
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of the Proposal, this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a 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 Scheme Document and the accompanying forms of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

 大同機械(控股)有限公司
Cosmos Machinery (Holdings) Ltd.
(Incorporated in Hong Kong with limited liability)

 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) PROPOSED PRIVATISATION OF COSMOS MACHINERY ENTERPRISES LIMITED BY COSMOS MACHINERY (HOLDINGS) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND (2) PROPOSED WITHDRAWAL OF LISTING OF COSMOS MACHINERY ENTERPRISES LIMITED

Financial Adviser to the Offeror



China Tonghai Capital Limited

Independent Financial Adviser to the Independent Board Committee



Yue Xiu Capital Limited

Unless the context otherwise requires, capitalised terms used in this Scheme Document (including this cover page) are defined in the section headed "Definitions" of this Scheme Document.

A letter from the Board is set out on pages 15 to 27 of this Scheme Document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in relation to the Proposal is set out on pages 28 to 29 of this Scheme Document. A letter from Yue Xiu Capital Limited, being the Independent Financial Adviser, containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 30 to 66 of this Scheme Document. An Explanatory Statement is set out on pages 67 to 96 of this Scheme Document.

The actions to be taken by the Shareholders are set out on pages 1 to 4 of this Scheme Document.

Notices convening the Court Meeting and the General Meeting to be held at Ballroom A, 2/F, The Langham, Hong Kong, 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong on Friday, 18 June 2021 at 10:00 a.m. and 10:15 a.m. respectively (or, in the case of the General Meeting, as soon thereafter as the Court Meeting shall have concluded or been adjourned) are set out on pages 171 to 173 and 174 to 177 of this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and if you are a Shareholder, you are strongly urged to complete and sign the enclosed white form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon and to lodge them with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any event no later than the respective times and dates as stated under the section headed "Actions to be Taken" set out on pages 1 to 4 of this Scheme Document. Completion and return of the forms of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy shall be deemed to have been revoked.

Please see the section headed "Precautionary Measures for the Court Meeting and the General Meeting" in this Scheme Document for measures being taken to try to prevent and control the spread of the COVID-19 at the Court Meeting and the General Meeting.

This Scheme Document is issued jointly by the Offeror and the Company. In case of inconsistency, the English language text of this Scheme Document shall prevail over the Chinese language text.

21 May 2021

PRECAUTIONARY MEASURES FOR THE COURT MEETING AND THE GENERAL MEETING

Reference is made to the “Joint Statement in relation to General Meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation” jointly issued by the Stock Exchange and the SFC on 1 April 2020 in relation to the arrangement of the General Meeting.

VOTING BY PROXY IN ADVANCE OF THE COURT MEETING AND THE GENERAL MEETING

The Company does not in any way wish to diminish the opportunity available to the Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect the Shareholders from possible exposure to the COVID-19 pandemic. For the health and safety of the Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the Court Meeting and the General Meeting by appointing the chairman of the Court Meeting and the General Meeting as their proxy instead of attending the Court Meeting and the General Meeting in person. Physical attendance is not necessary for the purpose of exercising Shareholders’ rights. Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the Court Meeting and the General Meeting or any adjournment thereof should they subsequently so wish.

PREVENTIVE MEASURES AT THE COURT MEETING AND THE GENERAL MEETING

The Company will implement the following preventive measures at the Court Meeting and the General Meeting to safeguard the health and safety of the attending Shareholders, staff and other stakeholders:

- (i) compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the Court Meeting and the General Meeting venue. Any person with a body temperature of over 37.3 degrees Celsius will be requested to stay in an isolated place for completing the voting procedures;
- (ii) every attendee will be required to wear a surgical face mask throughout the Court Meeting and the General Meeting. Please note that no masks will be provided at the Court Meeting and General Meeting venue and attendees should bring and wear their own masks;
- (iii) seating at the Court Meeting and the General Meeting will be arranged so as to reduce interaction between participants;
- (iv) attendees will be accommodated in separate partitioned rooms or areas of not more than 20 persons (or such number as may be allowed under the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Chapter 599G of the Laws of Hong Kong)) each; and

PRECAUTIONARY MEASURES FOR THE COURT MEETING AND THE GENERAL MEETING

- (v) no refreshments or drinks will be served.

In the interest of all stakeholders' health and safety and consistent with recent guidelines for prevention and control of COVID-19, the Company reminds all Shareholders that physical attendance in person at the Court Meeting and the General Meeting is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the Court Meeting and the General Meeting as their proxy to vote on the relevant resolutions at the Court Meeting and the General Meeting instead of attending the Court Meeting and the General Meeting in person. The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

The Company will closely monitor the development of the COVID-19 pandemic and any regulations or measures introduced or to be introduced by the Hong Kong Government in relation to COVID-19 pandemic. The Company will ensure that the Court Meeting and the General Meeting will be conducted in compliance with the regulations or measures of the Hong Kong Government and Shareholders will not be deprived of their right of voting on the resolutions to be proposed at the Court Meeting and the General Meeting. Further announcements will be made by the Company as soon as possible if there is any update to the preventive measures as mentioned above.

NOTICE TO US INVESTORS

The Proposal is being made to cancel the securities of a Hong Kong company by means of a scheme of arrangement provided for under the Companies Ordinance and is subject to Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in this Scheme Document (if any) has been prepared in accordance with Hong Kong Financial Reporting Standards and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles of the United States.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the requirements and practices applicable in Hong Kong to schemes of arrangement which differ from the requirements of the US tender offer rules.

This Scheme Document does not constitute an offer or invitation to purchase or subscribe for any securities of the Company in the United States.

The receipt of cash pursuant to the Proposal by a US holder of the Scheme Shares as consideration for the cancellation of their Scheme Shares pursuant to the Scheme may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of the Scheme Shares is urged to consult their independent professional adviser immediately regarding the potential tax consequences of the Proposal.

It may be difficult for US holders of the Scheme Shares to enforce their rights and claims arising out of the US federal securities laws, as the Offeror and the Company are located in a country other than the US and some or all of their officers and directors may be residents of a country other than the US. US holders of the Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

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ACTIONS TO BE TAKEN

1. ACTIONS TO BE TAKEN BY THE SHAREHOLDERS

For the purpose of determining the entitlements of holders of the Scheme Shares to attend and vote at the Court Meeting and the entitlements of the Shareholders to attend and vote at the General Meeting, the register of members of the Company will be closed from Friday, 11 June 2021 to Friday, 18 June 2021 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Thursday, 10 June 2021.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the General Meeting are enclosed with this Scheme Document. A subsequent purchaser of Shares will need to obtain the relevant proxy form(s) from the transferor if he or she wishes to attend or vote at the Court Meeting and/or the General Meeting.

Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a holder of the Scheme Shares, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon, and to lodge them with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof, and the white form of proxy for use at the General Meeting should be lodged 48 hours before the time appointed for holding the General Meeting or any adjournment thereof.** The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the General Meeting, you will still be bound by the outcome of the Court Meeting and/or the General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the General Meeting in person or by proxy.

Voting at the Court Meeting and the General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

ACTIONS TO BE TAKEN

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of the Shares from the Stock Exchange, in accordance with the requirements of the Takeovers Code and the Listing Rules.

2. ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CASS

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the General Meeting and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of form(s) of proxy in respect of the Court Meeting and/or the General Meeting, or, as applicable, the latest time for lodging transfers of Shares, in order to provide the Registered Owner with sufficient time to complete his/her/its form(s) of proxy or transfer documents accurately and to submit them by the relevant deadlines.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the General Meeting shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

ACTIONS TO BE TAKEN

The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof if the Registered Owner should so wish. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his/her/its form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant:

- (a) contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the General Meeting.

The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgement of forms of proxy in respect of the Court Meeting and/or the General Meeting, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Registered Owner, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the General Meeting (as a Shareholder). You can become a Registered Owner by withdrawing all or any of your Shares from CCASS. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and/or the General Meeting, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

ACTIONS TO BE TAKEN

3. EXERCISE YOUR RIGHT TO VOTE

If you are a Shareholder or a Beneficial Owner, the Offeror and the Company strongly encourage you to exercise your right to vote or give instructions to the relevant registered owner to vote in person or by proxy at the Court Meeting and at the General Meeting.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you are encouraged to provide HKSCC nominees with instructions or make arrangements with HKSCC nominees in relation to the manner in which those Shares should be voted at the Court Meeting and/or the General Meeting without delay and/or have the Shares withdrawn from CCASS and registered in your name (as detailed above).

If you keep any Shares in a share lending programme, the Offeror and the Company urge you to recall any outstanding Shares on loan to avoid market participants using borrowed stock to vote.

If you are a Registered Owner holding the Shares on behalf of Beneficial Owners, the Offeror and the Company would be grateful if you would inform the relevant beneficial owners about the importance of exercising their right to vote.

If you are in any doubt as to the action to be taken, you are encouraged to consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

DEFINITIONS

In this Scheme Document, the following expressions have the meanings set out below, unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
“associate(s)”	has the meaning ascribed to it in the Takeovers Code
“Authorisations”	authorisations, approvals, permissions, waivers and consents and all registrations and filings (including without limitation any which are required or desirable under or in connection with any applicable laws or regulations or any licences, permits or contractual obligations of the Company) in connection with the Proposal or its implementation in accordance with its terms
“Beneficial Owner”	any beneficial owner of the Shares whose Shares are registered in the name of a Registered Owner other than himself or herself
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant, including an Investor Participant
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	Cosmos Machinery Enterprises Limited (大同機械企業有限公司), a company incorporated in Hong Kong with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 118)
“Condition(s)”	the condition(s) of the Proposal as set out in the section headed “5. Conditions of the Proposal” in the Explanatory Statement

DEFINITIONS

“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the High Court at 10:00 a.m. on Friday, 18 June 2021 at Ballroom A, 2/F, The Langham, Hong Kong, 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong at which the Scheme will be voted upon, notice of which is set out on pages 171 to 173 of this Scheme Document, or any adjournment thereof
“Directors”	the directors of the Company
“Disinterested Shares”	has the meaning ascribed to it in section 674(3)(a) of the Companies Ordinance
“Effective Date”	the date on which the Scheme becomes effective in accordance with the Companies Ordinance
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement in relation to the Scheme, the text of which is set out on pages 67 to 96 of this Scheme Document, issued pursuant to section 671 of the Companies Ordinance
“Facility Agreement”	the facility agreement entered into between Tonghai Finance as lender, the Offeror as borrower, and Mr. Tang To and Mr. Tang Yu, Freeman as guarantors dated 10 December 2020 in relation to the Loan Facility, as supplemented and/or amended by a supplemental facility agreement entered into between Tonghai Finance as lender, the Offeror as borrower, and Mr. Tang To and Mr. Tang Yu, Freeman as guarantors dated 24 December 2020 in relation to the revised Scheme Consideration and a second supplemental facility agreement entered into between Tonghai Finance as lender, the Offeror as borrower, and Mr. Tang To and Mr. Tang Yu, Freeman as guarantors dated 10 May 2021 in relation to the extension of the availability of the Loan Facility to the date falling 9 months after 10 December 2020 (or such later date as Tonghai Finance may agree in writing)

DEFINITIONS

“General Meeting”	an extraordinary general meeting of the Company to be held at 10:15 a.m. (or immediately after the conclusion or adjournment of the Court Meeting) on Friday, 18 June 2021 at Ballroom A, 2/F, The Langham, Hong Kong, 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong and any adjournment thereof for the purpose of approving, amongst other things, the reduction of the share capital of the Company and implementation of the Scheme
“Group”	the Company and its subsidiaries
“High Court”	the High Court of Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Qu Jinping, being the non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, being all the independent non-executive Directors
“Independent Financial Adviser” or “YXCL”	Yue Xiu Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee
“Independent Shareholder(s)”	Shareholder(s) other than the Offeror and the Offeror Concert Parties

DEFINITIONS

“Independent Third Party(ies)”	independent third party who is not a 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
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Irrevocable Undertaking(s)”	the irrevocable undertaking given by each of Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, dated 8 April 2021, 1 April 2021 and 1 April 2021 respectively, pursuant to which each of Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah irrevocably and unconditionally undertakes not to vote at the Court Meeting (including any adjournment thereof)
“Joint Announcement”	the joint announcement dated 10 December 2020 issued by the Offeror and the Company in relation to the Proposal
“Last Trading Date”	3 December 2020, being the last day on which the Shares were traded on the Stock Exchange prior to the publication of the Joint Announcement
“Latest Practicable Date”	18 May 2021, being the latest practicable date prior to the date of this Scheme Document for the purpose of ascertaining certain information contained in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan Facility”	the loan facility granted by Tonghai Finance to the Offeror for financing the consideration payable under the Proposal, which is to be secured by, among other things, a charge over the Shares that are owned and will be owned by the Offeror under the Proposal
“Long Stop Date”	10 September 2021 (being the date falling nine months after the date of the Joint Announcement), or such later date as may be agreed among the Offeror, the Company and Tonghai Finance or, to the extent applicable, as the Executive may consent and/or the High Court may direct
“Meeting Record Date”	Friday, 18 June 2021, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of holders of the Scheme Shares to attend and vote at the Court Meeting and the entitlement of the Shareholders to attend and vote at the General Meeting

DEFINITIONS

“Offeror”	Cosmos Machinery (Holdings) Limited (大同機械(控股)有限公司), a company incorporated in Hong Kong with limited liability, which is a controlling shareholder (as defined under the Listing Rules) of the Company
“Offeror Concert Party(ies)”	all person(s) acting in concert or presumed to be acting in concert with the Offeror under the Takeovers Code, including but not limited to Saniwell Holding Inc., Tai Shing Agencies Limited, Ginta Company Limited, Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Kan Wai Wah, Mr. Tang Chi Tung, Mr. Tang To and his spouse, and Mr. Tang Yu, Freeman and his spouse
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited the Shares with, a CCASS participant
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme
“Registered Owner”	any person (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the register of members of the Company as a holder of the Shares
“Registrar of Companies”	the Registrar of Companies appointed under the Companies Ordinance
“Relevant Period”	the period commencing on 10 June 2020, being the date falling six (6) months prior to the date of the Joint Announcement and ending on the Latest Practicable Date
“Scheme”	the scheme of arrangement under section 673 of the Companies Ordinance for the implementation of the Proposal as set out on pages 164 to 170 of this Scheme Document, with or subject to any modification thereof or addition thereof or condition approved or imposed by the High Court
“Scheme Consideration”	the amount of HK\$0.550 per Scheme Share payable in cash to the Scheme Shareholders pursuant to the Scheme
“Scheme Document”	this composite scheme document of the Offeror and the Company containing, among other things, each of the letters, statements, appendices and notices in it

DEFINITIONS

“Scheme Record Date”	Tuesday, 20 July 2021, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Scheme Consideration under the Scheme
“Scheme Share(s)”	Share(s) in issue on the Scheme Record Date, other than the Shares beneficially owned, controlled or directed by the Offeror and the Offeror Concert Parties (except for Shares beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, which form part of the Scheme Shares)
“Scheme Shareholder(s)”	registered holder(s) of the Scheme Shares as at the Scheme Record Date
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of the Company
“Shareholder(s)”	the registered holder(s) of the Shares
“Share Registrar”	Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, being the share registrar of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Tonghai Capital”	China Tonghai Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Offeror in connection with the Proposal
“Tonghai Finance”	China Tonghai Finance Limited, a fellow subsidiary of Tonghai Capital and a registered money lender holding a valid money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong)

DEFINITIONS

“Tonghai Securities”	China Tonghai Securities Limited, a fellow subsidiary of Tonghai Capital and 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
“US” or “United States”	United States of America
“%”	per cent

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified.

EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company. Unless otherwise specified, all times and dates refer to Hong Kong local times and dates.

Hong Kong time

Latest time for lodging transfers of the Shares in order to qualify for entitlement to attend and vote at the Court Meeting and the General Meeting 4:30 p.m. on Thursday, 10 June 2021

Register of members of the Company closed for determining entitlement to attend and vote at the Court Meeting and the General Meeting (*Note 1*) Friday, 11 June 2021 to Friday, 18 June 2021 (both days inclusive)

Latest time for lodging forms of proxy in respect of:

- Court Meeting (*Note 2*) 10:00 a.m. on Wednesday, 16 June 2021
- General Meeting (*Note 2*) 10:15 a.m. on Wednesday, 16 June 2021

Meeting Record Date Friday, 18 June 2021

Court Meeting (*Note 2*) 10:00 a.m. on Friday, 18 June 2021

General Meeting (*Note 2*) 10:15 a.m. on Friday, 18 June 2021
(or immediately after the conclusion or adjournment of the Court Meeting)

Announcement of the results of the Court Meeting and the General Meeting posted on the website of the Stock Exchange no later than 7:00 p.m. on Friday, 18 June 2021

Expected latest time for trading of the Shares on the Stock Exchange 4:10 p.m. on Monday, 5 July 2021

EXPECTED TIMETABLE

Hong Kong time

Latest time for lodging transfers of the Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Monday, 12 July 2021
Register of members of the Company closed for determining entitlement to qualify under the Scheme (<i>Note 3</i>)	from Tuesday, 13 July 2021 onwards
High Court hearing of the petition for the sanction of the Scheme (<i>Note 4</i>)	10:00 a.m. on Tuesday, 20 July 2021
Announcement of (1) the results of the High Court hearing for the petition for the sanction of the Scheme, (2) the expected Effective Date and (3) the expected date of withdrawal of listing of the Shares on the Stock Exchange posted on the website of the Stock Exchange	no later than 7:00 p.m. on Tuesday, 20 July 2021
Scheme Record Date	Tuesday, 20 July 2021
Effective Date (<i>Note 4</i>)	Tuesday, 27 July 2021
Announcement of (1) the Effective Date and (2) the withdrawal of listing of the Shares on the Stock Exchange posted on the website of the Stock Exchange	Tuesday, 27 July 2021
Withdrawal of listing of the Shares on the Stock Exchange becomes effective	9:00 a.m. on Thursday, 29 July 2021
Cheques for the cash payment under the Proposal to be despatched (<i>Note 5</i>)	on or before Thursday, 5 August 2021

Notes:

1. The register of members of the Company will be closed during such period for the purpose of determining entitlements of holders of the Scheme Shares to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the General Meeting. For the avoidance of doubt, this period of closure is not for determining entitlements under the Scheme.

EXPECTED TIMETABLE

2. The **pink** form of proxy in respect of the Court Meeting and the **white** form of proxy in respect of the General Meeting should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by the times and dates stated above. The **pink** form of proxy for use at the Court Meeting and the **white** form of proxy for use at the General Meeting must be lodged no later than the time and date stated above in order for them to be valid. The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he/she/it so wishes. In the event that the member attends and votes at the relevant meeting or any adjournment thereof after having lodged his/her/its form of proxy, the returned form of proxy shall be deemed to have been revoked.
3. The register of members of the Company will be closed during such period for the purpose of determining the Scheme Shareholders, who are qualified for entitlements under the Scheme.
4. The High Court hearing will be held at the High Court at the High Court Building, 38 Queensway, Hong Kong. The Scheme shall become effective when an office copy of the order of the High Court sanctioning the Scheme (with or without modification) and confirming, under section 229 of the Companies Ordinance, the reduction of capital provided for by the Scheme, together with a minute and return relating to the reduction of capital of the Company containing the particulars required by section 230 of the Companies Ordinance, shall have been registered by the Registrar of Companies in Hong Kong.
5. Cheques for entitlements of the Scheme Shareholders will be despatched by ordinary post in postage pre-paid envelopes addressed to the Scheme Shareholders at their respective addresses as appearing in the register of members of the Company as at the Scheme Record Date or, in the case of joint holders, at the address appearing in the register of members of the Company as at the Scheme Record Date of the joint holder whose name then stands first in the register of members of the Company in respect of the relevant joint holding as soon as possible but in any event within seven (7) Business Days following the Effective Date. Cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, Tonghai Capital, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be responsible for any loss or delay in transmission.

LETTER FROM THE BOARD



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 (*Chairman*)

Tang Yu, Freeman (*Chief Executive Officer*)

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

21 May 2021

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF
COSMOS MACHINERY ENTERPRISES LIMITED
BY COSMOS MACHINERY (HOLDINGS) LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
COSMOS MACHINERY ENTERPRISES LIMITED**

INTRODUCTION

The Offeror and the Company jointly announced in the Joint Announcement that on 3 December 2020, the Offeror requested the Board to put forward to holders of the Scheme Shares the Proposal, which, if implemented, would result in the Company becoming wholly owned by the Offeror and the Offeror Concert Parties which hold Shares not forming part of the Scheme Shares and the withdrawal of listing of the Shares from the Stock Exchange.

LETTER FROM THE BOARD

On 24 December 2020, the Offeror and the Company jointly announced that on 23 December 2020 the Offeror requested the Board to put forward to the Scheme Shareholders a revised Proposal under which the Offeror proposed to increase the Scheme Consideration from HK\$0.500 in cash to HK\$0.550 in cash for each Scheme Share cancelled.

The Proposal will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Scheme Consideration in cash for each Scheme Share cancelled.

As at the Latest Practicable Date, the Offeror directly held 235,802,600 Shares, representing approximately 27.36% of the total number of issued Shares, and the Offeror Concert Parties (including Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah) beneficially owned, controlled or had direction over an aggregate of 225,236,378 Shares, representing approximately 26.13% of the total number of issued Shares. The Offeror and the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares. Among the Shares beneficially owned, controlled or directed by the Offeror Concert Parties, a total of 10,225,515 Shares (representing approximately 1.19% of the total number of issued Shares) beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, will form part of the Scheme Shares. If the Proposal is approved and implemented:

- (a) all the Scheme Shares held by the Scheme Shareholders will be cancelled on the Effective Date in exchange for the payment to the Scheme Shareholders of the Scheme Consideration of HK\$0.550 in cash for each Scheme Share to be paid by the Offeror;
- (b) the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issue to the Offeror, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled. The credit arising in the books of account of the Company as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid to the Offeror; and
- (c) the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange one (1) clear Business Day following the Effective Date pursuant to Rule 6.15(2) of the Listing Rules.

LETTER FROM THE BOARD

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and, in particular, the Scheme, and to give you notices of the Court Meeting and the General Meeting (together with proxy forms in relation thereto). Your attention is also drawn to (i) the letter from the Independent Board Committee set out on pages 28 to 29 of this Scheme Document; (ii) the letter from the Independent Financial Adviser set out on pages 30 to 66 of this Scheme Document; (iii) the Explanatory Statement set out on pages 67 to 96 of this Scheme Document; and (iv) the terms of the Scheme set out on pages 164 to 170 of this Scheme Document.

THE PROPOSAL

Subject to the Conditions described in the section headed “5. Conditions of the Proposal” in the Explanatory Statement on pages 67 to 96 of this Scheme Document being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

THE SCHEME

Subject to the Scheme becoming effective, the Scheme Shareholders will receive from the Offeror as Scheme Consideration:

HK\$0.550for every Scheme Share cancelled

The Scheme Consideration will not be further increased and the Offeror does not reserve the right to do so.

The Scheme Consideration of HK\$0.550 per Scheme Share represents:

- (a) a premium of approximately 42.9% over the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Last Trading Date, which is the last closing price of the Shares on 3 December 2020 prior to the trading halt in the Shares pending the release of the Joint Announcement;
- (b) a premium of approximately 46.7% over the closing price of HK\$0.375 per Share on 2 December 2020, which is the closing price on the last full trading day of the Shares prior to the Last Trading Date;
- (c) a premium of approximately 49.1% over the average closing price of approximately HK\$0.369 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 45.9% over the average closing price of approximately HK\$0.377 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

LETTER FROM THE BOARD

- (e) a premium of approximately 39.6% over the average closing price of approximately HK\$0.394 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 41.0% over the average closing price of approximately HK\$0.390 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (g) a premium of approximately 59.9% over the average closing price of approximately HK\$0.344 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (h) a premium of approximately 161.9% over the lowest closing price of HK\$0.210 per Share and a premium of approximately 18.3% over the highest closing price of HK\$0.465 per Share as quoted on the Stock Exchange for the one year up to and including the Last Trading Date;
- (i) a discount of approximately 68.4% to the audited consolidated net asset value per Share of approximately HK\$1.740 as at 31 December 2020;
- (j) a discount of approximately 67.1% to the audited consolidated net tangible asset value per Share of approximately HK\$1.674 as at 31 December 2020;
- (k) a discount of approximately 64.7% to the adjusted unaudited net asset value attributable to Shareholders per Share of approximately HK\$1.56 after taking into account of the property valuation as set out in Appendix II to this Scheme Document^(Note) as at 31 March 2021;
- (l) an implied price-earnings multiple of approximately 24.2 times based on the audited basic earnings per Share of approximately HK\$0.0227 for profit attributable to the equity shareholders of the Company for the year ended 31 December 2020; and
- (m) a premium of approximately 7.8% over the closing price of HK\$0.510 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Note: Calculated by the audited net asset value attributable to Shareholders of approximately HK\$1,268.6 million as at 31 December 2020 and adjusted by the updated valuation of property interests attributable to Shareholders of approximately HK\$102.1 million with related tax adjustment of approximately HK\$25.5 million as at 31 March 2021, and then divided by 861,930,692 Shares as at the Latest Practicable Date.

The Scheme Consideration has been determined after taking into account, among other things, the challenging operating environment facing the Company, the recent and historic trading prices and trading volume of the Shares and publicly available financial information of the Company.

LETTER FROM THE BOARD

Assuming that the Scheme becomes effective on Tuesday, 27 July 2021, cheques for entitlements under the Scheme will be despatched as soon as possible but in any event within seven (7) Business Days following the Effective Date and accordingly, the cheques are expected to be despatched on or before Thursday, 5 August 2021. All such cheques will be posted at the risk of the persons entitled thereto and none of the Offeror, the Company, Tonghai Capital, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

As at the Latest Practicable Date, the Company had 861,930,692 Shares in issue. The 411,117,229 Scheme Shares represents approximately 47.70% of the total number of Shares in issue.

On the assumption that no new Shares will be issued and there are no other changes in the shareholding structure of the Company before the completion of the Proposal, the amount of cash payable to the Scheme Shareholders under the Proposal would be HK\$226,114,475.95 on the basis of the Scheme Consideration of HK\$0.550 per Scheme Share and 411,117,229 Scheme Shares in issue as at the Latest Practicable Date.

The Offeror intends to finance the cash required for the Proposal through its internal financial resources and the Loan Facility made available to the Offeror by Tonghai Finance under the Facility Agreement, which is to be secured by, among other things, a charge over the Shares that are owned and will be owned by the Offeror under the Proposal.

Tonghai Capital is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal.

CONDITIONS OF THE PROPOSAL

The Proposal is subject to the satisfaction or waiver, as applicable, of the Conditions described in the section headed “5. Conditions of the Proposal” in the Explanatory Statement on pages 71 to 74 of this Scheme Document.

Subject to the requirements of the Takeovers Code, the Proposal will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. If the Scheme is not approved or does not become effective, or the Proposal otherwise lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

LETTER FROM THE BOARD

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company except with the consent of the Executive.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

Shareholders and/or potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Shareholders and/or potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional advisers.

IRREVOCABLE UNDERTAKINGS

As at the Latest Practicable Date, neither the Offeror nor any of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal. The Offeror had received the Irrevocable Undertakings from Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, all being the Offeror Concert Parties and the Scheme Shareholders, that each of them irrevocably and unconditionally undertakes not to vote at the Court Meeting.

As at the Latest Practicable Date, a total of 757,515 Shares were beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, representing approximately 0.09% of the total number of issued Shares, and approximately 0.18% of the Scheme Shares.

The Irrevocable Undertakings shall terminate upon the Proposal becoming effective or lapsing in accordance with its terms.

As Mr. Wong Yiu Ming is an Offeror Concert Party and therefore is not an Independent Shareholder, his votes at the Court Meeting (if any) will not be counted for the purposes of satisfying the requirements under Rule 2.10 of the Takeovers Code.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date:

- (a) the Company had 861,930,692 Shares in issue;

LETTER FROM THE BOARD

- (b) the Offeror directly held 235,802,600 Shares, representing approximately 27.36% of the total number of issued Shares. The Offeror and the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares;
- (c) the Offeror Concert Parties (including Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah) beneficially owned, controlled or had direction over an aggregate of 225,236,378 Shares, representing approximately 26.13% of the total number of issued Shares. Among the Shares beneficially owned, controlled or had direction over by the Offeror Concert Parties, a total of 10,225,515 Shares (representing approximately 1.19% of the total number of issued Shares) beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, will form part of the Scheme Shares;
- (d) save as disclosed in paragraphs (b) and (c) above, the Offeror and the Offeror Concert Parties did not legally or beneficially own, control or have direction any other Shares;
- (e) there were no convertible securities, warrants, options or derivatives in respect of the Shares held, controlled or directed by the Offeror or the Offeror Concert Parties;
- (f) neither the Offeror nor the Offeror Concert Parties had entered into any outstanding derivative in respect of the securities in the Company;
- (g) neither the Offeror nor the Offeror Concert Parties had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; and
- (h) none of the Offeror nor the Offeror Concert Parties had dealt for value in any Shares, or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

A table setting out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective (assuming no new Shares will be issued prior thereto and there are no other changes in the shareholding structure of the Company before completion of the Proposal) is in the section headed “7. Shareholding Structure of the Company and Effect of the Proposal and the Scheme” in the Explanatory Statement on pages 75 to 78 of this Scheme Document.

As at the Latest Practicable Date, the Scheme Shares comprised 411,117,229 Shares, representing approximately 47.70% of the total number of issued Shares.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives, securities convertible into Shares or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued Shares of 861,930,692 Shares.

