20 January 2012	19,663.20
Yue Fang Di Quan Zheng Guan Zi No. 0200315875 (粵房地權證莞字第0200315875號)	3-storey industrial building	21 October 2011	4,557.60
Yue Fang Di Quan Zheng Guan Zi No. 0200315876 (粵房地權證莞字第0200315876號)	Single-storey industrial building	21 October 2011	3,505.50
Yue Fang Di Quan Zheng Guan Zi No. 0200315877 (粵房地權證莞字第0200315877號)	2-storey industrial building	21 October 2011	5,461.34
Yue Fang Di Quan Zheng Guan Zi No. 0200315878 (粵房地權證莞字第0200315878號)	2-storey generator room	21 October 2011	1,335.40
Yue Fang Di Quan Zheng Guan Zi No. 0200315879 (粵房地權證莞字第0200315879號)	2-storey industrial building	21 October 2011	12,506.00
Yue Fang Di Quan Zheng Guan Zi No. 0200366494 (粵房地權證莞字第0200366494號)	6-storey office building	5 April 2012	6,849.71

4. Pursuant to a joint development agreement entered into between Dongguan Fu Town Zhou Wu Administrative District Hongkan Limited (東莞市附城周屋管理區紅磡實業有限公司) (Party A), Dongguan Cosmos Machinery Limited (東莞大同機械有限公司) (Party B) and Dongguan Hua Da Machinery Limited (東莞華大機械有限公司) (Party C), the aforesaid parties agreed to develop a 6-storey composite building on a parcel of land with a site area of about 2,508.86 square meters.

   Party A was mainly responsible for contributing the land use rights of the aforesaid land for a 60-year term whilst Party B and Party C were responsible for the development costs.

   Party A is an independent third party. Party B and Party C used to be two subsidiaries of the Company and were merged into Dong Hua Machinery Ltd..

5. Pursuant to Building Ownership Certificate Yue Fang Zi No. 0384734 (粵房字第0384734號) issued by the People's Government of Guangdong Province on 30 December 1995, the building ownership of portions of the 6-storey composite building with a GFA of 8,156.80 square meters was vested in Dongguan Cosmos Machinery Limited for non-residential use.

   Pursuant to Building Ownership Certificate Yue Fong Zi No. 0384733 (粵房字第0384733號) issued by the People's Government of Guangdong Province on 30 December 1995, the building ownership of portions of the 6-storey composite building with a GFA of 8,627.12 square meters was vested in Dongguan Hua Da Machinery Ltd for non-residential use.

   As Dongguan Cosmos Machinery Limited and Dongguan Hua Da Machinery Ltd do not hold the land use rights of the 6-storey composite building, we have attributed no commercial value to such building.

6. As per our inspection and the provided information, there are two ancillary buildings and three guardhouses with a total GFA of 677.50 square metres which are yet to be granted with real estate title certificates.

   In the course of valuation, we have attributed no commercial value to these buildings.

7. Pursuant to Remark Nos. 5 and 6, for reference purpose, we are of the opinion that the value of the whole property assuming the land premium has been settled fully, the property has been granted with proper title certificates and are freely transferable as at the valuation date, would be RMB119,300,000.

8. Pursuant to Real Estate Maximum Amount Mortgage Agreement (2013) Hui Shen Di Zi No. 130217 ((2013) 匯深抵字第130217號), the property is subject to a mortgage for the period from 25 March 2013 to 25 March 2023 in favour of HSBC Bank (China) Company Limited, Dongguan Branch (匯豐銀行(中國)有限公司東莞分行) for a consideration of RMB41,611,000.

9. The Company indirectly owns 75.56% of the shareholding of Dong Hua Machinery Ltd. (東華機械有限公司). The remaining shareholding of 24.44% is owned by 3 independent third parties.

10. The monthly market rent in the vicinity ranges from RMB10 to RMB15 per square meter.

11. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

    a. Dong Hua Machinery Ltd. (東華機械有限公司) obtained the respective State-owned Land Use Rights Certificates and Real Estate Title Certificates of the factories, the generator room and the office;

    b. Dong Hua Machinery Ltd. (東華機械有限公司) legally owns the property;

    c. Dong Hua Machinery Ltd. (東華機械有限公司) can use and lease but cannot transfer the buildings with Building Ownership Certificate Yue Fang Zi No. 0384734 (粵房字第0384734號) and Building Ownership Certificate Yue Fong Zi No. 0384733 (粵房字第0384733號) within the term.

    d. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned State-owned Land Use Rights Certificates and Real Estate Title Certificates;

    e. save as the mortgage disclosed in the legal opinion, up to the issue date of the legal opinion, the property is not subject to other encumbrances, rights or limitation; and

    f. subject to the mortgage disclosed in the legal opinion, Dong Hua Machinery Ltd. (東華機械有限公司) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the property within the terms specified in the State-owned Land Use Rights Certificates, Building Ownership Certificates and Real Estate Title Certificates.

VALUATION REPORT

GROUP II – PROPERTIES HELD BY THE GROUP FOR INVESTMENT IN THE PRC

Property		Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
10.	Units 413, 415 and 417, Block 15, Cui Wei Zhong Li (formerly known as Block 1 of No. 16 Cui Wei Zhong Li), Haidian District, Beijing, The PRC	The property comprises 3 units on Level 4 of a 16-storey residential building completed in about 1995. The total gross floor area of the property is 144.60 square meters. The property is located between West 4th Ring Road and West 3rd Ring Road. Developments nearby are mainly residential in nature.	The property is currently vacant.	RMB2,860,000 (Renminbi Two Million Eight Hundred And Sixty Thousand Only) (Please see remark No. 3) (75.56% attributable to the Group: RMB2,161,016)

Remarks:

1. The property was inspected in February 2018 by Ms. Yilia Shi, Valuer with 2 years of property valuation experience.

2. Pursuant to Building Ownership Certificate Hai Quan Zi No. 06826 (海全字第06826號) and issued by the Real Estate Administrative Bureau of Beijing on 10 November 1997, the building ownership of the property with a gross floor area of 144.6 square meters was vested in Dong Hua Machinery Ltd. Beijing Office (東華機械有限公司北京辦事處).

3. There is no information regarding land use right terms in the above-mentioned Building Ownership Certificate. In the course of valuation, we have assumed that the land use rights of the property were granted for a term of 70-year for residential use.