As at the Latest Practicable Date, save as set out below, no Director held any Shares:

- (a) Mr. Tang To, an executive Director, was interested in the Shares as follows: (i) 4,970,005 Shares, representing approximately 0.58% of the total number of issued Shares, held by Mr. Tang To; (ii) 226,000 Shares, representing approximately 0.026% of the total number of issued Shares, held by Mr. Tang To and his spouse jointly; (iii) 3,460,406 Shares, representing approximately 0.40% of the total number of issued Shares, held by Ginta Company Limited, which is 99.999% owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse; (iv) 405,907,052 Shares, representing approximately 47.09% of the total number of issued Shares, held by Codo Development Limited through its wholly-owned subsidiaries, Tai Shing Agencies Limited, Hung Cheong Realty Limited and the Offeror; and (v) 36,250,000 Shares, representing approximately 4.21% of the total number of issued Shares, held by Saniwell Holding Inc. (as the trustee of The Saniwell Trust, the beneficiaries of which included Mr. Tang To and certain of his family members) which in turn was owned as to approximately 57.14% by Mr. Tang To;
- (b) Mr. Tang Yu, Freeman, an executive Director, was interested in the Shares as follows: (i) 405,907,052 Shares, representing approximately 47.09% of the total number of issued Shares, held by Codo Development Limited through its wholly-owned subsidiaries, Tai Shing Agencies Limited, Hung Cheong Realty Limited and the Offeror; and (ii) 36,250,000 Shares, representing approximately 4.21% of the total number of issued Shares, held by Saniwell Holding Inc. (as the trustee of The Saniwell Trust, the beneficiaries of which included Mr. Tang To and certain of his family members) which in turn was owned as to approximately 42.86% by Mr. Tang Yu, Freeman;
- (c) Mr. Kan Wai Wah, a non-executive Director, beneficially owned, controlled or had direction over 136,400 Shares, representing approximately 0.02% of the total number of issued Shares; and
- (d) Mr. Cheng Tak Yin, an independent non-executive Director, beneficially owned, controlled or had direction over 1,406,000 Shares, representing approximately 0.16% of the total number of issued Shares.

As the Offeror and the Offeror Concert Parties (save for Mr. Wong Yiu Ming, Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah) are not the Scheme Shareholders, each of them will not be entitled to vote at the Court Meeting.

LETTER FROM THE BOARD

Pursuant to the Irrevocable Undertakings, each of Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, being a Scheme Shareholder and an Offeror Concert Party, irrevocably and unconditionally undertakes not to vote at the Court Meeting.

As Mr. Wong Yiu Ming is an Offeror Concert Party and therefore is not an Independent Shareholder, his votes at the Court Meeting (if any) will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code.

All Shareholders will be entitled to vote on the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the issue to the Offeror of such number of new Shares (credited as fully paid) as is equal to the number of the Scheme Shares cancelled, which is set out in the Condition in paragraph (b) in the section headed “5. Conditions of the Proposal” in the Explanatory Statement. The Offeror has indicated that, if the Scheme is approved at the Court Meeting, the Offeror will vote in favour of the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme. The Offeror Concert Parties will also be entitled to vote on the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme.

Upon the Scheme becoming effective, the Offeror will directly hold approximately 75.05% of the total number of issued Shares and the Offeror Concert Parties which hold Shares not forming part of the Scheme Shares will directly hold approximately 24.95% of the total number of issued Shares.

REASONS FOR AND BENEFITS OF THE PROPOSAL

You are urged to read carefully the section headed “11. Reasons for and Benefits of the Proposal” in the Explanatory Statement on pages 80 to 84 of this Scheme Document.

THE OFFEROR’S INTENTIONS IN RELATION TO THE GROUP

You are urged to read carefully the section headed “12. The Offeror’s Intentions in relation to the Group” in the Explanatory Statement on page 84 of this Scheme Document.

The Board has noted the intentions of the Offeror in respect of the Company and the employees of the Group, as disclosed in the section headed “12. The Offeror’s Intentions in relation to the Group” in the Explanatory Statement on page 84 of this Scheme Document.

The Board is pleased to note the intentions of the Offeror to carry on the Group’s principal business of (i) trading of industrial consumables; (ii) manufacturing and processing of plastic products; (iii) manufacturing of machinery; and (iv) processing and trading of printed circuit boards upon the Scheme becoming effective, and not to introduce any major changes to the

LETTER FROM THE BOARD

business of the Group, save as restructuring certain operations of the Group, particularly those which are loss-making and not to make any significant changes to the continued employment of the employees of the Group.

EXCLUSIVE FINANCIAL ADVISER TO THE OFFEROR

The Offeror has appointed Tonghai Capital as its financial adviser in connection with the Proposal.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, which comprises Mr. Qu Jinping, being the non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, being the independent non-executive Directors, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the Proposal is, or is not, fair and reasonable and as to voting.

Since Mr. Kan Wai Wah, a non-executive Director, is a director of the Offeror, Mr. Kan Wai Wah has not been included in the Independent Board Committee.

Mr. Cheng Tak Yin, an independent non-executive Director, beneficially owned 1,406,000 Shares, representing approximately 0.16% of the total number of issued Shares as at the Latest Practicable Date. His interest as a Shareholder is no different from any other Independent Shareholders and he is therefore not precluded from being a member of the Independent Board Committee.

The full text of the letter from the Independent Board Committee is set out on pages 28 to 29 of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

The Company has, with the approval of the Independent Board Committee, appointed YXCL as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal.

The full text of the letter from the Independent Financial Adviser is set out on pages 30 to 66 of this Scheme Document.

INFORMATION ABOUT THE OFFEROR AND THE COMPANY

Your attention is drawn to Appendix I headed “Financial Information Relating to the Group” on pages 97 to 103 of this Scheme Document, and the sections headed “14. Information on the Offeror” and “15. Information on the Company” in the Explanatory Statement on pages 85 to 87 of this Scheme Document.

LETTER FROM THE BOARD

OVERSEAS SHAREHOLDERS

If you are an overseas holder of the Scheme Shares, your attention is drawn to the section headed “18. Overseas Shareholders” in the Explanatory Statement on pages 89 to 90 of this Scheme Document.

COURT MEETING AND GENERAL MEETING

For the purpose of exercising your right to vote at the Court Meeting and the General Meeting, you are requested to read carefully the section headed “20. Court Meeting and General Meeting” in the Explanatory Statement on pages 90 to 92 of this Scheme Document, the section headed “21. Actions to be Taken” on pages 92 to 95 of this Scheme Document, and the notices of the Court Meeting and the General Meeting on pages 171 to 173 and 174 to 177 respectively of this Scheme Document.

ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under the section headed “Actions to be Taken” on pages 1 to 4 and the section headed “21. Actions to be Taken” in the Explanatory Statement on pages 92 to 95 of this Scheme Document.

RECOMMENDATION

The Independent Financial Adviser has advised the Independent Board Committee that it considers the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and accordingly, advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal and the Scheme.

The Independent Board Committee, having considered the terms of the Proposal, and having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal and the Scheme.

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Board Committee, in respect of the Proposal as set out in the “Letter from the Independent Financial Adviser” on pages 30 to 66 of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal as set out in the “Letter from the Independent Board Committee” on pages 28 to 29 of this Scheme Document.

LETTER FROM THE BOARD

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. In that case, the Company does not intend to maintain its listing on the Stock Exchange and will make an application for the listing of the Shares to be withdrawn from the Stock Exchange one (1) clear Business Day following the Effective Date in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on Thursday, 29 July 2021. Holders of the Scheme Shares will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and the day on which the Scheme and the withdrawal of listing of the Shares on the Stock Exchange will become effective.

Subject to the requirements of the Takeovers Code, the Proposal will lapse if any of the Conditions described in the section headed “5. Conditions of the Proposal” in the Explanatory Statement on pages 71 to 74 of this Scheme Document has not been fulfilled or waived, as applicable, on or before the Long Stop Date.

If the Scheme is withdrawn or is not approved at the Court Meeting or is not sanctioned by the High Court or does not become effective or the Proposal otherwise lapses, (a) the listing of the Shares on the Stock Exchange will not be withdrawn; (b) neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, except with the consent of the Executive, within 12 months thereafter, announce an offer or possible offer for the Company; and (c) the Company will publish an announcement to update the Shareholders in respect of the status of the Proposal.

Your attention is drawn to the sections entitled “16. Withdrawal of Listing of the Shares” and “17. Registration and Payment” in the Explanatory Statement set out on page 87 and pages 88 to 89, respectively, of this Scheme Document.

TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of the Offeror, the Company, Tonghai Capital, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their approval or rejection, or the implementation, of the Proposal. Accordingly, you are urged to read the section entitled “19. Taxation and Independent Advice” in the Explanatory Statement set out on page 90 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

LETTER FROM THE BOARD

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out on pages 28 to 29, and pages 30 to 66 respectively of this Scheme Document, the Explanatory Statement as set out on pages 67 to 96 of this Scheme Document, the appendices to this Scheme Document, the terms of the Scheme as set out on pages 164 to 170 of this Scheme Document, the notice of the Court Meeting as set out on pages 171 to 173 of this Scheme Document and the notice of the General Meeting as set out on pages 174 to 177 of this Scheme Document. In addition, a pink form of proxy for the Court Meeting and a white form of proxy for the General Meeting are enclosed with this Scheme Document.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

21 May 2021

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF
COSMOS MACHINERY ENTERPRISES LIMITED
BY COSMOS MACHINERY (HOLDINGS) LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
COSMOS MACHINERY ENTERPRISES LIMITED**

INTRODUCTION

We refer to the document dated 21 May 2021 jointly issued by the Offeror and the Company in relation to the Proposal (the “**Scheme Document**”), of which this letter forms part. Terms defined in this Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Independent Shareholders in respect of the Proposal, details of which are set out in the “Letter from the Board” and the “Explanatory Statement” of this Scheme Document.

YXCL, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from the Independent Financial Adviser” as set out on pages 30 to 66 of this Scheme Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

In the “Letter from the Independent Financial Adviser” as set out on pages 30 to 66 of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal and the Scheme.

RECOMMENDATION

The Independent Board Committee, having considered the terms of the Proposal, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal and the Scheme.

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the “Letter from the Board” set out on pages 15 to 27 of this Scheme Document; (ii) the “Letter from the Independent Financial Adviser” set out on pages 30 to 66 of this Scheme Document, which sets out the factors and reasons taken into account in arriving at its recommendations to the Independent Board Committee; and (iii) the Explanatory Statement set out on pages 67 to 96 of this Scheme Document.

Yours faithfully,

The Independent Board Committee

Mr. Qu Jinping
Non-executive Director

Ms. Yeung Shuk Fan
Independent
Non-executive Director

Mr. Cheng Tak Yin
Independent
Non-executive Director

Mr. Ho Wei Sem
Independent
Non-executive Director

Mr. Huang Zhi Wei
Independent
Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Yue Xiu Capital Limited to the Independent Board Committee which has been prepared for the purpose of inclusion in this Scheme Document.



28/F., Siu On Centre,
188 Lockhart Road, Wanchai, Hong Kong

21 May 2021

To: the Independent Board Committee of Cosmos Machinery Enterprises Limited

Dear Sirs,

**(1) PROPOSED PRIVATISATION OF
COSMOS MACHINERY ENTERPRISES LIMITED
BY COSMOS MACHINERY (HOLDINGS) LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
COSMOS MACHINERY ENTERPRISES LIMITED**

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposal and the Scheme, details of which are set out in “Letter from the Board” (the “**Letter from the Board**”) and the Explanatory Statement contained in the Scheme Document dated 21 May 2021, of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Scheme Document unless the context requires otherwise.

On 3 December 2020, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by the Scheme, which will involve the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Scheme Consideration of HK\$0.50 in cash for each Scheme Share cancelled. Subsequently on 24 December 2020, the Offeror and the Company jointly announced that on 23 December 2020, the Offeror requested the Board to put forward to the Scheme Shareholders a revised Proposal under which the Offeror proposed to increase the Scheme Consideration from HK\$0.50 in cash to HK\$0.55 in cash for each Scheme Share cancelled. If the Proposal is approved and implemented, all the Scheme Shares held by the Scheme Shareholders will be cancelled on the Effective Date in exchange for payment of the Scheme Consideration of HK\$0.55 for each Scheme Share; the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issue to the Offeror, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled. After the Scheme becoming effective, the Company apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, which comprises Mr. Qu Jinping, being the non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, being the independent non-executive Directors, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal are, or are not, fair and reasonable as to voting. Since Mr. Kan Wai Wah, a non-executive Director, is a director of the Offeror, he has not been included in the Independent Board Committee.

We, Yue Xiu Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal and our appointment has been approved by the Independent Board Committee.

We are not associated with the Company, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them.

II. BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all views, opinions and statements of intention provided by the Directors and the Management have been arrived at after due and careful enquiry. We have reviewed, among other things, the annual report of the Company for the financial year ended 31 December 2019 (the “**2019 Annual Report**”), the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”), the property valuation report (the “**Valuation Report**”) prepared by Cushman & Wakefield Limited (the “**Valuer**”) set out in Appendix II to the Scheme Document, the trading performance of the Shares on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and information set out in the Scheme Document. 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 the information and documents we have received is sufficient for us to reach an informed view and to provide a reasonable basis for our opinion set out in this letter. We have no reason to suspect 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 have not, however, carried out any independent verification of the information provided, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position, plans, projections or future prospects of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also assumed that all statements, information, opinions and representations contained or referred to in the Scheme Document and/or provided to us were true, accurate and complete in all respects at the time they were made and at the date of the Scheme Document, and will continue to be true up to the Latest Practicable Date in accordance with Rule 9.1 of the Takeovers Code. Shareholders will be informed by the Offeror and the Company as soon as practicable if there is any material change to the information contained or referred to herein throughout the offer period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Independent Shareholders accordingly.

This letter is issued for the information of the Independent Board Committee solely in connection with their consideration of the Proposal, and except for its inclusion in the Scheme Document, 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.

We have not considered the tax and regulatory implications on the Scheme Shareholders in connection with the Proposal since these are particular to their individual circumstances. In particular, the Scheme Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in doubt, should consult their own professional advisers.

III. PRINCIPAL TERMS OF THE PROPOSAL

Set out below is a summary of the terms of the Proposal which are set out in details in the Letter from the Board, the Explanatory Statement and the section headed “The Scheme” as set out in the Scheme Document. Scheme Shareholders are encouraged to read the Scheme Document and appendices in full.

1. The Scheme Consideration

Under the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive the Scheme Consideration of HK\$0.55 in cash for each Scheme Share cancelled.

As stated in the Letter from the Board, the Scheme Consideration has been determined after taking into account, among other things, the challenging operating environment facing the Company, the recent and historic trading prices and trading volume of the Shares and publicly available financial information of the Company.

The Scheme Consideration will not be further increased and the Offeror does not reserve the right to do so.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Conditions of the Proposal

The Proposal is, and the Scheme will become effective and binding on the Company and all the Shareholders, subject to fulfillment or waiver (as applicable) of the Conditions as set out in the section headed “5. Conditions of the Proposal” in the Explanatory Statement.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal will lapse. As at the Latest Practicable Date, none of the Conditions has been fulfilled or waived (as applicable).

For details of the terms of the Proposal, please refer to section headed “The Proposal” in the Letter from the Board and the Explanatory Statement.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Proposal, we have considered the following principal factors and reasons:

1. Background information of the Group

The Company is an investment holding company incorporated in Hong Kong with limited liability. The principal activities of the Group are machinery manufacturing business, plastic products manufacturing and processing business, printed circuit board (“PCB”) processing and trading business and industrial consumables trading business. The Group’s principal markets are located in the People’s Republic of China (“PRC”), Hong Kong, other Asia-Pacific countries, Europe and North America, and its products are mainly sold in the PRC.

2. Financial information of the Group

In the following section, we shall discuss the financial performance of the Group covering the three financial years ended 31 December 2020.

(a) *Consolidated statements of profit or loss*

Set out below is the summary of the consolidated statements of profit or loss of the Company for the three financial years ended 31 December 2018 (“FY2018”), 2019 (“FY2019”) and 2020 (“FY2020”) as extracted from the 2019 Annual Report and the 2020 Annual Report.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table A: Summary of consolidated statement of profit or loss of the Company

	For the year ended 31 December		
	2020	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Segment revenue			
– Trading of industrial consumables	339,105	326,956	380,108
– Sales of plastic processing products	435,523	462,976	509,479
– Sales of machinery	940,175	751,519	901,891
– Sales of printed circuit boards	690,443	764,158	858,826
– Other operations	<u>26,775</u>	<u>39,314</u>	<u>32,148</u>
Revenue	2,432,021	2,344,923	2,682,452
Cost of sales	(2,024,043)	(1,967,383)	(2,245,294)
Gross profit	407,978	377,540	437,158
Gross profit margin	16.8%	16.1%	16.3%
Other income and gain, net	15,829	66,516	45,202
Profit for the year attributable to equity shareholders of the Company	<u>19,578</u>	<u>15,755</u>	<u>74,052</u>

Comparison between FY2019 and FY2018

The Group recorded an approximately 12.6% year-on-year decrease in revenue, from approximately HK\$2,682.5 million for FY2018 to approximately HK\$2,344.9 million for FY2019. As disclosed in the 2019 Annual Report, the decrease in revenue was primarily attributable to (i) a decrease in sales turnover due to global macro-economic forces and economic uncertainties during 2019; and (ii) deteriorating market sentiments attributable to ongoing trade friction between the United States and the PRC which negatively impacted capital expenditure sentiments across manufacturing and electronics industries in the PRC during 2019. With reference to the 2019 Annual Report and as advised by the Management, although revenue of the Group was mainly derived from the PRC, some of the Group's customers engaging in export businesses were impacted by the global economic uncertainties and the on-going trade friction between the United States and the PRC, thereby affecting their demands on the Group's products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded an approximately 13.7% year-on-year decrease of gross profit, from approximately HK\$437.2 million for FY2018 to approximately HK\$377.5 million for FY2019. The Group also recorded a slight decrease in gross profit margin from approximately 16.3% for FY2018 to approximately 16.1% for FY2019, primarily due to (i) global market economic uncertainties and deteriorating market sentiments impacted by the trade friction between the United States and the PRC; and (ii) intensive market competition in the PRC manufacturing sector under which the Group was required to offer more competitive pricing for some of its customer orders during FY2019.

The Group recorded an approximately 78.7% year-on-year decrease in profit attributable to equity shareholders of the Company, from approximately HK\$74.1 million for FY2018 to approximately HK\$15.8 million for FY2019. Such decrease was mainly attributable to (i) the adverse impacts to capital expenditure sentiments across the manufacturing industry as a whole in the PRC from the trade friction between the United States and the PRC; (ii) a decrease in demand for the Group's machinery orders due to weak overall demand in the automotive industry in the PRC; and (iii) a decrease in revenue derived from the Group's printed circuit boards business which was primarily due to the challenging macro-economic environment which caused project delays and increased market competition from an overall decrease in demand in the market. In addition, the Group recorded two non-recurring gains of approximately HK\$46.1 million from the reversal of unused provisions for indemnity in relation to the disposal of an indirect wholly-owned subsidiary in 2018 and restructuring in relation to cessation of operation of certain manufacturing business and optimization of the production capacities in plants located in Dongguan and Wuxi in 2019. Taking out the abovementioned non-recurring items, the Group would have recorded loss attributable to equity shareholders for FY2019.

Comparison between FY2020 and FY2019

The Group recorded an approximately 3.7% year-on-year increase in revenue, from approximately HK\$2,344.9 million for FY2019 to approximately HK\$2,432.0 million for FY2020. As set out in the 2020 Annual Report, the increase in revenue was primarily attributable to the growth in the Group's revenue from the sales of machinery which was mainly driven by (i) the strong demands from customers especially in food and beverage packaging and infrastructure sectors, resulting in strong sales for the Group's small and medium sized machines; (ii) the rebound in broad injection molding machine market in the second half of 2020; (iii) the Group's proactive response to market opportunities during the spread of the novel coronavirus (COVID-19) outbreak (the "**Pandemic**") which enabled the Group's extrusion machinery business to capture opportunities in the melt-blown fabric manufacturing solutions for medical grade surgical face mask applications; and (iv) the improvement of the manufacturing sectors in the PRC and export markets resulting in robust growth in sales and order intake in the second half of 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded an approximately 8.1% year-on-year increase in gross profit, from approximately HK\$377.5 million for FY2019 to approximately HK\$408.0 million for FY2020. The Group also recorded a slight increase in gross profit margin from approximately 16.1% for FY2019 to approximately 16.8% for FY2020, which was mainly attributable to (i) the drivers of the Group's revenue growth for FY2020 as mentioned above; and (ii) the series of direct and indirect cash subsidies and payroll savings enacted by the PRC and Hong Kong governments.

The Group recorded an approximately 24.1% year-on-year increase in profit attributable to equity shareholders of the Company, from approximately HK\$15.8 million for FY2019 to approximately HK\$19.6 million for FY2020. Such increase was mainly attributable to (i) the growth of the Group's revenue and gross profit for FY2020 due to the reasons as discussed above; (ii) the relatively stable administrative expenses of the Group for FY2020 as compared to FY2019; (iii) the decrease in the Group's selling and distribution costs which was mainly due to global travel restrictions which affected the Company's sales and marketing development as a result of the Pandemic, hence reducing overall costs for FY2020; and (iv) the decrease in the Group's finance costs which was mainly due to gradual repayment on bank borrowings.

(b) Consolidated statements of financial position

Set out below is the summary of the consolidated statements of financial position of the Group as at 31 December 2020 and 31 December 2019 as extracted from the 2020 Annual Report.

Table B: Summary of consolidated statements of financial position of the Company

	As at 31 December 2020 HK\$'000 (audited)	As at 31 December 2019 HK\$'000 (audited)
Non-current assets (including)	847,396	858,505
– Property, plant and equipment	595,173	597,417
Current assets (including)	1,987,282	1,745,384
– Inventories	450,208	434,640
– Trade and other receivables	865,814	890,987
– Cash and bank balances	494,669	312,633

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	As at 31 December 2020	As at 31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Current liabilities (including)	1,227,609	1,085,189
– Trade and other payables	809,969	699,646
– Contract liabilities	107,687	66,202
– Bank borrowings	284,469	299,843
Net current assets	759,673	660,195
Non-current liabilities (including)	107,086	132,259
– Bank borrowings	37,875	53,376
Net asset value attributable to Shareholders (“NAV”)	1,268,626	1,171,669

The Group’s non-equity financing mainly comprised of bank borrowings. The Group’s total outstanding bank borrowings amounted to approximately HK\$353.2 million and approximately HK\$322.3 million as at 31 December 2019 and 31 December 2020, respectively. The Group’s bank borrowings repayable within one year amounted to approximately HK\$284.5 million as at 31 December 2020 as compared to those of approximately HK\$299.8 million as at 31 December 2019.

The Group’s cash and bank balances amounted to approximately HK\$494.7 million as at 31 December 2020. Bank borrowings repayable within one year represented approximately 57.5% of the Group’s total cash and bank balances as at 31 December 2020. The Group also incurred capital expenditures which are necessary to maintain competitiveness of the Group’s business. The Group invested approximately HK\$44.2 million, HK\$48.1 million and HK\$26.3 million for purchases of property, plant and equipment for FY2018, FY2019 and FY2020, respectively. We have discussed with the Management and understand that the Group has been prudently managing its working capital. We also noted from the 2020 Annual Report that the Company recorded trade and other receivables of approximately HK\$891.0 million and HK\$865.8 million as at 31 December 2019 and 31 December 2020, respectively, with such balances represented fairly lengthy trade receivable cycle of approximately 4.6 months and 4.3 months relative to total revenue for FY2019 and FY2020, respectively. Moreover, given that the majority portion of the Company’s bank borrowings were classified as current liabilities in the amount of approximately HK\$299.8 million as at 31 December 2019 and HK\$284.5 million as at 31 December 2020, we concur with the Management that the Group’s cash and bank balances of approximately HK\$312.6 million as at 31 December 2019 and HK\$494.7 million as at 31 December 2020 was necessary to maintain the Group’s ongoing working capital and liquidity requirements.

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The Group's NAV increased from approximately HK\$1,171.7 million as at 31 December 2019 to approximately HK\$1,268.6 million as at 31 December 2020, representing an increase of approximately 8.3%.

(c) Five-year historical financial performance of the Group

We have also reviewed and considered the historical financial performance of the Group for the last five full financial years, including the financial years ended 31 December 2016 (“FY2016”), 2017 (“FY2017”) and FY2018, as well as FY2019 and FY2020. Set out below is the summary of the key parameters of the Group's financial performance from FY2016 to FY2020 as extracted from the relevant annual reports of the Company.

Table C: Historical performance data of the Group (FY2016 – FY2020)

Key parameters	FY2016	FY2020	During FY2016-FY2020	
			Highest (Year)	Lowest (Year)
Revenue (HK\$'000)	2,192,287	2,432,021	2,682,452 (FY2018)	2,192,287 (FY2016)
Gross profit (HK\$'000)	313,591	407,978	437,158 (FY2018)	313,591 (FY2016)
Gross profit margin (%)	14.3%	16.8%	16.8% (FY2020)	14.3% (FY2016)
Profit/(loss) for the year attributable to equity shareholders of the Company (HK\$'000)	(303,160)	19,578	74,052 (FY2018)	(303,160) (FY2016)

Over the five financial years ended 31 December 2020, the Group generated a relatively flat revenue trend within the range of approximately HK\$2,192.3 million for FY2016 and HK\$2,682.5 million for FY2018. The Group incurred a loss attributable to equity shareholders of the Company for FY2016, whereas the Group achieved the highest profit attributable to equity shareholders of the Company of approximately HK\$74.1 million for FY2018, which deteriorated to approximately HK\$15.8 million and HK\$19.6 million for FY2019 and FY2020, respectively, due to the reasons as discussed earlier in this letter. As one of the smaller industrial companies in terms of production capacity with manufacturing operations wholly based in the PRC, the Group's businesses face keen pricing competition and the Management strives to maintain competitiveness through numerous measures including reaching out for customised orders, internal costs and operational reorganisation efforts.

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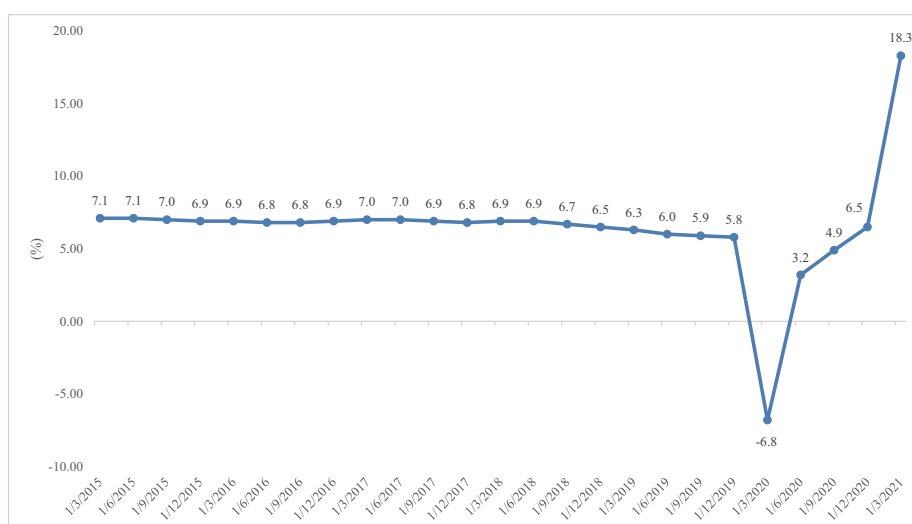
The outbreak of the Pandemic and the trade frictions between the United States and the PRC have exerted considerable pressures on the businesses of the Group and some of its customers which resulted in the Group recording relatively flat revenue and profit attributable to equity shareholders of the Company for FY2019 and FY2020, mainly due to the reasons discussed in the paragraph headed “(a) Consolidated statements of profit or loss” above. The Board recognises that the Group continues to face a challenging business environment going forward.

3. Overview of the Chinese economy and sector developments

(a) *The Chinese economy*

As illustrated from Graph A below, gross domestic product (the “GDP”) growth rate in the PRC generally experienced a downward trend since 2015. Due to the Pandemic outbreak which affected most companies in the PRC and around the globe, and the uncertainties of the trade negotiations between the United States and the PRC, the PRC’s GDP growth rate contracted to negative 6.8% in the first quarter in 2020 from the growth rates of 5.9% and 5.8% recorded in the two preceding quarters respectively. During the second half of 2020, the PRC’s GDP growth rate steadily increased to 4.9% for the third quarter and 6.5% for the fourth quarter, respectively, as the PRC’s economy slowly recovered from the Pandemic and economic slowdown. During the first quarter of 2021, the PRC’s GDP growth rate significantly increased to 18.3%, such increase was primarily attributable to the robust recovery in manufacturing and services sectors due to the easing of lockdown measures implemented during the Pandemic.

Graph A: The PRC’s year-on-year GDP growth rate by quarter

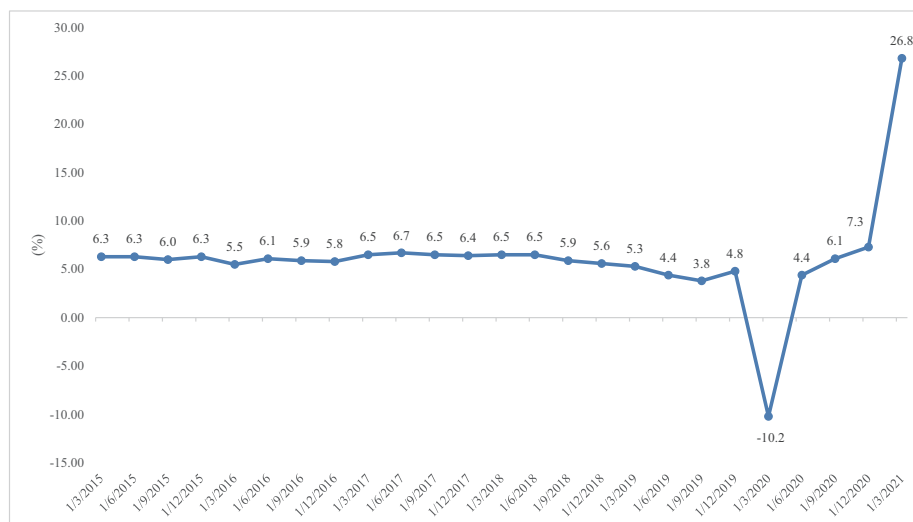


Source: Bloomberg and National Bureau of Statistics of China

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(b) *Manufacturing industry in the PRC*

Graph B: The PRC's manufacturing industry year-on-year GDP growth rate by quarter



Source: Bloomberg and National Bureau of Statistics of China

The above graph represented the GDP growth rate of the PRC manufacturing industry as a whole and we consider that it is representative to the Group's businesses given that the Group has its manufacturing operations wholly based in the PRC and was subject to the similar national market factors as other PRC manufacturers during the same periods. As set out in Graph B above, the PRC's manufacturing industry GDP generally experienced a volatile period during the second half of 2018 up to including the third quarter of 2020. It was noted that the PRC's manufacturing industry GDP growth rate was impacted more significantly as compared to the PRC's GDP growth rate, which was primarily attributable to (i) uncertainties of trade negotiations between the United States and the PRC which directly impacted, including but not limited to, the manufacturing industry in the PRC; and (ii) the Pandemic outbreak which led to unprecedented social lockdown measures in the PRC which heavily disrupted supply chains, caused factory shutdown and delayed sales and marketing activities. Consequently, the PRC's manufacturing industry GDP growth rate significantly contracted to negative 10.2% from a growth rate of 4.8% during the first quarter of 2020. During the second half of 2020, the PRC's manufacturing industry GDP growth rate increased to 6.1% for the third quarter and 7.3% for the fourth quarter, respectively, as manufacturing facilities generally resumed production and the PRC economy slowly recovered from the Pandemic and the economic slowdown. During the first quarter of 2021, the PRC's manufacturing industry GDP growth rate significantly increased to 26.8%, such increase was primarily attributable to the easing of lockdown measures implemented during the Pandemic and resumption of manufacturing facilities during the second half of 2020 and first quarter of 2021, respectively.

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(c) Sector developments

During 2020, the PRC's and global PCB markets, experienced a decline due to (i) uncertainties of the United States and PRC trade negotiations; and (ii) the global economic recession led by the Pandemic as the global economy for year 2020 is estimated to shrink by 4.4%, according to the report "World Economic Outlook" published by International Monetary Fund in October 2020, which heavily disrupted supply chains, caused factory shutdowns, and delayed sales and marketing activities. Based on the industry research report "Printed Circuit Board (PCB) Market Report: Trends, Forecast and Competitive Analysis" published in July 2020 by Lucintel (<https://www.lucintel.com/about-us.aspx>), a global market research and management consulting firm headquartered in Dallas, Texas, the United States, the global PCB sector is expected to reach approximately USD85 billion by 2025 with single digit compound annual growth rate of approximately 3.0% to 5.0% from 2020 to 2025.

According to the "Opinion on further strengthening the treatment of plastic pollution* (關於進一步加強塑料污染治理的意見)" (the "**Opinion**") issued by the National Development and Reform Commission in January 2020, the PRC government introduced plans to ban or significantly reduce the production and use of environmentally-unfriendly plastic products in the next five years to contain the pollution. The Opinion also reiterated prohibitions on the production and use of thin plastic bags and polyethylene agricultural films, as well as on the production of plastic products with medical waste and imports of plastic waste. It is expected that the Group's plastic products processing and related business will likely be affected over the next few years in view that stringent regulatory requirements may lead to lower demand, higher production costs resulted by substitution of environmentally-friendly raw materials and continuous investments in production machinery and equipment are necessary in order to fulfill the regulatory requirements.

4. Reasons for and benefits of the Proposal

As stated in the Explanatory Statement, in putting the Proposal forward, the Offeror has taken into account the following principal factors, as set out below:

(a) For the Company: a proposal to allow the Company to operate its business more effectively, amid the challenging market conditions

In light of the deteriorating Sino-US trade relations since 2019 and the recent Pandemic, the Group has been suffering from the uncertainties brought about by a growingly complex operating environment and a weaker global demand, during which the Group's businesses were challenged and impacted by (i) disruption to the Group's supply chains and logistics; (ii) factory shutdowns due to lockdown measures implemented during the first half of 2020 in the PRC; (iii) fluctuation in prices of various materials and components with tight supplies; and (iv) global travel restrictions

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which affected the Group's sales and marketing activities. As a result, the Group recorded a loss for the six months ended 30 June 2020. Notwithstanding the aforementioned challenges, the Group proactively responded to market opportunities and recorded a turnaround from loss in first half of 2020 to an overall increase in revenue for FY2020 compared to FY2019 primarily attributable to factors discussed under the section headed "2. Financial Information of the Group" in this letter. Although the Group has taken measures to enhance competitiveness and improve financial performance, the Group's financial performance for FY2019 and FY2020 was not comparable to that for FY2018, and the Company expects to face continued and further headwinds as the global economy slows down.

Despite the aforesaid challenges may continue to affect the Group's operating environment, the Offeror remains committed to the Group's long-term development goals. The directors of the Offeror are of the view that the Group will, after the implementation of the Proposal, be able to operate more effectively and respond better to the dynamic and changing business environment as well as deploy a significant amount of resources to continue developing its businesses, in order to enhance its market competitiveness. Such investments will invariably involve execution risks, and the associated benefits may materialise in the long-run. In addition, with the Group becoming unlisted and wholly owned by the Offeror and the Offeror Concert Parties, which hold Shares not forming part of the Scheme Shares, the Offeror considers that it will be possible to manage the Group in a more effective manner, with greater flexibility to support the long term development of the Group.

To maintain its listed status, the Company faces administrative and compliance burdens and related costs and expenses. Save for the new share issuance by the Company to the Offeror and Saniwell Holding Inc. raising approximately HK\$79.8 million in June 2018 (the "**2018 New Share Issue**") which showed the support of the controlling shareholder of the Company, the listing platform of the Company has not been utilised for any material equity fund raising for over 10 years. Due to illiquidity in trading of the Shares and the general decreasing trend in stock price of the Shares in recent years, the Company's ability to raise funds through equity financing is limited, and Offeror believes the position is unlikely to improve significantly in the near future. As such, the Offeror considers that the administrative and compliance costs and management resources associated with maintaining the Company's listing status are no longer justified.

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(b) For the Scheme Shareholders: an opportunity to release their investment at significant premium

The liquidity of the Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Date was only approximately 0.1 million Shares per day, representing only approximately 0.01% of the total number of issued Shares date of the Joint Announcement. The relatively low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. It is also difficult for Shareholders to dispose of a large number of Shares when events which might have an adverse impact on the Share price occur.

As further disclosed in the Explanatory Statement, the Offeror remains fully committed to the long-term development of the Group, despite the increasing challenges in the operating environment. After the implementation of the Proposal, the Offeror will be able to consolidate and integrate the Group's operations, enabling greater flexibility and efficiency to cope with market volatility and intensifying competition, and continues to provide all necessary support for the Group's long-term development. The Offeror believes that the Group's businesses will be able to operate more effectively without the additional complexity and cost of the Company being a listed company. After completion of the Proposal, it is expected that the Group will be able to make more strategic operational and investment decisions dedicated to the long-term development of the Group, free from the pressure of market expectations and fluctuation in its share prices. As a result, the Group will enjoy a significantly higher degree of autonomy and flexibility when making such decisions without having the need to confer with minority shareholders.

As the Group is engaged in a capital intensive business, significant financial resources are required for its business operation and development, including but not limited to (a) the maintenance of a sufficient working capital and financial liquidity to support its ongoing operating cashflow, (b) capital expenditure in relation to the investment in maintenance and replacement of its existing production facilities and operating assets, which form the majority of the fixed assets held by the Group, and (c) investment in research and development in order to enhance its competitiveness and provide its customers with innovative solutions and applications in view of the fast changing market environment requiring continuous technological advancement, particularly given the market conditions are presently and expected to remain challenging for the manufacturing industry.

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As disclosed in the 2020 Annual Report, the Group had bank borrowings of approximately HK\$322.3 million and cash and bank balances of approximately HK\$494.7 million as at 31 December 2020. The Board considers that the financial position of the Group remains healthy and solid. However, the Board also considers the importance of maintaining a prudent approach towards financial management, particularly in view of the uncertainties in the market and operating environment caused by the pandemic and uncertain Sino-US trade relations. As stated in the Joint Announcement, save for the 2018 New Share Issue which demonstrated the controlling Shareholder's support towards the Group's capital needs, there had been no other material equity fund raising by the Company for over 10 years. Accordingly, bank borrowings have been the key source of capital to support the business operation and development of the Group, in addition to the operating cashflow generated from its business operation. The Group has been maintaining good business relationships with its lenders and believes that its principal lenders will continue to provide their support to the Group. However, the Board will continue to adopt a prudent financial management approach and considers that it may not be appropriate to solely rely on bank borrowings as its primary source of capital to fund its business operation and development, particularly in the case where substantial financial resources may be required due to the uncertain market and operating environment as mentioned above.

In regard to future capital raising options, the Group may not be able to benefit from a similar degree of support from its controlling Shareholder as in the case of the 2018 New Share Issue, as any issuance of new Shares to the Offeror or other connected persons of the Group may frustrate the public float requirement under Rule 8.08(1)(a) of the Listing Rules, and may also worsen the already low trading liquidity of the Shares. Furthermore, any issuance of debts or convertible securities to the controlling Shareholder may be perceived as reliance on borrowings or other financial assistance from connected persons (as defined under the Listing Rules) of the Company, which, similar to issuance of new Shares to connected person, will also be subject to the applicable requirements under the Listing Rules as well as the time and costs associated with the compliance of such requirements, and may cast doubt on the Group's ability to obtain external debt financing from independent lenders. Under such circumstances, alternative capital raising options may be required, for example, new issuance of Shares by way of a rights issue.

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Due to the outbreak and ongoing spread of the Pandemic which has brought about uncertainties for the global economy and is expected to sustain for a prolonged period, the Directors did not declare any dividend for FY2020 and expect that no dividend will be declared or paid in respect of the year ending 31 December 2021. As at the Latest Practicable Date, neither the Offeror nor the Board had plans of restructuring the Group, and had no intention, and consider that there is no real prospects, to seek a listing of the Shares or spin-off listing of any of the Group's businesses on any stock exchange in the next three years ending 31 December 2023.

Accordingly, the Offeror has decided to put forward the Proposal, in particular the Scheme, to the Scheme Shareholders on the basis of the Scheme Consideration of HK\$0.55 per Scheme Share cancelled. The Offeror considers that the Proposal provides a good opportunity to Scheme Shareholders to realise their investment at a price higher than the prevailing market price (particularly in light of the relative underperformance of the share price in recent years) without having to suffer illiquidity discount. The Offeror considers that a fixed cash consideration avoids the illiquidity discount which is likely to arise if significant number of Shareholders tried to sell in the market. Save for a final dividend of HK\$0.02 per Share for FY2018, the Company did not distribute any dividend during the five years ended 31 December 2020 given that cash is essential for maintaining the Group's business operations and cater for the uncertainties and challenging industry environment. The Scheme Shareholders can reinvest the cash proceeds that they shall receive upon the implementation of the Proposal in income earning securities if they so wish.

Given the illiquidity of trading in the Shares and the absence of a sustained dividend history by the Company as set out above, we concur that the Proposal represents an exit window for the Scheme Shareholders to collectively exit at a price premium to the price of the Shares quoted on the Stock Exchange on the Last Trading Date. We shall assess the merit of the Scheme Consideration of HK\$0.55 per Scheme Share in the section below.

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5. Our analysis and assessment of the terms of the Proposal

(a) *Comparisons of the Scheme Consideration, analysis of Share price performance and trading liquidity*

(i) *Comparisons of the Scheme Consideration*

The Scheme Consideration of HK\$0.55 per Scheme Share represents:

- a premium of approximately 42.9% over the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Last Trading Date, which is the last closing price of the Shares on 3 December 2020 prior to the trading halt in the Shares pending the release of the Joint Announcement;
- a premium of approximately 46.7% over the closing price of HK\$0.375 per Share on 2 December 2020, which is the closing price on the last full trading day of the Shares prior to the release of the Joint Announcement;
- a premium of approximately 49.1% over the average closing price of approximately HK\$0.369 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- a premium of approximately 45.9% over the average closing price of approximately HK\$0.377 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- a premium of approximately 39.6% over the average closing price of approximately HK\$0.394 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- a premium of approximately 41.0% over the average closing price of approximately HK\$0.390 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

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- a premium of approximately 59.9% over the average closing price of approximately HK\$0.344 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- a premium of approximately 161.9% over the lowest closing price of HK\$0.210 per Share and a premium of approximately 18.3% over the highest closing price of HK\$0.465 per Share as quoted on the Stock Exchange for the one year up to and including the Last Trading Date;
- a premium of approximately 7.8% over the closing price of HK\$0.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 68.4% to the audited consolidated net asset value per Share of approximately HK\$1.740 as at 31 December 2020;
- a discount of approximately 67.1% to the audited consolidated net tangible asset value per Share of approximately HK\$1.674 as at 31 December 2020;
- a discount of approximately 64.7% to the adjusted audited net asset value attributable to the Shareholders per Share of approximately HK\$1.56 after taking into account of the property valuation as set out in Appendix II to the Scheme Document as at 31 March 2021; and
- an implied price-earnings multiple of approximately 24.2 times based on the audited basic earnings per Share of approximately HK\$0.0227 for profit attributable to the equity shareholders of the Company for FY2020.

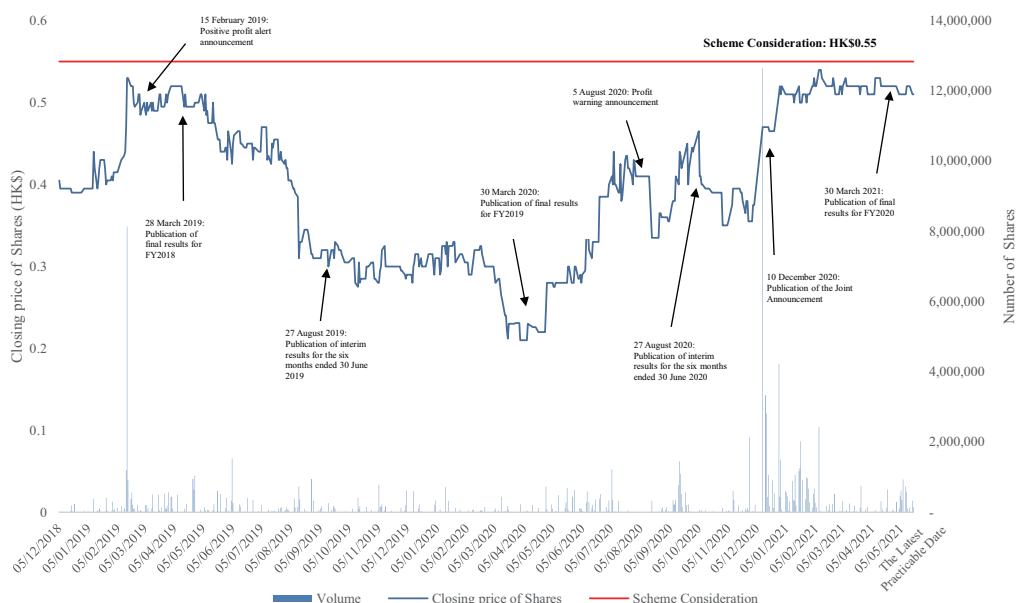
In summary, the Scheme Consideration of HK\$0.55 per Scheme Share represents a premium over the closing prices or average closing prices of the Shares for all the aforementioned different periods during the one year prior to and including the Last Trading Date.

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(ii) Analysis of Share price performance

We have reviewed the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 5 December 2018, being a 24-month period leading up to and including 3 December 2020, being the Last Trading Date (both days inclusive) (the “**Pre-Announcement Period**”) and from the period commencing from 11 December 2020 up to the Latest Practicable Date (both days inclusive) (the “**Post-Announcement Period**”, collectively known as the “**Review Period**”). We set out in Graph C below, which illustrates the closing price of the Shares as quoted on the Stock Exchange during the Review Period:

Graph C: Historical closing price of the Shares during the Review Period



Source: Bloomberg and the website of the Stock Exchange

As illustrated in Graph C above, we noted that the Shares has been trading below the Scheme Consideration of HK\$0.55 for the entire Review Period.

During the Review Period, the Share price closed at between HK\$0.21 and HK\$0.54 per Share, and demonstrated a generally downward trend from February 2019 to April 2020. The Shares recorded the highest closing price of HK\$0.54 per Share on 8 February 2021, 9 February 2021 and 10 February 2021 and the lowest closing price of HK\$0.21 per Share during the period from 1 April 2020 to 8 April 2020.

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Subsequent to the publication of the Company's final results for FY2019 on 30 March 2020, the closing price of the Shares gradually increased and further surged to HK\$0.465 per Share on 5 October 2020. Since then, the closing price of the Shares gradually resumed a downward trend and reached a level of HK\$0.385 per Share on the Last Trading Date.

Trading of the Shares was suspended from 1:00 p.m. on 3 December 2020 to 10 December 2020 pending the release of the Joint Announcement. After publication of the Joint Announcement, the closing price of the Shares surged to HK\$0.47 per Share on 11 December 2020 (being the first trading day after publication of the Joint Announcement), represented an increase of approximately 22.1% as compared to the closing price of HK\$0.385 per Share on the Last Trading Date. Subsequently, trading of the Shares was suspended from 9:00 a.m. on 24 December 2020 pending the release of the second joint announcement dated 23 December 2020 issued by the Offeror and the Company in relation to the Proposal (the "**Second Joint Announcement**"). After publication of the Second Joint Announcement, the closing price of the Shares further surged to HK\$0.51 per Share on 28 December 2020 (being the first trading day after publication of the Second Joint Announcement), represented an increase of approximately 9.7% as compared to the closing price of HK\$0.465 per Share on 23 December 2020 (being the last trading date prior to the publication of the Second Joint Announcement). We are of the view that the aforesaid surges in Share price were driven by the publication of the terms of Scheme Consideration under the Joint Announcement and the Second Joint Announcement.

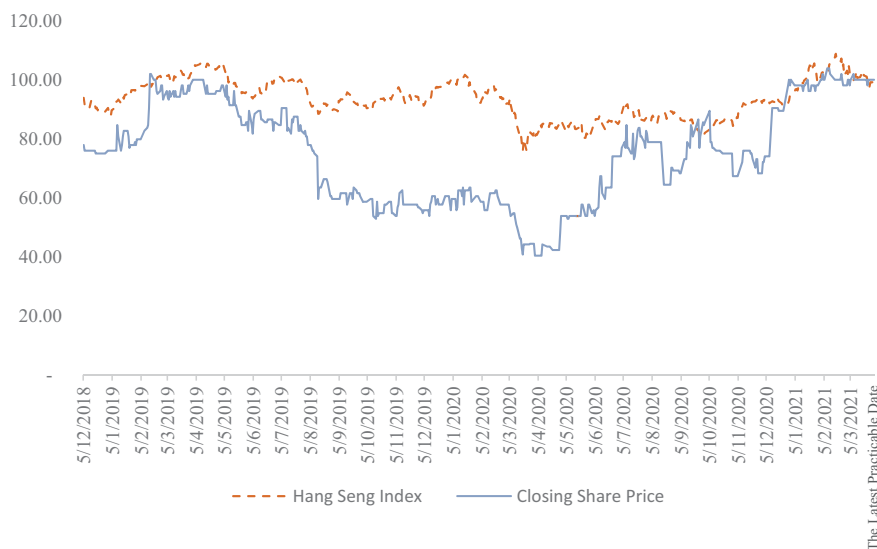
Having regard to the performance of closing prices of the Shares during the Review Period and before the publication of the Joint Announcement, Scheme Shareholders should be aware that the current Share price may not be sustained if the Proposal is not approved or otherwise lapses. During the Post-Announcement Period, the closing price of the Shares fluctuated between HK\$0.465 per Share and HK\$0.540 per Share and closed at HK\$0.510 per Share as at the Latest Practicable Date.

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(iii) Share price performance compared to the Hang Seng Index

Set out in Graph D below is the comparison between the movement of the closing price of the Shares and Hang Seng Index (“HSI”) during the Review Period (all adjusted to 100 as at 5 December 2018 for ease of comparison).

Graph D: Movement of the closing price of the Shares and HSI during the Review Period



Source: Bloomberg

As shown in Graph D above, the movement of the closing prices of the Shares was generally in line with that of the HSI during the Review Period, and converged at or around the point of the Last Trading Date.

The Scheme Consideration therefore provided a support level over the trading price of the Shares as at the Last Trading Date. The closing price of the Shares as at the Latest Practicable Date was HK\$0.510 per Share, representing a premium of approximately 32.5% over the closing price of HK\$0.385 per Share as at the Last Trading Date and a discount of approximately 7.3% to the Scheme Consideration of HK\$0.55 per Scheme Share.

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(iv) Trading liquidity of the Shares

Table D below sets out the total monthly trading volumes of the Shares and the percentages of such trading volumes to total Shares in issue and the Shares held by the Independent Shareholders as at the Latest Practicable Date during the Review Period:

Table D: Trading volume of the Shares during the Review Period

Month	Total trading days of respective month	Total monthly trading volume of the Shares	Total Shares in issue as at respective month end	Percentage of total monthly trading volume to total Shares in issue <i>(Note 1)</i>	Percentage of total monthly trading volume to Shares held by Independent Shareholders <i>(Note 2)</i>
2018					
December (5 to 31 December)	17	610,000	861,930,692	0.07%	0.15%
2019					
January	22	1,489,000	861,930,692	0.17%	0.37%
February	17	12,439,365	861,930,692	1.44%	3.10%
March	21	3,418,275	861,930,692	0.40%	0.85%
April	19	4,497,000	861,930,692	0.52%	1.12%
May	21	2,460,000	861,930,692	0.29%	0.61%
June	19	3,336,000	861,930,692	0.39%	0.83%
July	22	1,100,550	861,930,692	0.13%	0.27%
August	22	3,360,923	861,930,692	0.39%	0.84%
September	21	1,136,875	861,930,692	0.13%	0.28%
October	21	1,021,000	861,930,692	0.12%	0.25%
November	21	1,778,000	861,930,692	0.21%	0.44%
December	20	1,903,000	861,930,692	0.22%	0.47%
2020					
January	20	1,912,000	861,930,692	0.22%	0.48%
February	20	508,000	861,930,692	0.06%	0.13%
March	22	990,000	861,930,692	0.11%	0.25%
April	19	1,471,000	861,930,692	0.17%	0.37%
May	20	3,118,000	861,930,692	0.36%	0.78%
June	21	3,319,825	861,930,692	0.39%	0.83%
July	22	2,400,000	861,930,692	0.28%	0.60%
August	21	637,200	861,930,692	0.07%	0.16%
September	22	6,356,000	861,930,692	0.74%	1.59%
October	18	345,000	861,930,692	0.04%	0.09%
November	21	3,818,000	861,930,692	0.44%	0.95%
December	16	28,510,355	861,930,692	3.31%	7.11%
2021					
January	20	13,494,875	861,930,692	1.57%	3.37%
February	18	5,497,675	861,930,692	0.64%	1.37%
March	23	2,105,000	861,930,692	0.24%	0.53%
April	19	1,654,825	861,930,692	0.19%	0.41%
May (up to and including the Latest Practicable Date)	12	4,508,000	861,930,692	0.52%	1.12%

Source: Bloomberg and the website of the Stock Exchange

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Notes:

- (1) The calculation is based on the total monthly trading volume of the Shares divided by the total Shares in issue at the end of each respective month or as at the Latest Practicable Date, as applicable.
- (2) The calculation is based on the total monthly trading volume of the Shares divided by 400,891,714 Shares held by the Independent Shareholders as at the Latest Practicable Date.

As noted from Table D above, trading volume of the Shares before the publication of the Joint Announcement was, in our view, generally thin. The trading volume of the Shares increased in February 2019 and September 2020, when the closing price of the Shares picked up its upward momentum and reached HK\$0.53 and HK\$0.45 per Share, respectively. We have discussed with the Management in relation to the fluctuations of the closing price and trading volume of the Shares for these two periods, and they are unaware of the reasons for such increase. The relatively higher trading volume of the Shares following publication of the Joint Announcement is in our view principally related to the positive market expectation regarding the Proposal, and may not continue after it closes or lapses. Overall, we consider the trading in the Shares to be inactive and illiquid.

Given the thin trading liquidity of the Shares, there is currently limited opportunity for the Scheme Shareholders to divest their investments in the Shares, not to mention that the disposal of large blocks of Shares held by them in the open market would likely trigger price slump of the Shares. Accordingly, we agree that the Proposal provides a good opportunity for the Scheme Shareholders, especially those holding a large block of the Shares, to realise their investments in the Shares without having to suffer illiquidity discount. The Scheme Shareholders should note that the future liquidity of the Shares is uncertain.

In addition, as discussed above in this letter, save for the equity fund raising of approximately HK\$79.8 million which was completed in June 2018, the Group has not been utilised for any material equity fund raising for over 10 years. Given the thin trading liquidity of the Shares, we concur with the view of the Offeror that the Company will unlikely be able to take advantage of its listing status on the Stock Exchange to raise funds from the capital markets on terms acceptable to the Group in the foreseeable future.

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(b) Comparison with other comparable companies

The Group's principal business segments include trading of industrial consumables, manufacturing and processing of plastic products, manufacturing of machinery and processing and trading of PCBs. Revenue contributed from the aforementioned business segments accounted for approximately 13.9%, 17.9%, 38.7% and 28.4% of the Group's total revenue for FY2020, respectively. As set out in the 2020 Annual Report, the business of manufacturing of machinery mainly comprised manufacturing of injection moulding machines and extrusion machines and rubber injection machines which are also related to plastics processing products. As such, based on Bloomberg and with reference to the relevant companies' annual reports, we have identified, an exhaustive list of 13 comparable companies (the "**Comparable Companies**") based on the criteria that the Comparable Companies (i) are listed on the Main Board of the Stock Exchange; (ii) generated or derived majority of total revenue (not less than 30%) from plastics moulding related business and/or processing and trading of PCBs for their respective latest full financial years, as set out in their respective latest annual reports; and (iii) were profitable in their respective latest full financial years. We consider that the selection criteria set out above, in general, would serve as a fair and representative sample for the purpose of drawing a meaningful and comprehensive comparison to the Scheme Consideration. In conducting our analysis, we have compared the (i) price-to-earnings ratio ("**PER**"); (ii) price-to-book ratio ("**PBR**"); (iii) dividend yield; and (iv) return on capital employed ("**ROCE**"), with those of the Comparable Companies. Details of the Comparable Companies have been set out in Table E below:

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Table E: Analysis of Comparable Companies

Company name (Stock code)	Principal business activities (Note 1)	Market capitalisation as at the Last Trading Date (HK\$ million)	Revenue for the latest full financial year (HK\$ million)	Percentage of revenue contributed by plastics moulding and/or processing and trading of PCBs (Approximate %) (Note 2)	Profit attributable to equity shareholders for the latest full financial year (HK\$ million)	PER (Times) (Note 3)	PBR (Times) (Note 4)	Dividend yield (%) (Note 5)	ROCE (%) (Note 6)
Kingboard Laminates Holdings Limited (1888.HK)	Principally engaged in manufacture and sales of laminates	37,959.2	17,301.2	94.6	2,802.9	13.5	2.6	20.6	25.4
Haitian International Holdings Limited (1882.HK)	Principally engaged in sales of plastic injection moulding machines and related products	34,473.6	14,000.8	100.0	2,833.4	12.2	2.0	7.6	18.9
Kingboard Holdings Limited (0148.HK)	Principally engaged in manufacture and sales of laminates and PCBs	33,007.9	43,510.3	56.3	4,702.9	7.0	0.6	7.6	12.0
Tongda Group Holdings Limited (0698.HK)	Principally engaged in production of handset casings, high-precision components, high-precision insert moulding parts and high-precision rubber moulding parts	3,110.2	9,758.8	77.4	351.3	8.9	0.5	0.0	7.5
China Aerospace International Holdings Limited (0031.HK)	Principally engaged in the hi-tech manufacturing business which includes plastic products, liquid crystal display, PCBs, intelligent chargers and industrial property investment	1,388.3	3,580.0	89.2	296.7	4.7	0.2	4.4	3.2
AKM Industrial Co., Limited (1639.HK)	Principally engaged in manufacturing and sales of flexible printed circuit and flexible packaging substrates	1,384.4	1,676.4	98.5	119.4	11.6	0.9	1.6	8.9
Chen Hsong Holdings Limited (0057.HK)	Principally engaged in manufacturing and sale of plastic injection moulding machines and related products	1,336.7	1,513.4	100.0	93.7	14.3	0.5	4.2	5.5
Yusei Holdings Limited (0096.HK)	Principally engaged in trading of plastic components and moulds	668.4	1,563.4	100.0	62.2	10.7	0.8	1.5	9.5
Ka Shui International Holdings Limited (0822.HK)	Principally engaged in manufacturing and sale of alloy die casting and plastic injection products and components	554.1	1,469.2	53.3	124.0	4.5	0.5	6.5	12.8
Wong's Kong King International (Holdings) Limited (0532.HK)	Principally engaged in trading and distribution of chemicals, materials and equipment used in the manufacturing of printed circuit boards and electronic products	386.6	4,716.2	46.6	101.2	3.8	0.2	11.3	7.8
Yan Tat Group Holdings Limited (1480.HK)	Principally engaged in manufacturing and sales of PCBs	369.6	587.1	100.0	38.7	9.6	0.6	3.9	6.9
Tian Chang Group Holdings Limited (2182.HK)	Principally engaged in mould design, fabrication services, plastic component design and manufacturing services and sales of e-cigarettes products	232.5	787.4	43.1	73.7	3.2	0.4	4.0	13.6
K&P International Holdings Limited (0675.HK)	Principally engaged in precision parts and components businesses	170.9	341.8	100.0	66.9	2.6	0.5	15.6	20.8
Average						8.2	0.8	6.8	11.7
Maximum						14.3	2.6	20.6	25.4
Minimum						2.6	0.2	0.0	3.2
The Company		332.0	2,432.0		19.6	24.2	0.4	0.0%	3.5
						(“Implied PER”) (Note 7)	(“Implied PBR”) (Note 8)	(“Implied Dividend Yield”) (Note 9)	

Source: Website of the Stock Exchange and the latest annual/interim reports of the respective Comparable Companies

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Notes:

- (1) Based on the information set out in the website of the Stock Exchange and the segment disclosures in the latest annual reports and/or annual results announcements of the respective Comparable Companies.
- (2) Based on the segment disclosures set out in the latest annual reports and/or annual results announcements of the respective Comparable Companies.
- (3) PERs of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Last Trading Date divided by the latest published consolidated profit for the year attributable to equity shareholders of the respective Comparable Companies.
- (4) PBRs of the Comparable Companies are calculated based on the latest market capitalisation of the respective Comparable Companies as at the Last Trading Date, divided by the net asset value attributable to the shareholders of the respective Comparable Companies based on their most recently published interim reports, annual reports and/or annual results announcements.
- (5) Dividend yields of the Comparable Companies are calculated as total dividend per share for the latest financial year (including interim/final/special dividend, if any) divided by the closing share price of the respective Comparable Companies on the Last Trading Date.
- (6) ROCE of the Company is calculated as earnings before interest and tax for FY2020 divided by capital employed as at 31 December 2020. Capital employed is calculated as total assets less total current liabilities as at 31 December 2020.