4. Dong Hua Machinery Ltd. Beijing Office (東華機械有限公司北京辦事處) is a branch office of Dong Hua Machinery Ltd. (東華機械有限公司). The Company indirectly owns 75.56% of the shareholding of Dong Hua Machinery Ltd. (東華機械有限公司). The remaining shareholding of 24.44% is owned by 3 independent third parties.

5. The monthly market rent in the vicinity ranges from RMB90 to RMB95 per square meter.

6. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

   a. Dong Hua Machinery Ltd. Beijing Office (東華機械有限公司北京辦事處) obtained the respective Building Ownership Certificate of the property;

   b. Dong Hua Machinery Ltd. Beijing Office (東華機械有限公司北京辦事處) legally owns the property;

   c. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned Building Ownership Certificate;

   d. up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and

   e. Dong Hua Machinery Ltd. Beijing Office (東華機械有限公司北京辦事處) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the building ownership of the property within the terms specified in the Building Ownership Certificates.

VALUATION REPORT

GROUP II – PROPERTIES HELD BY THE GROUP FOR INVESTMENT IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
11. Unit 7 of No. 35 Bei Da Jie, Wu Yi Road, Taiyuan, Shanxi Province, The PRC	The property comprises a street level unit of a 6-storey commercial building completed in about 1990. The gross floor area of the property is approximately 151.20 square meters. The locality of the property is served by public transport services and characterized by residential developments of various age. Taiyuan East Railway Station is located within 5 minutes' driving distance from the property.	As at the valuation date, a portion of the property with a gross floor area of approximately 50 square meters was leased for a term of 5 years due to expire on 31 May 2018 at an annual rent of RMB63,000 exclusive of management fee and other outgoings. The remaining portion of the property was occupied by the Group as office.	RMB1,470,000 (Renminbi One Million Four Hundred And Seventy Thousand Only) (Please see Remark No. 3) (75.56% attributable to the Group: RMB1,110,732)

Remarks:

1. The property was inspected in January 2018 by Ms. Yilia Shi, Valuer with 2 years of property valuation experience.

2. Pursuant to a Building Ownership Certificate, Fang Quan Zheng Jing Zi No. 00105473 (房權證井字第00105473號) issued by the Taiyuan Real Estate Administrative Bureau on 21 September 1999, the building ownership of the property with a gross floor area of 151.20 square meters was vested in Dong Hua Machinery Ltd. (東華機械有限公司).

3. There is no information regarding land use right terms in the above-mentioned Building Ownership Certificate. In the course of valuation, we have assumed that the land use rights of the property were granted for a term of 40 years for commercial use.

4. The Company indirectly owns 75.56% of the shareholding of Dong Hua Machinery Ltd. (東華機械有限公司). The remaining shareholding of 24.44% is owned by 3 independent third parties.

5. The monthly market rent in the vicinity ranges from RMB60 to RMB83 per square meter.

6. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

   a. Dong Hua Machinery Ltd. (東華機械有限公司) obtained the respective Building Ownership Certificate of the property;

   b. Dong Hua Machinery Ltd. (東華機械有限公司) legally owns the property;

   c. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned Building Ownership Certificate;

   d. up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and

   e. Dong Hua Machinery Ltd. (東華機械有限公司) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the building ownership of the property within the terms specified in the Building Ownership Certificate.

VALUATION REPORT

GROUP II – PROPERTIES HELD BY THE GROUP FOR INVESTMENT IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
12.	Room 10 on Level 19, Tong Mei Building, Jian She Bei Road, Chengdu, Sichuan Province, The PRC	The property comprises a unit on level 19 of a 22-storey commercial building completed in about 1996. The gross floor area of the property is 107.50 square meters. The property is located in the downtown of Chengdu. Developments in the locality are commercial and residential in nature. The land use rights of the property were granted for a term due to expire on 14 November 2043 for commercial use.	The property was leased for a term of 2 years and due to expire on 4 May 2018 at a monthly rent of RMB3,225 exclusive of management fee and other outgoings.	RMB640,000 (Renminbi Six Hundred And Forty Thousand Only) (100% attributable to the Group: RMB640,000)

Remarks:

1. The property was inspected in January 2018 by Ms. Andrea Luo, Assistant Valuer with 2 years of property valuation experience.

2. Pursuant to Building Ownership Certificate Cheng Fang Quan Zheng Jian Zheng Zi No. 2066964 (成房權證鑑證字第2066964號) issued by the Property Administrative Bureau of Chengdu on 12 October 2009, the building ownership of the property with a gross floor area of 107.50 square meters was vested in Melco Industrial Supplies Co., Ltd. (美高工業器材有限公司).

3. Pursuant to State-owned Land Use Rights Certificate Cheng Hua Guo Yong (2012) No. 034765 (成華國用(2012) 第034765號) issued by the People's Government of Chengdu on 19 March 2012, the land use rights of the property were vested in Melco Industrial Supplies Co., Ltd. (美高工業器材有限公司) for a term due to expire on 14 November 2043 for commercial use.

4. Melco Industrial Supplies Co., Ltd. (美高工業器材有限公司) is a wholly-owned subsidiary of the Company.

5. The monthly market rent in the vicinity is around RMB40 per square meter.

6. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

   a. Melco Industrial Supplies Co., Ltd. (美高工業器材有限公司) obtained the respective State-owned Land Use Rights Certificate and Building Ownership Certificate of the property;

   b. Melco Industrial Supplies Co., Ltd. (美高工業器材有限公司) legally owns the property;

   c. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned State-owned Land Use Rights Certificate and Building Ownership Certificate;

   d. up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and

   e. Melco Industrial Supplies Co., Ltd. (美高工業器材有限公司) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the property within the terms specified in the State-owned Land Use Rights Certificate.

VALUATION REPORT

GROUP III – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
13.	Room 901 No. 369 Fu Xing Zhong Road, Luwan District, Shanghai, The PRC	The property comprises a unit on Level 9 of a 20-storey commercial composite development completed in about 1998. The gross floor area of the property (excluding 2 car parking spaces) is 720.27 square meters. The Group is entitled to use two car parking spaces in the basement. The property is located in the downtown of Shanghai. Developments in the locality are commercial and residential in nature. The land use rights of the property were granted for a term due to expire to 24 December 2047 for commercial use.	The property was occupied by the Group as office.	RMB17,000,000 (Renminbi Seventeen Million Only) (100% attributable to the Group: RMB17,000,000)

Remarks:

1. The property was inspected in May 2018 by Mr. David Zhu, Manager with 4 years of property valuation experience.

2. Pursuant to Shanghai Certificate of Real Estate Ownership Hu Fang Di Lu Zi (2008) No. 001359 (滬房地盧字(2008)第001359號) issued by the Shanghai Housing and Land Resources Administrative Bureau on 5 June 2008, the real estate title of the property with a gross floor area of 720.27 square meters was vested in Melco Industrial Supplies (Shanghai) Co., Ltd (美高工業器材(上海)有限公司).