ROCE of the Comparable Companies are calculated as earnings before interest and tax of the respective Comparable Companies for their latest full financial year divided by their capital employed as at their respective latest financial year end dates. Capital employed is calculated as total assets less total current liabilities of the Comparable Companies as at their respective latest financial year end dates.
- (7) Implied PER is calculated based on the market capitalisation of the Company as implied by the Scheme Consideration divided by the net profit attributable to the equity shareholders of the Company for FY2020.
- (8) Implied PBR is calculated based on the Scheme Consideration divided by the audited NAV per Share of approximately HK\$1.472 as at 31 December 2020, calculated based on the NAV of the Company of approximately HK\$1,268.6 million and the 861,930,692 Shares in issue as at 31 December 2020.
- (9) The Implied Dividend Yield is calculated as the total dividend per Share for FY2020 divided by the Scheme Consideration of HK\$0.55 per Scheme Share.

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As shown in Table E above, the PERs of the Comparable Companies ranged from approximately 2.6 times to approximately 14.3 times, with an average of approximately 8.2 times. The PBRs of the Comparable Companies ranged from approximately 0.2 times to approximately 2.6 times with an average of approximately 0.8 times. We noted that the Implied PER based on the Scheme Consideration was approximately 24.2 times, which is well above the PERs of the Comparable Companies, and the Implied PBR of approximately 0.4 times is (i) within the range of the PBRs of the Comparable Companies; and (ii) below the average PBR of approximately 0.8 times of the Comparable Companies.

As set out in Table E above, since the Company did not declared any dividend in the past 12 months and only declared a dividend for FY2018 out of the five years ended 31 December 2020, the Implied Dividend Yield based on the Scheme Consideration is 0.0%, which is at the bottom end of the range of the dividend yields of the Comparable Companies which ranged from approximately 0.0% to approximately 20.6%. In addition, the ROCE of the Comparable Companies ranged from approximately 3.2% to approximately 25.4% with an average of approximately 11.7%. We noted that the ROCE of the Company was approximately 3.5%, which is near the low end of the range of ROCE of the Comparable Companies.

Generally speaking for industrial and manufacturing companies, PER or ROCE are the more relevant benchmarks in measuring performance than PBR alone, especially if the companies concerned do not have investments in financial assets or properties which are not deployed in their core industrial businesses. We concur with this having considered the discussions on the consolidated statements of financial position of the Group as mentioned in the section headed “2. Financial Information of the Group” of this letter which supported that the Group’s assets and cash resources are identified largely for deployment in the principal businesses of the Group.

Based on the above, it appears that there exist certain potential alternative investment opportunities for the Scheme Shareholders by switching from their investment in the Shares to some of the Comparable Companies (or indeed other larger companies in similar businesses and industry segments) whose share prices have traded (a) at a lower PER to the Implied PER, and/or (b) have returned a higher ROCE than that the Company has achieved.

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In light of (i) the Implied PER based on the Scheme Consideration being well above the PERs of the Comparable Companies; (ii) the relatively low efficiency of capital utilisation of the Company as compared to the Comparable Companies as indicated by the above analysis on ROCE; and (iii) the absence of a sustained dividend history as discussed above in this letter, we consider that the terms of the Proposal are favourable to the Scheme Shareholders since the Scheme Shareholders can reinvest the cash proceeds that they shall receive upon the implementation of the Proposal in other income earning securities if they so wish.

(c) Comparison of other privatisation precedents

To further assess the fairness and reasonableness of the Scheme Consideration, we compared the terms of the Proposal with privatisation proposals of other companies listed on the Main Board of the Stock Exchange which were announced since 1 December 2019 (being approximately 12-month period prior to the date of the Joint Announcement) and had been approved and de-listed as at the Latest Practicable Date (the “**Privatisation Precedents**”).

We have identified a total of 26 Privatisation Precedents within the period covered which represents an exhaustive list of privatisation proposals we identified from the website of the Stock Exchange satisfying the above selection criteria. We note the business nature, financial performance and position and scale of each company may vary, and some aspects of pricing may be industry-specific. Nevertheless, we consider that the analysis set out below, which demonstrates the pricing of recent privatisations and recent market sentiments towards privatisations as a whole, which in our view, is considered relevant for the assessment of the range of reasonable cancellation/offer price required for successful privatisations in the market. As such, we consider the Privatisation Precedents an appropriate basis in assessing the fairness and reasonableness of the Scheme Consideration. Table F below illustrates the premium/discount represented by the cancellation price/offer price over/to the closing price on the respective last trading day and the net asset value per share in respect of the Privatisation Precedents.

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Table F: Analysis of Privatisation Precedents

Company name (stock code)	Date of announcement	Way of privatisation	Cancellation/ offer price HK\$	Premium/ (discount) of the cancellation/offer price over/ (to) the closing price per share on the last trading day prior to publication of announcement in relation to the respective privatisation proposal (Note 1) Approximate %	Premium/(discount) of the cancellation price/offer price over/(to) the respective then consolidated net asset value per share (Note 1) Approximate %	Premium/(discount) of the cancellation price/ offer price over/(to) the respective adjusted/ reassessed net asset value per share (Note 2) Approximate %
Joyce Boutique Group Limited (0647.HK)	12 December 2019	Scheme of arrangement	0.28	91.8	19.9	19.9 (Note 3)
Haier Electronics Group Co., Ltd. (1169.HK)	16 December 2019	Scheme of arrangement	31.51	17.4	158.4	158.4 (Note 3)
BBI Life Sciences Corporation (1035.HK)	20 January 2020	Scheme of arrangement	3.50	16.3	111.6	85.7
Wheelock and Company Limited (0020.HK)	27 February 2020	Scheme of arrangement	71.90	52.2	(44.3)	(1.8)
Li & Fung Limited (0494.HK)	20 March 2020	Scheme of arrangement	1.25	150.0	8.2	8.2 (Note 3)
Elec & Eltek International Company Limited (1151.HK)	3 April 2020	Voluntary conditional general offer	18.07	70.5	-	3.2
Allied Properties (H.K.) Limited (0056.HK)	20 April 2020	Scheme of arrangement	1.92	34.3	(66.3)	(65.8)
Easy One Financial Group Limited (0221.HK)	4 May 2020	Scheme of arrangement	0.924	44.4	(54.6)	(55.7)
Huadian Fuxin Energy Corporation Limited (0816.HK)	1 June 2020	Merger by absorption	2.50	65.6	(14.0)	(14.0) (Note 3)
Capxon International Electronic Company Limited (0469.HK)	5 June 2020	Scheme of arrangement	0.60	79.1	(37.5)	(54.9)
Jinmao (China) Hotel Investments and Management Limited (6139.HK)	12 June 2020	Scheme of arrangement	4.80	30.4	57.4	(21.4)
Golden Meditech Holdings Limited (0801.HK)	17 June 2020	Scheme of arrangement	0.88	41.9	(33.2)	(40.7)
China Baofeng (International) Limited (3966.HK)	21 June 2020	Scheme of arrangement	2.60	27.5	(5.5)	(5.5) (Note 3)
Vantage International Holdings Limited (0015.HK)	2 July 2020	Scheme of arrangement	0.90	80.0	(61.7)	(67.0)
O-Net Technologies (Group) Limited (0877.HK)	8 July 2020	Scheme of arrangement	6.50	23.6	128.9	128.9 (Note 3)
Xinghua Port Holdings Limited (1990.HK)	29 July 2020	Voluntary conditional general offer	2.597	23.7	102.0	102.0 (Note 3)
Leyou Technologies Holdings Limited (1089.HK)	27 August 2020	Scheme of arrangement	3.3219	4.5	435.8	435.8 (Note 3)
Changshouhua Food Company Limited (1006.HK)	7 September 2020	Scheme of arrangement	4.19	16.4	(38.5)	(38.5) (Note 3)
AMVIG Holdings Limited (2300.HK)	24 September 2020	Conditional mandatory cash offers	2.18	51.4	(45.9)	(45.9) (Note 3)
Hengxing Gold Holding Company Limited (2303.HK)	30 September 2020	Scheme of arrangement	3.29	(3.1)	262.3	262.3 (Note 3)

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Company name (stock code)	Date of announcement	Way of privatisation	Cancellation/ offer price HK\$	Premium/ (discount) of the cancellation/offer price over/ (to) the closing price per share on the last trading day prior to publication of announcement in relation to the respective privatisation proposal (Note 1) Approximate %	Premium/(discount) of the cancellation price/offer price over/(to) the respective then consolidated net asset value per share (Note 1) Approximate %	Premium/(discount) of the cancellation price/ offer price over/(to) the respective adjusted/ reassessed net asset value per share (Note 2) Approximate %
CIMC-TianDa Holdings Company Limited (445.HK)	4 October 2020	Scheme of arrangement	0.266	20.4	10.8	10.8 (Note 3)
Shanghai Prime Machinery Company Limited (2345.HK)	15 October 2020	Merger by absorption	1.60	68.4	(41.0)	(41.0) (Note 3)
Tonly Electronics Holdings Limited (1249.HK)	30 October 2020	Scheme of arrangement	12.00	19.0	81.3	81.3 (Note 3)
I.T Limited (999.HK)	6 December 2020	Scheme of arrangement	3.00	54.6	73.1	73.1 (Note 3)
SHK Hong Kong Industries Limited (666.HK)	18 December 2020	Scheme of arrangement	0.21	50.0	(22.2)	(22.2) (Note 3)
Huifu Payment Limited (1806.HK)	22 December 2020	Scheme of arrangement	3.50	26.8	81.5	81.5 (Note 3)
Average				44.5	41.0	37.6
Maximum				150.0	435.8	435.8
Minimum				(3.1)	(66.3)	(67.0)
The Company				42.9	(62.6)	(64.7) (Note 4)

Notes:

- (1) The information set out in Table F above was extracted from the relevant announcements, scheme document/offer document of the Privatisation Precedents.
- (2) Based on the adjusted/reassessed net asset value per share (where applicable) extracted from the relevant scheme document/offer document of the Privatisation Precedents.
- (3) No adjusted/reassessed net asset value per share was disclosed in the relevant scheme document/offer document of the Privatisation Precedents.
- (4) Please refer to Table G below for the calculation.

As set out in Table F above, the premium/discount of the cancellation/offer price over/to the closing price on the last trading day of the Privatisation Precedents ranged from a discount of approximately 3.1% to a premium of approximately 150.0%, with an average premium of approximately 44.5%. The premium of the Scheme Consideration over the closing price of the Shares on the Last Trading Date of approximately 42.9% is (i) within the range of premium of the Privatisation Precedents; and (ii) slightly below the average premium of approximately 44.5% of the Privatisation Precedents. In addition, the premium/discount of the cancellation/offer price over/to the consolidated net asset value per share of the Privatisation Precedents ranged from a discount of approximately 66.3% to a premium of approximately

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435.8%, with an average premium of approximately 41.0%. The discount of the Scheme Consideration to the NAV per Share as at 31 December 2020 of approximately 62.6% is (a) within the range of comparison parameter of the Privatisation Precedents; and (b) below the average premium of approximately 41.0% of the Privatisation Precedents.

For the analysis on the discount of the Scheme Consideration to the Company's adjusted NAV (the "**Adjusted NAV**") per Share with the comparison parameter of the Privatisation Precedents, please refer to the below paragraph headed "(d) Adjusted NAV".

(d) Adjusted NAV

We have further assessed the Group's NAV with reference to the Valuation Report on the Group's property interests as at 31 March 2021 set out in Appendix II to the Scheme Document in evaluating the Proposal and the Scheme.

Property interests held by the Group, including certain lands and buildings located in the PRC and Hong Kong (the "**Properties**"), have been valued by the Valuer. According to the Valuation Report, the total market values in existing state of the Properties as at 31 March 2021 are approximately HK\$580.6 million (including approximately RMB375.8 million (equivalent to approximately HK\$444.7 million) for Properties in the PRC and approximately HK\$135.9 million for Properties in Hong Kong) (the "**Valuation**"). We understand from the Management that the Properties have been primarily occupied by the Group for operation and office uses.

We have reviewed the Valuation Report and discussed with the Valuer as to the methodology of, and bases and assumptions adopted for the Valuation. We noted that the Valuer has valued the Properties in the PRC referred to as no. 9 to 17 as set out under the Valuation Report, using the income capitalisation method by taking into account the rental income of the property derived from the existing tenancy with due allowance for the reversionary income potential of the tenancy, which are then capitalised into the value at an appropriate capitalisation rate.

For the Properties in Hong Kong referred to as no. 1 to 8 as set out under the Valuation Report, we noted that the Valuer adopted the 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.

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The above valuation methodologies are considered commonly used and reasonable approaches in establishing the market values of the Properties. Furthermore, we have performed works as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to the Valuer and its work on the Valuation and we are satisfied with the qualification and experience of the responsible person of the Valuer for its engagement as the independent professional valuer for the Valuation. We have been confirmed that the Valuer is independent to the Company and the Offeror. We have also reviewed the Valuer's terms of engagement and considered that the scope of work is appropriate for arriving at the opinion of the market value of the Properties. Nothing has come to our attention that the Company has made any formal or informal representation to the Valuer that contravenes our understanding on the Valuation.

In evaluating the Proposal and the Scheme, we have taken into account the Adjusted NAV, which is calculated based on the Group's audited NAV as at 31 December 2020, adjusted with reference to the Valuation as at 31 March 2021. Details of the adjustment are set out in Table G below.

Table G: Calculation of Adjusted NAV per Share

NAV as at 31 December 2020 (<i>Note 1</i>) (<i>HK\$'000</i>)	1,268,626
Add:	
Estimated revaluation surplus arising from the Valuation net of relevant deferred tax adjustment (<i>Note 2</i>) (<i>HK\$'000</i>)	76,572
Adjusted NAV (<i>HK\$'000</i>)	1,345,198
Adjusted NAV per Share (<i>HK\$</i>) (<i>Note 3</i>)	1.56
Scheme Consideration (<i>HK\$</i>)	0.55
Discount represented by the Scheme Consideration to Adjusted NAV per Share	64.7%

Notes:

- (1) This represents the audited consolidated net asset value attributable to the Shareholders as at 31 December 2020 as extracted from the 2020 Annual Report.
- (2) This represents an estimated revaluation surplus calculated with reference to the Valuation as at 31 March 2021 of approximately HK\$580.6 million, net of the book value of the Properties as at 31 December 2020 of approximately HK\$478.5 million provided by the Management and the deferred tax associated in the relevant jurisdiction of approximately HK\$25.5 million. For the purpose of calculating the revaluation surplus in this sub-section, an exchange rate of RMB1 : HK\$1.1832 (being the approximate prevailing exchange rate as at the valuation date) was adopted.
- (3) Based on 861,930,692 Shares in issue as at the Latest Practicable Date.

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As set out in Table G above, the Scheme Consideration of HK\$0.55 per Scheme Share represents a discount of approximately 64.7% to the Adjusted NAV per Share of approximately HK\$1.56.

The revaluation surplus (net of deferred tax adjustment) in respect of the Properties of approximately HK\$76.6 million represented by the Valuation was mainly attributable to the fact that the Group's property interests in the land use rights in the PRC (being part of the Properties) are classified as right-of-use assets in accordance with the Hong Kong Financial Reporting Standard 16 "Leases" in the consolidated financial statements of the Company, while the Group has been adopting the revaluation model on the remaining Properties in accordance with the Hong Kong Accounting Standard 16 "Property, plant and equipment".

As advised by the Management, the Properties since the completion of their constructions or acquisitions have been primarily occupied by the Group for its operations and office buildings. The Group has no intention to dispose of or transfer its interests in the Properties.

As also set out in the Explanatory Statement, the Offeror intends to continue to carry on the Group's principal businesses of (i) trading of industrial consumables; (ii) manufacturing and processing of plastic products; (iii) manufacturing of machinery; and (iv) processing and trading of printed circuit boards. The Offeror does not intend to introduce any major changes to the business of the Group (including any redeployment of fixed assets of the Group), save that the Offeror may, after thorough review of the Group's operations and with a view to enabling long-term growth and sustainability of the Group's businesses, restructure certain operations of the Group, particularly those which are loss-making.

Based on the Adjusted NAV per Share of approximately HK\$1.56, we have further assessed the results of our analyses on the Comparable Companies and the Privatisation Precedents.

As shown in Table E above for the analysis on Comparable Companies, the PBRs of the Comparable Companies ranged from approximately 0.2 times to approximately 2.6 times with an average of approximately 0.8 times. We noted that the Implied PBR based on the Adjusted NAV (the "**Adjusted Implied PBR**", calculated based on the Scheme Consideration divided by the Adjusted NAV per Share of approximately HK\$1.56) of approximately 0.35 times is (i) within the range of the PBRs of the Comparable Companies; and (ii) below the average PBR of approximately 0.8 times of the Comparable Companies.

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In addition, the ROCE of the Comparable Companies set out in Table E above ranged from approximately 3.2% to approximately 25.4% with an average of approximately 11.7%. We noted that the ROCE of the Company as adjusted by the Valuation (the “**Adjusted ROCE**”, calculated as earnings before interest and tax of the Company for FY2020 divided by capital employed (being the Company’s total assets (as adjusted by the revaluation surplus net of deferred tax arising from the Valuation) less total current liabilities) as at 31 December 2020) was approximately 3.5%, which is near the low end of the range of ROCE of the Comparable Companies.

Further, as shown in Table F above for the analysis on Privatisation Precedents, the premium/discount of the cancellation/offer price over/to the adjusted net asset value per share of the Privatisation Precedents ranged from a discount of approximately 67.0% to a premium of approximately 435.8%, with an average premium of approximately 37.6%. We noted that the discount of the Scheme Consideration to the Adjusted NAV per Share of approximately 64.7% is (i) within the range of comparison parameter of the Privatisation Precedents; and (ii) below the average premium of approximately 37.6% of the Privatisation Precedents.

6. Information of and intention of the Offeror

The Offeror is a company incorporated in Hong Kong with limited liability and is principally engaged in the business of investment holding. As at the Latest Practicable Date, the Offeror directly held 235,802,600 Shares (representing approximately 27.36% of the total number of issued Shares) and indirectly held 170,104,452 Shares (representing approximately 19.74% of the total number of issued Shares), together representing approximately 47.09% of the total number of issued Shares and therefore a controlling shareholder of the Company.

As at the Latest Practicable Date, the Offeror was 99.999% owned by Codo Development Limited, a company incorporated in Hong Kong with limited liability, and approximately 0.001% owned by Glad Season Investments Limited, a company incorporated in Hong Kong with limited liability. For details of the shareholding structure of Codo Development Limited and Glad Season Investments Limited as at the Latest Practicable Date, please refer to the section headed “14. Information on the Offeror” in the Explanatory Statement.

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The Offeror intends to continue to carry on the Group's principal business of (i) trading of industrial consumables; (ii) manufacturing and processing of plastic products; (iii) manufacturing of machinery; and (iv) processing and trading of printed circuit boards. The Offeror does not intend to introduce any major changes to the business of the Group (including any redeployment of fixed assets of the Group), save that the Offeror may, after thorough review of the Group's operations and with a view to enabling long-term growth and sustainability of the Group's businesses, restructure certain operations of the Group, particularly those which are loss-making. Also, the Offeror does not intend to make any significant changes to the continued employment of the employees of the Group, save for those changes which the Offeror may from time to time implement after reviewing its strategies relating to the businesses, structure and/or direction of the Group. Please refer to the section headed "12. The Offeror's Intentions in relation to the Group" in the Explanatory Statement for details of the intentions of the Offeror.

7. Summary of discussion and analysis

We consider the Proposal as a good opportunity for the Scheme Shareholders to realise their investments in the Shares, and that the terms of the Proposal are fair and reasonable and in the interests of the Scheme Shareholders after having considered the principal factors and reasons as discussed in this letter as a whole and in particular the following:

- (i) in light of possible market uncertainties attributable to the deteriorating Sino-US trade relations since 2019 and the recent Pandemic, the Group's financial performance for FY2019 and FY2020 was not comparable to that for FY2018 as the Group's businesses were challenged and impacted by (i) global economic uncertainties and deteriorating market sentiments; (ii) disruption to the Group's supply chains and logistics; (iii) factory shutdowns due to lock down measures implemented during the first half of 2020 in the PRC; (iv) fluctuation in prices of various materials and components with tight supplies; and (v) global travel restrictions which affected the Group's sales and marketing activities, and together with the PRC government's policy on reduction in usage and production of plastic products over the next five years, as discussed above in this letter, the Group is expected to continue experiencing challenging and competitive market environment;
- (ii) the Scheme Consideration of HK\$0.55 per Scheme Share represents a premium in the range of approximately 39.6% to 161.9% over the closing prices of the Shares for different periods during the one year prior to and including the Last Trading Date, which is considered favourable to the Scheme Shareholders;

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- (iii) the thin trading liquidity of the Shares during the Review Period and save for a final dividend of HK\$0.02 per Share for FY2018, the absence of a sustained dividend history to the Shareholders during the five years ended 31 December 2020;
- (iv) the Proposal represents a good opportunity for the Scheme Shareholders to switch their investments into other companies engaged in similar businesses with potential return prospects;
- (v) the Implied PER of approximately 24.2 times based on the Scheme Consideration is well above the PERs of the Comparable Companies; and
- (vi) in view of the relatively low efficiency of capital utilisation of the Company, highlighted by the Adjusted ROCE of approximately 3.5% which is near the low end of the range of the Comparable Companies, the Scheme Shareholders can reinvest the cash proceeds that they shall receive upon the implementation of the Proposal in income earning securities if they so wish.

In addition to the above, we also noted that (a) the Adjusted Implied PBR of approximately 0.35 times is within the range of the PBRs of Comparable Companies and below the average PBR of approximately 0.8 times of the Comparable Companies; and (b) the discount of the Scheme Consideration to the Adjusted NAV per Share of approximately 64.7% is within the range of the comparison parameters of the Privatisation Precedents and below the average premium of approximately 37.6% of the Privatisation Precedent.

Independent Shareholders should note that as each of the Comparable Companies and Privatisation Precedents has their own characteristics, dynamics and/or prospects, the comparisons between the Company/the Proposal, the Comparable Companies and Privatisation Precedents are, in our view, not conclusive benchmarking, and are only one of the reference points in our overall assessment of the terms of the Proposal.

V. OPINION AND RECOMMENDATION

Based on the above discussions and analysis, we consider the terms of the Proposal to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal and the Scheme.

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We note the Scheme Consideration of HK\$0.55 represents a premium of approximately 7.8% compared to the closing price of the Shares of HK\$0.51 as at the Latest Practicable Date. There is still a possibility that the closing price of the Shares may exceed the Scheme Consideration, in the period up to 5 July 2021, being the expected last day for trading in the Shares on the Stock Exchange. Accordingly, the Shareholders who would like to realise part or all of their investments in the Shares are reminded to monitor the trading price and liquidity of the Shares during this period and should, having regard to their own circumstances, consider selling their Shares in the open market, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds expected to be received under the Scheme.

Yours faithfully,
For and on behalf of
YUE XIU CAPITAL LIMITED

Ambrose Lam
Responsible Officer

Kenneth Sit
Responsible Officer

Mr. Ambrose Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Yue Xiu Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 30 years of experience in corporate finance industry.

Mr. Kenneth Sit is a licensed person registered with the Securities and Futures Commission and a responsible officer of Yue Xiu Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 16 years of experience in corporate finance industry.

* for identification purpose only

EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under section 671 of the Companies Ordinance.

1. INTRODUCTION

The Offeror and the Company jointly announced in the Joint Announcement that on 3 December 2020, the Offeror requested the Board to put forward to holders of the Scheme Shares the Proposal, which, if implemented, would result in the Company becoming wholly owned by the Offeror and the Offeror Concert Parties which hold Shares not forming part of the Scheme Shares and the withdrawal of listing of the Shares from the Stock Exchange.

As at the Latest Practicable Date, the Offeror directly held 235,802,600 Shares, representing approximately 27.36% of the total number of issued Shares, and the Offeror Concert Parties (including Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah) beneficially owned, controlled or had direction over an aggregate of 225,236,378 Shares, representing approximately 26.13% of the total number of issued Shares. The Offeror and the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares. Among the Shares beneficially owned controlled or directed by the Offeror Concert Parties, a total of 10,225,515 Shares (representing approximately 1.19% of the total number of issued Shares) beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, will form part of the Scheme Shares.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, specifically, to provide holders of the Scheme Shares with additional information in relation to the Scheme.

2. THE PROPOSAL

The Proposal will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Scheme Consideration in cash for each Scheme Share cancelled.

Subject to the Conditions being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

If the Proposal is approved and implemented:

- (a) all the Scheme Shares held by the Scheme Shareholders will be cancelled on the Effective Date in exchange for the payment to the Scheme Shareholders of the Scheme Consideration of HK\$0.550 in cash for each Scheme Share to be paid by the Offeror;

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- (b) the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issue to the Offeror, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled. The credit arising in the books of account of the Company as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror; and
- (c) the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange one (1) clear Business Day following the Effective Date pursuant to Rule 6.15(2) of the Listing Rules.

3. THE SCHEME

The Scheme involves a reduction of the share capital of the Company by the cancellation of the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issue to the Offeror, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled. The credit arising in the books of account of the Company as a result of the capital reduction will be applied in paying up in full the new Shares so allotted and issued, credited as fully paid, to the Offeror.

The Scheme provides that, in consideration of the cancellation of the Scheme Shares, the Scheme Shareholders will be entitled to receive from the Offeror:

HK\$0.550 in cashfor every Scheme Share cancelled

The Scheme Consideration will not be further increased and the Offeror does not reserve the right to do so.

Comparison of value

The Scheme Consideration of HK\$0.550 per Scheme Share represents:

- (a) a premium of approximately 42.9% over the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Last Trading Date, which is the last closing price of the Shares on 3 December 2020 prior to the trading halt in the Shares pending the release of the Joint Announcement;
- (b) a premium of approximately 46.7% over the closing price of HK\$0.375 per Share on 2 December 2020, which is the closing price on the last full trading day of the Shares prior to the Last Trading Date;

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- (c) a premium of approximately 49.1% over the average closing price of approximately HK\$0.369 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 45.9% over the average closing price of approximately HK\$0.377 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 39.6% over the average closing price of approximately HK\$0.394 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 41.0% over the average closing price of approximately HK\$0.390 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (g) a premium of approximately 59.9% over the average closing price of approximately HK\$0.344 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (h) a premium of approximately 161.9% over the lowest closing price of HK\$0.210 per Share and a premium of approximately 18.3% over the highest closing price of HK\$0.465 per Share as quoted on the Stock Exchange for the one year up to and including the Last Trading Date;
- (i) a discount of approximately 68.4% to the audited consolidated net asset value per Share of approximately HK\$1.740 as at 31 December 2020;
- (j) a discount of approximately 67.1% to the audited consolidated net tangible asset value per Share of approximately HK\$1.674 as at 31 December 2020;
- (k) a discount of approximately 64.7% to the adjusted unaudited net asset value attributable to Shareholders per Share of approximately HK\$1.56 after taking into account of the property valuation as set out in Appendix II to this Scheme Document^(Note) as at 31 March 2021;

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- (l) an implied price-earnings multiple of approximately 24.2 times based on the audited basic earnings per Share of approximately HK\$0.0227 for profit attributable to the equity shareholders of the Company for the year ended 31 December 2020; and
- (m) a premium of approximately 7.8% over the closing price of HK\$0.510 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Note: Calculated by the audited net asset value attributable to Shareholders of approximately HK\$1,268.6 million as at 31 December 2020 and adjusted by the updated valuation of property interests attributable to Shareholders of approximately HK\$102.1 million with related tax adjustment of approximately HK\$25.5 million as at 31 March 2021, and then divided by 861,930,692 Shares as at the Latest Practicable Date.

The Scheme Consideration has been determined after taking into account, among other things, the challenging operating environment facing the Company, the recent and historic trading prices and trading volume of the Shares and publicly available financial information of the Company.

Highest and lowest prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.540 from 8 February 2021 to 10 February 2021 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.310 on 15 June 2020.

4. TOTAL CONSIDERATION AND FINANCIAL RESOURCES

As at the Latest Practicable Date, the Company had 861,930,692 Shares in issue. The 411,117,229 Scheme Shares represented approximately 47.70% of the total number of Shares in issue.

On the assumption that no new Shares will be issued and there are no other changes in the shareholding structure of the Company before the completion of the Proposal, the amount of cash payable to the Scheme Shareholders under the Proposal would be HK\$226,114,475.95 on the basis of the Scheme Consideration of HK\$0.550 per Scheme Share and 411,117,229 Scheme Shares in issue as at the Latest Practicable Date.

The Offeror intends to finance the cash required for the Proposal through its internal financial resources and the Loan Facility made available to the Offeror by Tonghai Finance under the Facility Agreement, which is to be secured by, among other things, a charge over the Shares that are owned and will be owned by the Offeror under the Proposal.

Tonghai Capital is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal.

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5. CONDITIONS OF THE PROPOSAL

The Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the Scheme being approved (by way of a poll) by holders of the Scheme Shares representing at least 75% of the voting rights of such holders present and voting, in person or by proxy, at the Court Meeting, and the votes cast (by way of poll) against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attached to all Disinterested Shares, provided that:
 - (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Independent Shareholders;
- (b) the passing of a special resolution(s) by a majority of at least 75% of the votes cast by the Shareholders present and voting in person or by proxy at the General Meeting (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the share capital of the Company involved in the Scheme by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under Part 2 of the Companies Ordinance;
- (d) the compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in relation to the reduction of the share capital of the Company and the Scheme, respectively;
- (e) all Authorisations having been obtained (or, as the case may be, completed) and remaining in full force and effect without modification;

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- (f) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order), in each case, which would make the Proposal or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material conditions or obligations with respect to the Proposal or its implementation in accordance with its terms);
- (g) all necessary legal or regulatory obligations in all relevant jurisdictions having been complied with and no legal or regulatory requirement having been imposed which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws or regulations in connection with the Proposal or its implementation in accordance with its terms;
- (h) the implementation of the Proposal not resulting in, and no event or circumstance having occurred or arisen which would or might be expected to result in:
 - (i) any indebtedness (actual or contingent) of any member of the Group being or becoming repayable (or capable of being declared repayable) immediately or prior to its stated maturity or repayment date;
 - (ii) any agreement, arrangement, licence, permit or instrument to which any member of the Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject (or any of the rights, liabilities, obligations or interests of any member of the Group thereunder) being terminated or adversely modified (or any material obligation or liability on the part of any member of the Group arising in relation thereto); or
 - (iii) the creation or enforcement of any security interest over the whole or any part of the business, property or assets of any member of the Group or any such security (whenever arising) becoming enforceable,

in each case, which is material in the context of the Group as a whole or in the context of the Proposal or its implementation in accordance with its terms; and

- (i) since the date of the Joint Announcement:
 - (i) there having been no adverse change in the business, assets, financial or trading, positions, profits or prospects of any member of the Group which is material in the context of the Group taken as a whole or in the context of the Proposal; and

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- (ii) there not having been instituted, threatened in writing or remaining outstanding any litigation, arbitration, other proceedings or other dispute resolution process to which any member of the Group is a party (whether as plaintiff, defendant or otherwise) and no investigation by any government, quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, instituted or remaining outstanding, in each case, which is material in the context of the Group taken as a whole or in the context of the Proposal or its implementation in accordance with its terms.