3. According to an Agreement entered into between Shanghai Da Tong Fu Xing Real Estate Development Limited (上海大同復興房地產發展有限公司) and Melco Industrial Supplies (Shanghai) Co., Ltd. (美而高國際貿易(上海)有限公司) for the use of basement carparking spaces on 27 August 2002, Melco Industrial Supplies (Shanghai) Co., Ltd. (美而高國際貿易(上海)有限公司) has paid a total consideration of RMB400,000 to use two car parking spaces for a term due to expire on 24 December 2047.

4. Melco Industrial Supplies (Shanghai) Co., Ltd (美高工業器材(上海)有限公司) is a wholly-owned subsidiary of the Company.

5. The monthly market rent in the vicinity is around RMB126 per square meter.

6. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

a. Melco Industrial Supplies (Shanghai) Co., Ltd (美高工業器材(上海)有限公司) obtained the respective Real Estate Title Certificate of the property;

b. Melco Industrial Supplies (Shanghai) Co., Ltd (美高工業器材(上海)有限公司) legally owns the property and has the use right of the car parking spaces;

c. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned Real Estate Title Certificate;

d. up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and

e. Melco Industrial Supplies (Shanghai) Co., Ltd (美高工業器材(上海)有限公司) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the property within the terms specified in the Real Estate Title Certificate.

VALUATION REPORT

GROUP III – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
14. An industrial complex occupied by Cosmos Grand Plastics Co., Ltd. located at Lot No. NG8-3, West of Shuangtang Road, Nangang Science and Technology Park, Gaoxin District, Hefei, Anhui Province, The PRC	The property comprises a parcel of land with a site area of 32,000 square meters on which is built with 7 buildings and various ancillary structures completed in between 2011 and 2014. The total gross floor area ("GFA") of the existing buildings is approximately 23,290 square meters. The GFA breakdown of the respective portions of the property is listed as follows:- **Building** / **GFA** *(sq m)* Production workshop : 11,700 Research and development building : 4,465 Dormitory : 5,075 Ancillary buildings and metal framed structure : 2,050 **Total : 23,290** The property also includes a production workshop under construction and the planned GFA is 7,998.6 square meters (Please see Remark number 6) The property is located in a science and technology park. Developments nearby are mainly industrial in nature. The land use rights of the property were granted for a term due to expire on 17 June 2061 for industrial use.	The property was occupied by the Group as workshop, office and staff quarter.	RMB21,700,000 (Renminbi Twenty-One Million And Seven Hundred Thousand Only) (100% attributable to the Group: RMB21,700,000)

Remarks:

1. The property was inspected in January 2018 by Mr. Kevin Li, Manager with 5 years of property valuation experience.

2. Pursuant to State-owned Land Use Rights Certificate He Gao Xin Guo Yong (2011) No. 50 (合高新國用(2011)第50號) issued by the People's Government of Hefei on 15 September 2011, the land use rights of the property with a site area of 32,000 square meters were granted to Cosmos Grand Plastic Co. Ltd. (合肥大同格蘭塑業有限公司) for a term of 50-year due to expire on 17 June 2061 for industrial use.

3. Pursuant to Construction Land Planning Permit Di Zi No. 340101201130036 (地字第340101201130036號) dated 18 August 2011, the construction scheme with a total site area of 32,000.00 square meters was approved.

4. Pursuant to Construction Project Planning Permit No. 340101201131194 dated 25 November 2011, the construction of the dormitory building with a total GFA of 5,060 square meters was permitted.

   Pursuant to Construction Project Planning Permit No. 340101201131195 dated 25 November 2011, the construction of the research and development building with a total GFA of 4,279.2 square meters was permitted.

   Pursuant to Construction Project Planning Permit No. 340101201131196 dated 25 November 2011, the construction of the production workshop No. 2 with a total GFA of 8,190 square meters was permitted.

   Pursuant to Construction Project Planning Permit No. 340101201731046 dated 6 September 2017, the construction of the production workshop No. 1 with a total GFA of 7,998.6 square meters was permitted.

5. Pursuant to Construction Commencement Permit No. 013311091501228 dated 15 September 2011, the construction of the production workshop, the research and development building and the dormitory with a total GFA of 25,719.20 square meters was permitted to commence.

   Pursuant to Construction Commencement Permit No. 3401361705220101-SX-001 dated 1 November 2017, the construction of the production workshop No. 1 with a GFA of 7,998.6 square meters was permitted to commence.

6. In the course of valuation, we have attributed no commercial value to certain portions of the existing buildings (including the production workshop, research and development building, dormitory and the ancillary buildings and metal framed structure) of the subject property with a total gross floor area of 23,290 square meters as they are yet to be granted with proper title certificates. For reference purpose, we are of the opinion that the value of the property, assuming the whole property had been granted with proper title certificates and were freely transferable as at the valuation date, would be RMB48,700,000.

7. Cosmos Grand Plastic Co. Ltd. (合肥大同格蘭塑業有限公司) is a wholly-owned subsidiary of the Company.

8. The monthly market rent in the vicinity ranges from RMB12 to RMB15 per square meter.

9. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

   a. Cosmos Grand Plastic Co. Ltd. (合肥大同格蘭塑業有限公司) obtained the respective State-owned Land Use Rights Certificate of the property;

   b. Cosmos Grand Plastic Co. Ltd. (合肥大同格蘭塑業有限公司) legally owns the land use rights of the property;

   c. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned State-owned Land Use Rights Certificate;

   d. up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation;

   e. Cosmos Grand Plastic Co. Ltd. (合肥大同格蘭塑業有限公司) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the land use rights of the property within the terms specified in the State-owned Land Use Rights Certificate;

   f. Cosmos Grand Plastic Co. Ltd. (合肥大同格蘭塑業有限公司) obtained the Construction Land Planning Permit, Construction Project Planning Permit and Construction Commencement Permit. All these permits are effective and, up to the issue date of the legal opinion, these permits have not been withdrawn, modified or revoked;

   g. up to the issue date of the legal opinion, there are no compulsory expropriation, legal proceeding, dispute or other substantial adverse conditions against the ownership of the property; and

   h. under the condition that all relevant documents are submitted to relevant authorities, there is no legal impediment for Cosmos Grand Plastic Co. Ltd. (合肥大同格蘭塑業有限公司) to obtain the Real Estate Title Certificate for the property under construction.

VALUATION REPORT

GROUP III – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
15.	An industrial complex located at Lot No. 1010030, Jinhu South Road, Sanzao Town, Jinwan District, Zhuhai, Guangdong Province, The PRC	The property comprises a parcel of land with a site area of 62,651.80 square meters on which is built with 4 buildings and various ancillary buildings completed in about 2004. The total gross floor area ("GFA") of the buildings is 23,155.48 square meters. The GFA breakdown of the respective portions of the property is listed as follows: **Building** — **GFA** *(sq m)* Industrial block : 10,643.46 Warehouse : 3,872.14 Office block : 1,656.19 Dormitory : 6,902.21 Ancillary buildings : 81.48 **Total : 23,155.48** The property is located in Jinwan District of Zhuhai. Developments nearby are mainly industrial in nature. Zhuhai Jinwan Airport is located within 15 minutes' driving distance from the property. The land use rights of the property were granted for terms of 50 years due to expire on 2 April 2052 for industrial use.	The property was occupied by the Group as workshop, office and staff quarter.	RMB43,600,000 (Renminbi Forty Three Million And Six Hundred Thousand Only) (100% attributable to the Group: RMB43,600,000)

Remarks:

1. The property was inspected in November 2017 by Mr. Lizheng Li, Senior Manager with 7 years of property valuation experience.

2. Pursuant to 5 Real Estate Title Certificates, the land use rights of the property with a total apportioned site area of approximately 14,604.98 square meters and the building ownership of the property with a total gross floor area of approximately 23,155.48 square meters were vest in Karmay Plastic Products (Zhuhai) Co., Ltd. for terms due to expire on 2 April 2052 for industrial uses.

Real Estate Title Certificate No.	Issue Date	Building	GFA *(sq m)*
Yue Fang Di Zheng Zi No. C6555002 (粵房地證字第C6555002號)	8 August 2008	North Guardhouse	40.74
Yue Fang Di Zheng Zi No. C6555003 (粵房地證字第C6555003號)	8 August 2008	South Guardhouse	40.74
Yue Fang Di Zheng Zi No. C6555004 (粵房地證字第C6555004號)	8 August 2008	Warehouse	3,872.14
Yue Fang Di Zheng Zi No. C6555005 (粵房地證字第C6555005號)	8 August 2008	Office block and industrial block	12,299.65
Yue Fang Di Zheng Zi No. C6555006 (粵房地證字第C6555006號)	8 August 2008	Dormitory	6,902.21

Pursuant to a Real Estate Title Certificate Yue Fang Di Zheng Zi No. C6555007 (粵房地證字第C6555007號) dated 8 August 2008, the land use rights of the property with an apportioned site area of 48,046.82 sq m were granted to Karmay Plastic Products (Zhuhai) Co., Ltd. For a term due to expire on 2 April 2052 for industrial use.

3. As per our inspection and the provided information, there are various structures which are yet to be granted with proper title certificate. As instructed, we have disregarded these structures in the course of valuation.

4. We were advised that due to the typhoon on 23 August 2017, portion of the rooftop of the warehouse and workshop and exterior wall of the workshop have been damaged. Reinstatement works have been conducted and completed and an amount of about RMB880,000 of reinstatement cost was outstanding as at the valuation date. As the reinstatement works has been completed, we have not deducted the outstanding reinstatement cost from the market value.

5. Karmay Plastic Products (Zhuhai) Co., Ltd. is a wholly-owned subsidiary of the Company.

6. The monthly market rent in the vicinity ranges from RMB10 to RMB12 per square meter.

7. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

   a. Karmay Plastic Products (Zhuhai) Co., Ltd. obtained the respective Real Estate Title Certificates of the property;

   b. Karmay Plastic Products (Zhuhai) Co., Ltd. legally owns the property;

   c. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned Real Estate Title Certificates;

   d. up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and

   e. Karmay Plastic Products (Zhuhai) Co., Ltd. is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the property within the terms specified in the Real Estate Title Certificates.

VALUATION REPORT

GROUP III – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN THE PRC

Property		Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
16.	Flats 1801, 1802 and 1803 on Level 18 of Datong Commercial Building, No. 36 Yan Gong Jie, Yuexiu District, Guangzhou, Guangdong Province, The PRC	The property comprises 3 units on level 18 of a 20-storey commercial building completed in about 2010. The total gross floor area of the property is 630.34 square meters. The property is located in the downtown of Guangzhou and the developments in the vicinity are commercial and residential in nature. The land use rights of the property were granted for terms of 50 year commencing on 15 September 2005 for commercial use.	The property was occupied by the Group as office.	RMB10,400,000 (Renminbi Ten Million And Four Hundred Thousand Only) (100% attributable to the Group: RMB10,400,000)

Remarks:

1. The property was inspected in May 2018 by Mr. Ken He, Assistant Valuer with 1 year of property valuation experience.

2. Pursuant to 3 Real Estate Title Certificates, the land use rights of the property with a total apportioned site area of 5,101.77 square meters and the building ownership of the property with a total gross floor area of approximately 630.34 square meters were vest in Guangzhou Melco Industrial Supplies Co., Ltd. (廣州市美高工業器材有限公司) for terms of 50 years commencing on 15 September 2005 for commercial use.

Real Estate Title Certificate No.	Issue Date	Flat	GFA *(sq m)*
Yue Fang Di Quang Zheng Sui Zi No. 0120479709 (粵房地權證穗字第0120479709號)	29 August 2013	1801	225.05
Yue Fang Di Quang Zheng Sui Zi No. 0120479712 (粵房地權證穗字第0120479712號)	29 August 2013	1802	100.90
Yue Fang Di Quang Zheng Sui Zi No. 0120479716 (粵房地權證穗字第0120479716號)	29 August 2013	1803	304.39

3. Guangzhou Melco Industrial Supplies Co., Ltd. (廣州市美高工業器材有限公司) is a wholly-owned subsidiary of the Company.

4. The monthly market rent in the vicinity ranges from RMB85 to RMB100 per square meter.

5. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

   a. Guangzhou Melco Industrial Supplies Co., Ltd. (廣州市美高工業器材有限公司) obtained the respective Real Estate Title Certificates of the property;

   b. Guangzhou Melco Industrial Supplies Co., Ltd. (廣州市美高工業器材有限公司) legally owns the property;

   c. up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned Real Estate Title Certificates;

   d. up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and

   e. Guangzhou Melco Industrial Supplies Co., Ltd. (廣州市美高工業器材有限公司) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the property within the terms specified in the Real Estate Title Certificates.