The Offeror reserves the right to waive all or any of the Conditions, either in whole or in respect any particular matter, except for the Conditions in paragraphs (a) to (d) above. The Company does not have the right to waive any of the Conditions. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal will lapse. When all the Conditions are satisfied or waived (as applicable), the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Proposal if the circumstances which give rise to the right to invoke such Condition are of material significance to the Offeror in the context of the Proposal.

With reference to the Condition in paragraph (e), as at the Latest Practicable Date, the Offeror and the Company were not aware of any requirement for such Authorisations other than those set out in the Conditions in paragraphs (a) to (d). As at the Latest Practicable Date, the approvals from each of the board of directors of the Offeror and the Company in respect of the implementation of the Proposal had been obtained. With reference to the Condition in paragraph (f), as at the Latest Practicable Date, the Offeror and the Company were not aware of any such action, proceeding, suit, investigation, enquiry, statute, regulation, demand or order. With reference to the Condition in paragraph (g), as at the Latest Practicable Date, the Offeror and the Company were not aware of any such non-compliance or regulatory requirement other than those set out in the Conditions in paragraphs (a) to (d). With reference to the Condition in paragraph (h), as at the Latest Practicable Date, the Offeror was not aware of any such event or circumstance.

As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived.

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As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a Condition to the Proposal.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

Assuming that the Conditions are fulfilled or, as applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Tuesday, 27 July 2021, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on Thursday, 29 July 2021 pursuant to Rule 6.15(2) of the Listing Rules.

An announcement will be made by the Offeror and the Company in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of the Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

Shareholders and/or potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Shareholders and/or potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional advisers.

6. IRREVOCABLE UNDERTAKINGS

As at the Latest Practicable Date, neither the Offeror nor any of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal. The Offeror had received the Irrevocable Undertakings from Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, all being the Offeror Concert Parties and the Scheme Shareholders, that each of them irrevocably and unconditionally undertakes not to vote at the Court Meeting.

As at the Latest Practicable Date, a total of 757,515 Shares were beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, representing approximately 0.09% of the total number of issued Shares, and approximately 0.18% of the Scheme Shares.

The Irrevocable Undertakings shall terminate upon the Proposal becoming effective or lapsing in accordance with its terms.

As Mr. Wong Yiu Ming is an Offeror Concert Party and therefore is not an Independent Shareholder, his votes at the Court Meeting (if any) will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code.

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7. SHAREHOLDING STRUCTURE OF THE COMPANY AND EFFECT OF THE PROPOSAL AND THE SCHEME

As at the Latest Practicable Date, the Company had 861,930,692 Shares in issue.

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective (assuming no new Shares will be issued prior thereto and there are no other changes in the shareholding structure of the Company before completion of the Proposal).

Shareholder	As at the Latest Practicable Date		Immediately upon completion of the Proposal	
	Number of Shares	Approximate % of the total number of issued Shares (Note 12)	Number of Shares	Approximate % of the total number of issued Shares (Note 12)
(A) Offeror	235,802,600	27.357	646,919,829	75.055
(B) Offeror Concert Parties (not forming holders of the Scheme Shares)				
Tai Shing Agencies Limited ^(Note 1)	170,104,452	19.735	170,104,452	19.735
Saniwell Holding Inc. ^(Note 2)	36,250,000	4.206	36,250,000	4.206
Mr. Tang To ^(Note 3) and his associates ^(Note 4) (other than the Offeror, Tai Shing Agencies Limited and Saniwell Holding Inc.)	8,656,411	1.004	8,656,411	1.004
Sub-total:	215,010,863	24.945	215,010,863	24.945
(C) Offeror Concert Parties (forming holders of the Scheme Shares)				
Mr. Wong Yiu Ming ^(Note 5)	9,468,000	1.098	0	0.000
Ms. Hui Tang Yee ^(Note 6)	580,800	0.067	0	0.000
Mr. Kan Wai Wah ^(Note 7)	136,400	0.016	0	0.000
Mr. Tang Chi Tung ^(Note 8)	40,315	0.005	0	0.000
Sub-total:	10,225,515	1.186	0	0.000
Sub-total (Offeror and Offeror Concert Parties):	461,038,978	53.489	861,930,692	100.000
(D) Independent Shareholders ^(Note 9)				
Mr. Cheng Tak Yin ^(Note 10)	1,406,000	0.163	0	0.000
Other individual shareholders ^(Note 11)	399,485,714	46.348	0	0.000
Sub-total:	400,891,714	46.511	0	0.000
Total:	861,930,692	100.000	861,930,692	100.000

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Notes:

1. Tai Shing Agencies Limited is an indirect wholly-owned subsidiary of the Offeror.
2. Saniwell Holding Inc. is owned as to approximately 57.14% by Mr. Tang To and approximately 42.86% by Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror.
3. Mr. Tang To is an executive Director and a director of the Offeror.
4. Out of these 8,656,411 Shares, 4,970,005 Shares are personally held by Mr. Tang To, 226,000 Shares are jointly held by Mr. Tang To and his spouse, and 3,460,406 Shares are held by Ginta Company Limited, which is 99.999% owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
5. Mr. Wong Yiu Ming is a former executive Director who resigned with effect from 1 January 2021 and is presumed to be acting in concert with the Offeror under class (6) presumption under the definition of “acting in concert” under the Takeovers Code until completion of the Proposal. This class (6) presumption will cease to apply after the Scheme becomes effective or lapses.
6. Ms. Hui Tang Yee is a sister of Mr. Tang To and is presumed to be acting in concert with the Offeror under class (2) presumption under the definition of “acting in concert” under the Takeovers Code.
7. Mr. Kan Wai Wah is a non-executive Director and a director of the Offeror, and is presumed to be acting in concert with the Offeror under class (2) presumption under the definition of “acting in concert” under the Takeovers Code.
8. Mr. Tang Chi Tung is a director of the Offeror, and is presumed to be acting in concert with the Offeror under class (2) presumption under the definition of “acting in concert” under the Takeovers Code.
9. The Shares beneficially owned by the Independent Shareholders will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective. Holders of such Shares will be entitled to vote at the Court Meeting.
10. Mr. Cheng Tak Yin is an independent non-executive Director.
11. As at the Latest Practicable Date, 55,000 Shares were held in two non-discretionary accounts maintained by Tonghai Securities, and 817,635 Shares were held by several relatives (who are not close relatives as defined under the Takeovers Code and therefore not the Offeror Concert Parties) of Mr. Tang To and Mr. Tang Yu, Freeman. Among these relatives of Mr. Tang To and Mr. Tang Yu, Freeman, the late Mr. Tang Woon Hang (Mr. Tang To’s uncle) owned 4,510 Shares as at the Latest Practicable Date.
12. The calculation is based on the number of Shares beneficially owned by the relevant shareholders divided by the total number of issued Shares of 861,930,692 as at the Latest Practicable Date.

As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares.

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As at the Latest Practicable Date, the Scheme Shares comprised 411,117,229 Shares, representing approximately 47.70% of the total number of issued Shares.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or securities convertible into Shares and no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued Shares of 861,930,692 Shares.

As at the Latest Practicable Date, save as set out below, no Director held any Shares:

- (a) Mr. Tang To, an executive Director, was interested in the Shares as follows: (i) 4,970,005 Shares, representing approximately 0.58% of the total number of issued Shares, held by Mr. Tang To; (ii) 226,000 Shares, representing approximately 0.026% of the total number of issued Shares, held by Mr. Tang To and his spouse jointly; (iii) 3,460,406 Shares, representing approximately 0.40% of the total number of issued Shares, held by Ginta Company Limited, which is 99.999% owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse; (iv) 405,907,052 Shares, representing approximately 47.09% of the total number of issued Shares, held by Codo Development Limited through its wholly-owned subsidiaries, Tai Shing Agencies Limited, Hung Cheong Realty Limited and the Offeror; and (v) 36,250,000 Shares, representing approximately 4.21% of the total number of issued Shares, held by Saniwell Holding Inc. (as the trustee of The Saniwell Trust, the beneficiaries of which included Mr. Tang To and certain of his family members) which in turn was owned as to approximately 57.14% by Mr. Tang To;
- (b) Mr. Tang Yu, Freeman, an executive Director, was interested in the Shares as follows: (i) 405,907,052 Shares, representing approximately 47.09% of the total number of issued Shares, held by Codo Development Limited through its wholly-owned subsidiaries, Tai Shing Agencies Limited, Hung Cheong Realty Limited and the Offeror; and (ii) 36,250,000 Shares, representing approximately 4.21% of the total number of issued Shares, held by Saniwell Holding Inc. (as the trustee of The Saniwell Trust, the beneficiaries of which included Mr. Tang To and certain of his family members) which in turn was owned as to approximately 42.86% by Mr. Tang Yu, Freeman;
- (c) Mr. Kan Wai Wah, a non-executive Director, beneficially owned 136,400 Shares, representing approximately 0.02% of the total number of issued Shares; and
- (d) Mr. Cheng Tak Yin, an independent non-executive Director, beneficially owned 1,406,000 Shares, representing approximately 0.16% of the total number of issued Shares.

As the Offeror and the Offeror Concert Parties (save for Mr. Wong Yiu Ming, Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah) are not the Scheme Shareholders, each of them will not be entitled to vote at the Court Meeting.

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Pursuant to the Irrevocable Undertakings, each of Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, being a Scheme Shareholder and an Offeror Concert Party, irrevocably and unconditionally undertakes not to vote at the Court Meeting.

As Mr. Wong Yiu Ming is an Offeror Concert Party and therefore is not an Independent Shareholder, his votes at the Court Meeting (if any) will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code.

All Shareholders will be entitled to vote on the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the issue to the Offeror of such number of new Shares (credited as fully paid) as is equal to the number of the Scheme Shares cancelled, which is set out in the Condition in paragraph (b) in the section headed “5. Conditions of the Proposal” in the Explanatory Statement. The Offeror has indicated that, if the Scheme is approved at the Court Meeting, the Offeror will vote in favour of the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme. The Offeror Concert Parties will also be entitled to vote on the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme.

Upon the Scheme becoming effective, the Offeror will directly hold approximately 75.05% of the total number of issued Shares and the Offeror Concert Parties which hold Shares not forming part of the Scheme Shares will directly hold approximately 24.95% of the total number of issued Shares.

8. SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND THE COURT MEETING

Under section 670 of the Companies Ordinance, where an arrangement is proposed to be entered into by a company with the members, or any class of the members, of the company, the High Court may, on an application made by the company, any of the members or any member of that class, order a meeting of those members or of that class of members, as the case may be, to be summoned in any manner that the High Court directs.

Under section 673 of the Companies Ordinance, if the members or the class of members with whom the arrangement is proposed to be entered into agree or agrees to the arrangement, the High Court may, on application by the company, any of the members or any member of that class, as the case may be, sanction the arrangement. An arrangement sanctioned by the High Court as aforesaid takes effect when an office copy of the order of the High Court is registered by the Registrar of Companies, and is binding on the members or the class of members with whom the arrangement is proposed to be entered into.

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The Scheme is a takeover offer under section 674 of the Companies Ordinance. Under section 674 of the Companies Ordinance, where the arrangement involves a takeover offer, the members or the class of members agree or agrees to the arrangement if, at a meeting summoned as directed by the High Court as aforesaid, members representing at least 75% of the voting rights of the members or the class of members, as the case may be, present and voting, in person or by proxy, agree to the arrangement and the votes cast against the arrangement at the meeting do not exceed 10% of the total voting rights attached to all Disinterested Shares in the company or of the class in the company, as the case may be.

9. ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying the requirements under the Companies Ordinance as summarised above, under Rule 2.10 of the Takeovers Code, except with the consent of the Executive, the Scheme may only be implemented if:

- (a) the Scheme is approved by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting;
- (b) the number of votes cast by the Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by all the Independent Shareholders; and
- (c) as at the Latest Practicable Date, the number of votes representing 10% of the votes attached to all the Scheme Shares held by all the Independent Shareholders was 40,089,171 Shares.

10. BINDING EFFECT OF THE SCHEME

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting in accordance with the requirements of section 673 of the Companies Ordinance and Rule 2.10 of the Takeovers Code and is sanctioned by the High Court and the other Conditions are either fulfilled or (to the extent permitted) waived, then the Scheme will become binding on the Company and all Shareholders.

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If the Scheme becomes effective:

- (a) all the Scheme Shares will be cancelled whereupon the share capital of the Company shall be reduced and all share certificates for those Scheme Shares cancelled shall cease to have effect as evidence of title;
- (b) the share capital of the Company will then be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled;
- (c) the credit arising in the Company's books of account as a result of the said reduction of capital will be applied in paying up in full the new Shares created and such new Shares will be so allotted and issued, credited as fully paid, to the Offeror; and
- (d) the Offeror will pay the Scheme Consideration of HK\$0.550 in cash to the Scheme Shareholders for each Scheme Share held by them on the Scheme Record Date.

Pursuant to Rule 2.3 of the Takeovers Code, if the Scheme is not approved, and the Proposal is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the Independent Financial Adviser, all costs and expenses incurred by the Company and the Offeror in connection with the Scheme will be borne by the Offeror.

Given that the Proposal is recommended by the Independent Board Committee and is recommended as fair and reasonable by the Independent Financial Adviser, the Offeror and the Company have agreed that all costs, charges and expenses of the advisers and counsels appointed by the Company, including the Independent Financial Adviser, will be borne by the Company, whereas all costs, charges and expenses of the advisers and counsels appointed by the Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme and the Proposal will be shared between the Offeror and the Company equally.

11. REASONS FOR AND BENEFITS OF THE PROPOSAL

For the Company: a proposal to allow the Company to operate its business more effectively, amid the challenging market conditions

- (a) In light of the recent pandemic outbreak and deteriorating Sino-US trade relations, the Company has been suffering from the uncertainties brought about by a growingly complex operating environment and a weaker global demand. Although the Company has taken measures to enhance competitiveness, the Company expects to face further headwinds as the global economy slows down.

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- (b) Despite these challenges, the Offeror remains committed to the Company's long-term development goals. The directors of the Offeror are of the view that the Company will, after the implementation of the Proposal, be able to operate more effectively and respond better to the dynamic and changing business environment as well as deploy a significant amount of resources to continue developing its businesses, in order to enhance its market competitiveness. Such investments will invariably involve execution risks, and the associated benefits may materialise in the long-run. In addition, with the Company becoming unlisted and wholly owned by the Offeror and the Offeror Concert Parties which hold Shares not forming part of the Scheme Shares, the Offeror considers that it will be possible to manage the Company in a more effective manner, with greater flexibility to support the long-term development of the Company.
- (c) To maintain its listing status, the Company faces administrative and compliance burdens, as well as related costs and expenses. Save for the new share issuance by the Company to the Offeror and Saniwell Holding Inc. raising approximately HK\$79.8 million in June 2018 (the "**2018 New Share Issue**") which showed the support of the controlling shareholder of the Company, the listing platform of the Company has not been utilized for any material equity fund raising for over 10 years. Due to the illiquidity in trading of the Shares and the general decreasing trend in stock price of the Shares in recent years, the Company's ability to raise funds through equity financing is limited, and the Offeror believes the position is unlikely to improve significantly in the near future. As such, the Offeror considers that the administrative and compliance costs and management resources associated with maintaining the Company's listing status are no longer justified.

For Scheme Shareholders: an opportunity to release their investment at a significant premium

- (d) The liquidity of Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Date was approximately 0.1 million Shares per day, representing only approximately 0.01% of the total number of issued Shares as at the date of the Joint Announcement. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. It is also difficult for Shareholders to dispose of a large number of Shares when events which might have an adverse impact on the Company's share price occur. The Proposal provides a good opportunity for the Scheme Shareholders to sell their Shares, such that they will be able to realise their investment in the Company for cash at an attractive premium, as compared to the prevailing market price (particularly in light of the relative underperformance of the share price in recent years) without having to suffer illiquidity discount.

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- (e) During the one year up to and including the Last Trading Date, the lowest and highest closing prices per Share on the Stock Exchange were HK\$0.210 and HK\$0.465, respectively. The Scheme Consideration represents a premium of approximately 161.9% to the lowest closing price and a premium of approximately 18.3% to the highest closing price in the above period.

The Offeror remains fully committed to the long-term development of the Group, despite the increasing challenges in the operating environment. After the implementation of the Proposal, the Offeror will be able to consolidate and integrate the Group's operations, enabling greater flexibility and efficiency to cope with market volatility and intensifying competition, and continues to provide all necessary support for the Group's long-term development. The Offeror believes that the Group's businesses will be able to operate more effectively without the additional complexity and cost of the Company being a listed company. After completion of the Proposal, it is expected that the Group will be able to make more strategic operational and investment decisions dedicated to the long-term development of the Group, free from the pressure of market expectations and fluctuation in its share prices. As a result, the Group will enjoy a significantly higher degree of autonomy and flexibility when making such decisions without having the need to confer with minority shareholders.

As the Group is engaged in a capital intensive business, significant financial resources are required for its business operation and development, including but not limited to (a) the maintenance of a sufficient working capital and financial liquidity to support its ongoing operating cashflow; (b) capital expenditure in relation to the investment in maintenance and replacement of its existing production facilities and operating assets, which form the majority of the fixed assets held by the Group; and (c) investment in research and development in order to enhance its competitiveness and provide its customers with innovative solutions and applications in view of the fast changing market environment requiring continuous technological advancement, particularly given the market conditions are presently and expected to remain challenging for the manufacturing industry.

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As disclosed in the annual report of the Company for the year ended 31 December 2020, the Group had bank borrowings of approximately HK\$322.3 million and cash and bank balances of approximately HK\$494.7 million. The Board considers that the financial position of the Group remains healthy and solid. However, the Board also considers the importance of maintaining a prudent approach towards financial management, particularly in view of the uncertainties in the market and operating environment caused by the pandemic and uncertain Sino-US trade relations. As stated in the Joint Announcement, save for the 2018 New Share Issue, which demonstrated the Company's controlling shareholder's support towards the Group's capital needs, there had been no other material equity fund raising by the Company for over 10 years. Accordingly, bank borrowings have been the key source of capital to support the business operation and development of the Group, in addition to the operating cashflow generated from its business operation. The Group has been maintaining good business relationships with its lenders and believes that its principal lenders will continue to provide their support to the Group. However, the Board will continue to adopt a prudent financial management approach and considers that it may not be appropriate to solely rely on bank borrowings as its primary source of capital to fund its business operation and development, particularly in the case where substantial financial resources may be required due to the uncertain market and operating environment as mentioned above.

In regard to future capital raising options, the Group may not be able to benefit from a similar degree of support from its controlling shareholder as in the case of the 2018 New Share Issue, as any issuance of new Shares to the Offeror or other connected persons of the Group may frustrate the public float requirement under Rule 8.08(1)(a) of the Listing Rules, and may also worsen the already low trading liquidity of the Shares. Furthermore, any issuance of debts or convertible securities to the controlling shareholder of the Company may be perceived as reliance on borrowings or other financial assistance from connected persons (as defined under the Listing Rules) of the Company, which, similar to issuance of new Shares to connected person, will also be subject to the applicable requirements under the Listing Rules as well as the time and costs associated with the compliance of such requirements, and may cast doubt on the Group's ability to obtain external debt financing from independent lenders. Under such circumstances, alternative capital raising options may be required, for example, new issuance of Shares by way of a rights issue.

Due to the outbreak and ongoing spread of COVID-19 which has brought about uncertainties for the global economy and is expected to sustain for a prolonged period, the Directors did not declare any dividend for the year ended 31 December 2020 and expect that no dividend will be declared or paid in respect of the year ending 31 December 2021. As at the Latest Practicable Date, neither the Offeror nor the Board had plans of restructuring the Group, and had no intention, and considered that there is no real prospect, to seek a listing of the Shares or spin-off listing of any of the Group's businesses on any stock exchange in the next three years ending 31 December 2023.

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As such, the Proposal presents an immediate opportunity for the Scheme Shareholders to realise their investments in the Scheme Shares for cash and redeploy the cash into other investment opportunities.

12. THE OFFEROR'S INTENTIONS IN RELATION TO THE GROUP

The Offeror intends to continue to carry on the Group's principal business of (i) trading of industrial consumables; (ii) manufacturing and processing of plastic products; (iii) manufacturing of machinery; and (iv) processing and trading of printed circuit boards.

The Offeror does not intend to introduce any major changes to the business of the Group (including any redeployment of fixed assets of the Group), save that the Offeror may, after thorough review of the Group's operations and with a view to enabling long-term growth and sustainability of the Group's businesses, restructure certain operations of the Group, particularly those which are loss-making.

The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group, save for those changes which the Offeror may from time to time implement after reviewing its strategies relating to the businesses, structure and/or direction of the Group.

13. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

Subject to the requirements of the Takeovers Code, the Proposal will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. If the Scheme is not approved or the Proposal otherwise lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

EXPLANATORY STATEMENT

14. INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in Hong Kong with limited liability and is principally engaged in the business of investment holding. As at the Latest Practicable Date, the Offeror directly held 235,802,600 Shares (representing approximately 27.36% of the total number of issued Shares) and indirectly held 170,104,452 Shares (representing approximately 19.74% of the total number of issued Shares), together representing approximately 47.09% of the total number of issued Shares and therefore is a controlling shareholder of the Company. As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares.

As at the Latest Practicable Date, the Offeror was approximately 99.999% owned by Codo Development Limited, a company incorporated in Hong Kong with limited liability, and approximately 0.001% owned by Glad Season Investments Limited, a company incorporated in Hong Kong with limited liability. Below is the shareholding structure of Codo Development Limited as at the Latest Practicable Date:

Shareholders	As at the Latest Practicable Date	
	<i>Number of shares in Codo Development Limited</i>	<i>Approximate % of the total number of issued shares in Codo Development Limited</i>
Yik Wan Company Limited ^(Note 1)	3,379,250	16.09%
Elegant Power Enterprises Limited ^(Note 2)	1,757,000	8.37%
Keepsound Investments Limited ^(Note 3)	5,263,366	25.06%
Friendchain Investments Limited ^(Note 3)	6,352,500	30.25%
Cranswick Holdings Limited ^(Note 4)	546,114	2.60%
Silver View Investment Limited ^(Note 5)	350,000	1.67%
Individual shareholders ^(Note 6)	3,351,770	15.96%
Total:	21,000,000	100.00%

EXPLANATORY STATEMENT

Notes:

1. Yik Wan Company Limited was incorporated in Hong Kong and is owned directly and indirectly by several relatives of Mr. Kan Wai Wah, a non-executive Director and a director of the Offeror. One of these shareholders of Yik Wan Company Limited is controlled by Ms. Law Kit Fong, Mr. Kan Wai Wah's mother who is an associate (as defined under the Takeovers Code) of Mr. Kan Wai Wah. The remaining shareholders are associates (as defined under the Listing Rules) of Mr. Kan Wai Wah. Each of these shareholders held between approximately 7.14% to 14.29% shareholding interests in Yik Wan Company Limited and did not own any Shares as at the Latest Practicable Date.
2. Elegant Power Enterprises Limited was incorporated in Hong Kong and is owned as to approximately 0.002% by Mr. Kan Wai Wah (a non-executive Director and a director of the Offeror) as trustee for Ms. Law Kit Fong, and approximately 99.998% by Ms. Law Kit Fong. Ms. Law Kit Fong is Mr. Kan Wai Wah's mother and an associate (as defined under the Takeovers Code) of Mr. Kan Wai Wah. Ms. Law Kit Fong did not own any Shares as at the Latest Practicable Date.
3. Keepsound Investments Limited was incorporated in Hong Kong and is owned as to 94% by Saniwell Holding Inc., 2% by Fullwin Limited, 2% by Ms. Hui Tang Yee, Mr. Tang To's sister (an associate of Mr. Tang To as defined under the Takeovers Code) and 2% by several associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror. Save for Ms. Hui Tang Yee who owns 580,800 Shares, the individual shareholders of Keepsound Investments Limited did not own any Shares as at the Latest Practicable Date.

Friendchain Investments Limited was incorporated in Hong Kong and is owned as to approximately 57.42% by Saniwell Holding Inc., 40% by Elegant Power Enterprises Limited and approximately 2.58% by Fullwin Limited. The directors of Friendchain Investments Limited are Ms. Hui Tang Yee (Mr. Tang To's sister (an associate of Mr. Tang To as defined under the Takeovers Code)), Mr. Kan Wai Wah (a non-executive Director and a director of the Offeror), Ms. Law Kit Fong (Mr. Kan Wai Wah's mother who is an associate (as defined under the Takeovers Code) of Mr. Kan Wai Wah) and Mr. Tang To (an executive Director and a director of the Offeror).

Saniwell Holding Inc. is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To, an executive Director and a director of the Offeror, and certain of his family members. The directors of Saniwell Holding Inc. are Mr. Tang To, and Mr. Tang Yu, Freeman.

Fullwin Limited was incorporated in the Republic of Liberia and is owned as to 50% by Mr. Tang To and 50% by his spouse.

4. Cranswick Holdings Limited was incorporated in Hong Kong and is owned by several associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror. Each of these shareholders holds between 20% to 40% shareholding interests in Cranswick Holdings Limited. The shareholders of Cranswick Holdings Limited did not own any Shares as at the Latest Practicable Date.
5. Silver View Investment Limited was incorporated in Hong Kong and is owned by Independent Third Parties.

EXPLANATORY STATEMENT

6. The individual shareholders of Codo Development Limited include several associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror, holding in aggregate approximately 15.48% shareholding interests in Codo Development Limited, and an Independent Third Party, holding approximately 0.48% shareholding interests in Codo Development Limited. Each individual shareholder holds between approximately 0.48% to 4.24% shareholding interests in Codo Development Limited. Among the associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman, Mr. Tang Chi Tung, Mr. Tang To's cousin and a director of the Offeror owned 40,315 Shares and the late Mr. Tang Woon Hang, Mr. Tang To's uncle owned 4,510 Shares as at Latest Practicable Date. The late Mr. Tang Woon Hang is not a close relative (as defined under the Takeovers Code) of Mr. Tang To and Mr. Tang Yu, Freeman. Mr. Tang Chi Tung is a director of the Offeror, and is presumed to be acting in concert with the Offeror under class (2) presumption under the definition of "acting in concert" under the Takeovers Code. The remaining individual shareholders of Codo Development Limited who are associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman did not own any Shares as at the Latest Practicable Date. The directors of Codo Development Limited are Mr. Tang To (an executive Director and a director of the Offeror), Mr. Tang Chi Tung (a director of the Offeror) and Mr. Kan Wai Wah (a non-executive Director and a director of the Offeror).

Glad Season Investments Limited was owned as to 50% by Codo Development Limited and 50% by the Offeror (as trustee for Codo Development Limited) as at the Latest Practicable Date.

15. INFORMATION ON THE COMPANY

The Company is an investment holding company incorporated in Hong Kong with limited liability. The principal activities of the Group are machinery manufacturing business, plastic products manufacturing and processing business, printed circuit board processing and trading business and industrial consumables trading business. As disclosed in the Company's annual report for the year ended 31 December 2020, the Company did not declare any dividend for the year ended 31 December 2020. As at the Latest Practicable Date, the Company had no intention to make, declare or pay any future dividends/distribution until after completion of the Proposal.

Your attention is drawn to Appendix I headed "Financial Information Relating to the Group" and Appendix III headed "General Information" to this Scheme Document.

16. WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled (with the equivalent number of new Shares being issued as fully paid to the Offeror) and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. In that case, the Company does not intend to maintain its listing on the Stock Exchange and will make an application for the listing of the Shares to be withdrawn from the Stock Exchange one (1) clear Business Day following the Effective Date in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on Thursday, 29 July 2021.

Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and the day on which the Scheme and the withdrawal of listing of the Shares on the Stock Exchange will become effective.

EXPLANATORY STATEMENT

17. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Tuesday, 20 July 2021, it is proposed that the register of members of the Company will be closed from Tuesday, 13 July 2021 (or such other date as the Shareholders may be notified by an announcement) onwards in order to determine entitlements under the Scheme. In order to qualify for entitlements under the Scheme, holders of the Scheme Shares should ensure that the transfers of the Shares to them are lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration in their names or in the names of their nominees no later than 4:30 p.m. (Hong Kong time) on Monday, 12 July 2021.

Upon the Scheme becoming effective, the Scheme Consideration will be paid to the Scheme Shareholders whose names appear in the register of members of the Company on the Scheme Record Date as soon as possible but in any event within seven (7) Business Days following the Effective Date. On the basis that the Scheme becomes effective on Tuesday, 27 July 2021, the cheques for the payment of the Scheme Consideration are expected to be despatched on or before Thursday, 5 August 2021.

Cheques for the payment of the Scheme Consideration will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name then stands first in the register of members of the Company in respect of the joint holding. All such cheques will be posted at the risk of the persons entitled thereto and none of the Offeror, the Company, Tonghai Capital, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

On or after the day being six (6) calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror.

The Offeror shall hold such monies until the expiry of six (6) years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to the Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques of which they are payees have not been cashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the Scheme. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

EXPLANATORY STATEMENT

On the expiry of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates for the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Tuesday, 27 July 2021.

Settlement of the Scheme Consideration to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

18. OVERSEAS SHAREHOLDERS

This Scheme Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this Scheme Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

The making and implementation of the Proposal to holders of the Scheme Shares who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Any Scheme Shareholders who are not resident in Hong Kong should inform themselves about and observe any applicable legal, tax or regulatory requirements.