VALUATION REPORT

GROUP III – PROPERTIES HELD BY THE GROUP FOR OWNER OCCUPATION IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
17.	An industrial complex located at Lot no. B7-C of Wuxi National High-Tech Industrial Development Zone, Wuxi, Jiangsu Province, The PRC	The property comprises a parcel of land with a site area of 75,354.60 square meters on which is built with 6 buildings and various ancillary structures completed in about 2011. The total gross floor area ("GFA") of the buildings is 45,466.42 square meters. The GFA breakdown of the respective portions of the property is listed as follows: **Building** — **GFA** *(sq m)* Composite building : 8,405.86 Generator room : 1,258.90 Industrial blocks : 35,558.49 Warehouse : 101.06 Ancillary structures : 142.11 **Total : 45,466.42** The property is located in a high tech industrial development zone in Wuxi and the developments in the vicinity are industrial in nature. The land use rights of the property were granted for a term of 50 years due to expire on 29 December 2056 for industrial use.	The property was occupied by the Group as workshop, office and staff quarter.	RMB160,000,000 (Renminbi One Hundred And Sixty Million Only) (100% attributable to the Group: RMB160,000,000)

Remarks:

1. The property was inspected in May 2018 by Mr. David Zhu, Manager with 4 years property of valuation experience.

2. Pursuant to State-owned Land Use Rights Certificate Xi Xin Guo Yong (2007) No. 1061 (錫新國用(2007)第1061號) issued by the People's Government of Wuxi on 15 March 2007, the land use rights of the property with a site area of 75,354.60 square meters were vested in Cosmos Machinery Technology (Jiangsu) Co., Ltd. (大同機械科技(江蘇)有限公司) for a term of 50 years due to expire on 29 December 2056 for industrial use.

3. Pursuant to 3 Building Ownership Certificates, the building ownership of the property with a total gross floor area of 45,466.42 square meters was vested in Cosmos Machinery Technology (Jiangsu) Co., Ltd. (大同機械科技(江蘇)有限公司) for a term due to expire on 29 December 2056 for industrial and warehouse use.

Building Ownership Certificate No.	**GFA** *(sq m)*
Xi Fang Quan Zheng Zi No. XQ1000687254-1 (錫房權證字第XQ1000687254-1號)	11,036.88
Xi Fang Quan Zheng Zi No. XQ1000687254-2 (錫房權證字第XQ1000687254-2號)	25,938.54
Xi Fang Quan Zheng Zi No. XQ1000687254-3 (錫房權證字第XQ1000687254-3號)	8,491.00

4. As per our inspection and the provided information, there are various structures which are yet to be granted with proper title certificate. As instructed, we have disregarded these structures in the course of valuation.

5. Cosmos Machinery Technology (Jiangsu) Co., Ltd. (大同機械科技(江蘇)有限公司) is a wholly-owned subsidiary of the Company.

6. The monthly market rent in the vicinity ranges from RMB17 to RMB18.5 per square meter.

7. We have been provided with a legal opinion issued by the Company's legal adviser Guangdong Guanxin Law Firm on 11 May 2018, which contains, inter alia, the following information:

   a) Cosmos Machinery Technology (Jiangsu) Co., Ltd. (大同機械科技(江蘇)有限公司) obtained the respective obtained the respective State-owned Land Use Rights Certificate and Building Ownership Certificates of the property;

   b) Cosmos Machinery Technology (Jiangsu) Co., Ltd. (大同機械科技(江蘇)有限公司) legally owns the property;

   c) up to the issue date of the legal opinion, the use of the property conforms with the approved use specified in the above-mentioned State-owned Land Use Rights Certificate and Building Ownership Certificates;

   d) up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and

   e) Cosmos Machinery Technology (Jiangsu) Co., Ltd. (大同機械科技(江蘇)有限公司) is entitled to occupy, use, lease, transfer or by other legitimate ways to handle the property within the terms specified in the State-owned Land Use Rights Certificate.

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.

This circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of information (other than those relating to the Subscribers and the parties acting in concert with them) contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Subscribers) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the First Subscriber, namely Mr. Tang To, Mr. Tang Siu Fai, Mr. Tang Yu, Freeman, Mr. Tang Chi Tung, Mr. Chui Kwok Lau and Mr. Kan Wai Wah, jointly and severally accept full responsibility for the accuracy of the information relating to the First Subscriber and the parties acting in concert with it contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the First Subscriber in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the Second Subscriber, namely Mr. Tang To and Mr. Tang Yu, Freeman, jointly and severally accept full responsibility for the accuracy of the information relating to the Second Subscriber and the parties acting in concert with it contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the Second Subscriber in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. MARKET PRICE

The table below sets out the closing price per Share as quoted by the Stock Exchange (i) on the last day on which trading took place in each of the six calendar months during the Relevant Period; (ii) on 30 April 2018, being the Last Trading Day; and (iii) as at the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
31 October 2017	0.52
30 November 2017	0.53
29 December 2017	0.495
31 January 2018	0.50
28 February 2018	0.475
29 March 2018	0.485
30 April 2018 (the Last Trading Day)	0.495
Latest Practicable Date	0.63

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$0.63 (recorded on 17 May 2018) and HK$0.465 (recorded on 15, 20, 21, 22, 23, 26 and 27 February 2018), respectively.

3. SHARE CAPITAL

Under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), the Company, a company incorporated in Hong Kong, does not have an authorised share capital and the Shares do not have a nominal value.

The issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) assuming the Subscription has completed was/will be as follows:

	Number of Shares
Shares in issue as at the Latest Practicable Date	716,930,692
Subscription Shares to be allotted and issued pursuant to the Subscription Agreement	145,000,000
Shares in issue assuming the Subscription has completed	861,930,692

All the existing Shares in issue are listed on the Stock Exchange and rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

When issued and fully paid, the Subscription Shares will rank pari passu in all respects with the Shares then in issue. Holders of the fully-paid Subscription Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Subscription Shares in their fully-paid form.

The Company has not issued nor agreed to issue any Shares since 31 December 2017 (the date to which the latest published audited consolidated financial statements of the Company were made up) to the Latest Practicable Date (other than under the Subscription Agreement).

As at the Latest Practicable Date, the Company did not have any outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

4. DISCLOSURE OF INTERESTS

i. Directors' and chief executive's interests in the Company

As at the Latest Practicable Date, the interests of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in Shares of the Company (Long Position):

	Number of Shares held					
Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate percentage of issued capital of the Company
Tang To	4,970,000	2,000(1)	445,617,458(2)	224,000(3)	450,813,458	62.88
Tang Yu, Freeman	–	–	442,157,052(4)	–	442,157,052	61.67
Wong Yiu Ming	9,468,000	–	–	–	9,468,000	1.32
Kan Wai Wah	136,400	–	–	–	136,400	0.02
Cheng Tak Yin	1,406,000	–	–	–	1,406,000	0.20

Notes:

(1) These 2,000 Shares were held by the spouse of Mr. Tang To.

(2) 3,460,406 Shares of those 445,617,458 Shares were held by Ginta Company Limited which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse. Mr. Tang To was deemed to be interested in the 405,907,052 Shares of those 445,617,458 Shares under the SFO through his deemed interests in Codo Development Limited ("**Codo**").

Codo through its wholly owned subsidiaries, the First Subscriber and Tai Shing Agencies Limited ("**Tai Shing**"), was deemed to be interested in 405,907,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited ("**Keepsound**"), a limited company incorporated in Hong Kong controlled by the Second Subscriber, a trustee of The Saniwell Trust, (ii) 8.37% by Elegant Power Enterprises Limited ("**Elegant Power**"); (iii) 30.25% by Friendchain Investments Limited ("**Friendchain**"), a limited company incorporated in Hong Kong, controlled as to 40% by Elegant Power, as to 57.42% by the Second Subscriber and as to 2.58% by Fullwin Limited ("**Fullwin**"); (iv) 16.09% by Yik Wan Company Limited ("**Yik Wan**"); and (v) 20.23% by five individuals and two limited companies.

108,750,000 Shares and 36,250,000 Shares of these 445,617,458 Shares represent the Subscription Shares to be allotted and issued to the First Subscriber and the Second Subscriber, respectively, upon Completion. Mr. Tang To is deemed to be interested in the 108,750,000 Shares to be held by the First Subscriber and the 36,250,000 Shares to be held by the Second Subscriber under the SFO.

(3) These 224,000 Shares were jointly held by Mr. Tang To and his spouse.

(4) Mr. Tang Yu, Freeman was deemed to be interested in the 442,157,052 Shares held by the Second Subscriber under the SFO.

108,750,000 Shares and 36,250,000 Shares of these 442,157,052 Shares represent the Subscription Shares to be allotted and issued to the First Subscriber and the Second Subscriber, respectively, upon Completion. Mr. Tang Yu, Freeman is deemed to be interested in the 108,750,000 Shares to be held by the First Subscriber and the 36,250,000 Shares to be held by the Second Subscriber under the SFO.

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 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 otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code.

ii. Substantial Shareholders' interests in the Company

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following persons (other than the Directors and chief executive of the Company) in the Shares underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Interests in Shares of the Company (Long Position):

Name of Substantial Shareholder	Number of shares held Direct interests	Deemed interests	Total	Approximate percentage of issued capital of the Company
Law Kit Fong	–	405,907,052[1]	405,907,052	56.62
Codo Development Limited	–	405,907,052[2]	405,907,052	56.62
The First Subscriber	235,802,600[3]	170,104,452[4]	405,907,052	56.62
Tai Shing Agencies Limited	170,104,452	–	170,104,452	23.73
The Second Subscriber	36,250,000[5]	405,907,052[6]	442,157,052	61.67
China Resources (Holdings) Company Limited	169,649,046[7]	–	169,649,046	23.66

Notes:

(1) Ms. Law Kit Fong is deemed to be interested in the block of 405,907,052 Shares through her direct and indirect interests in Elegant Power and Codo. Codo through its wholly owned subsidiaries, the First Subscriber and Tai Shing, was deemed to be interested in 405,907,052 Shares. Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power) and 8.37% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).

(2) Codo is interested in 405,907,052 Shares through its wholly owned subsidiaries, the First Subscriber and Tai Shing. Codo is owned as to (i) 25.06% by Keepsound, a limited company incorporated in Hong Kong controlled by the Second Subscriber, a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power, which is wholly-owned by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, which is owned as to 40% by Elegant Power, as to 57.42% by the Second Subscriber and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan; and (v) 20.23% by five individuals and two limited companies.

(3) These 235,802,600 Shares represent the 127,052,600 Shares beneficially owned by the First Subscriber and the 108,750,000 Subscription Shares to be allotted and issued to the First Subscriber upon Completion.

(4) The First Subscriber was deemed to be interested in 170,104,452 Shares through its subsidiary, Tai Shing.

(5) These represent 36,250,000 Subscription Shares to be allotted and issued to the Second Subscriber upon Completion.

(6) The Second Subscriber was deemed to be interested in the block of 405,907,052 Shares under the SFO through its deemed interests in Codo. Codo is owned as to (i) 25.06% by Keepsound, a limited company incorporated in Hong Kong, controlled by the Second Subscriber, a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain which is owned as to 40% by Elegant Power, as to 57.42% by the Second Subscriber and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan; and (v) 20.23% by five individuals and two limited companies.

(7) As shown by the latest interest disclosure information maintained pursuant to Part XV of the SFO provided to the Company by China Resources National Corporation, China Resources Co., Limited and CRC Bluesky Limited, the above three companies were deemed to be interested in the Shares owned by China Resources (Holdings) Company Limited.