It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Proposal to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, the compliance with the necessary formalities and the payment of any issue, transfer or other taxes due from such shareholder in such jurisdiction.

As at the Latest Practicable Date, according to the register of members of the Company, the Company had 1 overseas Shareholder. This overseas Shareholder is Saniwell Holding Inc. whose registered address is in the Cook Islands. Saniwell Holding Inc. held 36,250,000 Shares, representing approximately 4.21% of the total number of Shares in issue as at the Latest Practicable Date.

EXPLANATORY STATEMENT

Since Saniwell Holding Inc. is an Offeror Concert Party, the Scheme will not be extended to it. The Board has made enquiries regarding the feasibility of despatching this Scheme Document to this overseas Shareholder. The Board was advised by the local counsel in the Cook Islands that there is no restriction or requirement under the respective laws or regulations of the Cook Islands for despatching this Scheme Document to this overseas Shareholder. The Scheme Document will be despatched to the overseas Shareholder in that jurisdiction.

Any acceptance by Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers (including Tonghai Capital and the Independent Financial Adviser) that those laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

19. TAXATION AND INDEPENDENT ADVICE

As the cancellation of the Scheme Shares upon the Scheme becoming effective does not involve the sale and purchase of any Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) in this respect.

Scheme Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Proposal. It is emphasised that none of the Offeror, the Company, Tonghai Capital or any of their respective directors, officers or associates or any other person involved in the Proposal accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

20. COURT MEETING AND GENERAL MEETING

The High Court has directed that the Court Meeting be convened for the purpose of considering and, if thought fit, approving the Scheme (with or without modification). The Scheme will be subject to the approval by the Independent Shareholders, whose names appear in the register of members of the Company as at the Meeting Record Date, at the Court Meeting in the manner referred to in the section headed “5. Conditions of the Proposal” above in this Explanatory Statement.

The Shares beneficially owned, controlled or directed by the Offeror and the Offeror Concert Parties (except for Shares beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, which form part of the Scheme Shares) will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting.

EXPLANATORY STATEMENT

As at the Latest Practicable Date, the Offeror directly held 235,802,600 Shares, representing approximately 27.36% of the total number of issued Shares, and the Offeror Concert Parties (including Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah) beneficially owned, controlled or had direction over an aggregate of 225,236,378 Shares, representing approximately 26.13% of the total number of issued Shares. The Offeror and the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares. Among the Shares beneficially owned, controlled or directed by the Offeror Concert Parties, a total of 10,225,515 Shares (representing approximately 1.19% of the total number of issued Shares) beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah (each of them an Offeror Concert Party) will form part of the Scheme Shares.

The Offeror had received the Irrevocable Undertakings from Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, all being the Offeror Concert Parties and the Scheme Shareholders, that each of them irrevocably and unconditionally undertakes not to vote at the Court Meeting.

Immediately following the conclusion of the Court Meeting, the General Meeting will be held for the purpose of considering and, if thought fit, passing the special resolution(s) to give effect to the Scheme, including the reduction of the share capital of the Company. All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote in respect of the special resolution(s) at the General Meeting. The Offeror has indicated that, if the Scheme is approved at the Court Meeting, the Offeror will vote in favour of the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled and extinguished. The Offeror Concert Parties will also be entitled to vote on the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme.

Notice of the Court Meeting is set out on pages 171 to 173 of this Scheme Document. The Court Meeting will be held on Friday, 18 June 2021 at the time and place specified in the notice.

Notice of the General Meeting is set out on pages 174 to 177 of this Scheme Document. The General Meeting will be held at the same place and on the same date at 10:15 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.

EXPLANATORY STATEMENT

As at the Latest Practicable Date, neither the Offeror nor any of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal. The Offeror had received the Irrevocable Undertakings from Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, all being the Offeror Concert Parties and the Scheme Shareholders, that each of them irrevocably and unconditionally undertakes not to vote at the Court Meeting.

As Mr. Wong Yiu Ming is an Offeror Concert Party and therefore is not an Independent Shareholder, his votes at the Court Meeting (if any) will not be counted for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code.

21. ACTIONS TO BE TAKEN

Actions to be taken by the Shareholders

For the purpose of determining the entitlements of holders of the Scheme Shares to attend and vote at the Court Meeting and the entitlements of the Shareholders to attend and vote at the General Meeting, the register of members of the Company will be closed from Friday, 11 June 2021 to Friday, 18 June 2021 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Thursday, 10 June 2021.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the General Meeting are enclosed with this Scheme Document. A subsequent purchaser of Scheme Shares will need to obtain a proxy form from the transferor if he or she wishes to attend or vote at the Court Meeting and/or the General Meeting.

Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a holder of the Scheme Shares, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon, and to lodge them with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof, and the white form of proxy for use at the General Meeting should be lodged 48 hours before the time appointed for holding the General Meeting or any adjournment thereof.

EXPLANATORY STATEMENT

The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the General Meeting, you will still be bound by the outcome of the Court Meeting and/or the General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the General Meeting in person or by proxy.

Voting at the Court Meeting and the General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of the Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner or deposited in CCASS

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the General Meeting and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name.

EXPLANATORY STATEMENT

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of form(s) of proxy in respect of the Court Meeting and/or the General Meeting, or, as applicable, the latest time for lodging transfers of Shares, in order to provide the Registered Owner with sufficient time to complete his/her/its form(s) of proxy or transfer documents accurately and to submit them by the relevant deadlines.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the General Meeting shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof if the Registered Owner should so wish. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his/her/its form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant:

- (a) contact your broker, custodian, nominee or other relevant person who is, or as, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the General Meeting.

The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

EXPLANATORY STATEMENT

You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgement of forms of proxy in respect of the Court Meeting and/or the General Meeting, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Registered Owner, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the General Meeting (as a Shareholder). You can become a Registered Owner by withdrawing all or any of your Shares from CCASS. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and/or the General Meeting, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

22. EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE OFFEROR AND THE COMPANY STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE GENERAL MEETING.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, YOU ARE ENCOURAGED TO PROVIDE HKSCC NOMINEES WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE GENERAL MEETING WITHOUT DELAY AND/OR HAVE THE SHARES WITHDRAWN FROM CCASS AND REGISTERED IN YOUR NAME (AS DETAILED ABOVE).

IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, THE OFFEROR AND THE COMPANY URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

EXPLANATORY STATEMENT

IF YOU ARE A REGISTERED OWNER HOLDING THE SHARES ON BEHALF OF BENEFICIAL OWNERS, THE OFFEROR AND THE COMPANY WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

23. FURTHER INFORMATION

Further information in relation to the Proposal is set out in the appendices to this Scheme Document, all of which form part of this Explanatory Statement.

Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, Tonghai Capital, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal have authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

24. LANGUAGE

In case of any inconsistency, the English language text of this Scheme Document and the accompanying forms of proxy shall prevail over the Chinese language text.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

1. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the Group for each of the three (3) years ended 31 December 2018, 31 December 2019 and 31 December 2020. The figures for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 are extracted from the annual reports of the Company for the years ended 31 December 2018, 31 December 2019 and 31 December 2020.

The auditor's reports issued by the auditor of the Company, Messrs. Ting Ho Kwan & Chan, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

Summary of Consolidated Statement of Profit or Loss and Other Comprehensive Income

Set out below is a summary of Consolidated Statement of Profit or Loss and Other Comprehensive Income as extracted from the consolidated financial statements of the Company as set forth in the annual reports of the Company for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020.

Save as disclosed below, there was no item of any income or expense which was material in respect of the consolidated financial statements of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020.

	Year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000
Revenue	2,682,452	2,344,923	2,432,021
Cost of sales	<u>(2,245,294)</u>	<u>(1,967,383)</u>	<u>(2,024,043)</u>
Gross profit	437,158	377,540	407,978
Other income and gains, net	45,202	66,516	15,829
Selling and distribution costs	(153,780)	(168,808)	(151,200)
Administrative expenses	<u>(251,593)</u>	<u>(221,354)</u>	<u>(222,678)</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	Year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit	76,987	53,894	49,929
Finance costs	(21,856)	(24,958)	(20,315)
Investment income	4,938	4,486	4,578
Share of results of associates	1,658	2,991	2,617
Loss on disposal of an associate	–	–	(49)
(Loss)/gain on disposal of subsidiary(ies)	44,588	–	(1,231)
(Loss)/gain on deregistration of a subsidiary	<u>1,904</u>	<u>2,662</u>	<u>(106)</u>
 Profit before tax	 108,219	 39,075	 35,423
Income tax expense	<u>(19,467)</u>	<u>(14,191)</u>	<u>(9,545)</u>
 Profit for the year	 88,752	 24,884	 25,878
 Profit attributable to:			
– Equity shareholders of the Company	74,052	15,755	19,578
– Non-controlling interests	<u>14,700</u>	<u>9,129</u>	<u>6,300</u>
	88,752	24,884	25,878
 Earnings per share for profit attributable to the equity shareholders of the Company during the year			
– Basic	9.36 HK cents	1.83 HK cents	2.27 HK cents

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	Year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	<u>88,752</u>	<u>24,884</u>	<u>25,878</u>
Other comprehensive income/(expense) for the year, net of tax:			
<i>Items that have been reclassified or may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of financial statements of foreign operations	(56,348)	(24,150)	74,494
Share of reserves of associates	(1,031)	(650)	1,904
Reclassification adjustments:			
Release of translation reserve upon disposal of subsidiary(ies)	547	–	(1,621)
Release of translation reserve upon disposal of an associate	–	–	49
Release of translation reserve upon deregistration of a subsidiary	<u>(1,904)</u>	<u>(2,662)</u>	<u>106</u>
	<u>(58,736)</u>	<u>(27,462)</u>	<u>74,932</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	Year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Items that will not be reclassified</i>			
<i>to profit or loss:</i>			
Surplus on revaluation of properties held for own use	<u>11,485</u>	<u>16,158</u>	<u>11,049</u>
	<u>(47,251)</u>	<u>(11,304)</u>	<u>85,981</u>
Total comprehensive income for the year	<u>41,501</u>	<u>13,580</u>	<u>111,859</u>
Total comprehensive income attributable to:			
– Equity shareholders of the Company	32,900	5,339	96,957
– Non-controlling interests	<u>8,601</u>	<u>8,241</u>	<u>14,902</u>
Total comprehensive income for the year	<u>41,501</u>	<u>13,580</u>	<u>111,859</u>
Total dividends declared	17,239	–	–
Dividends per Share (<i>HK\$</i>)	0.02	–	–

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

2. CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out or refer to in this Scheme Document the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2018, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2018 Financial Statements**”); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2019, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2019 Financial Statements**”); and (iii) audited consolidated financial statements of the Group for the year ended 31 December 2020, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2020 Financial Statements**”). The 2018 Financial Statements, 2019 Financial Statements and 2020 Financial Statements are available on the websites below:

- (a) The 2018 Financial Statements are set out on pages 89 to 273 of the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), which was published on 16 April 2019. The 2018 Annual Report is posted on the Company’s website <http://www.cosmel.com> and the website of the Stock Exchange at <https://www.hkexnews.hk>. Please also see below a direct link to the 2018 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0416/ltm20190416317.pdf>

- (b) The 2019 Financial Statements are set out on pages 106 to 284 of the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”), which was published on 27 April 2020. The 2019 Annual Report is posted on the Company’s website <http://www.cosmel.com> and the website of the Stock Exchange at <https://www.hkexnews.hk>. Please also see below a direct link to the 2019 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700615.pdf>

- (c) The 2020 Financial Statements are set out on pages 124 to 280 in the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”), which was published on 28 April 2021. The 2020 Annual Report is posted on the Company’s website <http://www.cosmel.com> and the website of the Stock Exchange at <https://www.hkexnews.hk>. Please also see below a direct link to the 2020 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800757.pdf>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

The 2018 Financial Statements, the 2019 Financial Statements and the 2020 Financial Statements (but not any other part of the 2018 Annual Report, the 2019 Annual Report and 2020 Annual Report in which they respectively appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the bank borrowings, pledges and lease liabilities of the Group were shown as below:

	<i>HK\$ million</i>
Bank borrowings	
Secured and guaranteed bank loans	81
Unsecured and guaranteed bank loans	166
Unsecured and unguaranteed bank loans	67
Pledges	
Land use rights	3
Ownership interest in leasehold land and buildings held for own use	157
Machinery	10
Motor vehicle	1
Bank deposit	6
Lease liabilities	54

Save as aforesaid and apart from intra-group liabilities, intra-group guarantees, and normal trade payables in the normal course of business, at close of business on 31 March 2021, the Group did not have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

4. MATERIAL CHANGE

The Directors confirm that, save as the following matters, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), and up to and including the Latest Practicable Date:

- (1) The Group's sales performance during the first half of the year ended 31 December 2020 was impacted by the COVID-19 pandemic across the world and the trade frictions between the United States and the PRC. Mainly as a result of (i) the continued recovery of the Group's sales performance since the second half of the year ended 31 December 2020 as disclosed in the 2020 Annual Report; (ii) the continued improvement of the overall economy and manufacturing industry of the PRC since the second half of the year ended 31 December 2020; and (iii) the delivery of orders received in late 2020 during the first quarter of 2021, the Group recorded comparatively stronger sales performance during the first quarter of 2021 as compared to the corresponding period in the year ended 31 December 2020; and
- (2) Subsequent to the year ended 31 December 2020, the Group did not receive or recognise any direct or indirect cash subsidies and payroll savings to help alleviate financial burden of companies affected by the COVID-19 pandemic, whereas the Group recognised an aggregate of approximately HK\$27.0 million of such subsidies and payroll savings for the year ended 31 December 2020.

The following is the text of a letter, summary of valuations and valuation report prepared for the purpose of incorporation in this Scheme Document received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market value in existing state of the properties held by the Group in Hong Kong and the PRC as at 31 March 2021.



27/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

21 May 2021

The Board of Directors
Cosmos Machinery Enterprises Limited
10/F., Billion Plaza 2
No. 10 Cheung Yue Street
Cheung Sha Wan
Kowloon
Hong Kong

Dear Sirs,

Re: Various properties located in Hong Kong and the People's Republic of China

INSTRUCTIONS, PURPOSE & VALUATION DATE

In accordance with the instructions from Cosmos Machinery Enterprises Limited (the "**Company**") for us to carry out the valuation of the market value of the captioned properties held by the Company and its subsidiaries (the "**Group**") in Hong Kong and the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market value of the properties in existing state as at 31 March 2021 (the "**Valuation Date**").

DEFINITION OF MARKET VALUE

Our valuations of each of the properties represents its Market Value which in accordance with the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors ("**HKIS**") 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".

VALUATION BASIS & ASSUMPTIONS

Our valuations of the properties exclude 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 valuing the properties in Hong Kong of which the Government Leases expired before 30 June 1997, we have taken into account that under 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 as well as in the New Territories Leases (Extension) Ordinance such leases have been extended without premium until 30 June 2047 and that rents of 3% of the rateable value are charged per annum from the date of extension.

In the course of our valuations of the properties held by the Group in the PRC, with reference to the PRC Legal opinion of the Company's legal adviser, Guangdong Guanxin Law Firm (廣東莞信律師事務所), we have prepared our valuation on the basis that transferable land use rights in respect of the properties for its specific term at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and the PRC legal opinion, dated 30 November 2020, regarding the title to the properties and the interests in the properties. In valuing the properties, we have prepared our valuation on the basis that the owners have enforceable title to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired terms as granted.

No allowance has been made in our valuation for any charges, pledges or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is valued on the basis that the properties are free from encumbrances, restrictions and outgoing of any onerous nature which could affect its value.

METHOD OF VALUATION

Our opinion of value is based on an analysis of recent market transactions, supported by market knowledge derived from our agency experience. Our valuation is supported by this market evidence.

In valuing the properties in Group I which is 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 is held by the Group for owner occupation and Group III which is held by the Group for investment purpose in the PRC, we have used Income Capitalization Method which operates by taking into account the rental income of the property derived from the existing tenancy with due allowance for the reversionary income potential of the tenancy, which are then capitalised into the value at an appropriate capitalisation rate.

POTENTIAL TAX LIABILITIES

As advised by the Company, the potential tax liabilities which would arise on the direct disposal of the property interests held by the Company at the amounts valued by us mainly comprise the following:

For Hong Kong properties

- Profit tax at 8.25% and 16.5% on the assessable profits

For the PRC properties

- Enterprise income tax at 25% on the gain
- Land appreciation tax at progressive rates from 30% to 60% on the appreciation of property value

In respect of the properties held for owner occupation in Hong Kong and the PRC, the likelihood of the relevant tax liabilities crystallising is remote as the Group has no plans for the disposal of such properties yet. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liabilities. The precise tax implication will be subject to prevailing rules and regulations at the time of disposal.

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.

We have relied to a very considerable extent on the information given by the Company and the opinion of the PRC legal adviser as to PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of Properties, particulars of occupancy, site and floor areas 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 Company that no material facts have been omitted from the information provided.

We would point out that the copies of documents of the properties in the PRC provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

TITLE INVESTIGATION

In respect of the properties in Hong Kong, we have caused searches to be made at the Land Registry in Hong Kong. We have been provided by the Company with copies of documents in relation to the current title to the properties in the PRC. However, we have not been able to conduct searches to verify the ownership of the properties; we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. 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 PRC legal adviser and the Company.

SITE INSPECTION

We have inspected the exterior of the properties in December 2020. 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 area of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

GENERAL COMMENTS

A valuation is a prediction of price, not a guarantee. By necessity it requires the valuer to make subjective judgements that, even if logical and appropriate, may differ from those made by a purchaser, or another valuer. Historically it has been considered that valuers may properly conclude within a range of possible values.

The purpose of valuation does not alter the approach to a valuation.

Property values can change substantially, even over short periods of time, and so our opinion of value could differ significantly if the valuation date was to change. If you wish to rely on our valuations as being valid on any other date you should consult us first.

Should you contemplate a sale, we strongly recommend that the properties are given proper exposure to the market.

We recommend that you keep the valuations of the properties under frequent review.

You should not rely on this report unless any reference to tenure, tenancies and legal title has been verified as correct by your legal advisers.

CURRENCY AND EXCHANGE RATE

Unless otherwise stated, all monetary sums stated in our valuations are in Renminbi (“**RMB**”) for the properties in the PRC and Hong Kong Dollars (“**HK\$**”) for the properties in Hong Kong, the official currencies of the PRC and Hong Kong respectively. The exchange rate adopted in our valuations is approximately RMB1 = HK\$1.1832 which was approximately the prevailing exchange rates as at the valuation date.

COMPLIANCE

In valuing the Properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Rule 11 of The Codes on Takeovers and Mergers published by the Securities and Futures Commission and HKIS Valuation Standards 2020.

We attach herewith summary of valuations and valuation report.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 28 years’ experience in the valuation of properties in the PRC.

* *English or Chinese owners’ names, where applicable, in the valuation report are for identification propose only.*

SUMMARY OF VALUATIONS

Group I – Properties held for owner occupation by the Group in Hong Kong

No.	Property	Market value in existing state as at 31 March 2021 (HK\$)	Interest attributable to the Group (HK\$)	Market Value in existing state as at 31 March 2021 attributable to the Group (HK\$)
1.	Workshop 3 on 6th Floor, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong	3,800,000	52%	1,976,000
2.	Workshop 4 on 6th Floor, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories Hong Kong	3,800,000	52%	1,976,000
3.	Workshop 18 on 7th Floor, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong	3,800,000	52%	1,976,000
4.	Office A on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	36,000,000	100%	36,000,000
5.	Office B on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	21,800,000	100%	21,800,000

APPENDIX II**VALUATION REPORT**

No.	Property	Market value in existing state as at 31 March 2021 (HK\$)	Interest attributable to the Group (HK\$)	Market Value in existing state as at 31 March 2021 attributable to the Group (HK\$)
6.	Office C on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	16,900,000	100%	16,900,000
7.	Office D on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	21,900,000	100%	21,900,000
8.	Office E on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	27,900,000	100%	27,900,000
	Total for Group I in HK\$:	135,900,000		130,428,000

SUMMARY OF VALUATIONS

Group II – Properties held for owner occupation by the Group in the PRC

No.	Property	Market value in existing state as at 31 March 2021 (RMB)	Interest attributable to the Group (RMB)	Market Value in existing state as at 31 March 2021 attributable to the Group (RMB)
9.	An industrial complex and portion of a composite building occupied by Donghua Machinery Ltd. 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	88,600,000	75.56%	66,946,160
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	3,240,000	75.56%	2,448,144
11.	Room 901, No. 369 Fu Xing Zhong Road, Luwan District, Shanghai, the PRC	18,400,000	100%	18,400,000
12.	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	32,100,000	100%	32,100,000

No.	Property	Market value in existing state as at 31 March 2021 (RMB)	Interest attributable to the Group (RMB)	Market Value in existing state as at 31 March 2021 attributable to the Group (RMB)
13.	An industrial complex located at Lot No. 1010030, Jinhu South Road, Sanzao Town, Jinwan District, Zhuhai, Guangdong Province, the PRC	44,800,000	100%	44,800,000
14.	An industrial complex located at Lot No. B7-C of Wuxi National High-Tech Industrial Development Zone, Wuxi, Jiangsu Province, The PRC	175,400,000	100%	175,400,000
Total for Group II in RMB:		362,540,000		340,094,304

SUMMARY OF VALUATIONS

Group III – Properties held for Investment by the Group in the PRC

No.	Property	Market value in existing state as at 31 March 2021 (RMB)	Interest attributable to the Group (RMB)	Market Value in existing state as at 31 March 2021 attributable to the Group (RMB)
15.	Unit 7 of No. 35 Bei Da Jie, Wu Yi Road, Taiyuan, Shanxi Province, the PRC	1,510,000	75.56%	1,140,956
16.	Room 10 on Level 19, Tong Mei Building, Jian She Bei Road, Chengdu, Sichuan Province, the PRC	860,000	100%	860,000
17.	Flats 1801, 1802 and 1803 on Level 18, Datong Commercial Building, No. 36 Yangong Jie, Yuexiu District, Guangzhou, Guangdong Province, the PRC	10,900,000	100%	10,900,000
Total for Group III in RMB:		13,270,000		12,900,956

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
1. Workshop 3 on 6th Floor, Worldwide Industrial Centre, 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong <i>(14/6,640th shares of and in Sha Tin Town Lot No. 137)</i>	<p>The property comprises a workshop on 6th Floor of a 16-storey industrial building completed in about 1988.</p> <p>The gross floor area and saleable area of the property are approximately as follows:-</p> <p>Gross Floor Area: 1,407 sq ft (130.71 sq m)</p> <p>Saleable Area: 977 sq ft (90.76 sq m)</p> <p>The locality of the property is served by public transport services and characterised by industrial developments of various ages.</p> <p>The property is held under New Grant No. 11633 for a term of 99 years commencing 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.</p>	The property is currently occupied by the Group as a workshop.	<p>HK\$3,800,000</p> <p>(Hong Kong Dollars Three Million Eight Hundred Thousand Only)</p> <p>(52% attributable to the Group: HK\$1,976,000)</p>

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is Gainbase Industrial (Holding) Limited, a 52% subsidiary of the Company, registered vide Memorial No. ST729976 dated 6 September 1993. The remaining 48% is owned by an independent third party. The consideration of the property was HK\$1,550,000.
3. The property is zoned for “Industrial” use under Sha Tin Outline Zoning Plan No. S/ST/34 dated 29 May 2018.
4. The transaction price in the vicinity ranges from HK\$3,400 to HK\$4,300 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Occupation Permit No. NT195/88 registered vide Memorial No. ST446794 dated 8 September 1988; and
 - (b) Deed of Mutual Covenant and Management Agreement registered vide Memorial No. ST478121 dated 1 May 1989.

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
2. Workshop 4 on 6th Floor, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong <i>(14/6,640th shares of and in Sha Tin Town Lot No. 137)</i>	<p>The property comprises a workshop on 6th Floor of a 16-storey industrial building completed in about 1988.</p> <p>The gross floor area and saleable area of the property are approximately as follows:-</p> <p>Gross Floor Area: 1,407 sq ft (130.71 sq m)</p> <p>Saleable Area: 977 sq ft (90.76 sq m)</p> <p>The locality of the property is served by public transport services and characterised by industrial developments of various ages.</p> <p>The property is held under New Grant No. 11633 for a term of 99 years commencing 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.</p>	The property is currently occupied by the Group as a workshop.	<p>HK\$3,800,000</p> <p>(Hong Kong Dollars Three Million Eight Hundred Thousand Only)</p> <p>(52% attributable to the Group: HK\$1,976,000)</p>

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is Gainbase Industrial (Holding) Limited, a 52% subsidiary of the Company, registered vide Memorial No. ST744580 dated 3 January 1994. The remaining 48% is owned by an independent third party. The consideration of the property was HK\$1,520,000.
3. The property is zoned for “Industrial” use under Sha Tin Outline Zoning Plan No. S/ST/34 dated 29 May 2018.
4. The transaction price in the vicinity ranges from HK\$3,400 to HK\$4,300 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Occupation Permit No. NT195/88 registered vide Memorial No. ST446794 dated 8 September 1988; and
 - (b) Deed of Mutual Covenant and Management Agreement registered vide Memorial No. ST478121 dated 1 May 1989.

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
3. Workshop 18 on 7th Floor, Worldwide Industrial Centre, Nos. 43-47 Shan Mei Street, Shatin, New Territories, Hong Kong <i>(14/6,640th shares of and in Sha Tin Town Lot No. 137)</i>	<p>The property comprises a workshop on 7th Floor of a 16-storey industrial building completed in about 1988.</p> <p>The gross floor area and saleable area of the property are approximately as follows:-</p> <p>Gross Floor Area: 1,407 sq ft (130.71 sq m)</p> <p>Saleable Area: 977 sq ft (90.76 sq m)</p> <p>The locality of the property is served by public transport services and characterised by industrial developments of various ages.</p> <p>The property is held under New Grant No. 11633 for a term of 99 years commencing 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.</p>	The property is currently occupied by the Group as a workshop.	<p>HK\$3,800,000</p> <p>(Hong Kong Dollars Three Million Eight Hundred Thousand Only)</p> <p>(52% attributable to the Group: HK\$1,976,000)</p>

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is Gainbase Industrial (Holding) Limited, a 52% subsidiary of the Company, registered vide Memorial No. ST617235 dated 14 October 1991. The remaining 48% is owned by an independent third party. The consideration of the property was HK\$999,400.
3. The property is zoned for “Industrial” use under Sha Tin Outline Zoning Plan No. S/ST/34 dated 29 May 2018.
4. The transaction price in the vicinity ranges from HK\$3,400 to HK\$4,300 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Occupation Permit No. NT195/88 registered vide Memorial No. ST446794 dated 8 September 1988; and
 - (b) Deed of Mutual Covenant and Management Agreement registered vide Memorial No. ST478121 dated 1 May 1989.

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
4. Office A on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong	The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014.	The property is currently occupied by the Group as an office.	HK\$36,000,000 (Hong Kong Dollars Thirty-Six Million Only)
<i>(332/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720)</i>	The gross floor area and saleable area of the property are approximately as follows:-		(100% attributable to the Group: HK\$36,000,000)
	Gross Floor Area: 3,323 sq ft (308.71 sq m)		
	Saleable Area: 2,253 sq ft (209.31 sq m)		
	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 the Conditions of Exchange No. UB10977 for a term of 99 years commencing 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.		

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is State Good Inc Limited (邦贊有限公司), a wholly-owned subsidiary of the Company, registered vide Memorial No. 14041702510221 dated 3 April 2014. The consideration of the property was HK\$23,261,000.
3. The property is zoned for “Other Specified Uses” use under Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated 6 December 2016.
4. The transaction price in the vicinity ranges from HK\$15,700 to HK\$18,600 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Modification Letter with plan registered vide Memorial No. 11061301670577 dated 9 June 2011;
 - (b) Deed Poll with plan registered vide Memorial No. 12060702430106 dated 5 June 2012;
 - (c) Occupation Permit (Permit No. KN3/2014(OP)) registered vide Memorial No. 14020602040416 dated 30 January 2014;
 - (d) Certificate of Compliance registered vide Memorial No. 14031702270019 dated 14 March 2014;
 - (e) Deed of Mutual Covenant and Management Agreement with plans in favour of Jones Lang LaSalle Billion Management Services Limited as Manager registered vide Memorial No. 14041702510235 dated 3 April 2014; and
 - (f) Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030056 dated 31 October 2014.

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
5. Office B on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong <i>(201/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720)</i>	<p>The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014.</p> <p>The gross floor area and saleable area of the property are approximately as follows:-</p> <p>Gross Floor Area: 2,009 sq ft (186.64 sq m)</p> <p>Saleable Area: 1,362 sq ft (126.53 sq m)</p> <p>The locality of the property is served by public transport services and characterised by office and industrial developments of various ages.</p> <p>The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commencing 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.</p>	The property is currently occupied by the Group as an office.	<p>HK\$21,800,000</p> <p>(Hong Kong Dollars Twenty-One Million Eight Hundred Thousand Only)</p> <p>(100% attributable to the Group: HK\$21,800,000)</p>

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is Triumph Time Inc Limited (時特有限公司), a wholly-owned subsidiary of the Company, registered vide Memorial No. 14042501430030 dated 3 April 2014. The consideration of the property was HK\$14,063,000.
3. The property is zoned for “Other Specified Uses” use under Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated 6 December 2016.
4. The transaction price in the vicinity ranges from HK\$15,700 to HK\$18,600 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Modification Letter with plan registered vide Memorial No. 11061301670577 dated 9 June 2011;
 - (b) Deed Poll with plan registered vide Memorial No. 12060702430106 dated 5 June 2012;
 - (c) Occupation Permit (Permit No. KN3/2014(OP)) registered vide Memorial No. 14020602040416 dated 30 January 2014;
 - (d) Certificate of Compliance registered vide Memorial No. 14031702270019 dated 14 March 2014;
 - (e) Deed of Mutual Covenant and Management Agreement with plans in favour of Jones Lang LaSalle Billion Management Services Limited as Manager registered vide Memorial No. 14041702510235 dated 3 April 2014; and
 - (f) Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030041 dated 31 October 2014.

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
6. Office C on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong <i>(156/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720)</i>	<p>The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014.</p> <p>The gross floor area and saleable area of the property are approximately as follows:-</p> <p>Gross Floor Area: 1,559 sq ft (144.83 sq m)</p> <p>Saleable Area: 1,057 sq ft (98.20 sq m)</p> <p>The locality of the property is served by public transport services and characterised by office and industrial developments of various ages.</p> <p>The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commencing 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.</p>	The property is currently occupied by the Group as an office.	<p>HK\$16,900,000</p> <p>(Hong Kong Dollars Sixteen Million Nine Hundred Thousand Only)</p> <p>(100% attributable to the Group: HK\$16,900,000)</p>

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is Joint Easy Limited (集順有限公司), a wholly-owned subsidiary of the Company, registered vide Memorial No. 14042501430045 dated 3 April 2014. The consideration of the property was HK\$10,913,000.
3. The property is zoned for “Other Specified Uses” use under Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated 6 December 2016.
4. The transaction price in the vicinity ranges from HK\$15,700 to HK\$18,600 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Modification Letter with plan registered vide Memorial No. 11061301670577 dated 9 June 2011;
 - (b) Deed Poll with plan registered vide Memorial No. 12060702430106 dated 5 June 2012;
 - (c) Occupation Permit (Permit No. KN3/2014(OP)) registered vide Memorial No. 14020602040416 dated 30 January 2014;
 - (d) Certificate of Compliance registered vide Memorial No. 14031702270019 dated 14 March 2014;
 - (e) Deed of Mutual Covenant and Management Agreement with plans in favour of Jones Lang LaSalle Billion Management Services Limited as Manager registered vide Memorial No. 14041702510235 dated 3 April 2014; and
 - (f) Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030037 dated 31 October 2014.

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
7. Office D on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong <i>(202/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720)</i>	<p>The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014.</p> <p>The gross floor area and saleable area of the property are approximately as follows:-</p> <p>Gross Floor Area: 2,021 sq ft (187.76 sq m)</p> <p>Saleable Area: 1,370 sq ft (127.28 sq m)</p> <p>The locality of the property is served by public transport services and characterised by office and industrial developments of various ages.</p> <p>The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commencing 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.</p>	The property is currently occupied by the Group as an office.	<p>HK\$21,900,000</p> <p>(Hong Kong Dollars Twenty-One Million Nine Hundred Thousand Only)</p> <p>(100% attributable to the Group: HK\$21,900,000)</p>

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is Citron Holdings Limited (三三控股有限公司), a wholly-owned subsidiary of the Company, registered vide Memorial No. 14042501430058 dated 3 April 2014. The consideration of the property was HK\$14,147,000.
3. The property is zoned for “Other Specified Uses” use under Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated 6 December 2016.
4. The transaction price in the vicinity ranges from HK\$15,700 to HK\$18,600 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Modification Letter with plan registered vide Memorial No. 11061301670577 dated 9 June 2011;
 - (b) Deed Poll with plan registered vide Memorial No. 12060702430106 dated 5 June 2012;
 - (c) Occupation Permit (Permit No. KN3/2014(OP)) registered vide Memorial No. 14020602040416 dated 30 January 2014;
 - (d) Certificate of Compliance registered vide Memorial No. 14031702270019 dated 14 March 2014;
 - (e) Deed of Mutual Covenant and Management Agreement with plans in favour of Jones Lang LaSalle Billion Management Services Limited as Manager registered vide Memorial No. 14041702510235 dated 3 April 2014; and
 - (f) Mortgage in favour of BNP Paribas to the extent of all moneys registered vide Memorial No. 14111202030029 dated 31 October 2014.

VALUATION REPORT

Group I – Properties held for owner occupation by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
8. Office E on 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Kowloon, Hong Kong <i>(258/30,000th shares of and in the Remaining Portion of New Kowloon Inland Lot No. 5720)</i>	<p>The property comprises an office unit on 10th Floor of a 29-storey office tower completed in about 2014.</p> <p>The gross floor area and saleable area of the property are approximately as follows:-</p> <p>Gross Floor Area: 2,575 sq ft (239.22 sq m)</p> <p>Saleable Area: 1,745 sq ft (162.11 sq m)</p> <p>The locality of the property is served by public transport services and characterised by office and industrial developments of various ages.</p> <p>The property is held under Conditions of Exchange No. UB10977 for a term of 99 years commencing 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.</p>	The property is currently occupied by the Group as an office.	<p>HK\$27,900,000</p> <p>(Hong Kong Dollars Twenty-Seven Million Nine Hundred Thousand Only)</p> <p>(100% attributable to the Group: HK\$27,900,000)</p>

Remarks:

1. The property was inspected in December 2020 by Mr. Ross Chan, Valuer with 3 years of property valuation experience.
2. The registered owner of the property is First Cosmos Limited (培泓有限公司), a wholly-owned subsidiary of the Company, registered vide Memorial No. 14042501430064 dated 3 April 2014. The consideration of the property was HK\$18,025,000.
3. The property is zoned for “Other Specified Uses” use under Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated 6 December 2016.
4. The transaction price in the vicinity ranges from HK\$15,700 to HK\$18,600 per sq ft (Saleable area).
5. The property is subject to the following:
 - (a) Modification Letter with plan registered vide Memorial No. 11061301670577 dated 9 June 2011;
 - (b) Deed Poll with plan registered vide Memorial No. 12060702430106 dated 5 June 2012;
 - (c) Occupation Permit (Permit No. KN3/2014(OP)) registered vide Memorial No. 14020602040416 dated 30 January 2014;
 - (d) Certificate of Compliance registered vide Memorial No. 14031702270019 dated 14 March 2014;
 - (e) Deed of Mutual Covenant and Management Agreement with plans in favour of Jones Lang LaSalle Billion Management Services Limited as Manager registered vide Memorial No. 14041702510235 dated 3 April 2014; and
 - (f) Mortgage in favour of BNP Paribas for the consideration of all moneys registered vide Memorial No. 14111202030014 dated 31 October 2014.

VALUATION REPORT

Group II – Properties held for owner occupation by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021																												
9. An industrial complex and portion of a composite building occupied by Donghua Machinery Ltd. 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	<p>The property comprises 8 buildings and various ancillary structures erected on two parcels of land with a total site area of 66,616.08 sq m on which were completed in various stages in between 1992 and 2012.</p> <p>The property also comprises a 6-storey composite building, erected on another parcel of land with a site area of 2,583 sq m completed in about 1992.</p> <p>The total gross floor area of the buildings is 71,340.17 sq m. The gross floor area breakdown of the respective portions of the property is as follows:-</p> <table border="1"> <thead> <tr> <th>Buildings with land use right certificates and real estate title certificates</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Factory No. 1</td> <td>12,506.00</td> </tr> <tr> <td>Factory No. 2A</td> <td>5,461.34</td> </tr> <tr> <td>Factory No. 2B</td> <td>3,505.50</td> </tr> <tr> <td>Factory No. 3</td> <td>4,557.60</td> </tr> <tr> <td>Factory No. 4</td> <td>19,663.20</td> </tr> <tr> <td>Generator room</td> <td>1,335.40</td> </tr> <tr> <td>Office</td> <td>6,849.71</td> </tr> <tr> <td>Sub-Total</td> <td>53,878.75</td> </tr> <tr> <td>Composite Building</td> <td>16,783.92</td> </tr> <tr> <td>Two ancillary buildings</td> <td>537.50</td> </tr> <tr> <td>Three Guardhouses</td> <td>140.00</td> </tr> <tr> <td>Sub-Total</td> <td>17,461.42</td> </tr> <tr> <td>Grand Total</td> <td>71,340.17</td> </tr> </tbody> </table>	Buildings with land use right certificates and real estate title certificates	Gross Floor Area (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	Composite Building	16,783.92	Two ancillary buildings	537.50	Three Guardhouses	140.00	Sub-Total	17,461.42	Grand Total	71,340.17	<p>Portions of the composite building, factories and office are subject to various tenancy agreements for various terms with the latest expiry on 31 December 2023, yielding a total monthly rent of about RMB480,000, exclusive of utility outgoings.</p> <p>The remaining portions of the property are occupied by the Group as workshop, warehouse, staff quarter and ancillary office.</p>	<p>RMB88,600,000</p> <p>(Renminbi Eighty-Eight Million Six Hundred Thousand Only)</p> <p>(Please see Remarks Nos. 5, 6 and 7)</p> <p>(75.56% attributable to the Group: RMB66,946,160)</p>
Buildings with land use right certificates and real estate title certificates	Gross Floor Area (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																														
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Composite Building	16,783.92																														
Two ancillary buildings	537.50																														
Three Guardhouses	140.00																														
Sub-Total	17,461.42																														
Grand Total	71,340.17																														

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
	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 sq m were granted for terms due to expire on 29 July 2043 for industrial uses.		

Remarks:

- The property was inspected in December 2020 by Ms. Cathy Tang, Senior Valuer with 4 years of property valuation experience.
- 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 33,337 sq m were vested in Donghua 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 33,279.08 sq m were vested in Donghua 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 7 Real Estate Title Certificates issued by the Real Estate Administrative Bureau of Dongguan, the title of 7 buildings of the property with a total gross floor area of 53,878.75 sq m was vested in Donghua Machinery Ltd. (東華機械有限公司).

Real Estate Title Certificate No.	Building	Issue Date	Gross Floor Area (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

Real Estate Title Certificate No.	Building	Issue Date	Gross Floor Area (sq m)
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礮實業有限公司)(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 sq m.

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 Donghua Machinery Ltd. (東華機械有限公司).

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 gross floor area of 8,156.80 sq m was vested in Dongguan Cosmos Machinery Limited (東莞大同機械有限公司) 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 gross floor area of 8,627.12 sq m was vested in Dongguan Hua Da Machinery Limited (東莞華大機械有限公司) for non-residential use.

As Dongguan Cosmos Machinery Limited (東莞大同機械有限公司) and Dongguan Hua Da Machinery Limited (東莞華大機械有限公司) 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 gross floor area of 677.50 sq m 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 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 RMB121,200,000.

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 (滙豐銀行(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 Donghua 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 RMB12 to RMB16 per sq m.
11. We have been provided with a legal opinion issued by the Company's legal adviser, which contains, *inter alia*, the following information:
 - (a) Donghua 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) Donghua Machinery Ltd. (東華機械有限公司) legally owns the property;
 - (c) Donghua 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 Fang 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 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, Donghua Machinery Ltd. (東華機械有限公司) is entitled to occupy, use, lease, transfer or other legitimate way to handle the property within the term specified in the State-owned Land Use Rights Certificates, Building Ownership Certificates and Real Estate Title Certificates.

VALUATION REPORT

Group II – Properties held for owner occupation by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
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 sq m. 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.	RMB3,240,000 (Renminbi Three Million Two Hundred Forty Thousand Only) (Please see Remark No. 3) (75.56% attributable to the Group: RMB2,448,144)

Remarks:

1. The property was inspected in December 2020 by Ms. Yilia Shi, Valuer with 5 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 sq m was vested in Donghua Machinery Ltd. Beijing Office (東華機械有限公司北京辦事處), a 75.56% owned subsidiary of the Company. The remaining shareholding of 24.44% is owned by 3 independent third parties.
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 years for residential use.
4. The monthly market rent in the vicinity ranges from RMB65 to RMB72 per sq m.
5. We have been provided with a legal opinion issued by the Company's legal adviser, which contains, *inter alia*, the following information:
 - (a) Donghua 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) Donghua 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 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) Donghua 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 other legitimate way to handle the building ownership rights of the property within the term specified in the Building Ownership Certificates.

VALUATION REPORT

Group II – Properties held for owner occupation by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
11. Room 901, No. 369 Fu Xing Zhong Road, Luwan District, Shanghai, the PRC	<p>The property comprises an office unit on Level 9 of a 20-storey commercial composite development completed in about 1998.</p> <p>The gross floor area of the property is 720.27 sq m.</p> <p>The Group is entitled to use two car parking spaces in the basement.</p> <p>The property is located in the downtown of Shanghai. Developments in the locality are commercial and residential in nature.</p> <p>The land use rights of the property were granted for a term due to expire to 24 December 2047 for commercial use.</p>	The property is occupied by the Group as office.	<p>RMB18,400,000</p> <p>(Renminbi Eighteen Million Four Hundred Thousand Only)</p> <p>(100% attributable to the Group: RMB18,400,000)</p>

Remarks:

- The property was inspected in December 2020 by Ms. Joyce Tao, Manager with 6 years of property valuation experience.
- 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 sq m was vested in Melco Industrial Supplies (Shanghai) Co., Ltd. (美高工業器材(上海)有限公司), a wholly-owned subsidiary of the Company.
- 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. (美高工業器材(上海)有限公司) for the use of basement car parking spaces on 27 August 2002, Melco Industrial Supplies (Shanghai) Co., Ltd. (美高工業器材(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. The monthly market rent in the vicinity ranges from RMB146 to RMB152 per sq m.
5. We have been provided with a legal opinion issued by the Company's legal adviser, 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 State-owned Land Use Rights Certificate and Building Ownership 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;
 - (c) up to the issue date of the legal opinion, the use of the property conforms 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 (Shanghai) Co., Ltd. (美高工業器材(上海)有限公司) is entitled to occupy, use, lease, transfer or other legitimate way to handle the property within the term specified in the State-owned Land Use Rights Certificate.

VALUATION REPORT

Group II – Properties held for owner occupation by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021												
12. 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	<p>The property comprises 7 buildings and various ancillary structures erected on a parcel of land with a site area of 32,000 sq m, which were completed in between 2011 and 2018.</p> <p>The total gross floor area of the buildings is approximately 31,289 sq m. The gross floor area breakdown of the constituent portions of the property is listed as follows:-</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Building</th> <th style="text-align: right;">Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Production workshop</td> <td style="text-align: right;">19,699</td> </tr> <tr> <td>Research and development building</td> <td style="text-align: right;">4,465</td> </tr> <tr> <td>Dormitory</td> <td style="text-align: right;">5,075</td> </tr> <tr> <td>Ancillary buildings and metal framed structure</td> <td style="text-align: right;"><u>2,050</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>31,289</u></td> </tr> </tbody> </table>	Building	Gross Floor Area (sq m)	Production workshop	19,699	Research and development building	4,465	Dormitory	5,075	Ancillary buildings and metal framed structure	<u>2,050</u>	Total	<u>31,289</u>	The property is occupied by the Group as workshop, office and staff quarter.	<p>RMB32,100,000</p> <p>(Renminbi Thirty Two Million One Hundred Thousand Only)</p> <p>(Please see Remark No. 6)</p> <p>(100% attributable to the Group: RMB32,100,000)</p>
Building	Gross Floor Area (sq m)														
Production workshop	19,699														
Research and development building	4,465														
Dormitory	5,075														
Ancillary buildings and metal framed structure	<u>2,050</u>														
Total	<u>31,289</u>														
	<p>The property is located in a science and technology park. Developments nearby are mainly industrial in nature.</p> <p>The land use rights of the property were granted for a term due to expire on 17 June 2061 for industrial use.</p>														

Remarks:

1. The property was inspected in December 2020 by Mr. Kevin Li, Manager with 8 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 sq m were vested in Cosmos Grand Plastics Co., Ltd. (合肥大同格蘭塑業有限公司), a wholly-owned subsidiary of the Company, for a term of 50 years 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 sq m was approved.
4. Pursuant to Construction Project Planning Permit No. 340101201131194 dated 25 November 2011, the construction of the dormitory building with a total gross floor area of 5,060 sq m 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 gross floor area of 4,279.2 sq m 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 gross floor area of 8,190 sq m 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 gross floor area of 7,998.6 sq m 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 gross floor area of 25,719.20 sq m 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 gross floor area of 7,998.6 sq m 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 about 31,289 sq m as they are yet to be granted with proper title certificates.

For reference purpose, on the assumption that the land premium for substantiating full good title of the property had been settled in full, the property had been granted with proper title certificates and were freely transferable as at the valuation date, the market value of the property as a whole would be RMB65,600,000 (Renminbi Sixty Five Million Six Hundred Thousand Only).
7. The monthly market rent in the vicinity ranges from RMB13 to RMB19 per sq m.
8. We have been provided with a legal opinion issued by the Company's legal adviser, which contains, *inter alia*, the following information:
 - (a) Cosmos Grand Plastics 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 Plastics Co., Ltd. (合肥大同格蘭塑業有限公司) legally owns land use rights of the property;
- (c) up to the issue date of the legal opinion, the use of the property conforms 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 Plastics Co., Ltd. (合肥大同格蘭塑業有限公司) is entitled to occupy, use, lease, transfer or other legitimate way to handle the land use rights of the property within the term specified in the State-owned Land Use Rights Certificate;
- (f) Cosmos Grand Plastics 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 condition 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 Plastics 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 II – Properties held for owner occupation by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021														
13. An industrial complex located at Lot No. 1010030, Jinhu South Road, Sanzao Town, Jinwan District, Zhuhai, Guangdong Province, the PRC	<p>The property comprises 4 buildings and various ancillary buildings erected on a parcel of land with a site area of 62,651.80 sq m, which were completed in about 2004.</p> <p>The total gross floor area of the buildings is 23,155.48 sq m. The gross floor area breakdown of the constituent portions of the property is listed as follows:</p> <table border="1"> <thead> <tr> <th>Building</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Industrial block</td> <td>10,643.46</td> </tr> <tr> <td>Warehouse</td> <td>3,872.14</td> </tr> <tr> <td>Office block</td> <td>1,656.19</td> </tr> <tr> <td>Dormitory</td> <td>6,902.21</td> </tr> <tr> <td>Ancillary buildings</td> <td><u>81.48</u></td> </tr> <tr> <td>Total</td> <td><u>23,155.48</u></td> </tr> </tbody> </table>	Building	Gross Floor Area (sq m)	Industrial block	10,643.46	Warehouse	3,872.14	Office block	1,656.19	Dormitory	6,902.21	Ancillary buildings	<u>81.48</u>	Total	<u>23,155.48</u>	The property is occupied by the Group as workshop, office and staff quarter.	<p>RMB44,800,000</p> <p>(Renminbi Forty Four Million Eight Hundred Thousand Only)</p> <p>(100% attributable to the Group: RMB44,800,000)</p>
Building	Gross Floor Area (sq m)																
Industrial block	10,643.46																
Warehouse	3,872.14																
Office block	1,656.19																
Dormitory	6,902.21																
Ancillary buildings	<u>81.48</u>																
Total	<u>23,155.48</u>																
	<p>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.</p> <p>The land use rights of the property were granted for a term of 50 years due to expire on 2 April 2052 for industrial use.</p>																

Remarks:

- The property was inspected in December 2020 by Ms. Cathy Tang, Senior Valuer with 4 years of property valuation experience.
- Pursuant to 5 Real Estate Title Certificates, the land use rights of the property with a total apportioned site area of 14,604.98 sq m and the building ownership of the property with a total gross floor area of 23,155.48 sq m were vested in Karmay Plastic Products (Zhuhai) Co., Ltd. (嘉美塑料製品(珠海)有限公司), a wholly-owned subsidiary of the Company, for terms due to expire on 2 April 2052 for industrial use.

Real Estate Title Certificate No.	Issue Date	Building	Gross Floor Area (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 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 about 48,046.82 sq m were vested in Karmay Plastic Products (Zhuhai) Co., Ltd. (嘉美塑料製品(珠海)有限公司) for a term due to expire on 2 April 2052 for industrial use.

- As per our inspection and the provided information, there are various other structures which are yet to be granted with proper title certificate. As instructed, we have disregarded these structures in the course of valuation.
- The monthly market rent in the vicinity ranges from RMB12 to RMB15 per sq m.
- We have been provided with a legal opinion issued by the Company's legal adviser, which contains, *inter alia*, the following information:
 - Karmay Plastic Products (Zhuhai) Co., Ltd. (嘉美塑料製品(珠海)有限公司) obtained the respective Real Estate Title Certificates of the property;
 - Karmay Plastic Products (Zhuhai) Co., Ltd. (嘉美塑料製品(珠海)有限公司) legally owns the property;
 - up to the issue date of the legal opinion, the use of the property conforms the approved use specified in the above-mentioned Real Estate Title Certificates;
 - up to the issue date of the legal opinion, the property is not subject to encumbrances, rights or limitation; and
 - Karmay Plastic Products (Zhuhai) Co., Ltd. (嘉美塑料製品(珠海)有限公司) is entitled to occupy, use, lease, transfer or other legitimate way to handle the property within the term specified in the Real Estate Title Certificates.

VALUATION REPORT

Group II – Properties held for owner occupation by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021														
14. An industrial complex located at Lot No. B7-C of Wuxi National High-Tech Industrial Development Zone, Wuxi, Jiangsu Province, the PRC	<p>The property comprises 7 buildings and various ancillary structures erected on a parcel of land with a site area of 75,354.60 sq m, which were completed in about 2011 and 2019.</p> <p>The total gross floor area of the buildings is 49,982.72 sq m. The gross floor area breakdown of the respective portions of the property is listed as follows:</p> <table border="1"> <thead> <tr> <th>Building</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Composite building</td> <td>8,405.86</td> </tr> <tr> <td>Generator room</td> <td>1,258.90</td> </tr> <tr> <td>Industrial blocks</td> <td>40,074.79</td> </tr> <tr> <td>Warehouse</td> <td>101.06</td> </tr> <tr> <td>Ancillary structures</td> <td><u>142.11</u></td> </tr> <tr> <td>Total</td> <td><u>49,982.72</u></td> </tr> </tbody> </table>	Building	Gross Floor Area (sq m)	Composite building	8,405.86	Generator room	1,258.90	Industrial blocks	40,074.79	Warehouse	101.06	Ancillary structures	<u>142.11</u>	Total	<u>49,982.72</u>	The property is occupied by the Group as workshop, office and staff quarter.	<p>RMB175,400,000</p> <p>(Renminbi One Hundred Seventy-Five Million Four Hundred Thousand Only)</p> <p>(100% attributable to the Group: RMB175,400,000)</p>
Building	Gross Floor Area (sq m)																
Composite building	8,405.86																
Generator room	1,258.90																
Industrial blocks	40,074.79																
Warehouse	101.06																
Ancillary structures	<u>142.11</u>																
Total	<u>49,982.72</u>																
	<p>The property is located in a high-tech industrial development zone in Wuxi and the developments in the vicinity are industrial in nature.</p> <p>The land use rights of the property were granted for a term of 50 year due to expire on 29 December 2056 for industrial use.</p>																

Remarks:

1. The property was inspected in December 2020 by Ms. Joyce Tao, Manager with 6 years of property valuation experience.
2. Pursuant to Real Estate Title Certificate Su (2019) Wuxi Real Estate Rights Di No. 0191284 issued by Wuxi Natural Resources And Planning Bureau on 1 July 2019, the land use rights of the property with a site area of 75,354.60 sq m were vested in Cosmos Machinery Technology (Jiangsu) Co., Ltd. (大同機械科技(江蘇)有限公司), a wholly-owned subsidiary of the Company, for a term of 50 years due to expire on 29 December 2056 for industrial use, and the building ownership of the property with a total gross floor area of 49,982.72 sq m was also 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, transportation and warehouse uses.

Real Estate Unit No.	Gross Floor Area (sq m)
320292002153GB00007F00090002	4,516.30
320292002153GB00007F00000003	9,676.92
320292002153GB00007F00000002	1,258.90
320292002153GB00007F00000005	11,777.23
320292002153GB00007F00000008	85.14
320292002153GB00007F00000007	8,405.86
320292002153GB00007F00000006	14,104.34
320292002153GB00007F00000001	101.06
320292002153GB00007F00000004	56.97
Total	<u>49,982.72</u>

3. The monthly market rent in the vicinity ranges from RMB16 to RMB22 per sq m.
4. We have been provided with a legal opinion issued by the Company's legal adviser, 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 Real Estate Title 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 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 other legitimate way to handle the property within the term specified in the Real Estate Title Certificates.

VALUATION REPORT

Group III – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
15. Unit 7 of No. 35 Bei Da Jie, Wu Yi Road, Taiyuan, Shanxi Province, the PRC	<p>The property comprises a street level unit of a 6-storey commercial building completed in about 1990.</p> <p>The gross floor area of the property is 151.20 sq m.</p> <p>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 distances from the property.</p>	<p>As at the valuation date, the property was subject to two tenancy agreements with the latest expiry on 20 May 2025 yielding a total monthly rent of RMB8,000 exclusive of management fee and other outgoings.</p>	<p>RMB1,510,000</p> <p>(Renminbi One Million Five Hundred Ten Thousand Only)</p> <p>(Please see Remark No. 3)</p> <p>(75.56% attributable to the Group: RMB1,140,956)</p>

Remarks:

- The property was inspected in December 2020 by Ms. Yilia Shi, Valuer with 5 years of property valuation experience.
- Pursuant to 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 sq m was vested in Donghua Machinery Ltd. (東華機械有限公司), a 75.56% owned subsidiary of the Company. The remaining shareholding of 24.44% is owned by 3 independent third parties.
- 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.
- The monthly market rent in the vicinity ranges from RMB87 to RMB100 per sq m.
- We have been provided with a legal opinion issued by the Company's legal adviser, which contains, *inter alia*, the following information:
 - Donghua Machinery Ltd. (東華機械有限公司) obtained the respective Building Ownership Certificate of the property;
 - Donghua 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 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) Donghua Machinery Ltd. (東華機械有限公司) is entitled to occupy, use, lease, transfer or other legitimate way to handle the building ownership rights of the property within the term specified in the Building Ownership Certificates.

VALUATION REPORT

Group III – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
16. Room 10 on Level 19, Tong Mei Building, Jian She Bei Road, Chengdu, Sichuan Province, the PRC	<p>The property comprises a unit on level 19 of a 22-storey commercial building completed in about 1996.</p> <p>The gross floor area of the property is 107.50 sq m.</p> <p>The property is located in the downtown of Chengdu. Developments in the locality are commercial and residential in nature.</p> <p>The land use rights of the property were granted for a term due to expire on 14 November 2043 for commercial use.</p>	<p>As at the valuation date, the property was leased for a term due to expire on 26 September 2028 at a monthly rent of about RMB6,100 exclusive of management fee and other outgoings.</p>	<p>RMB860,000</p> <p>(Renminbi Eight Hundred Sixty Thousand Only)</p> <p>(100% attributable to the Group: RMB860,000)</p>

Remarks:

- The property was inspected in December 2020 by Ms. Joan Chai, Manager with 6 years of property valuation experience.
- 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 Company Limited (美高工業器材有限公司) for a term due to expire on 14 November 2043 for commercial use.
- Pursuant to Building Ownership Certificate Cheng Fang Quan Zheng Jian Zheng Zi No. 2066964 (成房權證鑒證字第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 sq m was vested in Melco Industrial Supplies Company Limited (美高工業器材有限公司), a wholly-owned subsidiary of the Company.
- The monthly market rent in the vicinity ranges from RMB46 to RMB53 per sq m.

5. We have been provided with a legal opinion issued by the Company's legal adviser, which contains, *inter alia*, the following information:
- (a) Melco Industrial Supplies Company Limited (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 Company Limited (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 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 Company Limited (美高工業器材有限公司) is entitled to occupy, use, lease, transfer or other legitimate way to handle the property within the term specified in the State-owned Land Use Rights Certificate.

VALUATION REPORT

Group III – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2021
17. Flats 1801, 1802 and 1803 on Level 18 of Datong Commercial Building, No. 36 Yan Gong Jie, Yuexiu District, Guangzhou, Guangdong Province, the PRC	<p>The property comprises 3 units on level 18 of a 20-storey commercial building completed in about 2010.</p> <p>The total gross floor area of the property is 630.34 sq m.</p> <p>The property is located in the downtown of Guangzhou and the developments in the vicinity are commercial and residential in nature.</p> <p>The land use rights of the property were granted for terms of 50 years commencing on 15 September 2005 for commercial use.</p>	As at the valuation date, the property was subject to three tenancy agreements with the latest expiry on 31 August 2024 yielding a total monthly rent of about RMB68,000 exclusive of management fee and other outgoings.	<p>RMB10,900,000</p> <p>(Renminbi Ten Million Nine Hundred Thousand Only)</p> <p>(100% attributable to the Group: RMB10,900,000)</p>

Remarks:

- The property was inspected in December 2020 by Mr. Liam He, Assistant Valuer with 3 years of property valuation experience.
- Pursuant to 3 Real Estate Title Certificates, the land use rights of the property with a total apportioned site area of 5,101.77 sq m and the building ownership of the property with a total gross floor area of approximately 630.34 sq m were vested in Guangzhou Melco Industrial Supplies Co., Ltd. (廣州市美高工業器材有限公司), a wholly-owned subsidiary of the Company, for terms of 50 years commencing on 15 September 2005 for commercial use.

Real Estate Title Certificate No.	Issue Date	Flat	Gross Floor Area (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

Real Estate Title Certificate No.	Issue Date	Flat	Gross Floor Area (sq m)
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. The monthly market rent in the vicinity ranges from RMB80 to RMB100 per sq m.
4. We have been provided with a legal opinion issued by the Company's legal adviser, 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 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 other legitimate way to handle the property within the term specified in the Real Estate Title Certificates.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the Proposal, the Offeror and the Company.

The issue of this Scheme Document has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group or the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to the Offeror and the Offeror Concert Parties) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Offeror or the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date,

- (a) the Company had 861,930,692 Shares in issue;
- (b) all of the Shares currently in issue ranked *pari passu* in all respects including as to capital, dividends and voting;
- (c) no new Shares had been issued by the Company since 31 December 2020 (being the end of the last financial year of the Company); and
- (d) there were no outstanding options, warrants or conversion rights affecting the Shares.

3. MARKET PRICES

The table below shows the closing market prices of the Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Date and (iii) on the last Business Day of each of the calendar months during the Relevant Period:

Date	Closing price per Share HK\$
(i) 18 May 2021, being the Latest Practicable Date	0.510
(ii) 3 December 2020, being the Last Trading Date	0.385
(iii) on the last Business Day of each of the calendar months during the Relevant Period:	
(A) 30 June 2020	0.385
(B) 31 July 2020	0.410
(C) 31 August 2020	0.360
(D) 30 September 2020	0.445
(E) 30 October 2020	0.350
(F) 30 November 2020	0.355
(G) 31 December 2020	0.520
(H) 29 January 2021	0.510
(I) 26 February 2021	0.510
(J) 31 March 2021	0.510
(K) 30 April 2021	0.520

During the Relevant Period, the highest closing price of the Shares was HK\$0.540 per Share as quoted on the Stock Exchange from 8 February 2021 to 10 February 2021 and the lowest closing price of the Shares was HK\$0.310 per Share as quoted on the Stock Exchange on 15 June 2020.

The Scheme Consideration of HK\$0.550 per Scheme Share represents a premium of approximately 42.9% over the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Last Trading Date.

4. DISCLOSURE OF INTERESTS IN THE SHARES

As at the Latest Practicable Date:

- (a) save as disclosed below, none of the Directors were interested within the meaning of Part XV of the SFO in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares:

Director	Number of Shares interested	Approximate% of the total number of issued Shares
Mr. Tang To <i>(Note 1)</i>	450,813,463	52.30
Mr. Tang Yu, Freeman <i>(Note 2)</i>	442,157,052	51.30
Mr. Kan Wai Wah	136,400	0.02
Mr. Cheng Tak Yin	1,406,000	0.16

Notes:

- The interests include the holding of: (i) personal interest of 4,970,005 Shares; (ii) 226,000 Shares held by Mr. Tang To and his spouse jointly; and (iii) 445,617,458 Shares in which Mr. Tang To was deemed to hold interests under the SFO, comprising (a) 3,460,406 Shares held by Ginta Company Limited (incorporated in Hong Kong) which is 99.999% owned by Fullwin Limited (incorporated in the Republic of Liberia), which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse; (b) 405,907,052 Shares held by Codo Development Limited through its wholly-owned subsidiaries, Tai Shing Agencies Limited, Hung Cheong Realty Limited and the Offeror; and (c) 36,250,000 Shares held by Saniwell Holding Inc. (as the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members) which in turn is owned as to approximately 57.14% by Mr. Tang To.
 - Mr. Tang Yu, Freeman was deemed to be interested in 442,157,052 Shares under the SFO, comprising (i) 405,907,052 Shares held by Codo Development Limited through its wholly-owned subsidiaries, Tai Shing Agencies Limited, Hung Cheong Realty Limited and the Offeror; and (ii) 36,250,000 Shares held by Saniwell Holding Inc. (as the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members) which in turn is owned as to approximately 42.86% by Mr. Tang Yu, Freeman.
- (b) save for Mr. Tang To, Mr. Tang Yu, Freeman, Mr. Kan Wai Wah and Mr. Cheng Tak Yin, none of the Directors were interested in any Shares;
- (c) Mr. Cheng Tak Yin, who was an independent non-executive Director and was interested in 1,406,000 Shares, intended to vote in favour of the Proposal in respect of his beneficial shareholding;

- (d) no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (e) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and any other person;
- (f) no fund manager connected with the Company managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis;
- (g) neither the Company nor any Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (h) the Offeror directly held 235,802,600 Shares, representing approximately 27.36% of the total number of issued Shares, and the Offeror together with the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares;
- (i) the Offeror Concert Parties (including Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah) beneficially owned, controlled or had direction over an aggregate of 225,236,378 Shares, representing approximately 26.13% of the total number of issued Shares. Among the Shares beneficially owned, controlled or directed by the Offeror Concert Parties, a total of 10,225,515 Shares (representing approximately 1.19% of the total number of issued Shares) beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, will form part of the Scheme Shares;
- (j) save as disclosed in paragraphs (h) and (i) above, the Offeror and the Offeror Concert Parties did not legally or beneficially own, control or have direction over any other Shares;
- (k) there were no convertible securities, warrants, options or derivatives in respect of the Shares held, controlled or directed by the Offeror or the Offeror Concert Parties;

- (l) except for Mr. Tang To, Mr. Tang Yu, Freeman, Mr. Tang Chi Tung and Mr. Kan Wai Wah, none of the directors of the Offeror were interested within the meaning of Part XV of the SFO in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (m) neither the Offeror nor the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal. The Offeror had received the Irrevocable Undertakings from Ms. Hui Tang Yee, Mr. Tang Chi Tung and Mr. Kan Wai Wah, all being the Offeror Concert Parties and the Scheme Shareholders, that each of them irrevocably and unconditionally undertakes not to vote at the Court Meeting;
- (n) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror or any of the Offeror Concert Parties or any other person;
- (o) none of the Offeror or any of the Offeror Concert Parties had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of Shares;
- (p) save for the Irrevocable Undertakings, there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Offeror and the Offeror Concert Parties on one hand and the Scheme Shareholders and persons acting in concert with them on the other hand; and
- (q) there was no understanding, arrangement or agreement which constituted special deal (as defined under Rule 25 of the Takeovers Code) between any Shareholder on one hand and the Company, its subsidiaries or associated companies on the other hand.

5. DEALINGS IN THE SHARES

During the Relevant Period,

- (a) no Director had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of Shares;
- (b) none of the Offeror, the directors of the Offeror or the Offeror Concert Parties had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- (c) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any of the Offeror Concert Parties had dealt for value in Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

During the period commencing on 10 December 2020 (being the date of the Joint Announcement) and ending on the Latest Practicable Date,

- (a) no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (b) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- (c) no fund manager connected with the Company who managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

6. DISCLOSURE OF INTERESTS IN THE OFFEROR’S SHARES

As at the Latest Practicable Date:

- (a) the Offeror was approximately 99.999% owned by Codo Development Limited and approximately 0.001% owned by Glad Season Investments Limited. Glad Season Investments Limited was owned as to 50% by Codo Development Limited and 50% by the Offeror (as trustee for Codo Development Limited). The shareholding structure of Codo Development Limited is set out in the section headed “14. Information on the Offeror” in the Explanatory Statement on pages 85 to 87 of this Scheme Document;
- (b) Codo Development Limited was owned as to approximately 8.37% by Elegant Power Enterprises Limited, approximately 25.06% by Keepsound Investments Limited approximately 30.25% by Friendchain Investments Limited, approximately 16.09% by Yik Wan Company Limited, approximately 2.60% by Cranswick Holdings Limited, approximately 1.67% by Silver View Investment Limited and approximately 15.96% by individual shareholders.

Elegant Power Enterprises Limited was owned as to approximately 0.002% by Mr. Kan Wai Wah (a non-executive Director and a director of the Offeror) as trustee for Ms. Law Kit Fong, and approximately 99.998% by Ms. Law Kit Fong. Ms. Law Kit Fong is Mr. Kan Wai Wah's mother and an associate (as defined under the Takeovers Code) of Mr. Kan Wai Wah.

Keepsound Investments Limited was owned as to 94% by Saniwell Holding Inc., 2% by Ms. Hui Tang Yee, Mr. Tang To's sister (an associate of Mr. Tang To as defined under the Takeovers Code), 2% by several associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror, and 2% by Fullwin Limited.

Fullwin Limited was owned as to 50% by Mr. Tang To, an executive Director and a director of the Offeror, and 50% by his spouse.

Friendchain Investments Limited was owned as to approximately 57.42% by Saniwell Holding Inc., 40% by Elegant Power Enterprises Limited and approximately 2.58% by Fullwin Limited.

Saniwell Holding Inc. was owned as to approximately 57.14% by Mr. Tang To and approximately 42.86% by Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror. Saniwell Holding Inc. was the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To, an executive Director and a director of the Offeror, and certain of his family members. The directors of Saniwell Holding Inc. were Mr. Tang To and Mr. Tang Yu, Freeman.

Yik Wan Company Limited was owned directly and indirectly by several relatives of Mr. Kan Wai Wah, a non-executive Director and a director of the Offeror. One of these shareholders of Yik Wan Company Limited is controlled by Ms. Law Kit Fong, Mr. Kan Wai Wah's mother who is an associate (as defined under the Takeovers Code) of Mr. Kan Wai Wah. The remaining shareholders are associates (as defined under the Listing Rules) of Mr. Kan Wai Wah. Each of these shareholders held between approximately 7.14% to 14.29% shareholding interests in Yik Wan Company Limited and did not own any Shares as at the Latest Practicable Date.

Cranswick Holdings Limited was incorporated in Hong Kong and was owned by several associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror. Each of these shareholders held between 20% to 40% shareholding interests in Cranswick Holdings Limited.

The individual shareholders of Codo Development Limited included several associates (as defined under the Listing Rules) of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors and directors of the Offeror, holding in aggregate approximately 15.48% shareholding interests in Codo Development Limited, and an Independent Third Party, holding approximately 0.48% shareholding interests in Codo Development Limited; and

- (c) save as disclosed above and in the section headed “14. Information on the Offeror” in the Explanatory Statement on pages 85 to 87 of this Scheme Document, none of the Company and the Directors were interested in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

7. DEALINGS IN OFFEROR’S SHARES

During the Relevant Period, neither the Company nor any Directors had dealt for value in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

8. ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL

As at the Latest Practicable Date:

- (a) save for the Loan Facility, the Facility Agreement and the supplemental agreements to the Facility Agreement, (i) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be acquired pursuant to the Proposal and (ii) the Offeror had no intention to transfer, charge or pledge any Shares acquired pursuant to the Proposal to any other person;
- (b) save for the Irrevocable Undertakings, the Facility Agreement and the supplemental agreements to the Facility Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror or any of the Offeror Concert Parties and any Director, recent Director, the Shareholders or recent Shareholders having any connection with or being dependent upon the Proposal;
- (c) there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal; and
- (d) other than the Scheme Consideration payable for each Scheme Share cancelled under the Scheme, the Offeror or the Offeror Concert Parties have not paid and will not pay any other consideration, compensation or benefit in whatever form to the Scheme Shareholders or persons acting in concert with them in relation to the Scheme Shares.

9. ARRANGEMENTS AFFECTING THE DIRECTORS

As at the Latest Practicable Date:

- (a) no benefit (other than statutory compensation required under appropriate laws) would be given to any Director as compensation for loss of office or otherwise in connection with the Proposal;
- (b) save for the Irrevocable Undertaking signed by Mr. Kan Wai Wah dated 1 April 2021, the Facility Agreement and the supplemental agreements to the Facility Agreement, there were no agreements or arrangements between any Director and any other person which are conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and
- (c) save for the Facility Agreement and the supplemental agreements to the Facility Agreement, there were no material contracts entered into by the Offeror in which any Director has a material personal interest.

10. DIRECTORS' SERVICE CONTRACTS

Save for the appointment letters disclosed below, as at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which are in force and which (i) (including both continuous and fixed-term contracts) had been entered into or amended within 6 months before the commencement of the offer period (i.e. 10 December 2020); (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period.

Name of the Director under appointment letter	Term and expiry date of appointment letter	Amount of fixed remuneration payable, excluding arrangements for pension payments	Amount of any variable remuneration payable under the appointment letter
Kan Wai Wah	3 years from 1 January 2020 to 31 December 2022	A director's fee of HK\$60,000 per year	Nil
Yeung Shuk Fan	3 years from 1 January 2020 to 31 December 2022	A director's fee of HK\$168,000 per year	Nil
Ho Wei Sem	3 years from 22 December 2019 to 21 December 2022	Nil	Nil

11. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in or may become a party to any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

12. MATERIAL CONTRACTS

There were no material contracts entered into by the Company or any of its subsidiaries after the date which was two years before the commencement of the offer period (i.e. 10 December 2020) up to and including the Latest Practicable Date, other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries.

13. PROFESSIONAL ADVISERS AND CONSENTS

The following is the qualification of the expert which has given advice which is contained in this Scheme Document:

Name	Qualification
YXCL	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Tonghai Capital	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Cushman & Wakefield Limited	Independent property valuer
Guangdong Guanxin Law Firm	PRC legal advisers to the Company

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions, reports and/or letters and/or the references to its name and/or opinions, reports and/or letters in the form and context in which they respectively appear.

14. MISCELLANEOUS

- (a) The registered office of the Offeror is at Flat G, 7th Floor, New Lucky House, 300-306 Nathan Road, Kowloon, Hong Kong.
- (b) The registered office of Codo Development Limited is Flat G, 7th Floor, New Lucky House, 300-306 Nathan Road, Kowloon, Hong Kong.
- (c) The address of Mr. Tang To is Flat G, 7th Floor, New Lucky House, 300-306 Nathan Road, Kowloon, Hong Kong.
- (d) The address of Mr. Tang Yu, Freeman is Flat G, 7th Floor, New Lucky House, 300-306 Nathan Road, Kowloon, Hong Kong.
- (e) The directors of the Offeror are Mr. Tang To, Mr. Tang Siu Fai, Mr. Tang Yu, Freeman, Mr. Tang Chi Tung, Mr. Chui Kwok Lau and Mr. Kan Wai Wah.
- (f) The registered office of the Company is at 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong.
- (g) The registered office of Tonghai Capital is at 18th Floor, China Building, 29 Queen's Road Central, Hong Kong.
- (h) The registered office of the Independent Financial Adviser, YXCL, is at 28th Floor, Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong.
- (i) The auditors of the Company, Messrs. Ting Ho Kwan & Chan, is located at 9th Floor, Tung Ning Building, 249-253 Des Voeux Road Central, Hong Kong.
- (j) The company secretary of the Company is Ms. Man Wing Yan, an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute.

Note: In the view of the Offeror, the principal members of the Offeror Concert Parties are Codo Development Limited, Mr. Tang To, and Mr. Tang Yu, Freeman based solely on (i) the Offeror was approximately 99.999% owned by Codo Development Limited; (ii) as at the Latest Practicable Date, Mr. Tang To was deemed to be interested in 450,813,463 Shares, representing approximately 52.30% of the total number of issued Shares, under the SFO, and Mr. Tang Yu, Freeman was deemed to be interested in 442,157,052 Shares, representing approximately 51.30% of the total number of issued Shares, under the SFO. For details, please refer to the section headed "4. Disclosure of Interests in the Shares" in Appendix III – General Information to this Scheme Document; and (iii) Mr. Tang To and Mr. Tang Yu, Freeman are two out of six directors of the Offeror.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is the earlier (1) at the registered office of the Company at 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and public holidays in Hong Kong) (Hong Kong time), (2) on the website of the Company at <http://www.cosmel.com>, and (3) on the website of the SFC at <https://www.sfc.hk>:

- (a) the articles of association of the Offeror;
- (b) the articles of association of the Company;
- (c) the annual reports of the Company for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020;
- (d) the letter from the Board, the text of which is set out on pages 15 to 27 of this Scheme Document;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this Scheme Document;
- (f) the letter from the Independent Financial Adviser, the text of which is set out on pages 30 to 66 of this Scheme Document;
- (g) the Irrevocable Undertakings;

- (h) the letter, summary of property valuations and property valuation report from Cushman & Wakefield Limited, the text of which is set out in Appendix II to this Scheme Document;
- (i) the legal opinion from Guangdong Guanxin Law Firm;
- (j) the appointment letters referred to in the section headed “10. Directors’ Service Contracts” in Appendix III – General Information;
- (k) the written consents referred to in the section headed “13. Professional Advisers and Consents” in Appendix III – General Information; and
- (l) this Scheme Document.

THE SCHEME

HCMP No. 601 of 2021

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 601 OF 2021**

**IN THE MATTER OF
COSMOS MACHINERY ENTERPRISES LIMITED
大同機械企業有限公司**

**AND
IN THE MATTER OF
THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION**

**SCHEME OF ARRANGEMENT
Under Section 673 of the Companies Ordinance
Chapter 622 of the Laws of the Hong Kong Special Administrative Region**

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	Cosmos Machinery Enterprises Limited 大同機械企業有限公司, a company incorporated in Hong Kong with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 118)
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the Scheme becomes effective pursuant to paragraph 5 of this Scheme
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

THE SCHEME

“High Court”	the High Court of Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Qu Jinping, being the non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, being all the independent non-executive Directors
“Independent Financial Adviser”	Yue Xiu Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee
“Independent Shareholders”	the Shareholder(s) other than the Offeror and the Offeror Concert Parties
“Latest Practicable Date”	18 May 2021, being the latest practicable date prior to the date of the Scheme Document for the purpose of ascertaining certain information contained in the Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	10 September 2021 (being the date falling nine months after the date of the Joint Announcement), or such later date as may be agreed among the Offeror, the Company and Tonghai Finance or, to the extent applicable, as the Executive may consent and/or the High Court may direct
“Offeror”	Cosmos Machinery (Holdings) Limited (大同機械(控股)有限公司), a company incorporated in Hong Kong with limited liability, which is a controlling shareholder (as defined under the Listing Rules) of the Company
“Offeror Concert Party(ies)”	all persons acting in concert or presumed to be acting in concert with the Offeror under the Takeovers Code, including but not limited to Saniwell Holding Inc., Tai Shing Agencies Limited, Ginta Company Limited, Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Kan Wai Wah, Mr. Tang Chi Tung, Mr. Tang To and his spouse, and Mr. Tang Yu, Freeman and his spouse

THE SCHEME

“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme
“Register”	the register of members of the Company
“Registrar of Companies”	the Registrar of Companies appointed under the Companies Ordinance
“Scheme”	this scheme of arrangement under section 673 of the Companies Ordinance in its present form, with or subject to any modification thereof or addition thereof or condition approved or imposed by the High Court
“Scheme Consideration”	the amount of HK\$0.550 per Scheme Share payable in cash to the Scheme Shareholders pursuant to the Scheme
“Scheme Document”	the composite scheme document dated 21 May 2021 issued jointly by the Company and the Offeror, which includes this Scheme
“Scheme Record Date”	Tuesday, 20 July 2021, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Scheme Consideration under the Scheme
“Scheme Share(s)”	Share(s) in issue on the Scheme Record Date, other than the Shares beneficially owned, controlled or directed by the Offeror and the Offeror Concert Parties (except for Shares beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, which form part of the Scheme Shares)
“Scheme Shareholders”	registered holders of the Scheme Shares at the Scheme Record Date
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares

THE SCHEME

“Shares”	the ordinary shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Tonghai Capital”	China Tonghai Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Offeror in connection with the Proposal
“Tonghai Finance”	China Tonghai Finance Limited, a fellow subsidiary of Tonghai Capital and a registered money lender holding a valid money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong)

- (B) As at the Latest Practicable Date, the Company had 861,930,692 Shares in issue.
- (C) As at the Latest Practicable Date, the Offeror directly held 235,802,600 Shares, representing approximately 27.36% of the total number of issued Shares, and the Offeror together with the Offeror Concert Parties beneficially owned, controlled or had direction over in aggregate 461,038,978 Shares, representing approximately 53.49% of the total number of issued Shares.
- (D) As at the Latest Practicable Date, the Offeror Concert Parties (including Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah) owned, controlled or had direction over an aggregate of 225,236,378 Shares, representing approximately 26.13% of the total number of issued Shares. Among the Shares beneficially owned, controlled or directed by the Offeror Concert Parties, a total of 10,225,515 Shares (representing approximately 1.19% of the total number of issued Shares) beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party, will form part of the Scheme Shares.
- (E) As at the Latest Practicable Date, the Scheme Shares comprised a total of 411,117,229 Shares beneficially owned, controlled or directed by the Scheme Shareholders (which included (i) a total of 10,225,515 Shares (representing approximately 1.19% of the total number of issued Shares) beneficially owned, controlled or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them an Offeror Concert Party and (ii) a total of 400,891,714 Shares (representing approximately 46.51% of the total number of issued Shares) beneficially owned, controlled or directed by the Independent Shareholders), representing approximately 47.70% of the total number of issued Shares.

THE SCHEME

- (F) The primary purpose of this Scheme is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration of the Scheme Consideration so that the Company shall thereafter become owned as to approximately 75.05% by the Offeror and approximately 24.95% by the Offeror Concert Parties which hold Shares not forming part of the Scheme Shares. Immediately after the cancellation and extinction of the Scheme Shares, the share capital of the Company will be increased to its former amount by the issue to the Offeror credited as fully paid of such number of the Shares as is equal to the number of Scheme Shares cancelled and extinguished.
- (G) The Offeror has agreed to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On The Effective Date:
 - (a) the share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital referred to in paragraph (a) above taking effect, the share capital of the Company shall be increased to its former amount by the creation of such number of the Shares as is equal to the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in paragraph (a) above in paying up in full the Shares created pursuant to paragraph (b) above, which shall be allotted and issued, credited as fully paid, to the Offeror.

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder as appearing in the Register on the Scheme Record Date the Scheme Consideration.

THE SCHEME

PART III

GENERAL

3. (a) As soon as possible and but in any event within seven (7) business days (as defined in the Takeovers Code) following the Effective Date, the Offeror shall post or cause to be posted to the Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.
- (b) All such cheques shall be sent by ordinary post in postage pre-paid envelopes addressed to such Scheme Shareholders at their respective registered addresses as appearing in the Register as on the Scheme Record Date, or in the case of joint holders, at the address appearing in the Register as at the Scheme Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.
- (d) All cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, Tonghai Capital, the Independent Financial Adviser and the share registrar of the Company and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be liable for any loss or delay in transmission.
- (e) On or after the day being six (6) calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six (6) years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

THE SCHEME

- (f) On the expiry of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account referred to in paragraph 3(e) of this Scheme, including accrued interest subject to any deduction required by law and expenses incurred.
 - (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.
4. As from and including the Effective Date:
- (a) all certificates for the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;
 - (b) all instruments of transfer validly subsisting as at the Scheme Record Date in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and
 - (c) all mandates or other instructions to the Company in force as at the Scheme Record Date in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
5. This Scheme shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme and confirming, under section 229 of the Companies Ordinance, the reduction of capital provided for by the Scheme, together with a minute and a return relating to the reduction of capital of the Company containing the particulars required by section 230 of the Companies Ordinance, shall have been registered by the Registrar of Companies under Part 2 of the Companies Ordinance.
6. Unless this Scheme shall have become effective on or before the Long Stop Date, this Scheme shall lapse.
7. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the High Court may see fit to approve or impose.
8. All costs, charges and expenses of the advisers and counsels appointed by the Company, including the Independent Financial Adviser, will be borne by the Company, whereas all costs, charges and expenses of the advisers and counsels appointed by the Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme and the Proposal will be shared between the Offeror and the Company equally.

21 May 2021

NOTICE OF COURT MEETING

HCMP No. 601 of 2021

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 601 OF 2021**

**IN THE MATTER OF
COSMOS MACHINERY ENTERPRISES LIMITED
大同機械企業有限公司**

AND

**IN THE MATTER OF
THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

**SCHEME OF ARRANGEMENT
Under Section 673 of the Companies Ordinance
Chapter 622 of the Laws of the Hong Kong Special Administrative Region**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 11 May 2021 (the “**Order**”) made in the above matters, the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) has directed a meeting (the “**Meeting**”) to be convened of the registered holders (the “**Shareholders**”) of the shares (the “**Shares**”) of Cosmos Machinery Enterprises Limited 大同機械企業有限公司 (the “**Company**”) (other than those beneficially owned, controlled, or directed by Cosmos Machinery (Holdings) Limited (the “**Offeror**”) and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”)) with it (except for Shares beneficially owned, controlled, or directed by Ms. Hui Tang Yee, Mr. Wong Yiu Ming, Mr. Tang Chi Tung and Mr. Kan Wai Wah, each of them a party acting in concert (as defined in the Takeovers Code) with the Offeror)) (the “**Scheme Shares**”) for the purposes of considering and, if thought fit, approving, with or without modification, a scheme of arrangement (the “**Scheme**”) proposed to be made between the Company and the registered holders of the Scheme Shares (the “**Scheme Shareholders**”), and that the Meeting will be held at 10:00 a.m. on Friday, 18 June 2021 at Ballroom A, 2/F, The Langham, Hong Kong, 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong at which place and time all Scheme Shareholders are requested to attend.

NOTICE OF COURT MEETING

A copy of the Scheme and a copy of an explanatory statement (the “**Explanatory Statement**”) explaining the effect of the Scheme, required to be furnished pursuant to Section 671 of the Companies Ordinance, are incorporated in the scheme document of which this Notice forms part, which has been despatched by post to holders of the Scheme Shares. Copies are also available at <http://www.cosmel.com>.

The Scheme Shareholders may vote in person at the Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the scheme document despatched to the Shareholders on Friday, 21 May 2021. If more than one proxy is appointed, the number of Shares in respect of which each such proxy is so appointed must be specified in the relevant form of proxy.

In the case of joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the Share.

It is requested that forms appointing proxies, together with power of attorney under which they are signed (if any) or a notarially certified copy thereof (in the case of a corporation either under its seal or under the hand of an officer or attorney duly authorised) if any, be lodged at the Company’s share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours (exclusive of any part of a day that is a public holiday) before the time appointed for holding the Meeting, or in any case of any adjournment thereof, not less than 48 hours (exclusive of any part of a day that is a public holiday) before the time appointed for the holding of such adjourned meeting. Forms of proxy may also be handed to the chairman of the Meeting at the Meeting if not so lodged.

Completion and return of the form of proxy will not preclude a Scheme Shareholder from attending the Meeting or any adjournment thereof and voting in person. In such event, his/her/its form of proxy shall be deemed to be revoked.

For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Friday, 11 June 2021 to Friday, 18 June 2021, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Thursday, 10 June 2021.

By the Order, the High Court has appointed Ms. Yeung Shuk Fan (an independent non-executive director of the Company) or, failing her, Ms. Man Wing Yan (the company secretary of the Company) or, failing her, any other available director of the Company, be appointed chairman of the Meeting to report the outcome thereof to the High Court.

NOTICE OF COURT MEETING

The Scheme will be subject to the subsequent sanction of the High Court as set out in the Explanatory Statement contained in the scheme document despatched to the Shareholders on Friday, 21 May 2021.

Dated the 21st day of May 2021.

Simmons & Simmons

30th Floor
One Taikoo Place
979 King's Road
Hong Kong

Solicitors for Cosmos Machinery Enterprises Limited

As at the date of this notice, the board of directors of the Company comprises eight directors, of which two are executive directors, namely Mr. Tang To and Mr. Tang Yu, Freeman, 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.

NOTICE OF GENERAL MEETING



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 “**General Meeting**”) 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 Friday, 18 June 2021, at 10:15 a.m. (or if later immediately after the conclusion or adjournment of the meeting of the Scheme Shareholders (as defined in the Scheme as referred to below) convened at the direction of the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) for the same day and place) for the purpose of considering and, if thought fit, passing, the following as special resolution:

SPECIAL RESOLUTION

“**THAT:**

- (a) subject to the approval of the scheme of arrangement dated 21 May 2021 (the “**Scheme**”) between the Company and the Scheme Shareholders (as defined in the Scheme) in the form of the print contained in the scheme document dated 21 May 2021 which has been produced to this General Meeting and for the purpose of identification signed by the chairman of this General Meeting, with any modification of or addition to it, or any condition, as may be approved or imposed by the High Court, for the purpose of giving effect to the Scheme, on the date on which the Scheme becomes effective in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Effective Date**”):
 - (i) the share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme);
 - (ii) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company be increased to its former amount by the creation of such number of new shares of the Company (the “**Shares**”) as is equal to the number of Scheme Shares cancelled and extinguished; and

NOTICE OF GENERAL MEETING

- (iii) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up in full the Shares to be created as aforesaid, which new Shares shall be allotted and issued, credited as fully paid, to the Offeror (as defined in the Scheme) and the directors of the Company be and are hereby unconditionally authorised to allot and issue the same accordingly;
- (b) the listing of the Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) be withdrawn, subject to the Scheme taking effect; and
- (c) the directors of the Company be and are hereby unconditionally authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) (i) the making of an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange, subject to the Scheme taking effect; (ii) the reduction of capital, (iii) the allotment and issue of the Shares referred to above; and (iv) the giving, on behalf of the Company, of consent to any modification of, or addition to, the Scheme, which the High Court may see fit to impose and to do all other acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme and the Proposal (as defined in the Scheme).”

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

Hong Kong, 21 May 2021

As at the date of this notice, the board of directors of the Company comprises eight directors, of which two are executive directors, namely Mr. Tang To and Mr. Tang Yu, Freeman, 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.

Notes:

- (i) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the Scheme shall have the same meanings when used in this notice.
- (ii) At the General Meeting, the chairman of the General Meeting will put forward the above resolution to be voted on by way of poll.

NOTICE OF GENERAL MEETING

- (iii) A white form of proxy for use at the General Meeting is enclosed with the Scheme Document.
- (iv) A member entitled to attend and vote at the General Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion.
- (v) In order to be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, 48 hours before the time appointed for holding the General Meeting or any adjournment thereof. Completion and return of the white form of proxy will not preclude a member from attending and voting in person at the General Meeting or any adjournment thereof. In the event that a member attends and votes at the General Meeting after having lodged his/her/its form of proxy, his/her/its form of proxy shall be deemed to be revoked.
- (vi) In the case of joint holders of a Share, if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the Register in respect of such Share shall alone be entitled to vote in respect thereof.
- (vii) For the purpose of determining the entitlement to attend and vote at the General Meeting, the register of members of the Company will be closed from Friday, 11 June 2021 to Friday, 18 June 2021, both days inclusive, and during such period, no transfer of the Shares will be effected. In order to qualify to attend and vote at the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. (Hong Kong time) on Thursday, 10 June 2021.
- (viii) The Company will implement the following preventive measures at the General Meeting to safeguard the health and safety of the attending Shareholders, staff and other stakeholders:
 - (a) compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the General Meeting venue. Any person with a body temperature of over 37.3 degrees Celsius will be requested to stay in an isolated place for completing the voting procedures;
 - (b) every attendee will be required to wear a surgical face mask throughout the General Meeting. Please note that no masks will be provided at the General Meeting venue and attendees should bring and wear their own masks;
 - (c) seating at the General Meeting will be arranged so as to reduce interaction between participants;
 - (d) attendees will be accommodated in separate partitioned rooms or areas of not more than 20 persons (or such number as may be allowed under the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Chapter 599G of the Laws of Hong Kong)) each; and
 - (e) no refreshments or drinks will be served.

NOTICE OF GENERAL MEETING

- (ix) In the interest of all stakeholders' health and safety and consistent with recent guidelines for prevention and control of COVID-19, the Company reminds all Shareholders that physical attendance in person at the General Meeting is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the General Meeting as their proxy to vote on the relevant resolutions at the General Meeting instead of attending the General Meeting in person. The completion and return of a form of proxy for the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

- (x) The Company will closely monitor the development of the COVID-19 pandemic and any regulations or measures introduced or to be introduced by the Hong Kong Government in relation to COVID-19 pandemic. The Company will ensure that the General Meeting will be conducted in compliance with the regulations or measures of the Hong Kong Government and Shareholders will not be deprived of their right of voting on the resolutions to be proposed at the General Meeting. Further announcements will be made by the Company as soon as possible if there is any update to the preventive measures as mentioned above.

- (xi) In case of any inconsistency, the English version of this notice shall prevail.