Save as disclosed above and as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any person (other than the Directors and chief executive of the Company, whose interests are set out in the paragraph headed "4. Disclosure of Interests – i. Directors' and chief executive's interests in the Company" above) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

Further, save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

iii. The Subscribers and parties acting in concert with them

Save for the entering into of the Subscription Agreement, the Subscribers and parties acting in concert with them have not dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

As at the Latest Practicable Date, the Subscribers and parties acting in concert with them owned an aggregate of 485,066,904 Shares, of which 127,052,600 shares were owned by the First Subscriber, 170,104,452 Shares were owned by Tai Shing Agencies Limited, 8,656,406 Shares were owned by Mr. Tang To and his associates (other than the Subscribers and Tai Shing Agencies Limited), 9,468,000 Shares were owned by Mr. Wong Yiu Ming, 136,400 Shares were owned by Mr. Kan Wai Wah and 169,649,046 Shares were held by China Resources (Holdings) Company Limited. Details of the shareholding structure of the Subscribers are set out in the paragraph headed "INFORMATION ON THE SUBSCRIBERS" in the letter from the Board. Other than the Subscription Shares and the interests in the Shares held by the Subscribers and parties acting in concert with them as disclosed in the paragraphs headed "INFORMATION ON THE SUBSCRIBERS" in the letter from Board and "4. Disclosure of Interests – ii. Substantial Shareholders' interests in the Company" in this appendix, the Subscribers and parties acting in concert with them did not own or control any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date.

iv. Others

As at the Latest Practicable Date:

i. None of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor the Independent Financial Adviser nor any other advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company.

ii. No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (a) with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of associate under the Takeovers Code; and (b) with the Subscribers or any party acting in concert with them, and none of them had dealt for value in any securities of the Company during the Relevant Period.

iii. No shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.

(a) Dealing in securities

i. Directors

None of the Directors or parties acting in concert with any of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period. As at the Latest Practicable Date, save as disclosed in the paragraph headed "4. Disclosure of Interests – i. Directors' and chief executive's interests in the Company" in this appendix and in this circular, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives of the Shares.

ii. Others

During the Relevant Period, none of the subsidiaries of the Company, nor any pension fund of the Company or any of its subsidiaries, nor the Independent Financial Adviser nor any other advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had dealt for value in any existing Shares, convertible securities, warrants, options or derivatives of the Company.

During the Relevant Period, no fund managers who managed funds on a discretionary basis connected with the Company had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company.

During the Relevant Period, none of the Company or the Directors has borrowed or lent any existing Shares.

Save as disclosed in the paragraph headed "4. Disclosure of Interests – i. Directors' and chief executive's interest in the Company", the directors of the First Subscriber and the Second Subscriber were not interested in any Shares, convertible securities, warrants, options or derivatives of the Shares; nor had any such Directors dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Shares during the Relevant Period.

(b) Interests and dealings in the Subscribers

Save as disclosed above, none of the Directors or the Company had any interest in the shares, convertible securities, options, warrants or derivatives of the Subscribers and none of them had dealt for value in any shares, convertible securities, options, warrants or derivatives of the Subscribers during the Relevant Period.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group or any associated company of the Company which (a) (including continuous and fixed term contracts) have been entered into or amended within the Relevant Period; (b) are continuous contracts with a notice period of 12 months or more; (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (d) are not determinable by any member of the Group within one year without payment of compensation (other than statutory compensation).

6. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(a) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2017, being the date of the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group;

(b) save for the Subscription Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group as a whole; and

(c) save for the Subscription Agreement, there was no material contract entered into by the Subscribers in which any Director had a material personal interest.

7. COMPETING INTERESTS

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

8. LITIGATION

As at 31 December 2017, a dispute claim for outstanding payment of USD1,050,000 (approximately HK$8,123,000) was brought by the vendor of KFE Hong Kong Co., Limited ("**KFE**") to Gainbase Industrial (Holdings) Limited, a subsidiary of the Group in relation to an alleged breach of payment obligations for the consideration as agreed pursuant to the sale and purchase agreement for the acquisition of the entire issued share capital of KFE in 2013. The Directors, based on the advice from the legal counsel, believe that the subsidiary has a valid defence against the claim and, accordingly, has not provided for a claim arising from the litigation, other than the related legal and other costs. The Group has assessed the claim and considered that the ultimate outcome of such litigation will not have a material effect on the financial position of the Group.

Except for the above, as at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, arbitration or claim 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. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in ordinary course of business of the Group, have been entered into by the members of the Group within two years preceding the date of the Announcement and up to the Latest Practicable Date and which are, or maybe, material:

(a) the sale and purchase agreement dated 1 September 2017 entered into between Sunford Enterprises Limited, an indirect wholly-owned subsidiary of the Company, as the vendor, and Giant Express Investment Limited (鉅遠投資有限公司) as the purchaser relating to the disposal of the entire issued share capital of MS Plasticorp at the consideration of RMB82,000,000;

(b) the supplemental agreement dated 22 December 2017 entered into between Sunford Enterprises Limited, an indirect wholly-owned subsidiary of the Company, as the vendor, and Giant Express Investment Limited (鉅遠投資有限公司) as the purchaser relating to the extension of completion date of the disposal of the entire issued share capital of MS Plasticorp from 31 December 2017 to 31 March 2018; and

(c) the Subscription Agreement.

10. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Challenge Capital Management Limited	A corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Cushman & Wakefield Limited	Independent property valuer
Guangdong Guanxin Law Firm	PRC legal advisers to the Company
Messrs. Ting Ho Kwan & Chan	Certified Public Accountants
Oceanwide Capital Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the experts named above has given and has not withdrawn its respective written consent to the publication of this circular with inclusion of its opinion, advice, letters, reports and/or all references to its name included in this circular in the form and context in which it appears in this circular.

As at the Latest Practicable Date, none of experts named above was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it has any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited consolidated financial statements of the Group were made up (that is, 31 December 2017), acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. CORPORATE AND OTHER INFORMATION

(a) The registered office of the Company is at 10/F, Billion Plaza 2, No. 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong.

(b) The Hong Kong branch share registrar of the Company is Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The secretary of the Company is Mr. Yeung Yuk Lun, an associate member of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Yeung Yuk Lun is responsible for providing advices to the Board for ensuring the Board procedures are followed and that the applicable laws and regulations are complied with.

(d) The auditors of the Company, Messrs. Ting Ho Kwan & Chan, is located at 9/F, Tung Ning Building, 249-253 Des Voeux Road Central, Hong Kong.

(e) The registered office of the Independent Financial Adviser, Challenge Capital Management Limited, is at 3/F, Kailey Tower, 16 Stanley Street, Central, Hong Kong.

(f) The registered office of the First Subscriber is at Flat G, 7th Floor, New Lucky House, 300-306 Nathan Road, Kowloon, Hong Kong.

(g) The registered office of the Second Subscriber is at 3th Floor, BCI House, Avarua, Rarotonga, Cook Islands.

(h) As at the Latest Practicable Date, the Board comprised three executive Directors, namely Mr. Tang To, Mr. Wong Yiu Ming and Mr. Tang Yu, Freeman, two non-executive Directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping and four independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei.

(i) As at the Latest Practicable Date, none of the Directors nor Independent Shareholders had irrevocably committed themselves to vote for or against the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

(j) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Subscribers or any person acting in concert with them and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

(k) There are no benefits to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

(l) As at the Latest Practicable Date, there was no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver or otherwise connected therewith.

(m) The Subscribers and the parties acting in concert with them have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

(n) Save for the Subscription Agreement, there is no material contract entered into by the Subscribers in which any Director has a material personal interest.

(o) None of the Directors has any interest, direct or indirect, in any assets which had been, since 31 December 2017, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(p) Each of the Subscribers, their associates and parties acting in concert with them will abstain from voting on the relevant ordinary resolution(s) to be proposed at the EGM to approve the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

(q) There is no agreement, arrangement or understanding to transfer, charge or pledge any voting rights over the Subscription Shares.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:30 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the registered office of the Company in Hong Kong at 10/F, Billion Plaza 2, No. 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong; (ii) on the website of the Company (www.cosmel.com); and (iii) on the website of the Securities and Futures Commission (www.sfc.hk) from the date of this circular up to and including the date of the EGM:

(a) the articles and associations of the Company;

(b) the annual reports of the Company for the years ended 31 December 2016 and 2017;

(c) the letter from the Board, the text of which are set out on pages 5 to 19 of this circular

(d) the letter from the Code Independent Board Committee, the text of which are set out on pages 20 to 21 of this circular;

(e) the letter from the LR Independent Board Committee, the text of which are set out on pages 22 to 23 of this circular;

(f) the letter of advice from the Independent Financial Adviser to the Code Independent Board Committee, the LR Independent Board Committee and the Independent Shareholders, the text of which are set out on pages 24 to 55 of this circular;

(g) the property valuation report as set out in Appendix II to this circular;

(h) the legal opinion from Guangdong Guanxin Law Firm;

(i) the material contracts as referred to in the paragraph headed "9. MATERIAL CONTRACTS" in this appendix;

(j) the written consents of the experts referred to in the section headed "10. EXPERT'S QUALIFICATION AND CONSENT" in this appendix; and

(k) this circular.

The above documents (except this circular) will be uploaded at the website of the Securities and Futures Commission at www.sfc.hk and the Company's website at www.cosmel.com from the date of this circular up to (and including) the date of the EGM in accordance with Notes 1 and 2 to rule 8 of the Takeovers Code.

13. MISCELLANEOUS

In case of any discrepancy, the English text of this circular and the form of proxy shall prevail over the Chinese text.

大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Cosmos Machinery Enterprises Limited (the "**Company**") will be held at Ballroom A, 2/F, The Langham, Hong Kong, 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong on Thursday, 7 June 2018 at 10:15 a.m. or immediately after conclusion of the Company's annual general meeting to be held on the same day, whichever is later, for the purpose of considering and if thought fit, passing with or without modifications, the following resolution which will be proposed as ordinary resolution:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the subscription agreement dated 30 April 2018 (the "**Subscription Agreement**"), a copy of which has been produced to the EGM and marked "A" and initialed by the chairman of the EGM for the purpose of identification, and entered into between the Company as issuer and Cosmos Machinery (Holdings) Limited (the "**First Subscriber**") and Saniwell Holding Inc. (the "**Second Subscriber**") as subscribers pursuant to which the Company has conditionally agreed to allot and issue and the First Subscriber and Second Subscriber has conditionally agreed to subscribe for 108,750,000 and 36,250,000 new ordinary shares of the Company respectively (each a "**Subscription Share**") at the subscription price of HK$0.55 per Subscription Share and all the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;

(b) the board (the "**Board**") of directors (the "**Directors**") of the Company be and is hereby granted with a specific mandate to allot and issue the Subscription Shares in accordance with the terms and conditions of the Subscription Agreement;

(c) any Director be and is hereby authorized to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two Directors or any Director together with the secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith; and

(d) subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s) and any conditions that may be imposed thereon, the waiver (the "**Whitewash Waiver**") of the obligation on the part of the Subscribers and parties acting in concert with them to make a mandatory general offer to the shareholders of the Company (the "**Shareholder(s)**") for all the issued ordinary shares of the Company (other than those already owned or agreed to be acquired by the Subscribers and parties acting in concert with them) which might otherwise arise as a result of the Subscribers subscribing for the Subscription Shares under the Subscription Agreement pursuant to Note 1 on Dispensations from Rule 26 of The Code on Takeovers and Mergers, the Whitewash Waiver be and is hereby approved, and that any one or more of the Directors be and is/are hereby authorized to do all such acts and things and execute all such documents under seal where applicable as he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver.

Yours faithfully,
For and on behalf of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

Hong Kong, 19 May 2018

Registered Office:
10/F, Billion Plaza 2
No. 10 Cheung Yue Street
Cheung Sha Wan
Kowloon
Hong Kong

Notes:

(i) Unless otherwise defined in this notice or the context requires otherwise, terms defined in the Circular shall have the same meanings when used in this notice.

(ii) A Shareholder entitled to attend and vote at the above meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her; a proxy need not be a Shareholder.

(iii) In order to be valid, a form of proxy must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. The completion and return of the form of proxy shall not preclude Shareholders from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.

(iv) Each of the Subscribers, their associates and parties acting in concert with them, who are interested in 485,066,904 shares of the Company (representing approximately 67.66% of the existing issued share capital of the Company as at the date hereof) will abstain from voting on the relevant ordinary resolution to be proposed at the EGM to approve the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

(v) As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by the Shareholders by way of poll.

(vi) The form of proxy for use at the EGM is enclosed herewith.

(vii) As announced by the Company on 4 May 2018, the register of members of the Company will be closed from Friday, 1 June 2018 to Thursday, 7 June 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the EGM, all transfer of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. (Hong Kong time) on Thursday, 31 May 2018.

As at the date hereof, the board of directors of the Company is comprised of nine directors, of which three are executive directors, namely Mr. Tang To, Mr. Wong Yiu Ming and Mr. Tang Yu, Freeman, and two are non-executive directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping and four are independent non-executive directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei.