
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 your licensed securities dealer or other registered securities institution, bank manager, solicitor, professional accountant or other professional adviser. If you have sold or transferred all your shares in the Company, 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 securities institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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UNITED ELITE AGENTS LIMITED

*(Incorporated in the British Virgin Islands
with limited liability)*

CHINA METAL INTERNATIONAL HOLDINGS INC.

勤美達國際控股有限公司*

*(Incorporated in the Cayman Islands
with limited liability)*

(Stock Code: 319)

(1) PROPOSED PRIVATIZATION OF CHINA METAL INTERNATIONAL HOLDINGS INC. BY UNITED ELITE AGENTS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW AND

(2) PROPOSED WITHDRAWAL OF LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED

*Financial Adviser to the Offeror Independent Financial Adviser to the
Independent Board Committee*



凱基金融亞洲
KGI CAPITAL ASIA

中華開發金控
CHINA DEVELOPMENT FINANCIAL



KGI CAPITAL ASIA LIMITED

FIRST SHANGHAI CAPITAL LIMITED

This Scheme Document is being issued jointly by the Offeror and the Company. The actions to be taken by the Shareholders and the Optionholders are set out in Part II of this Scheme Document. Notices convening the Court Meeting to be held at 10:00 a.m. on Wednesday, 23 August 2017, and the EGM to be held either at 11:30 a.m. on Wednesday, 23 August 2017 or as soon after the Court Meeting shall have been concluded or adjourned as is practicable, are set out in Appendix IV and Appendix V to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and return them to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not later than the respective times and dates as stated in Part II of this Scheme Document. If the pink form of proxy are not so lodged, they may also be handed to the Chairman of the Court Meeting at the Court Meeting.

Unless the context requires otherwise, capitalized terms used in this Scheme Document take the meanings ascribed to them in Part I of this Scheme Document under the section headed "Definitions". This Scheme Document comprises also (1) a letter from the Board regarding the Proposal as set out in Part IV of this Scheme Document; (2) a letter from the Independent Board Committee, containing its advice to the Scheme Shareholders regarding the Proposal, as set out in Part V of this Scheme Document; (3) a letter from First Shanghai Capital Limited, the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee regarding the Proposal, as set out in Part VI of this Scheme Document; and (4) an Explanatory Statement regarding the Scheme as set out in Part VII of this Scheme Document. The English language text of this Scheme Document shall prevail over the Chinese text for the purpose of interpretation.

13 July 2017

* For identification purposes only

IMPORTANT NOTICE

The Proposal is made solely through this Scheme Document to cancel the securities of a Cayman Islands company by means of a scheme of arrangement provided for under the Companies law. It contains the full terms and conditions of the Proposal, including details of how to vote on the Proposal. Any acceptance, rejection or other response to the Proposal should be made only on the basis of information in this Scheme Document or any other document by which the Proposal is made.

The availability of the Proposal to persons who are not resident in Hong Kong may be affected by the laws of the relevant jurisdictions in which they are located or of which they are nationals. Persons who are not so resident in Hong Kong should inform themselves about, and observe, any applicable legal or regulatory requirements of their jurisdictions.

NOTICE TO UNITED STATES SECURITIES HOLDERS

The Proposal is being made to cancel shares of a Cayman Islands company in exchange for cash by means of a scheme of arrangement provided for under Cayman law. The scheme of arrangement must be approved by the requisite majority of shareholders and sanctioned by the Cayman Islands Grand Court. The shares of the Cayman Islands company are listed on the Hong Kong stock exchange and are not listed on a United States national securities exchange or registered under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). A transaction effected by means of such a scheme of arrangement is not subject to either the tender offer rules under the Exchange Act or the proxy solicitation rules under the Exchange Act. Accordingly, the Proposal is subject to the solicitation and disclosure requirements and practices applicable in the Cayman Islands and/or Hong Kong to such schemes of arrangement which differ from the solicitation and disclosure requirements and practices of the United States under the Exchange Act for tender offers and proxy solicitation.

It may be difficult for United States holders of Scheme Shares and Share Options to enforce their rights and claims arising out of the United States federal or state securities laws, since the Offeror and the Company are each organized and located in a country other than the United States, some or all of their respective officers and directors may be residents of a country other than the United States, and some or all of their respective assets may be located outside the United States. United States holders of Scheme Shares or Share Options may not be able to sue a non-United States company or its officers or directors in a non-United States court for violations of United States federal or state securities laws. Further, it may be difficult to compel a non-United States company and its affiliates to subject themselves to a United States court's judgment.

Any financial information included in this Scheme Document has been prepared in accordance with Hong Kong Financial Reporting Standards and thus may not be comparable to financial information of United States companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

IMPORTANT NOTICE

The receipt of cash pursuant to the Proposal by a United States holder of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme or by an Optionholder as consideration for the cancellation of its Options pursuant to the Scheme may be a taxable transaction for United States federal income tax purposes and under applicable United States state and local, as well as foreign and other tax laws. Each holder of Scheme Shares or Share Options is urged to consult his independent professional advisers immediately regarding the tax consequences of the Proposal applicable to him.

The scheme of arrangement as set out in this Scheme Document has not been approved or disapproved by the United States Securities and Exchange Commission or the securities regulatory authority of any state of the United States, nor has the Commission or any such state regulatory authority passed on the adequacy or accuracy of this Scheme Document. Any representation to the contrary is a criminal offence in the United States.

Shareholders may obtain free copies of this Scheme Document at the websites maintained by the Stock Exchange at www.hkexnews.hk and by the Company at http://www.hkstockinfo.com/china_metal.

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

“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert party(ies)” shall be construed accordingly
“Approvals”	authorizations, registrations, filings, rulings, consents, opinions, permissions and approvals
“Announcement”	the announcement dated 29 May 2017 jointly issued by the Offeror and the Company pursuant to Rule 3.5 of the Takeovers Code in relation to the Proposal
“Announcement Date”	29 May 2017, being the date of the Announcement
“associate(s)”	has the meaning ascribed to it in the Takeovers Code
“Authority(ies)”	government, quasi-governmental and/or governmental body(ies), statutory or regulatory body(ies), court(s), or designated authorized body(ies) or agency(ies) of any of the foregoing
“Beneficial Owner”	any beneficial owner of the Shares
“Board”	the board of directors of the Company
“Business Day(s)”	a day (other than a Saturday) on which banks are generally open for business in Hong Kong
“Cancellation Price”	the cancellation price of HK\$3.01 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Capital Reduction”	the reduction in issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

“CMP”	China Metal Products Company Limited, a company incorporated in Taiwan with limited liability, whose shares are listed on the Taiwan Stock Exchange and owned as to 10.72%, 8.32% and 7.25%, respectively, by Quan Yuan, Mr. Ho and an independent shareholder, as at the Latest Practicable Date. Quan Yuan is a company controlled by the Ho Family. The Ho Family, directly or indirectly, controlled in aggregate approximately 27.73% of shareholding interest in CMP as at the Latest Practicable Date.
“Committed Shareholders”	the Shareholders who have provided the Undertakings, namely Vald Birn, Yanmar, Mr. Tsao and the Ho Shareholders
“Committed Shares”	Shares held by the Committed Shareholders
“Companies Law”	the Companies Law (2016 Revision) of the Cayman Islands, as consolidated and revised from time to time
“Company”	China Metal International Holdings Inc., an exempted company incorporated with limited liability under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange
“Conditions”	the conditions to the implementation of the Proposal, the Scheme and the Option Offer as described in the paragraph headed “2. Terms of the Proposal — Conditions of the Proposal” in Part VII of this Scheme Document
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Court Meeting”	a meeting of the Scheme Shareholders convened at the direction of the Cayman Islands Grand Court for the purpose of voting on the Scheme (with or without modification), which is to be held at Room 1801, 18th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong, at 10:00 a.m. on Wednesday, 23 August 2017, notice of which is set out in Appendix IV to this Scheme Document, or any adjournment thereof
“Director(s)”	the director(s) of the Company

“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the order of the Cayman Islands Grand Court sanctioning the Scheme and confirming the reduction of issued share capital resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86 (3) of the Companies Law, and which is expected to be Tuesday, 3 October 2017 (Cayman Islands time)
“EGM”	an extraordinary general meeting of the Company to be held at Room 1801, 18th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong at 11:30 a.m. on Wednesday, 23 August 2017 (or immediately after the Court Meeting shall have been concluded or adjourned) for the purpose of passing all necessary resolutions for the implementation of the Proposal, notice of which is set out in Appendix V to this Scheme Document, or any adjournment thereof
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate for the time being thereof
“Form(s) of Acceptance”	the form(s) of acceptance dispatched to Optionholders in connection with the Option Offer
“Grand Dragon”	Grand Dragon Co., Ltd., a company incorporated in Mauritius with limited liability which is the family controlled company of Mr. Ho
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Ho Family”	Mr. Ho, his spouse Ms. Wu Shu-Chuan (吳淑娟), his daughters Ms. Ho and Ms. Ho Pei-Fen and their family members and relatives
“Ho Shareholders”	Mr. Ho, Ms. Ho and Grand Dragon, who as at the Latest Practicable Date collectively held (i) 20,315,551 Shares representing 2.04% of the issued share capital of the Company and (ii) approximately 8.91% shareholding in CMP

“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Lam Ting Lok, Mrs. Chiu Lin Mei-Yu (also known as Mary Lin Chiu) and Mr. Chen Pou-Tsang (also known as Angus P.T. Chen), established by the Board to make recommendations to the Scheme Shareholders and the Optionholders (as the case may be) in respect of, among others, the Proposal, the Undertakings, the Scheme and the Option Offer
“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation under the SFO to conduct Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee in connection with the Proposal, the Undertakings, the Scheme and the Option Offer
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“KGI Capital” or “Offeror FA”	KGI Capital Asia Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on 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 and the Option Offer
“Last Trading Day”	26 May 2017, being the last trading day prior to the date of suspension of trading in the Shares on the Stock Exchange pending the issuance of the Announcement
“Latest Option Exercise Date”	3:30 p.m. on Wednesday, 27 September 2017, being the expected latest time and date upon which Optionholders must exercise their Share Options in order to qualify for entitlements under the Scheme
“Latest Practicable Date”	10 July 2017, being the latest practicable date for the purposes of ascertaining certain information for inclusion in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Long Stop Date”	31 December 2017 or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Cayman Islands Grand Court may direct
“Meeting Record Date”	Wednesday, 23 August 2017, or such other date as shall have been announced by the Company, being the record date for the purpose of determining the entitlement of Scheme Shareholders to attend and vote at the Court Meeting and the entitlement of Shareholders to attend and vote at the EGM
“Mr. Ho”	Mr. Ho Ming-Shiann (何明憲), who is one of the founders of the Company, and the father of Ms. Ho
“Mr. Tsao”	Mr. Tsao Ming-Hong (曹明宏), who is one of the founders of the Company and one of the executive Directors of the Company. As at the Latest Practicable Date, Mr. Tsao held (i) 6,373,766 Shares representing approximately 0.64% of the issued share capital of the Company as well as Share Options exercisable into 1,000,000 new Shares ; and (ii) (by himself and taking into account of the deemed interest in shares held by his spouse and child aged under 18) approximately 2.03% shareholding in CMP
“Ms. Ho”	Ms. Ho Pei-Lin (何佩玲), an executive Director of the Company, and the daughter of Mr. Ho. As at the Latest Practicable Date, Ms. Ho personally held approximately 0.33% shareholding in CMP and also had indirect shareholding in CMP through Quan Yuan
“New ESOP”	the share option scheme of the Company adopted on 13 May 2014
“Offer Period”	the period commencing on the Announcement Date and as defined in the Takeovers Code
“Offeror”	United Elite Agents Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CMP
“Offeror Concert Party(ies)”	any party(ies) acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, including CMP

“Old ESOP”	the share option scheme of the Company adopted on 8 December 2004 which was replaced on 13 May 2014 by the New ESOP
“Optionholders”	holder(s) of the Share Options
“Option Amount”	the consideration in cash for each Share Option cancelled under the Option Offer, being HK\$0.49 per Share Option, which is the “see-through” price determined as the Cancellation Price minus the per Share exercise price of HK\$2.52 under the Share Options
“Option Offer”	the offer to be made by or on behalf of the Offeror to the Optionholders
“Option Offer Letter”	the letter dated Thursday, 13 July 2017, setting out the terms and conditions of the Option Offer sent separately to the Optionholders and substantially in the form set out in Appendix VI to this Scheme Document
“Option Offer Record Date”	Tuesday, 3 October 2017, or such other time and date as shall have been announced by the Company, being the record date for the purpose of determining the entitlements of the Optionholders under the Option Offer
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited Share(s) with, a CCASS participant
“PRC”	the People’s Republic of China, and for the purpose of this Scheme Document, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposal”	the proposal for the privatization of the Company by the Offeror by way of the Scheme
“Quan Yuan”	銓遠投資股份有限公司 (for identification only, Quan Yuan Investment Stockholding Limited Company), is a company controlled by the Ho Family. As at the Latest Practicable Date, Quan Yuan had approximately 10.72% shareholding in CMP

“Registered Owner”	any owner of Shares (including without limitation a nominee, trustee, depositary or any other authorized custodian or third party) entered in the register of members of the Company
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Relevant Period”	the period commencing on 29 November 2016 (being the date falling six (6) months prior to the Announcement Date) and ending on the Latest Practicable Date, both dates inclusive
“relevant securities”	has the meaning ascribed to it in the Takeovers Code
“Resolutions”	(i) the resolutions to approve the Scheme to be considered at the Court Meeting; and (ii) the resolutions to approve and give effect to, among other things, the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and to immediately restore the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror to be considered at the EGM
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law set out in Appendix III to this Scheme Document (subject to any modifications or additions or conditions as may be approved or imposed by the Cayman Islands Grand Court and agreed by the Offeror) involving, among other matters, the cancellation of all the Scheme Shares and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares
“Scheme Document”	this composite scheme document, including each of the letters, statements, appendices and notices in it
“Scheme Record Date”	Tuesday, 3 October 2017, or such other time and date as shall have been announced by the Company, being the record date for the purpose of determining the entitlements of the Scheme Shareholders under the Scheme
“Scheme Share(s)”	Share(s) in issue as at the Scheme Record Date other than those held directly or indirectly by the Offeror, the Offeror Concert Parties and the Committed Shareholders

“Scheme Shareholder(s)”	holder(s) of the Scheme Share(s) as at the Scheme Record Date
“SFC”	the 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 HK\$0.01 each in the share capital of the Company
“Share Options”	the share option(s) previously granted under the Old ESOP
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“Undertakings”	the deeds of undertaking to opt out of the Scheme and remain as Shareholders upon the delisting of the Shares under the Proposal entered into on 28 May 2017 and 29 May 2017 in favour of the Offeror by each of the Committed Shareholders, details of which are set out in the paragraph headed “7. Undertakings to opt out of the Scheme” in the Explanatory Statement, and which are conditional on approval as special deals pursuant to Rule 25 of the Takeovers Code
“US\$”	United States dollar(s), the lawful currency of the United States of America
“Vald Birn”	Vald. Birn Holding A/S, a company incorporated in Denmark with limited liability, which is a producer of cast iron products for the automotive, pump and hydraulic industries, and as at the Latest Practicable Date held 103,900,922 Shares representing approximately 10.42% of the issued share capital of the Company

“Yanmar”	Yanmar Co., Ltd (ヤンマー株式会社), a company incorporated in Japan with limited liability, which manufactures diesel engines, combine harvesters and other agricultural machinery and other equipment and machinery, and as at the Latest Practicable Date held 43,494,286 Shares representing approximately 4.36% of the issued share capital of the Company
“%”	per cent.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Cayman Islands Grand Court hearing of the petitions to sanction the Scheme and to confirm the Capital Reduction and the Effective Date, which are the relevant dates in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed on from Friday, 18 August 2017 to Wednesday, 23 August 2017 (both days inclusive) and during such day, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 17 August 2017.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to the Registered Owners.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, we strongly urge you 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 EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 21 August 2017 or be handed to the Chairman of the Court Meeting at the Court Meeting, and the white form of proxy for use at the EGM should be lodged not later than 11:30 a.m. on Monday, 21 August 2017.** The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form 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 EGM, you will still be bound by the outcome of the Court Meeting and the EGM if, among other things, the Resolutions are passed by the requisite majorities of Scheme Shareholders or Shareholders (as the case may be). We therefore strongly urge you to attend and vote at the Court Meeting and the EGM in person or by proxy.

The Company will make an announcement in relation to the results of the Court Meeting and the EGM on Wednesday, 23 August 2017. The Company will make further announcements of the results of the hearing by the Cayman Islands Grand Court of the petitions to, among other things, sanction the Scheme and confirm the Capital Reduction and, if the Scheme is sanctioned and the Capital Reduction confirmed, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

ACTIONS TO BE TAKEN BY PERSONS HOLDING SHARES THROUGH TRUST OR CCASS

The Company will not recognize any person as holding any Shares through any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name

of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions should be given in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete and submit his, her or its proxy. To the extent that any Registered Owner requires instructions from any Beneficial Owner in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and/or the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such Shares with an Other CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and/or the EGM set by them, in order to provide such person with sufficient time to provide HKSCC with instructions in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. HKSCC Nominees Limited may vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS and CCASS Operational Procedures in effect from time to time). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Cayman Islands Grand Court and may be taken into account in deciding whether or not the Cayman Islands Grand Court should exercise its discretion to sanction the Scheme.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing your Shares from CCASS and becoming a Registered Owner of such Shares. 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 deadline in respect of the Court Meeting and/or the EGM set by them, 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 BY OPTIONHOLDERS

The Option Offer Letter is being sent to each Optionholder separately, together with a Form of Acceptance. Optionholders should refer to those letters, the form of which is set out in Appendix VI to this Scheme Document and note the instructions and conditions of the Option Offer printed on the Option Offer Letter.

If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, care of China Metal International Holdings Inc. at Room 1502, 15th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong, for the attention of the board of directors of the Offeror and marked “China Metal International Holdings Inc. — Option Offer” by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017 (or such later date and time as may be notified to you by the Offeror, the Offeror FA and the Company or by way of joint announcement by the Offeror and the Company on the websites of the Stock Exchange and the Company). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Share Options or any other document will be given. The Offeror will offer HK\$0.49 in exchange for each Share Option cancelled. Such price is the “see-through” price, which is the Cancellation Price minus the per Share exercise price of HK\$2.52 under the Share Options.

The cash will be payable by the Offeror in accordance with the other terms of the Option Offer. In return, all rights and obligations under your Share Options will be immediately cancelled by the Offeror and the Company upon your acceptance. **All Optionholders subject to the Option Offer must lodge the duly completed and executed Form of Acceptance as mentioned above at or before 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017 (or such later date and time as may be notified to you by the Offeror, the Offeror FA and the Company or by way of joint announcement by the Joint Offeror and the Company on the websites of the Stock Exchange and the Company).**

EXERCISE YOUR RIGHT TO VOTE

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

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE SHOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

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

The following timetable takes into account the procedures of the Cayman Islands Grand Court for the Scheme. The expected timetable is indicative only and is subject to change. Further announcement(s) will be made if there is any change to the following expected timetable.

Despatch of this Scheme Document (with the notices
of the Court Meeting and the EGM incorporated
as Appendices IV and V, respectively) Thursday, 13 July 2017

Despatch of the Option Offer Letter Thursday, 13 July 2017

Latest time for Optionholders
to exercise their Share Options
in order to become entitled to vote at
the Court Meeting and the EGM before 3:30 p.m.
on Thursday, 17 August 2017

Latest time for lodging transfers of Shares
in order to become entitled to
vote at the Court Meeting and the EGM before 4:30 p.m.
on Thursday, 17 August 2017

Register of members of the Company
closed for determining the entitlement
of relevant Shareholders
to attend and vote at the Court Meeting and
the entitlement of the Shareholders to
attend and vote at the EGM (*Note 1*) Friday, 18 August 2017
to Wednesday, 23 August 2017
(both dates inclusive)

Latest time for lodging the **pink** form
of proxy in respect of the
Court Meeting (*Note 2*) 10:00 a.m.
on Monday, 21 August 2017

Latest time for lodging the **white** form
of proxy in respect of the EGM (*Note 2*) 11:30 a.m.
on Monday, 21 August 2017

Meeting Record Date on Wednesday, 23 August 2017

Court Meeting for Scheme Shareholders (*Note 3*) 10:00 a.m.
on Wednesday, 23 August 2017

PART III

EXPECTED TIMETABLE

EGM (<i>Note 3</i>)	11:30 a.m. on Wednesday, 23 August 2017 (or so soon after the Court Meeting shall have been concluded or adjourned)
Announcement of the results of the Court Meeting and the EGM	not later than 7:00 p.m. on Wednesday, 23 August 2017
Expected last day for trading in the Shares on the Stock Exchange	Friday, 22 September 2017
Court hearing of the petitions to sanction the Scheme and to confirm the Capital Reduction	Friday, 22 September 2017 (Cayman Islands time)
Announcement of the result of the Court Hearing, the expected Effective Date and the expected date of withdrawal of listing of the Shares on the Stock Exchange	no later than 8:30 a.m. on Monday, 25 September 2017
Latest time for Optionholders to exercise their Share Options in order to qualify for entitlements under the Scheme .	3:30 p.m. on Wednesday, 27 September 2017
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Wednesday, 27 September 2017
Register of members of the Company closed for determining entitlements to qualify under the Scheme (<i>Note 4</i>)	from Thursday, 28 September 2017 onwards
Scheme Record Date	Tuesday, 3 October 2017
Option Offer Record Date	Tuesday, 3 October 2017
Effective Date (<i>Note 5</i>)	Tuesday, 3 October 2017 (Cayman Islands time)

Announcement of the Effective Date and
the withdrawal of listing of the Shares
on the Stock Exchange no later than 8:30 a.m. on Wednesday, 4 October 2017

Expected withdrawal of listing of the
Shares on the Stock Exchange
becomes effective (*Note 6*) 4:00 p.m. on Friday, 6 October 2017

Cheques for cash entitlements under the
Scheme to be despatched (*Note 7*) on or before Friday, 13 October 2017

Latest time to accept the Option Offer and
closing date of the Option Offer (*Note 8*) 4:30 p.m. on Tuesday, 17 October 2017

Lapse of outstanding Share Options Tuesday, 17 October 2017

Cheques for cash entitlements under the
Option Offer to be despatched (*Note 9*) on or before Thursday, 26 October 2017

Shareholders and Optionholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. The register of members of the Company will be closed during such period for the purposes of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting and the entitlement of the Shareholders to attend and vote at the EGM. This book close period is not for determining entitlements under the Scheme.
2. Forms of proxy should be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not later than the respective times and dates stated above or, in the case of the **pink** form of proxy for use at the Court Meeting, they may be handed to the chairman of the Court Meeting. Completion and return of the relevant form of proxy for the Court Meeting or the EGM will not preclude a Scheme Shareholder from attending the relevant meeting and voting in person. In such event, the relevant form of proxy returned will be deemed to have been revoked.
3. The Court Meeting and the EGM will be held at Room 1801, 18th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong at the times and dates specified above. Please see the notices of the Court Meeting set out in Appendix IV to this Scheme Document and the notice of the EGM set out in Appendix V to this Scheme Document.
4. The register of members of the Company will be closed during such period for the purposes of determining the entitlements under the Scheme.

5. The Scheme will become effective upon all the Conditions having been fulfilled or waived (as applicable).
6. If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn at or before 4:00 p.m. on Friday, 6 October, 2017, being the next business day after the Effective Date.
7. Cheques for the cash entitlements to the Scheme Shareholders under the Scheme will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of the Company on or before Friday, 13 October, 2017.
8. Forms of Acceptance, duly completed and executed in accordance with the instructions on them, must be lodged with the Offeror, care of China Metal International Holdings Inc. at Room 1502, 15th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong, for the attention of the board of directors of the Offeror and marked "China Metal International Holdings Inc. — Option Offer" not later than 4:30 p.m. on Tuesday, 17 October 2017 (or such later date and time as may be notified by the Offeror, the Offeror FA and the Company).
9. Cheques for the cash entitlements to the Optionholders under the Option Offer will be despatched by ordinary post at the risk of the recipients on or before Thursday, 26 October, 2017.

All references to times and dates are references to Hong Kong times and dates, except as otherwise specified.

**CHINA METAL INTERNATIONAL HOLDINGS INC.****勤美達國際控股有限公司****(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 319)***Executive Directors:*

KING Fong-Tien (*Chairman*)
TSAO Ming-Hong (*Vice Chairman*)
CHEN Shun-Min
HO Pei-Lin

Non-executive Director:

Christian Odgaard PEDERSEN

Independent non-executive Directors:

LAM Ting Lok
CHIU LIN Mei-Yu (*also known as Mary Lin Chiu*)
CHEN Pou-Tsang (*also known as Angus P.T. Chen*)

Registered office:

Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town, Grand Cayman
Cayman Islands

Principal place of business in Hong Kong:

Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

13 July 2017

To the Scheme Shareholders and the Optionholders

To other Shareholders (for information only)

Dear Sir or Madam,

**(1) PROPOSED PRIVATIZATION OF
CHINA METAL INTERNATIONAL HOLDINGS INC.
BY UNITED ELITE AGENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA METAL INTERNATIONAL HOLDINGS INC.
ON THE STOCK EXCHANGE OF HONG KONG LIMITED**

1. INTRODUCTION

On 29 May 2017, the Offeror and the Company jointly announced that on 29 May 2017, the Offeror had requested the Board to put forward to the Scheme Shareholders the proposed

* For identification purposes only

privatization of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving (i) the reduction of the issued share capital of the Company by the cancellation of the Scheme Shares and, in consideration therefor, the payment by the Offeror to the Scheme Shareholders in cash of the Cancellation Price for each Scheme Share so cancelled, (ii) the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new Shares in the same number as the Scheme Shares (which were cancelled) to the Offeror credited as fully paid out of the credit arising in the Company's books of account as a result of the Capital Reduction referred to in (i) above, and (iii) the withdrawal of the listing of the Shares on the Stock Exchange. An offer would also be made concurrently to the Optionholders to cancel the Share Options held by them in exchange for the payment to them of the see-through price of the Share Options in cash.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the Option Offer and the expected timetable and to give you notices of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from the Independent Financial Adviser, set out in Part VI of this Scheme Document, the Explanatory Statement set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

2. TERMS OF THE PROPOSAL

The Scheme

As at the Latest Practicable Date, (i) there were 997,366,000 Shares in issue; (ii) the Offeror held 597,128,059 Shares, representing approximately 59.87% of the issued share capital of the Company; (iii) the Committed Shareholders (who have provided the Undertakings to opt-out from the Scheme) in aggregate held 174,084,525 Shares, representing approximately 17.45% of the issued share capital of the Company; and (iv) the remaining 226,153,416 Shares constituted the Scheme Shares which were held by the Scheme Shareholders, representing approximately 22.68% of the issued share capital of the Company.

Subject to the Scheme becoming effective, all the Scheme Shares will be cancelled in consideration of the payment by the Offeror to each Scheme Shareholder of the Cancellation Price of HK\$3.01 in cash for each Scheme Share so cancelled.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

Comparison of value

The Cancellation Price of HK\$3.01 per Scheme Share represents:

- a premium of approximately 27.54% over the closing price of HK\$2.36 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 26.47% over the average closing price of approximately HK\$2.38 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

- a premium of approximately 25.94% over the average closing price of approximately HK\$2.39 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 Day;
- a premium of approximately 22.86% over the average closing price of approximately HK\$2.45 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 Day;
- a premium of approximately 24.38% over the average closing price of approximately HK\$2.42 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 Day;
- a premium of approximately 23.36% over the average closing price of approximately HK\$2.44 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 3.44% over the closing price of HK\$2.91 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a premium of approximately 27.54% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK\$2.36 as at 31 December 2016.

The Cancellation Price has been determined on a commercial basis after taking into account (i) the closing prices of the Shares traded on the Stock Exchange; (ii) the trading multiples of comparable companies listed on the Stock Exchange; and (iii) with reference to the other privatization transactions in Hong Kong in recent years.

Conditions of the Proposal

Your attention is drawn to the paragraph headed “2. Terms of the Proposal — Conditions of the Proposal” in Part VII of this Scheme Document for the conditions of the Proposal.

Capital Reduction

Under the Scheme, the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the issued share capital of the Company will be increased to its former amount by the allotment and issuance at par to the Offeror, credited as fully paid, of the same number of Shares as the number of Scheme Shares cancelled and extinguished. The reserve created in the Company’s books of account as a result of the Capital Reduction will be applied in paying up in full at par the new Shares of HK\$0.01 each so issued, credited as fully paid, to the Offeror. The authorized share capital of the Company will remain unchanged on the Effective Date.

Upon the Scheme becoming effective, on the assumption that no outstanding Share Options will be exercised before the Scheme Record Date and that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Scheme Record Date, the Offeror will hold approximately 82.55% of the issued share capital of the Company, and the Committed Shareholders will continue to hold in aggregate approximately 17.45% of the issued share capital of the Company, and the Board will, as soon as practicable thereafter, make an application for the withdrawal of listing of the Shares on the Stock Exchange.

Dividends

Shareholders whose names appear on the register of members of the Company as at the record date for determining the entitlement to dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). However, the Company does not expect to declare any dividend on or before the Effective Date.

3. SHARE OPTIONS AND THE OPTION OFFER

Your attention is drawn to paragraph headed “3. Share Options and the Option Offer” in the Explanatory Statement and “Appendix VI — Form of the Option Offer Letter” to this Scheme Document.

As at the Latest Practicable Date, Share Options previously granted under the Old ESOP remained outstanding, pursuant to which up to a maximum of 6,070,000 new Shares may be issued at HK\$2.52 per new Share, representing approximately 0.61% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.60% of the issued share capital of the Company as enlarged by the issue of such new Shares. As at the Latest Practicable Date, there are no outstanding Share Options under the New ESOP.

As at the Latest Practicable Date, Share Options held by Directors comprised: (i) Share Options exercisable into 1,000,000 new Shares held by Mr. Tsao; (ii) Share Options exercisable into 900,000 new Shares held by Ms. Chen Shun-Min; (iii) Share Options exercisable into 300,000 new Shares held by Mr. Christian Odgaard Pedersen; and (iv) Share Options exercisable into 180,000 new Shares held by Mrs. Chiu Lin Mei-Yu.

Except for such outstanding Share Options, there are no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible or exchangeable into Shares.

Under Rule 13 of the Takeovers Code, the Offeror is required, in connection with the making of the offer to the Scheme Shareholders, also to extend an appropriate offer to Optionholders. Mr. Tsao has agreed under his Undertaking not to exercise his Share Options, which are exercisable into 1,000,000 new Shares, from the date of the Announcement until the date the Proposal has been completed or (as the case may be) until such time it is determined that the Proposal will not be proceeded with. The Offeror will therefore, subject to the Scheme becoming effective, make an offer to the other Optionholders to cancel all their outstanding Share Options, vested and unvested, in exchange for cash, being an amount equal to HK\$0.49 for each outstanding Share Option. Such price is the “see-through” price, which is the Cancellation Price minus the per Share exercise price of HK\$2.52 under the Share Options.

Further information on the Option Offer are set out in the Option Offer Letter to the Optionholders separately on the date of despatch of this Scheme Document and is substantially in the form set out in “Appendix VI — Form of Option Offer Letter” to this Scheme Document.

If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, care of the Company at Room 1502, 15th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong, for the attention of the board of directors of the Offeror and marked

“China Metal International Holdings Inc. — Option Offer” by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017 (or such later date and time as may be notified to you by the Offeror, the Offeror FA and the Company or by way of joint announcement by the Offeror and the Company on the websites of the Stock Exchange and the Company).

In the event that any of the outstanding Share Options are exercised on or prior to the Scheme Record Date in accordance with the relevant provisions of the Old ESOP, any Shares issued as a result of the exercise of such outstanding Share Options will be subject to and eligible to participate in the Scheme.

If the Scheme is not sanctioned by the Cayman Islands Grand Court or any of the Conditions are not satisfied and the Scheme does not become effective, the Option Offer will not be implemented and all Share Options will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Old ESOP.

4. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

Your attention is drawn to the paragraph headed “5. Additional requirements as imposed by Rule 2.10 of the Takeovers Code” of the Explanatory Statement in Part VII of this Scheme Document.

5. UNDERTAKINGS TO OPT OUT OF THE SCHEME

On 28 May 2017 and 29 May 2017, the Offeror received the Undertakings from the Committed Shareholders, pursuant to which each of the Committed Shareholders has provided the irrevocable and unconditional undertakings as more particularly described in the paragraph headed “7. Undertakings to opt out of the Scheme” of the Explanatory Statement in Part VII of this Scheme Document.

The Committed Shareholders held in aggregate 174,084,525 Shares, representing approximately 17.45% of the issued share capital of the Company, as at the Latest Practicable Date. The Committed Shareholders include:

- (i) Vald Birn and Yanmar, which are both long-term strategic business partners and customers of the Group. Vald Birns and Yanmar made equity investments into the Group 15 years ago in 2002, and have since provided technical assistance to the Group and actively supported the Group and its business.
- (ii) Mr. Tsao and the Ho Shareholders, Mr. Tsao and Mr. Ho being the original founders of the Company’s business. Mr. Tsao and Mr. Ho’s daughter Ms Ho Pei-Lin are current executive Directors of the Company. Mr. Tsao has, since the listing of the Company, been involved in the Group’s affairs as an executive Director of the Company. Mr. Tsao is responsible for the supervision of the execution of the overall business strategies of the Group. Mr. Ho in turn joined the Group in 1992 and was chairman of the Company until 2011. Mr. Ho was responsible for the formulation of the overall business strategies of the Group. Mr. Ho’s daughter Ms Ho Pei-Lin became an executive Director in 2014 and currently is responsible for formulation and execution of the business strategies of the Group. Mr. Tsao (by himself and taking into account of the deemed interest in shares held by his spouse and child aged under 18) and the Ho Shareholders also had 2.03% and 8.91% shareholding interest, respectively, in the listed parent company CMP in Taiwan as at the Latest Practicable Date.

The respective shareholding interest of the Committed Shareholders in the Company are set out under the paragraph headed “6. Shareholding structure of the Company” below.

Because of the ongoing commercial arrangements between the Group and such long-term customers, the status of Mr. Tsao and Mr. Ho as founders of the Company’s business, Mr. Tsao and Ms Ho Pei-Lin’s role as executive Directors of the Company, and the continuing role of such parties in the further development of the Company’s business, the Offeror wishes such Shareholders, and such Shareholders have irrevocably undertaken, to opt out of the Scheme and remain as Shareholders upon the delisting of the Shares. Their respective Undertakings are conditional on approval as special deals pursuant to Rule 25 of the Takeovers Code.

No consideration, compensation or benefit in whatever form is provided by the Offeror or the Offeror Concert Parties to the Committed Shareholders or their respective concert parties in connection with the Undertakings. As at the Latest Practicable Date, save for the Undertakings, there were no other arrangements or special deals (under Rule 25 of the Takeovers Code) between the Offeror and the Offeror Concert Parties on one hand and the Committed Shareholders and their respective concert parties on the other hand.

6. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the authorized share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares, of which 997,366,000 Shares are in issue.

On the assumption that no outstanding Share Options will be exercised before the Scheme Record Date and that there is no change in shareholding of the Company before completion of the Scheme, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Scheme:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Scheme	
	Number of Shares	Approximate % of the total issued share capital	Number of Shares	Approximate % of the total issued share capital
Offeror and Offeror Concert Parties ^(Note 1)	597,128,059	59.87	823,281,475	82.55
Committed Shareholders ^(Note 2)				
Vald Birn	103,900,922	10.42	103,900,922	10.42
Yanmar	43,494,286	4.36	43,494,286	4.36
The Ho Shareholders	20,315,551	2.04	20,315,551	2.04
Mr. Tsao ^(Note 3)	6,373,766	0.64	6,373,766	0.64
Aggregate number of Shares held by the Committed Shareholders	174,084,525	17.45	174,084,525	17.45
Aggregate number of Shares held by the Offeror, the Offeror Concert Parties and the Committed Shareholders	771,212,584	77.32	997,366,000	100.00
Scheme Shareholders	<u>226,153,416</u>	<u>22.68</u>	<u>0</u>	<u>0.00</u>
Total	<u>997,366,000</u>	<u>100.00</u>	<u>997,366,000</u>	<u>100.00</u>

Notes:

1. As at the Latest Practicable Date, the Offeror held 597,128,059 Shares, and the Offeror Concert Parties did not hold any Shares.
2. The Committed Shareholders have irrevocably undertaken to the Offeror not to participate in the Scheme pursuant to the Undertakings.
3. As at the Latest Practicable Date, Mr. Tsao held Share Options exercisable into 1,000,000 Shares. Mr. Tsao has agreed under his Undertaking not to exercise his Share Options until the date the Proposal has been completed or (as the case may be) until such time it is determined that the Proposal will not be proceeded with. Mr. Tsao also had (by himself and taking into account of the deemed interest in shares held by his spouse and child aged under 18) approximately 2.03% shareholding in CMP.

As at the Latest Practicable Date:

- (a) save for the Shares Options, the Company does not have any outstanding options, warrants, derivatives or other convertible securities;
- (b) save for (i) Mr. Tsao who had such interest in Shares as disclosed above, (ii) Mr. Lin Ting-Fung, a director of the Offeror, who had approximately 0.26% shareholding in CMP which is the indirect holding company of the Company, and (iii) the Ho Family who, directly or indirectly, controlled in aggregate approximately 27.73% shareholding in CMP, none of the directors of the Offeror or CMP is interested in the shareholdings in the Company;
- (c) save as disclosed in the above table, none of the Offeror or the Offeror Concert Parties owns or controls or has power to give directions over any Shares or any options, warrants, derivatives or other convertible securities in respect of Shares;
- (d) none of the Offeror or the Offeror Concert Parties has entered into any derivatives in respect of securities of the Company;
- (e) save for the arrangements contemplated under the Proposal, the Option Offer and the Undertakings, there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares or the shares of the Offeror which might be material to the Proposal;
- (f) there are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal;

- (g) save for the Undertakings, none of the Offeror or the Offeror Concert Parties has received any irrevocable commitment from any Shareholders in respect of voting at the Court Meeting and/or the EGM during the Relevant Period; and
- (h) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which any of the Offeror or the Offeror Concert Parties has borrowed or lent.

7. OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

The making of the Proposal to the Scheme Shareholders, and the making of the Option Offer to the Optionholders, who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and Optionholders are located. Such persons should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and overseas Optionholders wishing to take any action in relation to the Scheme and the Option Offer, as the case may be, to satisfy themselves as to the full observance of the laws of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdictions. Any acceptance by such Scheme Shareholders and Optionholders will be deemed to constitute a representation and warranty from such persons to the Offeror, the Company and their respective advisers, that those local laws and requirements have been complied with. For the avoidance of doubt, neither Hong Kong Securities Clearing Company Limited nor HKSCC Nominees Limited will give, or be subject to, any of the above representations and warranties. If any Scheme Shareholder or Optionholder is in doubt as to its position, it should consult its professional advisers.

Scheme Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal or the Option Offer, as the case may be. It is emphasized that none of the Offeror, the Company and their respective advisers or any of their respective directors, officers or associates or any other person involved in the Proposal and the Option Offer accepts any responsibility whatsoever for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal or the Option Offer, as the case may be.

8. TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$3.01 per Scheme Share and 226,153,416 Scheme Shares being in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$680,721,782.

On the basis of the see-through price of the Option Offer being equal to HK\$0.49 per Share Option, no outstanding Share Options being exercised or lapsing before the Scheme Record Date, and Share Options exercisable into a maximum of 5,070,000 new Shares being subject to the Option Offer, the Share Options under the Option Offer are in aggregate valued at approximately HK\$2,484,300.

On the assumption that no outstanding Share Options would be exercised before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares (before taking into account the Option Offer to be made) would be approximately HK\$680,721,782, and the amount of cash required for the Option Offer would be approximately HK\$2,484,300.

On the assumption that all the outstanding Share Options subject to the Option Offer were to be exercised before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares would increase to approximately HK\$695,982,482.

The Offeror intends to finance the cash required for the cancellation of the Scheme Shares and for the Option Offer using the proceeds of a facility granted by CTBC Bank Co., Ltd., Hong Kong Branch, a third party independent of the Offeror and its own internal resources.

The Offeror FA is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the cancellation of the Scheme Shares and the Option Offer in full.

9. REASONS AND BENEFITS OF THE PROPOSAL AND THE OFFEROR'S INTENTION REGARDING THE GROUP

Many of the Company's customers are overseas automakers or component manufacturers, and the market outlook for automobile parts and components, in particular in the United States market, is anticipated to remain challenging in the foreseeable future, which may negatively affect the future performance of the share price of the Company.

The Company has long been concentrating on iron casting production which is recognized as a heavy weight product and which is a segment which is facing increasing pressure over its business growth. Customers are increasingly in demand of light weight casting such as aluminum in replacement of iron casting products. As such, the Company is currently contemplating a series of long-term growth strategies, by development of a product mix of diversified metallic materials and if the Company is going to diversify, it will need to acquire new technologies, production plant and equipment, engage different suppliers and to employ different employees with the relevant expertise and training which may cast a high level of uncertainty on the Company's short-term growth profile and may result in divergence between the Offeror's views on the Company's potential long-term value and investors' views on the Company's share price. To implement such change in strategy, the Company needs to be able to make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

The Company, in response to the growing social and environmental concerns owing to its stakeholder group, is also contemplating the implementation of certain environmentally friendly measures to aim at reducing emission of pollutants during the production process. The cost of such measures may affect the Company's short term profitability, and thus also affect stock price performance in the long run.

Since its listing on the Stock Exchange, the Company's share price performance has not been satisfactory, and specifically, the price earnings ratio of the industrial sector has been reduced to a single digit in Hong Kong market, which does not reflect the growth of the Company's profit achieved and it is substantially below the Company's and its controlling shareholder's expectation. This limits the ability of the Group to attract investor's interests and enhance its market image. The Offeror considers that the underperformance of share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on staff morale.

The liquidity of the Shares has also been at a low level over a long period of time. The average daily trading volume of the Shares for the 12 months up to and including the Last Trading Day was approximately 581,185 Shares per day, representing only approximately 0.26% of the Scheme Shares as at the Announcement Date. The low trading liquidity of the Shares makes it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and to dispose of a large number of Shares when any event that may have an adverse impact on the Company's share price occurs.

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses. If these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

The Proposal is intended to provide Scheme Shareholders with a good opportunity to realize their investments in the Company:

- **Premium valuation:** The Cancellation Price of HK\$3.01 per Scheme Share represents a premium of approximately 27.54% over the closing price per Share over the closing price per Share on the Last Trading Day. The Cancellation Price also represents a premium of approximately 25.94% and 22.86% over the average closing prices of approximately HK\$2.39 and approximately HK\$2.45 per Share for 30 and 60 consecutive trading days up to and including the Last Trading Day, respectively.
- **Certain and immediate premium despite low liquidity:** The Scheme provides an opportunity for Scheme Shareholders, if they so wish, to dispose of their Shares expeditiously and receive cash at a price above the prevailing market price, particularly in light of the underperformance of the share price since the Company's listing. Given the low liquidity of the Shares, it is also challenging for the Scheme Shareholders to realize the Scheme Shares in the stock market without adversely affect the market price of the Shares.

The Directors (other than members of the Independent Board Committee whose views are set out in Part V of this Scheme Document) are of the view that the terms of the Proposal are attractive to the Scheme Shareholders and that the proposed privatization of the Company will be beneficial to the Scheme Shareholders.

Save as mentioned above, upon successful implementation of the Scheme and the Proposal: (i) the Offeror intends to continue the existing business of the Company; (ii) the Offeror has no intention to make any major changes to the existing operation and business, or to discontinue the employment of the employees of the Group; and (iii) the Offeror does not plan to redeploy any of the fixed assets of the Group.

The Board will cooperate with and provide support to the Offeror as regards the Offeror's intention regarding the Group and will continue to act in the best interests of the Group and the Shareholders as a whole.

10. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 31 December 2004. The Group is principally engaged in the design, development, manufacture and sale of customized metal castings used in various industries, and in the provision of moulding, machining and coating services. Such operations are carried out in Tianjin and Suzhou. The Group's customers are mainly industrial manufacturers producing automobiles and automobile parts and components, air conditioners, and air conditioner and refrigerator compressors, and such customers are located in the PRC, the United States, Japan and other countries.

11. INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands with limited liability and is a wholly owned subsidiary of CMP. CMP is a Taiwan-based company listed on the Taiwan Stock Exchange (ticker number: 1532) principally engaged in the manufacturing and distribution of iron castings, including reinforced steel bars, steel billets and iron castings, which are applied in steel material processing and smelting, automobile spare parts, construction hardware components, mechanical and hand tool parts, and transmission system parts, for distribution in the PRC, America, Japan, Europe and other countries. CMP is also involved in the operation of department stores, hotels and amusement parks, as well as the construction, sale and leasing of real estate. As at the Latest Practicable Date, CMP was owned as to 10.72%, 8.32% and 7.25%, respectively, by Quan Yuan, Mr. Ho and an independent shareholder. Other than disclosed above, no other shareholder held 5% or more of the issued shares in CMP as at the Latest Practicable Date. Quan Yuan is a company controlled by the Ho Family. The principal members of the Ho Family include (a) Mr. Ho and his spouse Ms. Wu Shu Chuan (吳淑娟) (who is a director of CMP), who personally and directly held approximately 8.32% and 1.48% shareholding in CMP, respectively, and also had indirect

shareholding in CMP through Quan Yuan; and (b) his daughter, Ms. Ho, who personally and directly held approximately 0.33% shareholding in CMP and also had indirect shareholding in CMP through Quan Yuan. As at the Latest Practicable Date, the Ho Family, directly or indirectly, controlled in aggregate approximately 27.73% of shareholding interest in CMP.

12. WITHDRAWAL OF LISTING OF THE SHARES

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. The Company does not intend to retain its listing on the Stock Exchange if the Scheme becomes effective. The Board will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange, in accordance with Rule 6.15 of the Listing Rules, immediately following the Scheme becoming effective. The Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day of dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares will become effective.

The Scheme 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 Shares on the Stock Exchange will not be withdrawn. If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under Rule 31 of the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any Offeror Concert Party (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, or acquire any voting rights of the Company if the Offeror or persons acting in concert with it would become obliged under Rule 26 of the Takeovers Code to make an offer, except with the consent of the Executive.

If the Independent Board Committee or the Independent Financial Adviser does not recommend the Proposal, the Scheme or the Option Offer, and the Scheme is not approved, all expenses incurred by the Company in connection therewith or with the Proposal or the Option Offer shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

13. COURT MEETING AND EGM

In accordance with the direction of the Cayman Islands Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution to approve the Scheme (with or without modification(s)). All Scheme Shareholders will be entitled to attend and vote on the Scheme at the Court Meeting. The Offeror and persons acting in concert with it will not vote on the Scheme at the Court Meeting.

The EGM will be held immediately after the Court Meeting for the purpose of considering and, if thought fit, passing resolutions to approve, among other things, the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and the allotment and issue of new Shares to the Offeror. All Shareholders will be entitled to attend and vote on such resolutions at the EGM.

Notices of the Court Meeting and the EGM are set out in Appendix IV and Appendix V of this Scheme Document. The Court Meeting and the EGM will be held on Wednesday, 23 August 2017 at the respective times specified in such notices at Room 1801, 18th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong.

It is proposed that the register of members of the Company will be closed from Friday, 18 August 2017 to Wednesday, 23 August 2017 (both days inclusive) (or such other dates as may be notified by the Company by way of announcement(s)) for the purposes of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting and the entitlement of the Shareholders to attend and vote at the EGM. Such book close period is not for determining entitlements under the Scheme. In order to qualify to attend and vote at the Court Meeting and the EGM, the relevant Shareholders should ensure that the relevant forms of transfer of their Shares accompanied by the relevant share certificates are lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by not later than 4:30 p.m. on Thursday, 17 August 2017.

14. ACTIONS TO BE TAKEN BY SHAREHOLDERS AND OPTIONHOLDERS

Your attention is drawn to the paragraphs headed "20. Actions to be taken" of the Explanatory Statement set out in Part VII of this Scheme Document.

15. RECOMMENDATIONS

First Shanghai has been appointed by the Board (with approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Undertakings, the Scheme and the Option Offer. The text of the letter of advice from the Independent Financial Adviser containing its recommendation and the principal factors and reasons that it has taken into consideration in arriving at its recommendation is set out in Part VI of this Scheme Document. We would advise you to read this letter carefully before you take any action in respect of the Proposal, the Scheme and the Option Offer.

The Independent Board Committee has considered the terms of the Proposal, the Undertakings, the Scheme and the Option Offer and taken into account the advice of the Independent Financial Adviser, in particular the factors, reasons and recommendation as set out in the letter from the Independent Financial Adviser on pages 33-55 in Part VI of this Scheme Document. The Independent Board Committee's recommendation is set out in Part V of this Scheme Document.

16. TAXATION

Your attention is drawn to the paragraph headed "18. Taxation" as set out in Part VII of this Scheme Document.

It is emphasized that none of the Company, the Offeror and their respective professional advisers or any of their respective directors or associates or any other person involved in the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

17. FURTHER INFORMATION

You are urged to read carefully the letter from the Independent Board Committee, the letter from the Independent Financial Adviser, the Explanatory Statement, the Scheme and the notices of the Court Meeting and the EGM contained in this Scheme Document and the other appendices to this Scheme Document. Optionholders are also urged to read carefully the Option Offer Letter which is sent separately to the Optionholders.

Yours faithfully,
By order of the Board of
CHINA METAL INTERNATIONAL HOLDINGS INC.
King Fong-Tien
Chairman

**CHINA METAL INTERNATIONAL HOLDINGS INC.****勤美達國際控股有限公司****(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 319)***Executive Directors:*

KING Fong-Tien (*Chairman*)
TSAO Ming-Hong (*Vice Chairman*)
CHEN Shun-Min
HO Pei-Lin

Registered office:

Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town, Grand Cayman
Cayman Islands

Non-executive Director:

Christian Odgaard PEDERSEN

*Principal place of business in
Hong Kong**Independent non-executive Directors:*

LAM Ting Lok
CHIU LIN Mei-Yu (*also known as Mary Lin Chiu*)
CHEN Pou-Tsang (*also known as Angus P.T. Chen*)

Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

13 July 2017

To the Scheme Shareholders and the Optionholders

Dear Sir or Madam,

**(1) PROPOSED PRIVATIZATION OF
CHINA METAL INTERNATIONAL HOLDINGS INC.
BY UNITED ELITE AGENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA METAL INTERNATIONAL HOLDINGS INC.
ON THE STOCK EXCHANGE OF HONG KONG LIMITED**

We refer to the scheme document (the “**Scheme Document**”) dated 13 July 2017 jointly issued by the Company and the Offeror in relation to the Proposal, the Scheme and the Option Offer, of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as given to them in the Scheme Document.

* For identification purposes only

PART V LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Mr. Christian Odgaard Pedersen, who is a non-executive Director, has not been inducted into the Independent Board Committee as he is managing director of Vald Birn, and chairman of the Birn Foundation which is a shareholder of Vald Birn. Vald Birn has provided to the Offeror an irrevocable undertaking to opt out of the Scheme.

We have been appointed by the Board as the Independent Board Committee to advise the Scheme Shareholders in respect of the Proposal.

First Shanghai has been appointed, with our approval, as the Independent Financial Adviser in respect of the Proposal, the Undertakings, the Scheme and the Option Offer.

We wish to draw your attention to (a) the letter from the Board as set out in Part IV of the Scheme Document; (b) the letter from the Independent Financial Adviser as set out in Part VI of the Scheme Document which sets out the factors and reasons taken into account by the Independent Financial Adviser in arriving at its recommendations; and (c) the Explanatory Statement as set out in Part VII of the Scheme Document.

Having considered the terms of the Proposal, the Undertakings, the Scheme and the Option Offer and having taken into account the recommendation of the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser, we consider the terms of the Proposal, the Scheme and the Undertakings are fair and reasonable so far as the Scheme Shareholders are concerned and the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned.

Accordingly, we recommend:

- (1) the Scheme Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting;
- (2) the Scheme Shareholders to vote in favour of the special resolution to approve the Scheme and to reduce the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and the ordinary resolution to increase the issued share capital of the Company to its former amount by the allotment and issue of the same number of Shares as is equal to the number of Scheme Shares cancelled and extinguished, credited as fully paid, to the Offeror at the EGM;
- (3) the Scheme Shareholders to vote in favour of the ordinary resolution to approve the Undertakings as special deals pursuant to Rule 25 of the Takeovers Code at the EGM; and
- (4) the Optionholders to accept the Option Offer.

Yours faithfully,
Independent Board Committee

LAM Ting Lok
*Independent non-executive
Director of the Company*

CHIU LIN Mei-Yu
(also known as Mary Lin Chiu)
*Independent non-executive
Director of the Company*

CHEN Pou-Tsang
*(also known as Angus
P.T. Chen)*
*Independent non-executive
Director of the Company*

The following is the text of the letter of advice to the Independent Board Committee from First Shanghai Capital Limited in respect of the Proposal, the Undertakings, the Scheme and the Option Offer for incorporation in this Scheme Document.

**FIRST SHANGHAI CAPITAL LIMITED**

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

13 July 2017

To the Independent Board Committee

Dear Sir or Madam,

**(1) PROPOSED PRIVATIZATION OF
CHINA METAL INTERNATIONAL HOLDINGS INC.
BY UNITED ELITE AGENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE CAYMAN COMPANIES LAW
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF THE SHARES OF
CHINA METAL INTERNATIONAL HOLDINGS INC.**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, which in turn provides recommendation to the Scheme Shareholders and the Optionholders, in respect of the Proposal, the Undertakings, the Scheme and the Option Offer (collectively, the “**Privatization Transactions**”). Details of the Privatization Transactions are set out in the scheme document jointly issued by the Offeror and the Company dated 13 July 2017 (the “**Scheme Document**”), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document. Exchange rates of RMB0.88 to HK\$1 and US\$1.00 to HK\$7.79 have been adopted in this letter for illustrative purposes.

On 29 May 2017, the Offeror and the Company jointly announced that, on 29 May 2017, the Offeror had requested the Board to put forward to the Scheme Shareholders the proposed privatization of the Company by way of a scheme of arrangement under Section 86 of the

PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Companies Law involving (i) the reduction of the issued share capital of the Company by the cancellation of the Scheme Shares and, in consideration therefor, the payment by the Offeror to the Scheme Shareholders in cash of the Cancellation Price for each Scheme Share so cancelled; (ii) the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new Shares in the same number as the Scheme Shares (which were cancelled) to the Offeror credited as fully paid out of the credit arising in the Company's books of account as a result of the issued share capital reduction referred to in (i) above; and (iii) the withdrawal of the listing of the Shares on the Stock Exchange. The Option Offer would also be made concurrently to the Optionholders to cancel the Share Options held by them.

The implementation of the Proposal is subject to the fulfillment or waiver (as applicable) of the Conditions, which include but not limited to the passing of the resolutions for the implementation of the Proposal at the Court Meeting and at the EGM (collecting, the "Meetings").

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Lam Ting Lok, Mrs. Chiu Lin Mei-Yu (also known as Mary Lin Chiu) and Mr. Chen Pou-Tsang (also known as Angus P.T. Chen), has been established by the Board to make recommendations to the Scheme Shareholders as to whether the terms of the Proposal, the Undertakings and the Scheme are, or are not, fair and reasonable and as to voting, and to the Optionholders as to its views on acceptance of the Option Offer. Mr. Christian Odgaard Pedersen, who is a non-executive Director, has not been included into the Independent Board Committee as he is managing director of Vald Birn and chairman of the Birn Foundation, which is a shareholder of Vald Birn, where Vald Birn has provided to the Offeror an Undertaking. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Privatization Transactions.

Within the past two years from the Latest Practicable Date, apart from our current engagement in relation to the Privatization Transactions, we did not have any business relationship with or significant connection with the Company, the Offeror or the controlling shareholder of the Offeror. We consider ourselves independent to form our opinion in relation to the Privatization Transactions.

In formulating our opinion with regard to the Privatization Transactions, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including those contained or referred to in the Announcement and the Scheme Document). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group, and for which they are wholly responsible, were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the Latest Practicable Date. We consider that the information we have received is sufficient for us to reach an informed view and we have no reason to believe that any material information has been withheld, nor doubt the truth, accuracy or completeness of the information provided. We have also relied on certain information available to the public and we have assumed such

PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. We have also not considered the tax, regulatory and other legal implications on the Scheme Shareholders and the Optionholders in respect of the implementation of the Privatization Transactions, since these implications depend on their individual circumstances. In particular, the Scheme Shareholders and the Optionholders 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 any doubt, should consult their own professional advisers. Should there be any major changes subsequent to the Latest Practicable Date that would affect or alter our opinion, we will notify the Independent Board Committee, the Scheme Shareholders and the Optionholders as soon as practicable.

PRINCIPAL TERMS OF THE PRIVATIZATION TRANSACTIONS

The Cancellation Price under the Proposal and the offer price under the Option Offer are as follows:-

For each Scheme Share HK\$3.01 in cash

For each Share Option HK\$0.49 in cash[#]

[#] *Note:* The offer price for the Share Options is the “see-through” price determined as the Cancellation Price of HK\$3.01 minus the per Share exercise price of the Share Options of HK\$2.52.

As stated in the Announcement and the Scheme Document, the Cancellation Price will not be increased.

The implementation of the Proposal is subject to the fulfillment or waiver (as applicable) of the Conditions, which include but not limited to the passing of all of the resolutions for the implementation of the Proposal at the Meetings. The Option Offer will not be implemented if the Scheme is not sanctioned by the Cayman Islands Grand Court or any of the Conditions is not satisfied and the Scheme does not become effective.

Further details of the terms of the Privatization Transactions, including but not limited to the Conditions, are set out in the Scheme Document. We urge the Scheme Shareholders and the Optionholders to read the Scheme Document in full.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the terms of the Privatization Transactions, we have taken into consideration the following principal factors and reasons.

1. Business and financial information on the Group

The Group is principally engaged in the design, development, manufacture and sale of customized metal castings used in various industries, and in the provision of moulding, machining and coating services. Such operations are carried out in the PRC. The customers of the Group are mainly industrial manufacturers producing automobiles and automobile parts and components, air conditioners, and air conditioner and refrigerator compressors, and such customers are located in the PRC, the United States, Japan and other countries.

With reference to the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”) and 2016 (the “**2016 Annual Report**”), the revenue segments of the Group for each of the years ended 31 December 2014, 2015 and 2016 are as follows:-

	For the year ended 31 December		
	2014	2015	2016
<i>By product segment</i>			
Sales of automobile parts and components	66%	73%	73%
Sales of mechanical parts	24%	18%	19%
Sales of compressor parts	<u>10%</u>	<u>9%</u>	<u>8%</u>
Total revenue	100%	100%	100%
<i>By geographical segment</i>			
The PRC	55%	56%	61%
The United States	32%	35%	29%
Japan	8%	5%	5%
Others	<u>5%</u>	<u>4%</u>	<u>5%</u>
Total revenue	100%	100%	100%

We note that the majority of the revenue of the Group was derived from the sales of automobile parts and components in the PRC for the years ended 31 December 2014, 2015 and 2016.

PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.1 Historical financial performance of the Group

The following table summarises the statement of profit or loss of the Group for each of the years ended 31 December 2014, 2015 and 2016 as extracted from the 2015 Annual Report and the 2016 Annual Report.

	For the year ended 31 December		
	2014	2015	2016
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Revenue	347	310	303
Cost of sales	<u>(261)</u>	<u>(225)</u>	<u>(216)</u>
Gross profit	86	85	87
Other revenue	2	1	1
Other net (loss)/income	(1)	3	5
Selling and distribution costs	(19)	(17)	(16)
Administrative expenses	<u>(17)</u>	<u>(23)</u>	<u>(24)</u>
Profit from operations	51	49	53
Finance costs	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Profit before taxation	50	48	52
Income tax	<u>(9)</u>	<u>(8)</u>	<u>(10)</u>
Profit for the year	41	40	42

Note: The figures for the year ended 31 December 2015 in the above table are based on the 2016 Annual Report and the figures for the year ended 31 December 2014 in the above table are based on the 2015 Annual Report. According to the 2016 Annual Report, certain comparative figures have been reclassified to conform to the current period's presentation, where approximately US\$5 million was reclassified from cost of sales to administrative expenses for the year ended 31 December 2015.

The revenue of the Group has been deteriorating, but the Group has maintained its net profit, where, for each of the years ended 31 December 2014, 2015 and 2016, the Group recorded revenue of approximately US\$347 million, US\$310 million and US\$303 million and recorded net profit of approximately US\$41 million, US\$40 million and US\$42 million, respectively.

(a) *From the year ended 31 December 2014 to the year ended 31 December 2015*

Revenue of the Group decreased from approximately US\$347 million for the year ended 31 December 2014 to approximately US\$310 million for the year ended 31 December 2015, representing an annual decline of approximately 11%. Such deterioration in revenue was attributable to the decline in revenue from all three business segments, particularly for the sales of mechanical parts, which lowered from approximately US\$82 million for the year ended 31 December 2014 to approximately US\$54 million for the year ended 31 December 2015.

Operating profit margin of the Group increased from approximately 15% for the year ended 31 December 2014 to approximately 16% for the year ended 31 December 2015, which was followed by (i) the increase in profit before tax margin from approximately 14% for the year ended 31 December 2014 to approximately 15% for the year ended 31 December 2015; and (ii) the increase in net profit margin from approximately 12% for the year ended 31 December 2014 to approximately 13% for the year ended 31 December 2015.

(b) *From the year ended 31 December 2015 to the year ended 31 December 2016*

Revenue of the Group decreased from approximately US\$310 million for the year ended 31 December 2015 to approximately US\$303 million for the year ended 31 December 2016, representing an annual decline of approximately 2%. Such deterioration in revenue was attributable to, among other factors, the decline in revenue from the sales of automobile parts and components and the sales of compressor parts.

Operating profit margin of the Group increased from approximately 16% for the year ended 31 December 2015 to approximately 17% for the year ended 31 December 2016, which was followed by (i) the increase in profit before tax margin from approximately 15% for the year ended 31 December 2015 to approximately 17% for the year ended 31 December 2016; and (ii) the increase in net profit margin from approximately 13% for the year ended 31 December 2015 to approximately 14% for the year ended 31 December 2016. According to the 2016 Annual Report, the improvement in profitability of the Group for the year ended 31 December 2016 was due to effective operations.

PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2 Historical financial position of the Group

The following table summarises the statement of financial position of the Group as at 31 December 2016.

	As at 31 December 2016 <i>US\$ million</i> <i>(Audited)</i>
Non-current assets	
Property, plant and equipment	169
Other non-current assets	9
	<hr/> 178
Current assets	
Trade and other receivables	131
Inventories	46
Cash and bank balances	30
Other current assets	4
	<hr/> 211
Current liabilities	
Trade and other payables	54
Other current liabilities	8
	<hr/> 62
Non-current liabilities	
Long-term loans	22
Deferred tax liabilities	2
	<hr/> 24
Net current assets	149
Net assets	303

As at 31 December 2016, (i) the principal assets of the Group were property, plant and equipment and trade and other receivables; and (ii) the principal liabilities of the Group were trade and other payables and long-term loans. The Group recorded net assets of approximately US\$303 million as at 31 December 2016.

Total dividend payable to the Shareholders attributable to the year (including interim dividend, special interim dividend, final dividend and special final dividend) was approximately US\$24 million (US\$0.024 per Share), US\$42 million (US\$0.042 per Share) and US\$28 million (US\$0.028 per Share) for each of the years ended 31 December 2014, 2015 and 2016, respectively. We note that the dividend payable amount fluctuates from year to year.

Further details of the financial information of the Group are set out in Appendix I to the Scheme Document.

1.3 Prospects of the principal business of the Group

We have reviewed the industry report titled “Automotive metal components for car bodies and chassis”, dated February 2017 and published by Roland Berger (the “**Industry Report**”). In respect of the background and recognition of Roland Berger, we understand (i) it is a global consultancy firm founded in 1967 and has over 2,000 employees working in over 30 countries; and (ii) its research results had been quoted in, among other publications, the listing documents of several Hong Kong listed companies. We understand from the Industry Report that (i) the compound annual growth rate of the vehicle production market in the PRC is expected to be approximately 3.8% from 2015 to 2025; (ii) the compound annual growth rate of the vehicle production market in the region of the North American Free Trade Agreement (NAFTA), covering the United States, Canada and Mexico, is expected to be approximately 0.6% from 2015 to 2025; (iii) in respect of vehicle weight, the need for lightweight materials has been increasing in order to reduce carbon dioxide emissions; and (iv) vehicle manufacturers are converging on multi-material strategies which use a mix of ferrous and non-ferrous metals alongside plastics.

With reference to the letter from the Board in the Scheme Document, we understand (i) many of the customers of the Group are overseas automakers or component manufacturers and the market outlook for automobile parts and components, in particular in the United States market, is anticipated to remain challenging in the foreseeable future; (ii) the Group has long been concentrating on iron casting production which results in heavy weight products and such segment is facing increasing pressure over its business growth, where the customers of the Group are increasingly in demand of light weight casting such as aluminum in replacement of iron casting products; and (iii) the Group is currently contemplating a series of long-term growth strategies by development of a product mix of diversified metallic materials and if the Company is going to diversify, it will need to acquire new technologies, production plant and equipment, engage different suppliers and to employ different employees with the relevant expertise and training, which may cast a high level of uncertainty on the short-term growth profile of the Group.

Taking into account the aforementioned, particularly (i) the track record of the deterioration in the revenue of the Group in the recent years based on our review of the 2015 Annual Report and the 2016 Annual Report; (ii) the expected single digit growth of the automotive industry in the upcoming years based on our review of the Industry Report; (iii) the Group has long been concentrating on iron casting production which results in heavy weight products but the customers are increasingly in demand of light weight casting such as

aluminum in replacement based on our review of the disclosures in the Scheme Document; and (iv) the need for lightweight materials has been increasing in the automotive industry in order to reduce carbon dioxide emissions based on our review of the Industry Report, we consider the growth potential of the principal business of the Group to be uncertain.

2. Background and intentions of the Offeror

The Offeror is the controlling shareholder of the Company.

The Offeror is a wholly owned subsidiary of CMP, which is a Taiwan-based company listed on the Taiwan Stock Exchange. CMP is principally engaged in the manufacturing and distribution of iron castings, including reinforced steel bars, steel billets and iron castings, which are applied in steel material processing and smelting, automobile spare parts, construction hardware components, mechanical and hand tool parts, and transmission system parts, for distribution in the PRC, America, Japan, Europe and other countries. CMP is also involved in the operation of department stores, hotels and amusement parks, as well as the construction, sale and leasing of real estate.

With reference to the Explanatory Statement in Part VII of the Scheme Document, in addition to the industry prospects of the Group covered above:

- a) the share price performance of the Company has not been satisfactory since its listing on the Stock Exchange, which does not reflect the growth of the profit achieved by the Company, and it is substantially below the expectation of the controlling shareholder of the Company. This limits the ability of the Group to attract investors' interests and enhance its market image;
- b) the Offeror considers that the underperformance of share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on staff morale;
- c) the liquidity of the Shares has also been at a low level over a long period of time. Such low trading liquidity of the Shares makes it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and to dispose of a large number of Shares when any event that may have an adverse impact on the Company's share price occurs; and
- d) the listing status of the Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses. If these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

The Proposal, which the Offeror had requested the Board to put forward to the Scheme Shareholders, is intended to provide Scheme Shareholders with a good opportunity to realize their investments in the Company.

PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. The Privatization Transactions

On 29 May 2017, the Offeror and the Company jointly announced that, on 29 May 2017, the Offeror had requested the Board to put forward to the Scheme Shareholders the proposed privatization of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving (i) the reduction of the issued share capital of the Company by the cancellation of the Scheme Shares and, in consideration therefor, the payment by the Offeror to the Scheme Shareholders in cash of the Cancellation Price for each Scheme Share so cancelled; (ii) the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new Shares in the same number as the Scheme Shares (which were cancelled) to the Offeror credited as fully paid out of the credit arising in the Company's books of account as a result of the issued share capital reduction referred to in (i) above; and (iii) the withdrawal of the listing of the Shares on the Stock Exchange. The Option Offer would also be made concurrently to the Optionholders to cancel the Share Options held by them.

On the assumption that no outstanding Share Options will be exercised before the Scheme Record Date and that there is no change in shareholding of the Company before completion of the Scheme, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Scheme:

	As at the Latest Practicable Date		Immediately upon completion of the Scheme	
	Approximate % of the total Number of Shares		Approximate % of the total Number of Shares	
	issued share capital		issued share capital	
Offeror and Offeror Concert Parties ⁽¹⁾	597,128,059	59.87	823,281,475	82.55
Committed Shareholders: ⁽²⁾				
Vald Birn	103,900,922	10.42	103,900,922	10.42
Yanmar	43,494,286	4.36	43,494,286	4.36
The Ho Shareholders	20,315,551	2.04	20,315,551	2.04
Mr. Tsao	<u>6,373,766</u>	<u>0.64</u>	<u>6,373,766</u>	<u>0.64</u>
	174,084,525	17.45	174,084,525	17.45
Subtotal	771,212,584	77.32	997,366,000	100.00
Scheme Shareholders	<u>226,153,416</u>	<u>22.68</u>	<u>0</u>	<u>0.00</u>
Total	<u>997,366,000</u>	<u>100.00</u>	<u>997,366,000</u>	<u>100.00</u>

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Notes:

1. As at the Latest Practicable Date, the Offeror held the 597,128,059 Shares and the Offeror Concert Parties did not hold any Share.
2. The Committed Shareholders has irrevocably undertaken to the Offeror not to participate in the Scheme pursuant to the Undertakings.

The implementation of the Proposal is subject to the fulfillment or waiver (as applicable) of the Conditions, which include but not limited to the passing of all the resolutions for the implementation of the Proposal at the Meetings. If the Scheme is not sanctioned by the Cayman Islands Grand Court or any of the Conditions is not satisfied and the Scheme does not become effective, the Option Offer will not be implemented.

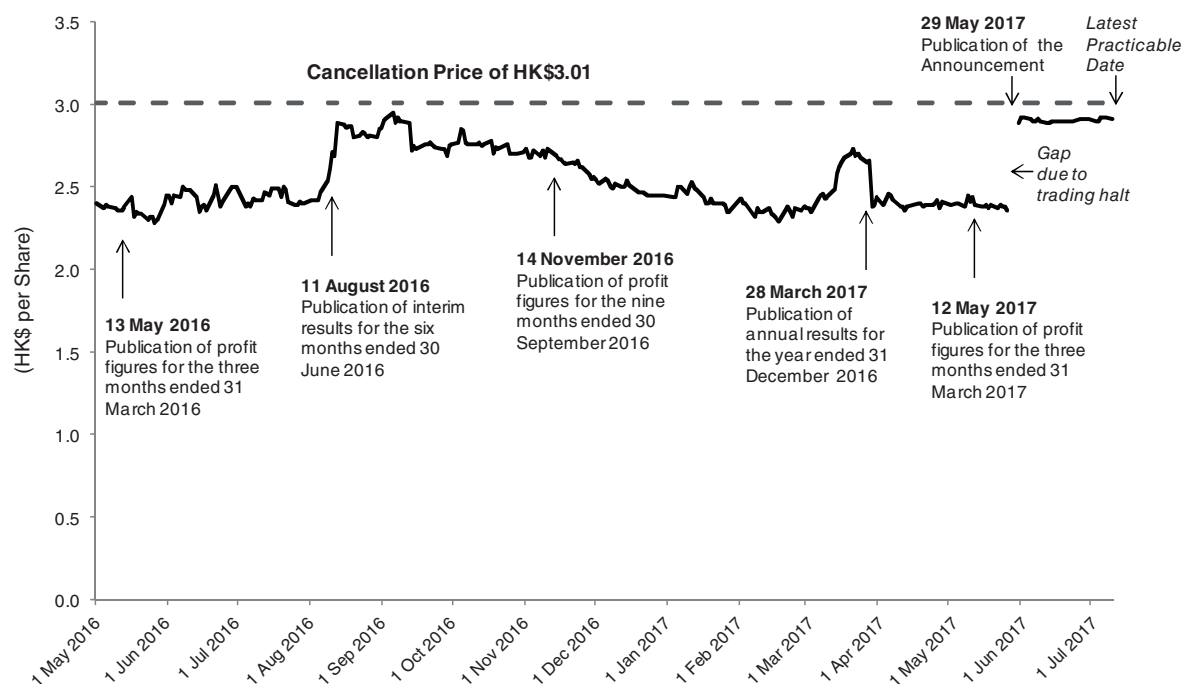
Further details of the terms of the Privatization Transactions, including but not limited to the Conditions, are set out in the Scheme Document.

3.1 *Principal terms of the Scheme and the Proposal*

The Cancellation Price under the Proposal is HK\$3.01 per Scheme Share. As stated in the Announcement and the Scheme Document, the Cancellation Price will not be increased. The Cancellation Price represents:-

- (a) a premium of approximately 3% over the closing price per Share as quoted on the Stock Exchange as at the Latest Practicable Date of HK\$2.91;
- (b) a premium of approximately 28% over the closing price per Share as quoted on the Stock Exchange on the Last Trading Day of HK\$2.36;
- (c) a premium of approximately 26% over the average closing price per Share as quoted on the Stock Exchange for the ten trading days up to and including the Last Trading Day of approximately HK\$2.38;
- (d) a premium of approximately 26% over the average closing price per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day of approximately HK\$2.39; and
- (e) a premium of approximately 27% over the latest published net assets of the Group per Share, being the audited net assets of the Group as at 31 December 2016 of approximately US\$303 million divided by 997,366,000 Shares as at the Last Trading Day, of approximately US\$0.304 (equivalent to approximately HK\$2.368) (the “**2016 NAV**”).

The chart below depicts the closing prices of the Shares as quoted on the Stock Exchange from 1 May 2016, being approximately one year before the date of the Announcement, up to and including the Latest Practicable Date (the “**Review Period**”, where for the period from 1 May 2016 up to and including the Last Trading Day, the “**Pre-Announcement Period**”).



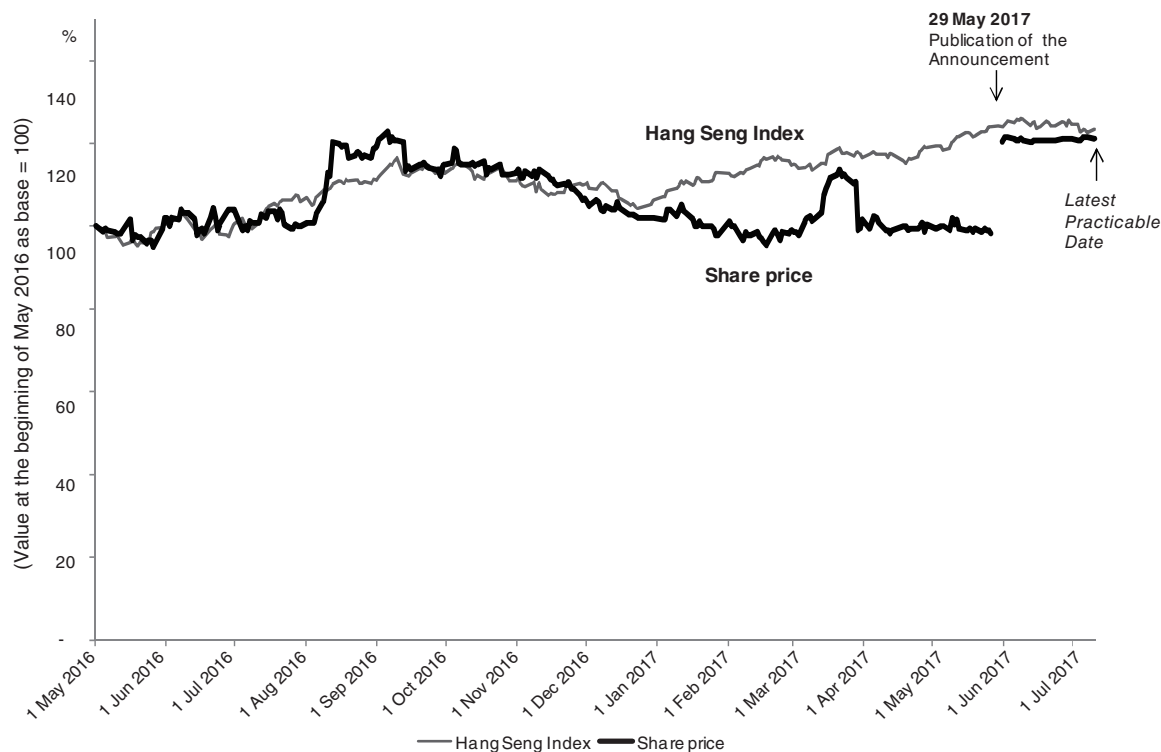
Source: Bloomberg and the website of the Stock Exchange

The closing prices of the Shares were mainly around HK\$2.30 to HK\$2.50 in May, June and July 2016. In August 2016, the closing prices of the Shares climbed and reached HK\$2.89 on 12 August 2016 and further reached the high point of HK\$2.95 on 5 September 2016. Nonetheless, since then, the closing prices of the Shares demonstrated a downward trend and reached a low point of HK\$2.29 on 17 February 2017.

The closing prices of the Shares climbed again in March 2017 and reached HK\$2.73 on 21 March 2017. However, following the publication of the annual results announcement of the Company for the year ended 31 December 2016 after trading hours on 28 March 2017, the closing price of the Shares plummeted from HK\$2.66 on 28 March 2017 to HK\$2.38 on 29 March 2017. Since then, the closing prices of the Shares were mainly within the range of HK\$2.30 to HK\$2.45 until the Last Trading Day.

Following the publication of the Announcement on 29 May 2017, which stated details of the Scheme and the Cancellation Price of HK\$3.01, the closing price of the Shares surged from HK\$2.36 on the Last Trading Day to HK\$2.89 on 31 May 2017. Since then, the closing prices of the Shares were mainly between HK\$2.89 and HK\$2.92 up to the Latest Practicable Date.

The chart below depicts the comparison of the movement of the closing price of the Shares and the Hang Seng Index during the Review Period with base as 100 at the beginning of the Review Period.



Source: Bloomberg

With reference to the above chart, (i) from May 2016 to December 2016, the movements of the closing price of the Share were generally in line with that of the Hang Seng Index; and (ii) from January 2017 to the Last Trading Day, the closing prices of the Share generally underperformed as compared with that of the Hang Seng Index.

The Cancellation Price of HK\$3.01 was higher than the closing prices of the Shares during the Review Period. The average of the closing prices of the Shares during the Pre-Announcement Period was approximately HK\$2.53, where the Cancellation Price represents a premium of approximately 19% over such average price. Following the publication of the Announcement, which publicized the Scheme and the Cancellation Price of HK\$3.01, the price of the Shares surged to around HK\$2.90. The sustainability of the higher price level of the Shares following the publication of the Announcement is uncertain, particularly if the Proposal does not take place in case the resolutions related to the Privatization Transactions are not approved at the Meetings.

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Liquidity of the Shares

The following table sets out the statistics of the monthly trading volume of the Shares during the Review Period.

	Average trading volume of the Shares for each trading day <i>(Number of Shares)</i>	Average trading volume of the Shares to the total number of Shares for each trading day <i>(%)</i>
2016		
May	363,048	0.04%
June	1,807,619	0.18%
July	190,478	0.02%
August	379,282	0.04%
September	430,229	0.04%
October	219,579	0.02%
November	164,909	0.02%
December	230,000	0.02%
2017		
January	657,263	0.07%
February	555,100	0.06%
March	1,174,522	0.12%
April	507,294	0.05%
May	676,671	0.07%
June	729,000	0.07%
July (<i>up to the Latest Practicable Date</i>)	141,000	0.01%

Source: Bloomberg

We note from the above table that the trading volume of the Shares has been thin during the Review Period, where the percentages of average trading volume of the Shares for each trading day to the average of the total number of Shares were mainly below 0.10%. The higher percentage in June 2016 was primarily attributable to the increase in shareholding of the Offeror by 30,000,000 Shares on 20 June 2016, where the total trading volume was 30,624,000 Shares on that day.

The Scheme Shares represents approximately 23% of the issued share capital of the Company as at the Latest Practicable Date. Given the thin trading volume of the Shares, the Scheme Shareholders may find it difficult to dispose of a large volume of Shares in the open

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market in a short period of time without exerting downward pressure on the price of the Shares. Therefore, the Scheme provides a viable alternative exit for the Scheme Shareholders, particularly for those who hold a large volume of the Shares, to realise their investments in the Company.

Market comparison

We have identified an exhaustive list of comparable companies (the “**Comparable Companies**”), which are listed on the Stock Exchange and principally engaged in businesses comparable to those of the Group, being primarily engaged in businesses related to automotive parts and components in the PRC. The following table sets out the price to book value ratio (the “**P/B Ratio**”) and the price to earnings ratio (the “**P/E Ratio**”) of the Comparable Companies.

Company name (stock code)	Principal business	P/B Ratio⁽¹⁾ (times)	P/E Ratio⁽²⁾ (times)
Xinchen China Power Holdings Limited (1148 HK)	Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles	0.5	7.0
Wuling Motors Holdings Limited (305 HK)	Manufacturing and trading of engines and parts, automotive components and accessories and provision of other industrial services	0.9	7.4
BeijingWest Industries International Limited (2339 HK)	Manufacture and sale of automotive parts and components	1.1	8.0
Zhejiang Shibao Company Limited (H shares: 1057 HK) (“ ZJSB ”)	Develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system	1.2	29.0

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Company name (stock code)	Principal business	P/B Ratio⁽¹⁾ (times)	P/E Ratio⁽²⁾ (times)
Huazhong In-Vehicle Holdings Company Limited (6830 HK)	Manufacture and sale of internal and external decorative and structural automobile parts, moulds and tooling, casing and liquid tank of air conditioning or heater units and other non-automobile products	1.9	12.5
Mint Group Limited (425 HK)	Design, manufacturing, processing, developing and sales of automobile body parts and moulds of passenger cars	2.8	17.4
	Maximum:	2.8	29.0
	Mean:	1.4	13.6
	Median:	1.2	10.3
	Minimum:	0.5	7.0
	Adjusted maximum ⁽³⁾ :		17.4
	Adjusted mean ⁽³⁾ :		10.5
	Adjusted median ⁽³⁾ :		8.0
	Adjusted minimum ⁽³⁾ :		7.0
	The Cancellation Price⁽⁴⁾:	1.3	9.1

Source: the website of the Stock Exchange

Notes:

- (1) The P/B Ratio is derived from dividing the market capitalisation (based on the total number of ordinary shares as disclosed in the latest monthly return or relevant disclosures and the closing share price quoted on the Stock Exchange as at the Last Trading Day) by the audited consolidated net assets attributable to shareholders as at 31 December 2016.
- (2) The P/E Ratio is derived from dividing the market capitalisation (based on the total number of ordinary shares as disclosed in the latest monthly return or relevant disclosures and the closing share price quoted on the Stock Exchange as at the Last Trading Day) by the audited consolidated profit attributable to shareholders for the year ended 31 December 2016.
- (3) The calculation of adjusted statistics has excluded the P/E Ratio of ZJSB due to its extreme values. The higher P/E Ratio of ZJSB may be due to, among other factors, ZJSB is the only Comparable Company dual listed with H shares and A shares, where we note that the closing price of its A shares represented a premium of approximately 278% over the closing price of its H shares on the Last Trading Day.

- (4) The P/B Ratio and the P/E Ratio of the Cancellation Price are derived from dividing the Cash Consideration of HK\$3.01 per Share by the audited consolidated net assets of the Company per Share of approximately HK\$2.37 as at 31 December 2016 and the audited consolidated net profit per Share of the Company of approximately HK\$0.33 for the year ended 31 December 2016, respectively.

As illustrated in the above table, (i) the P/B Ratio represented by the Cancellation Price is around the mean and median of those of the Comparable Companies; and (ii) the P/E Ratio represented by the Cancellation Price is around the adjusted mean and median of those of the Comparable Companies. Accordingly, we consider the P/B Ratio and the P/E Ratio represented by the Cancellation Price to be at an acceptable level and this is one of the factors which we take into account when we form our opinion on the fairness and reasonableness on the terms of the Proposal and the Scheme as set out in the sub-paragraph headed “Analysis of the principal terms of the Proposal and the Scheme” below.

We have identified an exhaustive list of privatisation proposals by way of scheme of arrangement (the “**Privatization Precedents**”), which had offer period commenced and had successfully delisted from the Stock Exchange during the Pre-Announcement Period. The following table sets out the comparison of the offer price with trading prices of the Privatization Precedents.

Commencement date of offer period	Company name (Stock code)	Premium of cancellation price over the closing price prior to the commencement of the offer period		
		Last trading day	10-day share price average	30-day share price average
10 January 2017	Intime Retail (Group) Company Limited (1833 HK)	42%	48%	52%
23 September 2016	Chinalco Mining Corporation International (3668 HK)	32%	34%	34%
8 July 2016	Nirvana Asia Ltd (1438 HK)	22%	35%	37%
17 June 2016	Bracell Limited (1768 HK)	45%	114%	137%
12 June 2016	TCL Communication Technology Holdings Limited (2618 HK)	39%	48%	52%
29 May 2016	Aupu Group Holding Company Limited (477 HK)	27%	28%	32%

Commencement date of offer period	Company name (Stock code)	Premium of cancellation price over the closing price prior to the commencement of the offer period		
		Last trading day	10-day share price average	30-day share price average
24 May 2016	Peak Sport Products Co., Limited (1968 HK)	35%	42%	34%
	Maximum:	45%	114%	137%
	Mean:	35%	50%	54%
	Median:	35%	42%	37%
	Minimum:	22%	28%	32%
The Cancellation Price		28%	26%	26%

Source: Bloomberg and publications on the website of the Stock Exchange by the subject companies

We note that the premium of the Cancellation Price over the closing price on the Last Trading Day is within the range of those of the Privatization Precedents. We also note that the premiums of the Cancellation Price over the 10-day share price average and the 30-day share price average preceding up to the Last Trading Day are slightly under the low end of those of the Privatization Precedents. These comparisons are some of the factors which we take into account when we form our opinion on the fairness and reasonableness on the terms of the Proposal and the Scheme as set out in the sub-paragraph headed “Analysis of the principal terms of the Proposal and the Scheme” below.

Analysis of the principal terms of the Proposal and the Scheme

Having collectively considered the aforesaid principal factors and reasons, in particular:

- (a) the premium of the Cancellation Price, where the Cancellation Price (i) represents a premium of approximately 28% over the closing price per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) represents a premium of approximately 27% over the 2016 NAV; and (iii) is higher than the closing prices of the Shares throughout the Review Period;
- (b) the uncertainty of the prospect of the business of the Group in view of (i) the track record of the deterioration in the revenue of the Group; (ii) the expected single digit growth of the automotive industry in the upcoming years; and (iii) the Group has long been concentrating on iron casting production which results in heavy weight products but the customers are increasingly in demand of light weight casting such as aluminum in replacement;

- (c) the overall declining trend of the closing prices of the Shares from September 2016 to the Last Trading Day and the recent hike in trading price in June 2017 may be due to the Proposal, where the price level following such hike may not be sustainable;
- (d) in view of the thin trading volume of the Shares, the Scheme provides a viable alternative exit for the Scheme Shareholders, particularly for those who hold a large volume of the Shares, to realise their investments in the Company; and
- (e) in respect of market comparison, despite the premiums of the Cancellation Price over the 10-day share price average and the 30-day share price average preceding up to the Last Trading Day are slightly under the low end of those of the Privatization Precedents, (i) the premium of the Cancellation Price over the closing price on the Last Trading Day is within the range of those of the Privatization Precedents; and (ii) the P/B Ratio and the P/E Ratio represented by the Cancellation Price are around the mean and median of those of the Comparable Companies as aforesaid,

we consider the terms of the Proposal and the Scheme to be fair and reasonable so far as the Scheme Shareholders are concerned.

3.2 Principal terms of the Undertakings

On 28 May 2017 and 29 May 2017, the Offeror received the Undertakings from the Committed Shareholders, pursuant to which each of the Committed Shareholders has undertaken irrevocably and unconditionally, among other things:

- (a) none of the Committed Shareholders and parties acting in concert with it (the “**Committed Shareholder Parties**”) will from the date of such irrevocable undertaking until the closing of the Scheme and the Option Offer, (i) dispose (including but not limited to sell, transfer, charge, encumber, grant any option over or otherwise dispose) of any interest or voting rights in any Shares whether conditionally or otherwise or (ii) acquire any further or additional interest or voting rights in any Shares including for the avoidance of doubt, by the exercise of any Share Options held by the Committed Shareholder Parties;
- (b) the Committed Shareholder Parties shall not participate in the Scheme and the Shares and/or Share Options held by such Committed Shareholder Parties shall not constitute the Scheme Shares, and such Committed Shareholder Parties shall not accept or purport to accept any offer by the Offeror under the Scheme in respect of any of the Shares and/or Share Options held by the Committed Shareholder Parties;

- (c) to the extent permitted under the Listing Rules and by the Cayman Islands Grand Court, the Committed Shareholder Parties shall vote, or direct their nominees and custodians as the case may be to vote, in favour of any resolution of the members of the Company put forward for the implementation of the Scheme including but not limited to the reduction of capital as a result of the cancellation of Shares subject to the Scheme and the issuance of new Shares to the Offeror, and the proposed withdrawal of the listing of the Shares from the Stock Exchange;
- (d) the Committed Shareholder Parties shall not solicit, encourage, accept, agree to accept or give any indication of an intention to accept any offer from any party other than the Offeror in respect of any or all of the Shares whether conditional or unconditional (by whatever means the same is to be implemented) or otherwise take any action whatsoever or omit to take any action the omission of which would interfere, impede, delay, frustrate, prevent or adversely affect the performance of any of its obligations under the undertaking or the adoption or implementation or closing of the Scheme including but limited to voting in favour of transactions or resolutions put forward in alternative or in opposition to or competing with or otherwise inconsistent with the adoption or implementation or closing of the Scheme; and
- (e) none of the Committed Shareholder Parties shall make any agreement or contract in any form and whether conditionally or otherwise either to do any act or thing prohibited by the Undertakings or which has substantially the same economic effect, or to omit to do any act or thing required under the irrevocable undertaking or which has substantially the same economic effect.

As at the Latest Practicable Date, (i) there were 997,366,000 Shares in issue; (ii) the Offeror held 597,128,059 Shares, representing approximately 60% of the issued share capital of the Company; (iii) the Committed Shareholders (who have provided the Undertakings to opt-out from the Scheme) in aggregate held 174,084,525 Shares, representing approximately 17% of the issued share capital of the Company; and (iv) the remaining 226,153,416 Shares constituted the Scheme Shares which were held by the Scheme Shareholders, representing approximately 23% of the issued share capital of the Company. Their respective Undertakings to opt out of the Scheme and remain as Shareholders upon the delisting of the Shares are conditional on approval as special deals pursuant to Rule 25 of the Takeovers Code.

The Proposal is conditional on, among other things, the approval of the Undertakings at the EGM. None of the Offeror and the Offeror Concert Parties who hold Shares, or Vald Birn, Yanmar, Mr. Tsao and the Ho Shareholders, their respective concert parties, or Mr. Christian Odgaard Pedersen, will vote on the resolution in respect of the Undertaking at the EGM. After taking into account the following principal factors and reasons:

- (a) the Committed Shareholders, who have undertaken to opt out of the Scheme and remain as Shareholders upon completion of the Scheme, are not only Shareholders but also closely involved in the business of the Group, where (i) Mr. Tsao has been a founder of the Company and is an executive Director; (ii) Ms. Ho is an executive

Director; (iii) Mr. Ho is a founder of the Company and is the father of Ms. Ho; and (iv) Vald Birn and Yanmar have been customers of the Group and are both long-term strategic partners of the Group, where, as stated in the prospectus of the Company dated 20 December 2004, the Group had established technical co-operation relationship with Vald Birn and Yanmar, both of which were strategic shareholders in respect of the technical information and know-how of metal casting;

- (b) no consideration, compensation or benefit in whatever form is provided by the Offeror or the Offeror Concert Parties to the Committed Shareholders or their respective concert parties in connection with the Proposal or the Undertakings; and
- (c) the terms of the Scheme are fair and reasonable so far as the Scheme Shareholders are concerned as analysed above, where (i) through the Undertakings, the Committed Shareholders have forgone their opportunities to participate in and to realise their investments in the Company under the Scheme; and (ii) one of the Conditions of the Scheme to be implemented for the Scheme Shareholders is the approval of the Undertakings by the Scheme Shareholders at the EGM,

we consider the terms of the Undertakings to be fair and reasonable so far as the Scheme Shareholders are concerned.

3.3 Principal terms of the Option Offer

As at the Latest Practicable Date, the Share Options previously granted under the Old ESOP remained outstanding, pursuant to which up to a maximum of 6,070,000 new Shares may be issued at HK\$2.52 per new Share, representing approximately 0.61% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.60% of the issued share capital of the Company as enlarged by the issue of such new Shares.

Under Rule 13 of the Takeovers Code, the Offeror is required, in connection with the making of the offer to the Scheme Shareholders, also to extend an appropriate offer to the Optionholders. Mr. Tsao has agreed under his Undertaking not to exercise his Share Options, which are exercisable into 1,000,000 new Shares, from the date of the Announcement until the date the Proposal has been completed or (as the case may be) until such time it is determined that the Proposal will not be proceeded with. The Offeror will therefore, subject to the Scheme becoming effective, make an offer to the other Optionholders to cancel all their outstanding Share Options, vested and unvested, in exchange for cash, being an amount equal to HK\$0.49 for each outstanding Share Option. Such price is the “see-through” price, which is the Cancellation Price of HK\$3.01 minus the per Share exercise price of HK\$2.52 under the Share Options. If the Scheme is not sanctioned by the Cayman Islands Grand Court or any of the Conditions is not satisfied and the Scheme does not become effective, the Option Offer will not be implemented and all Share Options will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Old ESOP.

We consider the Cancellation Price to be fair and reasonable as discussed above and we also understand the option offer price determined by the “see-through” principle (i) reflects the amount obtained by an Optionholder for exercising an Option and realise the Shares issued upon such exercise at the Cancellation Price; (ii) is consistent with the requirements under the Takeovers Code; and (iii) is an normally adopted approach in Hong Kong for options in privatization proposals, therefore we consider the terms of the Option Offer to be fair and reasonable so far as the Optionholders are concerned.

OPINION AND RECOMMENDATION

Based on the factors mentioned under the paragraph headed “3.1 Principal terms of the Scheme and the Proposal” in our letter above, particularly (i) the premium of the Cancellation Price; (ii) the uncertainty of the prospect of the business of the Group; (iii) the overall declining trend of the closing prices of the Shares; and (iv) the thin trading volume of the Shares, we consider the terms of the Proposal and the Scheme to be fair and reasonable so far as the Scheme Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Scheme Shareholders to vote in favour of the Proposal and the Scheme at the Meetings.

Based on the factors mentioned under the paragraph headed “3.2 Principal terms of the Undertakings” in our letter above, particularly (i) the Committed Shareholders are not only Shareholders but also closely involved in the business of the Group; (ii) no consideration, compensation or benefit in whatever form is provided by the Offeror or the Offeror Concert Parties to the Committed Shareholders or their respective concert parties in connection with the Proposal; and (iii) the terms of the Scheme are fair and reasonable so far as the Scheme Shareholders and one of the Conditions of the Scheme to be implemented for the Scheme Shareholders is the approval of the Undertakings by the Scheme Shareholders at the EGM, we consider the terms of the Undertakings to be fair and reasonable so far as the Scheme Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Scheme Shareholders to vote in favour of the Undertakings at the Meetings.

Based on the factors mentioned under the paragraph headed “3.3 Principal terms of the Option Offer” in our letter above, particularly the “see through principle” was adopted for the determination of the option offer price, we consider the terms of the Option Offer to be fair and reasonable so far as the Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Optionholders to accept the Option Offer.

We would like to remind the Scheme Shareholders and the Optionholders who would like to realise part or all of their Shares or Share Options to closely monitor the market price of the Shares during the Offer Period and may consider selling their Shares, or exercising their vested Share Options and selling the Shares issued upon such exercise, in the open market should the proceeds, net of all transaction costs, of such sale exceed the amount receivable under the Scheme. In any case, the Scheme Shareholders and the Optionholders are strongly advised that the decision to realise or to hold their Shares and Share Options is subject to individual circumstances and investment objectives.

If in doubt, the Scheme Shareholders and the Optionholders should consult their own professional advisers for professional advice.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Fanny Lee
Managing Director

Allen Wang
Director

Note: Ms Fanny Lee and Mr Allen Wang have been responsible officers of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and 2014, respectively. Both of them have participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.

This Explanatory Statement constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT
TO CANCEL ALL THE SCHEME SHARES**

1. INTRODUCTION

As disclosed in the Announcement, on 29 May 2017 the Offeror requested the Board to put forward a proposal to the Scheme Shareholders regarding the proposed privatization of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving (i) the reduction of the issued share capital of the Company by the cancellation of the Scheme Shares and, in consideration therefor, the payment by the Offeror to the Scheme Shareholders in cash of the Cancellation Price for each Scheme Share so cancelled, (ii) the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new Shares in the same number as the Scheme Shares (which were cancelled) to the Offeror credited as fully paid out of the credit arising in the Company's books of account as a result of the Capital Reduction referred to in (i) above, and (iii) the withdrawal of the listing of the Shares on the Stock Exchange. An offer would also be made concurrently to the Optionholders to cancel the Share Options held by them in exchange for the payment to them of the see-through price of the Share Options in cash. Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, on the assumption that no outstanding Share Options will be exercised before the Scheme Record Date and that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Scheme Record Date, the Offeror will hold approximately 82.55% of the issued share capital of the Company, and the Committed Shareholders will continue to hold in aggregate approximately 17.45% of the issued share capital of the Company.

The purpose of this Explanatory Statement is to set out the terms and effects of the Proposal and to give the Scheme Shareholders and the Optionholders other relevant information in relation to the Proposal, the Undertakings, the Scheme and the Option Offer, in particular, to provide the intentions of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme.

Particular attention is drawn to (a) a letter from the Board set out in Part IV of this Scheme Document; (b) a letter of recommendation from the Independent Board Committee set out in Part V of this Scheme Document; (c) a letter of advice from the Independent Financial Adviser set out in Part VI of this Scheme Document; and (d) the Scheme set out in Appendix III to this Scheme Document.

2. TERMS OF THE PROPOSAL

The Proposal will be implemented by way of the Scheme.

The Scheme

As at the Latest Practicable Date, (i) there were 997,366,000 Shares in issue, (ii) the Offeror held 597,128,059 Shares, representing approximately 59.87% of the issued share capital of the Company; (iii) the Committed Shareholders (who have provided the Undertakings to opt-out from the Scheme) in aggregate held 174,084,525 Shares, representing approximately 17.45% of the issued share capital of the Company; and (iv) the remaining 226,153,416 Shares constituted the Scheme Shares which were held by the Scheme Shareholders, representing approximately 22.68% of the issued share capital of the Company.

Subject to the Scheme becoming effective, all the Scheme Shares will be cancelled in consideration of the payment by the Offeror to each Scheme Shareholder of the Cancellation Price of HK\$3.01 in cash for each Scheme Share so cancelled.

Dividends

Shareholders whose names appear on the register of members of the Company as at the record date for determining the entitlement to dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). However, the Company does not expect to declare any dividend on or before the Effective Date.

Conditions of the Proposal

The implementation of the Proposal is subject to the fulfillment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by Scheme Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Scheme Shareholders that are cast either in person or by proxy at the Court Meeting; provided that the number of votes cast (by way of poll) by Scheme Shareholders present and voting either in person or by 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 Scheme Shares held by the Scheme Shareholders;
- (c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to (i) the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by issuing to the Offeror

such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme; and (iii) the application of the credit arising in the Company's books of accounts as a result of such Capital Reduction in paying up in full at par value the new Shares issued to the Offeror, credited as fully paid;

- (d) (i) the receipt of an opinion from the independent financial adviser to the Independent Board Committee to be appointed by the Company, confirming that the Undertakings are fair and reasonable;
- (ii) the passing of an ordinary resolution by the Scheme Shareholders at an extraordinary general meeting of the Company, to approve the Undertakings subject to (1) the consent of the Executive for the Undertakings obtained pursuant to Rule 25 of the Takeovers Code and (2) any conditions that may consequentially be imposed thereon by the Executive; and
- (iii) the consent of the Executive for the Undertakings obtained pursuant to Rule 25 of the Takeovers Code;
- (e) the Cayman Islands Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the orders of the Cayman Islands Grand Court for registration;
- (f) all necessary Approvals in connection with the Proposal, the Scheme and the Option Offer having been obtained from, given by or made with or by (as the case may be) the relevant Authorities, in the Cayman Islands, Hong Kong, the PRC and/or any other relevant jurisdictions (including the approval from the Investment Commission of the Ministry of Economic Affairs of Taiwan (台灣經濟部投資審議委員會));
- (g) all necessary Approvals in connection with the Proposal, the Scheme and the Option Offer remaining in full force and effect without variation, and all necessary statutory or regulatory requirements or obligations in all relevant jurisdictions having been complied with and no requirement or obligation having been imposed by any Authorities which is not expressly provided for, or is in addition to requirements provided for, in any relevant laws, rules, regulations or codes in connection with the Proposal, the Scheme and the Option Offer or any matters, documents or things relating thereto, in each aforesaid case up to and at the time when the Scheme has been completed;
- (h) all necessary consents or waivers which may be required for the implementation of the Proposal, the Scheme or the Option Offer under any existing contractual obligations of the Group being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business, assets or liabilities of the Group;

- (i) no Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal, the Scheme or the Option Offer or the implementation in accordance with their respective terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal, the Scheme or the Option Offer or the implementation in accordance with their respective terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal, the Scheme and the Option Offer;
- (j) save as publicly announced prior to the date of the Announcement (and except in so far as such event forms part of the Proposal), since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up):
 - (i) there having been no adverse change in the business, financial or trading position or prospects of any member of the Group to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal, the Scheme or the Option Offer;
 - (ii) there not having been instituted or remaining outstanding any material litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff or defendant or otherwise) and no such proceedings having been threatened in writing against any such member of the Group and no investigation by any Authorities against or in respect of any member of the Group (or the business carried on by any such member of the Group) having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member, in each case which is material and adverse in the context of the Group taken as a whole or in the context of the Proposal, the Scheme or the Option Offer; and
 - (iii) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to the date immediately preceding the Effective Date, in each case which is material and adverse in the context of the Group taken as a whole or in the context of the Proposal, the Scheme or the Option Offer.

The Offeror reserves the right to waive Conditions (f), (g), (h), (i) and/or (j) above either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. 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, the Scheme or the Option Offer if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal.

All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Cayman Islands Grand Court may direct), failing which the Proposal and the Scheme will lapse and the Option Offer will not be implemented.

The Offeror is currently the controlling shareholder of the Company, and will, under the Scheme, acquire new Shares in the Company in the same number as the Scheme Shares cancelled under the Scheme. Its percentage shareholding in the Company will increase from approximately 59.87% as of the Latest Practicable Date, to approximately 82.55% upon completion of the Scheme. Although the Company is incorporated in the Cayman Islands, the operations of the Group are mainly in the PRC. The Offeror is a wholly owned subsidiary of CMP, which is a Taiwan company, and increasing the stake of the Offeror in the Company will be considered an overseas indirect investment by a Taiwan company in the PRC. CMP is required to obtain the approval of the Investment Commission of the Ministry of Economic Affairs of Taiwan (台灣經濟部投資審議委員會) for such increase and such approval will be an Approval for the purpose of the Conditions set out in paragraphs (f) and (g) above. Save for such approval, neither the Offeror nor the Company is aware that any other Approvals or any of aforesaid consents or waivers referred to in the Conditions set out under paragraphs (h) to (i) above is required for the purpose of the Proposal, the Scheme or the Option Offer.

The Company has no right to waive any of the Conditions.

The Proposal has been approved by the board of directors of the Offeror but is not required to be approved by the shareholder of the Offeror.

When and only if the Conditions are satisfied or waived (as applicable), the Company shall deliver to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law a copy of the Order of the Cayman Islands Court sanctioning the Scheme, whereupon the Scheme will become effective and binding on the Company and all the Scheme Shareholders. Assuming that the Conditions are satisfied or validly waived (as applicable), it is expected that the Scheme will become effective on or around Tuesday, 3 October 2017 (Cayman Islands time).

3. SHARE OPTIONS AND THE OPTION OFFER

The Options

As at the Latest Practicable Date, Share Options previously granted under the Old ESOP remained outstanding, pursuant to which up to a maximum of 6,070,000 new Shares may be issued at HK\$2.52 per new Share, representing approximately 0.61% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.60% of the issued share capital of the Company as enlarged by the issue of such new Shares. As at the Latest Practicable Date, there were no outstanding Share Options under the New ESOP.

As at the Latest Practicable Date, Share Options held by Directors comprised: (i) Share Options exercisable into 1,000,000 new Shares held by Mr. Tsao; (ii) Share Options exercisable into 900,000 new Shares held by Ms. Chen Shun Min; (iii) Share Options exercisable into 300,000 new Shares held by Mr. Christian Odgaard Pedersen; and (iv) Share Options exercisable into 180,000 new Shares held by Mrs. Chiu Lin Mei-Yu.

The Option Offer

Under Rule 13 of the Takeovers Code, the Offeror is required, in connection with the making of the offer to the Scheme Shareholders, also to extend an appropriate offer to Optionholders. Mr. Tsao has agreed under his Undertaking not to exercise his Share Options, which are exercisable into 1,000,000 new Shares, from the date of his Undertaking until the date the Proposal has been completed or (as the case may be) until such time it is determined that the Proposal will not be proceeded with. The Offeror will therefore, subject to the Scheme becoming effective, make the an offer to the other Optionholders to cancel all their outstanding Share Options, vested or unvested, in exchange for cash, in exchange for cash, being an amount equal to HK\$0.49 for each outstanding Share Option held as the Option Offer Record Date. Such price is the “see-through” price, which is the Cancellation Price minus the per Share exercise price of HK\$2.52 under the Share Options. No Hong Kong stamp duty is payable pursuant to the Stamp Duty Ordinance under the Option Offer.

Share Options exercised prior to 3:30 p.m. on Wednesday, 27 September 2017 and/or the Latest Option Exercise Date

The latest time for Optionholders to exercise their Share Options in order to become entitled to attend and vote at the Court Meeting and the EGM is 3:30 p.m. on Wednesday, 27 September 2017. In the event that any Share Option(s) is/are exercised on or prior to such date, the relevant registered holder of the Share(s) issued upon exercise of the relevant Share Option shall be entitled to attend and vote at the Court Meeting and/or the EGM (as the case may be) in respect of the relevant Share(s).

In the event that any Option(s) is/are exercise on or prior to the Latest Option Exercise Date, any Share(s) issued as a result of the exercise of such Option(s) shall be subject to and eligible to participate in the Scheme.

Share Options not exercised prior to 3:30 p.m. on Wednesday, 27 September 2017 and/or the Latest Option Exercise Date

Any Optionholder whose Share Options have not been exercised as at 3:30 p.m. on Wednesday, 27 September 2017 and/or the Latest Option Exercise Date (as the case may be), will not be entitled to attend and vote at the Court Meeting and the EGM in respect of such Share Options, and will not be eligible to participate in the Scheme, respectively, but will be entitled to receive the Option Amount as set out in their respective Option Offer Letter in respect of such Share Options.

In the event that any of the outstanding Share Options are exercised on or prior to the Scheme Record Date in accordance with the relevant provisions of the Old ESOP, any Shares issued as a result of the exercise of such outstanding Share Options will be subject to and eligible to participate in the Scheme.

Payment of Option Amount

If the Scheme becomes effective, each Optionholder subject to the Option Offer as at the Option Offer Record Date who accepts the Option Offer and lodges a completed Form of Acceptance by the prescribed deadline set out in “Part III — Expected Timetable” of this Scheme Document will be entitled to receive the Option Amount as set out in their respective Option Offer Letters that are sent to the Optionholders individually.

The cheques for payment of the Option Amount under the Option Offer will be dispatched on or before Thursday, 26 October 2017. Please refer to “Part III — Expected Timetable” of this Scheme Document for details.

All payments in respect of the Option Amount will be made in Hong Kong dollars. Settlement of the Option Amount to which Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Company may otherwise be, or claim to be, entitled against any such Optionholder.

Option Offer Letter

The Option Offer Letter setting out the terms and conditions of the Option Offer is being dispatched separately to Optionholders and is substantially in the form set out in “Appendix VI — Form of Option Offer Letter”.

4. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Cayman Islands Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Cayman Islands Grand Court directs.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Cayman Islands Grand Court as aforesaid, agree to any compromise or arrangement, the compromise or arrangement shall, if sanctioned by the Cayman Islands Grand Court, be binding on all members or class of members, as the case may be, and also on the company.

5. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

Rule 2.10 of the Takeovers Code provides that in addition to satisfying any voting requirements imposed by law as summarized above, other than with the consent of the Executive, a scheme of arrangement used to privatize a company may only be implemented if:

- (a) the scheme is approved by at least 75% of the votes attaching to the disinterested shares (i.e. shares in the company other than those which are owned by the offeror or persons acting in concert with the offeror) that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested shares; and
- (b) the number of votes cast against the resolution to approve the scheme at such meeting is not more than 10% of the votes attaching to all the disinterested shares.

As at the Latest Practicable Date, the Scheme Shareholders held in aggregate 226,153,416 Shares and 10% of the votes attached to all Scheme Shares held by the Scheme Shareholders was approximately 22,615,342 Shares.

6. BINDING EFFECT OF THE SCHEME

Upon the Scheme becoming effective it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

7. UNDERTAKINGS TO OPT OUT OF THE SCHEME

On 28 May 2017 and 29 May 2017, the Offeror received the Undertakings from the Committed Shareholders, pursuant to which each of the Committed Shareholders has undertaken irrevocably and unconditionally, amongst other things, that:

- (a) none of the Committed Shareholder and parties acting in concert with it (the “**Committed Shareholder Parties**”) will from the date of such irrevocable undertaking until the closing of the Scheme and the Option Offer, (i) dispose (including but not limited to sell, transfer, charge, encumber, grant any option over

or otherwise dispose) of any interest or voting rights in any Shares whether conditionally or otherwise or (ii) acquire any further or additional interest or voting rights in any Shares including for the avoidance of doubt, by the exercise of any Share Options held by the Committed Shareholder Parties;

- (b) the Committed Shareholder Parties shall not participate in the Scheme and the Shares and/or Share Options held by such Committed Shareholder Parties shall not constitute the Scheme Shares, and such Committed Shareholder Parties shall not accept or purport to accept any offer by the Offeror under the Scheme in respect of any of the Shares and/or Share Options held by the Committed Shareholder Parties;
- (c) to the extent permitted under the Listing Rules and by the Cayman Islands Grand Court, the Committed Shareholder Parties shall vote, or direct their nominees and custodians as the case may be to vote, in favour of any resolution of the members of the Company put forward for the implementation of the Scheme including but not limited to the reduction of capital as a result of the cancellation of Shares subject to the Scheme and the issuance of new Shares to the Offeror, and the proposed withdrawal of the listing of the Shares from the Stock Exchange;
- (d) the Committed Shareholder Parties shall not solicit, encourage, accept, agree to accept or give any indication of an intention to accept any offer from any party other than the Offeror in respect of any or all of the Shares whether conditional or unconditional (by whatever means the same is to be implemented) or otherwise take any action whatsoever or omit to take any action the omission of which would interfere, impede, delay, frustrate, prevent or adversely affect the performance of any of its obligations under the undertaking or the adoption or implementation or closing of the Scheme including but limited to voting in favour of transactions or resolutions put forward in alternative or in opposition to or competing with or otherwise inconsistent with the adoption or implementation or closing of the Scheme; and
- (e) none of the Committed Shareholder Parties shall make any agreement or contract in any form and whether conditionally or otherwise either to do any act or thing prohibited by the Undertakings or which has substantially the same economic effect, or to omit to do any act or thing required under the irrevocable undertaking or which has substantially the same economic effect.

The Undertakings will be terminated and the obligations of the Committed Shareholders under the Undertakings shall lapse and terminate if the Scheme does not become effective, lapses or is withdrawn in accordance with its terms.

The respective Undertakings are conditional on approval as special deals pursuant to Rule 25 of the Takeovers Code. An ordinary resolution will be proposed at the EGM for the Scheme Shareholders to approve the Undertakings subject to (1) the consent of the Executive for the Undertakings obtained pursuant to Rule 25 of the Takeovers Code and (2) any

conditions that may consequentially be imposed thereon by the Executive. None of the Offeror and the Offeror Concert Parties who hold Shares, or Vald Birn, Yanmar, Mr. Tsao and the Ho Shareholders, their respective concert parties, or Mr. Christian Odgaard Pedersen, will vote on the above resolution at the EGM.

As at the Latest Practicable Date, save for Mr. Tsao, none of the Committed Shareholders hold any Share Options.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror and the Offeror Concert Parties has received any irrevocable commitment from any Shareholders in respect of voting at the Court Meeting and/or the EGM.

8. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the authorized share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares.

On the assumption that no outstanding Share Options will be exercised before the Scheme Record Date and that there is no change in shareholding of the Company before completion of the Scheme, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Scheme:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Scheme	
	Number of Shares	Approximate % of the total issued share capital	Number of Shares	Approximate % of the total issued share capital
Offeror and Offeror Concert Parties ^(Note 1)	597,128,059	59.87	823,281,475	82.55
Committed Shareholders ^(Note 2)				
Vald Birn	103,900,922	10.42	103,900,922	10.42
Yanmar	43,494,286	4.36	43,494,286	4.36
The Ho Shareholders	20,315,551	2.04	20,315,551	2.04
Mr. Tsao ^(Note 3)	6,373,766	0.64	6,373,766	0.64
Aggregate number of Shares held by the Committed Shareholders	174,084,525	17.45	174,084,525	17.45
Aggregate number of Shares held by the Offeror, the Offeror Concert Parties and the Committed Shareholders	771,212,584	77.32	997,366,000	100.00
Scheme Shareholders	<u>226,153,416</u>	<u>22.68</u>	<u>0</u>	<u>0.00</u>
Total	<u>997,366,000</u>	<u>100.00</u>	<u>997,366,000</u>	<u>100.00</u>

Notes:

- As at the Latest Practicable Date, the Offeror held 597,128,059 Shares, and the Offeror Concert Parties did not hold any Shares.

2. The Committed Shareholders have irrevocably undertaken to the Offeror not to participate in the Scheme pursuant to the Undertakings.
3. As at the Latest Practicable Date, Mr. Tsao held Share Options exercisable into 1,000,000 Shares. Mr. Tsao has agreed under his Undertaking not to exercise his Share Options from the date of his Undertaking until the date the Proposal has been completed or (as the case may be) until such time it is determined that the Proposal will not be proceeded with.

9. TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$3.01 per Scheme Share and 226,153,416 Scheme Shares being in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$680,721,782.

On the basis of the see-through price of the Option Offer being equal to HK\$0.49 per Share Option, no outstanding Share Options being exercised or lapsing before the Scheme Record Date, and Share Options exercisable into a maximum of 5,070,000 new Shares being subject to the Option Offer, the Share Options under the Option Offer are in aggregate valued at approximately HK\$2,484,300.

On the assumption that no outstanding Share Options would be exercised before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares (before taking into account the Option Offer to be made) would be approximately HK\$680,721,782, and the amount of cash required for the Option Offer would be approximately HK\$2,484,300.

On the assumption that all the outstanding Share Options subject to the Option Offer were to be exercised before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares would increase to approximately HK\$695,982,482.

The Offeror intends to finance the cash required for the cancellation of the Scheme Shares and for the Option Offer using the proceeds of a facility granted by CTBC Bank Co., Ltd., Hong Kong Branch, a third party independent of the Offeror and its own internal resources.

KGI Capital, being the Offeror FA, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the cancellation of the Scheme Shares and the Option Offer in full.

10. COMPARISON OF VALUE OF THE CANCELLATION PRICE

The Cancellation Price of HK\$3.01 per Scheme Share represents:

- a premium of approximately 27.54% over the closing price of HK\$2.36 per Share as quoted on the Stock Exchange on the Last Trading Day;

- a premium of approximately 26.47% over the average closing price of approximately HK\$2.38 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 25.94% over the average closing price of approximately HK\$2.39 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 Day;
- a premium of approximately 22.86% over the average closing price of approximately HK\$2.45 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 Day;
- a premium of approximately 24.38% over the average closing price of approximately HK\$2.42 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 Day;
- a premium of approximately 23.36% over the average closing price of approximately HK\$2.44 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 3.44% over the closing price of HK\$2.91 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a premium of approximately 27.54% to the audited consolidated net asset value per Share of approximately HK\$2.36 as at 31 December 2016.

The Cancellation Price has been determined on a commercial basis after taking into account (i) the closing prices of the Shares traded on the Stock Exchange; (ii) the trading multiples of comparable companies listed on the Stock Exchange; and (iii) with reference to the other privatization transactions in Hong Kong in recent years.

11. REASONS AND BENEFIT OF THE PROPOSAL AND THE OFFEROR'S INTENTION REGARDING THE GROUP

Many of the Company's customers are overseas automakers or component manufacturers, and the market outlook for automobile parts and components, in particular in the United States market, is anticipated to remain challenging in the foreseeable future, which may negatively affect the future performance of the share price of the Company.

The Company has long been concentrating on iron casting production which is recognized as a heavy weight product and which is a segment which is facing increasing pressure over its business growth. Customers are increasingly in demand of light weight casting such as aluminum in replacement of iron casting products. As such, the Company is currently contemplating a series of long-term growth strategies, by development of a product mix of diversified metallic materials which may cast a high level of uncertainty on the Company's short-term growth profile and may result in divergence between the Offeror's views on the

Company's potential long-term value and investors' views on the Company's share price. To implement such change in strategy, the Company needs to be able to make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

The Company, in response to the growing social and environmental concerns owing to its stakeholder group, is also contemplating the implementation of certain environmentally friendly measures to aim at reducing emission of pollutants during the production process. The cost of such measures may affect the Company's short term profitability, and thus also affect stock price performance in the long run.

Since its listing on the Stock Exchange, the Company's share price performance has not been satisfactory, and specifically, the price earnings ratio of the industrial sector has been reduced to a single digit in Hong Kong market, which does not reflect the growth of the Company's profit achieved and it is substantially below the Company's and its controlling shareholder's expectation. This limits the ability of the Group to attract investor's interests and enhance its market image. The Offeror considers that the underperformance of share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on staff morale.

The liquidity of the Shares has also been at a low level over a long period of time. The average daily trading volume of the Shares for the 12 months up to and including the Last Trading Day was approximately 581,185 Shares per day, representing only approximately 0.26% of the Scheme Shares as at the Announcement Date. The low trading liquidity of the Shares makes it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and to dispose of a large number of Shares when any event that may have an adverse impact on the Company's share price occurs.

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

The Proposal is intended to provide Scheme Shareholders with a good opportunity to realize their investments in the Company:

- **Premium valuation:** The Cancellation Price of HK\$3.01 per Scheme Share represents a premium of approximately 27.54% over the closing price per Share over the closing price per Share on the Last Trading Day. The Cancellation Price also represents a premium of approximately 25.94% and 22.86% over the average closing prices of approximately HK\$2.39 and approximately HK\$2.45 per Share for 30 and 60 consecutive trading days up to and including the Last Trading Day, respectively.
- **Certain and immediate premium despite low liquidity:** The Scheme provides an opportunity for Scheme Shareholders, if they so wish, to dispose of their Shares expeditiously and receive cash at a price above the prevailing market price,

particularly in light of the underperformance of the share price since the Company's listing. Given the low liquidity of the Shares, it is also challenging for the Scheme Shareholders to realize the Scheme Shares in the stock market without adversely affect the market price of the Shares.

The Directors (other than members of the Independent Board Committee whose views are set out in Part V of this Scheme Document) are of the view that the terms of the Proposal are attractive to the Scheme Shareholders and that the proposed privatization of the Company will be beneficial to the Scheme Shareholders.

Save as mentioned above, upon successful implementation of the Scheme and the Proposal: (i) the Offeror intends to continue the existing business of the Company; (ii) the Offeror has no intention to make any major changes to the existing operation and business, or to discontinue the employment of the employees of the Group; and (iii) the Offeror does not plan to redeploy any of the fixed assets of the Group.

12. INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands with limited liability and is a wholly owned subsidiary of CMP. CMP is a Taiwan-based company listed on the Taiwan Stock Exchange (ticker number: 1532) principally engaged in the manufacturing and distribution of iron castings, including reinforced steel bars, steel billets and iron castings, which are applied in steel material processing and smelting, automobile spare parts, construction hardware components, mechanical and hand tool parts, and transmission system parts, for distribution in the PRC, America, Japan, Europe and other countries. CMP is also involved in the operation of department stores, hotels and amusement parks, as well as the construction, sale and leasing of real estate. As at the Latest Practicable Date, CMP was owned as to 10.72%, 8.32% and 7.25%, respectively, by Quan Yuan, Mr. Ho and an independent shareholder. Other than disclosed above, no other shareholder held 5% or more of the issued shares in CMP as at the Latest Practicable Date. Quan Yuan is a company controlled by the Ho Family. The principal members of the Ho Family include (a) Mr. Ho and his spouse Ms. Wu Shu Chuan (吳淑娟) (who is a director of CMP), who personally and directly held approximately 8.32% and 1.48% shareholding in CMP, respectively, and also had indirect shareholding in CMP through Quan Yuan; and (b) his daughter, Ms. Ho, who personally and directly held approximately 0.33% shareholding in CMP and also had indirect shareholding in CMP through Quan Yuan. As at the Latest Practicable Date, the Ho Family, directly or indirectly, controlled in aggregate approximately 27.73% of shareholding interest in CMP.

13. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 31 December 2004. The Group is principally engaged in the design, development, manufacture and sale of customized metal castings used in various industries, and in the provision of moulding, machining and coating services. Such operations are carried out in Tianjin and

Suzhou. The Group's customers are mainly industrial manufacturers producing automobiles and automobile parts and components, air conditioners, and air conditioner and refrigerator compressors, and such customers are located in the PRC, the United States, Japan and other countries.

14. SHARE CERTIFICATES, DEALINGS AND WITHDRAWAL OF LISTING OF THE SHARES

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. The Company does not intend to retain its listing on the Stock Exchange if the Scheme becomes effective. The Board will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange, in accordance with Rule 6.15 of the Listing Rules, immediately following the Scheme becoming effective. The Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day of dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares will become effective.

The Scheme will lapse if any of the Conditions is not 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 Rule 31 of the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person acting 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 Proposal lapses announce an offer or possible offer for the Company, or acquire any voting rights of the Company if the Offeror or persons acting in concert with it would become obliged under Rule 26 of the Takeovers Code to make an offer, except with the consent of the Executive.

15. COSTS OF THE SCHEME

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of the Independent Financial Adviser as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable, and 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, all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of this Scheme will be shared between the Offeror and the Company equally.

16. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Tuesday, 3 October 2017, it is proposed that the register of members of the Company will be closed from Thursday, 28 September 2017 (or such other date as Shareholders may be notified by announcement) onwards in order to

establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that their Shares are lodged with the Hong Kong branch share registrar of the Company for registration in their names or in the names of their nominees before the closure of the register of members of the Company. The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, which is located Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company on the Scheme Record Date. On the basis that the Scheme becomes effective on or about Tuesday, 3 October 2017 (Cayman Islands time), cheques for payment of the Cancellation Price payable under the Scheme are expected to be despatched by the Offeror as soon as possible but in any event within seven (7) business days following the date on which the Scheme becomes effective, which is expected to be on or before Friday, 13 October 2017. In particular, cheques will be sent to the persons entitled thereto at their respective registered addresses as appear in the register of members of the Company on the Scheme Record Date. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Offeror FA and the Hong Kong branch share registrar of the Company or any of them will be responsible for any loss or delay in despatch.

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 Company.

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 to persons who satisfy the Offeror that they are respectively entitled thereto. 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.

Assuming that the Scheme becomes effective, all existing certificates representing 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 or about Tuesday, 3 October 2017 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, 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 any such Scheme Shareholder.

17. OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

The making of the Proposal to the Scheme Shareholders, and the making of the Option Offer to the Optionholders, who are not resident in Hong Kong may be subject to the laws of

the relevant jurisdictions in which such Scheme Shareholders and Optionholders are located. Such persons should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and Overseas Optionholders wishing to take any action in relation to the Scheme and the Option Offer, as the case may be, to satisfy themselves as to the full observance of the laws of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdictions. Any acceptance by such Scheme Shareholders and Optionholders will be deemed to constitute a representation and warranty from such persons to the Offeror, the Company, and their respective advisers, that those local laws and requirements have been complied with. For the avoidance of doubt, neither Hong Kong Securities Clearing Company Limited nor HKSCC Nominees Limited will give, or be subject to, any of the above representations and warranties. If any Scheme Shareholder or Optionholder is in doubt as to its position, it should consult its professional advisers.

18. TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective. The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in doubt as to the taxation implications of accepting the Proposal. It is emphasized that none of the Offeror, the Company and their respective advisers or any of their respective directors, officers or associates or any other person involved in the Proposal accepts any responsibility whatsoever for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

19. COURT MEETING AND EGM

In accordance with the direction of the Cayman Islands Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution to approve the Scheme (with or without modification(s)). All Scheme Shareholders will be entitled to attend and vote on the Scheme at the Court Meeting. None of the Offeror and the Offeror Concert Parties who hold Shares, or the Committed Shareholders, will vote on the Scheme at the Court Meeting.

The EGM will be held immediately after the Court Meeting for the purpose of considering and, if thought fit, passing:

- (i) a special resolution (i) to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) to approve and give effect to the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by the allotment and

issue of new Shares to the Offeror; and (iii) the application of the credit arising in the Company's books of accounts as a result of the Scheme to pay up in full at par value such number of new Shares, credited as fully paid, for issuance to the Offeror; and

- (ii) an ordinary resolution to approve the Undertakings subject to (1) the consent of the Executive for the Undertakings obtained pursuant to Rule 25 of the Takeovers Code; and (2) any conditions that may consequentially be imposed thereon by the Executive.

All Scheme Shareholders will be entitled to attend and vote on such resolutions at the EGM. None of the Offeror and the Offeror Concert Parties, or the Committed Shareholders and their respective concert parties, or Mr. Christian Odgaard Pedersen, will vote on the resolutions described in paragraphs (a), (b) and (d)(ii) under the paragraph headed "2. TERMS OF THE PROPOSAL — Conditions of the Proposal" above.

The Chairman is the person appointed by the Court required to convene the Court Meeting. Mr. LAM Ting Lok, an independent non-executive Director has been designated the Chairman of the Court Meeting, or, failing him, Mrs. CHIU LIN Mei-Yu (also known as Mary Lin Chiu), also an independent non-executive Director, or, failing her, Mr. CHEN Pou-Tsang (also known as Angus P.T. Chen), also an independent non-executive Director, or, failing him, any other director of the Company to act as Chairman of the Court Meeting.

Notices of the Court Meeting and the EGM are set out in Appendix IV and Appendix V of this Scheme Document. The Court Meeting and the EGM will be held on Wednesday, 23 August 2017 at the respective times specified in such notices at Room 1801, 18th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong.

It is proposed that the register of members of the Company will be closed during the period from Friday, 18 August 2017 to Wednesday, 23 August 2017 (both days inclusive) (or such other dates as may be notified by the Company by way of announcement(s)) for the purposes of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting and the entitlement of the Shareholders to attend and vote at the EGM. Such book close period is not for determining entitlements under the Scheme. In order to qualify to attend and vote at the Court Meeting and the EGM, the relevant Shareholders should ensure that the relevant forms of transfer of their Shares accompanied by the relevant share certificates are lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by not later than 4:30 p.m. (Hong Kong time) on Thursday, 17 August 2017.

20. ACTIONS TO BE TAKEN

Actions to be taken by the Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to the Registered Owners.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are an Scheme Shareholder, we strongly urge you to complete and sign the enclosed pink form of proxy for use at the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy for use at the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 21 August 2017 or be handed to the Chairman of the Court Meeting at the Court Meeting, and the white form of proxy for use at the EGM should be lodged not later than 11:30 a.m. on Monday, 21 August 2017. If the pink form of proxy for use at the Court Meeting is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form 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 EGM, you will still be bound by the outcome of the Court Meeting and the EGM if, among other things, the aforementioned resolutions are passed by the requisite majorities of Scheme Shareholders or Shareholders (as the case may be). We therefore strongly urge you to attend and vote at the Court Meeting and the EGM in person or by proxy.

The Company will make an announcement in relation to the results of the Court Meeting and the EGM on Wednesday, 23 August 2017. If all the relevant resolutions are passed at those meetings, the Company will make further announcements of the results of the hearing by the Cayman Islands Grand Court of the petitions to, among other things, sanction the Scheme and confirm the Capital Reduction and, if the Scheme is sanctioned and the Capital Reduction is confirmed, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be taken by person holding shares through trust or CCASS

The Company will not recognize any person as holding any Shares through any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions should be given in advance of the deadline in respect of the Court Meeting and/or the EGM set by them in order to provide the Registered Owner with sufficient time to accurately complete and submit his, her or its proxy. To the extent that any Registered Owner requires instructions from any Beneficial Owner in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

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

Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with an Other CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and/or the EGM set by them in order to provide such person with sufficient time to provide HKSCC with instructions in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. HKSCC Nominees Limited may vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS and CCASS Operational Procedures in effect from time to time). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Cayman Islands Grand Court and may be taken into account in deciding whether or not the Cayman Islands Grand Court should exercise its discretion to sanction the Scheme.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing your Shares from CCASS and becoming a Registered Owner of such Shares. 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 deadline in respect of the Court Meeting and/or the EGM set by them 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 BY OPTIONHOLDERS

The Option Offer Letter is being sent to each Optionholder separately, together with a Form of Acceptance. Optionholders should refer to those letters, the form of which is set out in Appendix VI to this Scheme Document and note the instructions and conditions of the Option Offer printed on the Option Offer Letter.

If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, care of China Metal International Holdings Inc. at Room 1502, 15th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong, for the attention of the board of directors of the Offeror and marked "China Metal International Holdings Inc. — Option Offer" by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017 (or such later date and time as may be notified to you by the Offeror, the Offeror FA and the Company or by way of joint announcement by the Offeror and the Company on the website of the Stock Exchange). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the

grant of Share Options or any other document will be given. The Offeror will offer HK\$0.49 in cash in exchange for each Share Option cancelled. Such price is the “see-through” price, which is the Cancellation Price minus the per Share exercise price of HK\$2.52 under the Share Options.

The cash will be payable by the Offeror in accordance with the other terms of the Option Offer. In return, all rights and obligations under your Share Options will be immediately cancelled by the Offeror and the Company upon your acceptance. All Optionholders subject to the Option Offer must lodge the duly completed and executed Form of Acceptance as mentioned above at or before 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017 (or such later date and time as may be notified to you by the Offeror, the Offeror FA and the Company or by way of joint announcement by the Joint Offeror and the Company on the website of the Stock Exchange).

21. RECOMMENDATION

Your attention is drawn to the following:

- (a) the paragraph headed “15. Recommendations” in the letter from the Board in Part IV of this Scheme Document;
- (b) the letter from the Independent Board Committee set out in Part V of this Scheme Document; and
- (c) the letter from Independent Financial Adviser set out in Part VI of this Scheme Document.

22. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Statement.

Scheme Shareholders and Optionholders should rely only on the information contained in this Scheme Document. None of the Offeror, the Company and their respective advisers or any of their respective directors, officers or associates or any other person involved in the Proposal, the Scheme and the Option Offer has authorized anyone to provide you with information that is different from what is contained in this Scheme Document.

1. FINANCIAL SUMMARY

The following summary financial information for each of the financial years ended 31 December 2014, 2015 and 2016 is extracted from the consolidated financial statements of the Company as set forth in the annual reports of the Company for the years ended 31 December 2015 and 2016, respectively.

The auditor's reports issued by KPMG in respect of the Group's audited consolidated financial statements for each of the financial years ended 31 December 2014, 2015 and 2016 did not contain any qualifications.

There was no item which was exceptional because of size, nature or incidence that was recorded in the financial statements of the Group for each of the financial years ended 31 December 2014, 2015 and 2016.

2. FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

The following financial information is extracted from the annual report of the Company for the year ended 31 December 2016.

Consolidated statement of profit or loss

For the year ended 31 December 2016

(Expressed in United States dollars)

	<i>Note</i>	2016 \$'000	2015 \$'000
Revenue	3	303,125	309,506
Cost of sales		<u>(216,387)</u>	<u>(225,210)</u>
Gross profit		86,738	84,296
Other revenue	4(a)	1,573	1,371
Other net income	4(b)	4,717	2,610
Selling and distribution costs		(16,247)	(16,838)
Administrative expenses		<u>(23,841)</u>	<u>(22,795)</u>
Profit from operations		52,940	48,644
Finance costs	5(a)	<u>(588)</u>	<u>(853)</u>
Profit before taxation	5	52,352	47,791
Income tax	6	<u>(9,907)</u>	<u>(7,839)</u>
Profit for the year		<u>42,445</u>	<u>39,952</u>
Profit attributable to equity shareholders of the Company		<u>42,445</u>	<u>39,952</u>
Earnings per share	10		
Basic (cents)		<u>4.25</u>	<u>3.97</u>
Diluted (cents)		<u>4.25</u>	<u>3.97</u>

The notes on page 84 to 139 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 22(b).

Consolidated statement of profit or loss and other comprehensive income*For the year ended 31 December 2016**(Expressed in United States dollars)*

	<i>Note</i>	2016 \$'000	2015 \$'000
Profit for the year		42,445	39,952
Other comprehensive income for the year (after tax and reclassification adjustment):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries in the People's Republic of China ("PRC") and in Hong Kong	9	<u>(21,970)</u>	<u>(20,115)</u>
Total comprehensive income for the year attributable to equity shareholders of the Company		<u>20,475</u>	<u>19,837</u>

The notes on pages 84 to 139 form part of these financial statements.

Consolidated statement of financial position

At 31 December 2016

(Expressed in United States dollars)

	Note	2016 \$'000	2015 \$'000
Non-current assets			
Property, plant and equipment	11	169,306	191,119
Lease prepayments	12	6,751	7,402
Other financial assets		—	37
Other non-current assets		2,009	3,874
		<u>178,066</u>	<u>202,432</u>
Current assets			
Inventories	14(a)	45,956	41,157
Trade and other receivables	15	131,406	142,059
Amounts due from related companies	25(b)	304	—
Pledged bank deposits	17	3,173	4,614
Cash and cash equivalents	16	30,050	31,665
		<u>210,889</u>	<u>219,495</u>
Current liabilities			
Trade and other payables	17	53,626	53,555
Bank loans	18	5,000	24,000
Amounts due to related companies	25(c)	98	172
Current taxation	21(a)	3,491	3,372
		<u>62,215</u>	<u>81,099</u>
Net current assets		<u>148,674</u>	<u>138,396</u>
Total assets less current liabilities		326,740	340,828
Non-current liabilities			
Long-term loans	18	22,000	15,000
Deferred tax liabilities	21(b)	1,744	1,248
		<u>23,744</u>	<u>16,248</u>
NET ASSETS		<u>302,996</u>	<u>324,580</u>
CAPITAL AND RESERVES			
Share capital	22(c)	1,281	1,293
Reserves		301,715	323,287
Total equity attributable to equity shareholders of the Company		<u>302,996</u>	<u>324,580</u>

The notes on pages 84 to 139 form part of these financial statements.

Consolidated statement of changes in equity*For the year ended 31 December 2016**(Expressed in United States dollars)*

	Note	Attributable to equity shareholders of the Company								Total \$'000
		Share capital \$'000	Share premium \$'000	Capital redemption reserve \$'000	Statutory surplus reserve \$'000	Exchange fluctuation reserve \$'000	Capital reserve- share option \$'000	Other reserve \$'000	Retained profits \$'000	
Balance at 1 January 2016		1,293	44,330	42	28,132	25,431	1,199	20,074	204,079	324,580
Changes in equity for 2016:										
Profit for the year		—	—	—	—	—	—	—	42,445	42,445
Other comprehensive income	9	—	—	—	—	(21,970)	—	—	—	(21,970)
Total comprehensive income		—	—	—	—	(21,970)	—	—	42,445	20,475
Dividends approved in respect of the previous year	22(b)(ii)	—	—	—	—	—	—	—	(19,574)	(19,574)
Purchase and cancellation of own shares	22(c)(ii)									
— par value paid		(13)	—	—	—	—	—	—	—	(13)
— premium paid		—	(2,907)	—	—	—	—	—	—	(2,907)
— transfer between reserves		—	—	13	—	—	—	—	(13)	—
Shares issued under share option scheme	22(c)(iii)	1	514	—	—	—	(155)	—	—	360
Transfer to statutory surplus reserve		—	—	—	3,220	—	—	—	(3,220)	—
Equity settled share- based transactions	20(c)	—	—	—	—	—	1	—	—	1
Dividends approved in respect of the current year	22(b)(i)	—	—	—	—	—	—	—	(19,926)	(19,926)
Balance at 31 December 2016		<u>1,281</u>	<u>41,937</u>	<u>55</u>	<u>31,352</u>	<u>3,461</u>	<u>1,045</u>	<u>20,074</u>	<u>203,791</u>	<u>302,996</u>

The notes on pages 84 to 139 form part of these financial statements.

Consolidated statement of changes in equity*For the year ended 31 December 2016**(Expressed in United States dollars)*

	Note	Attributable to equity shareholders of the Company							Retained profits	Total
		Share capital	Share premium	Capital redemption reserve	Statutory surplus reserve	Exchange fluctuation reserve	Capital reserve- share option	Other reserve		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 1 January 2015		1,293	44,330	42	25,975	45,546	1,170	20,074	198,382	336,812
Changes in equity for 2015:										
Profit for the year		—	—	—	—	—	—	—	39,952	39,952
Other comprehensive income	9	—	—	—	—	(20,115)	—	—	—	(20,115)
Total comprehensive income		—	—	—	—	(20,115)	—	—	39,952	19,837
Dividends approved in respect of the previous year	22(b)(ii)	—	—	—	—	—	—	—	(10,062)	(10,062)
Transfer to statutory surplus reserve		—	—	—	2,157	—	—	—	(2,157)	—
Equity settled share-based transactions	20(c)	—	—	—	—	—	29	—	—	29
Dividends approved in respect of the current year	22(b)(i)	—	—	—	—	—	—	—	(22,036)	(22,036)
Balance at 31 December 2015		<u>1,293</u>	<u>44,330</u>	<u>42</u>	<u>28,132</u>	<u>25,431</u>	<u>1,199</u>	<u>20,074</u>	<u>204,079</u>	<u>324,580</u>

The notes on pages 84 to 139 form part of these financial statements.

Consolidated cash flow statement*For the year ended 31 December 2016**(Expressed in United States dollars)*

	<i>Note</i>	2016 \$'000	2015 \$'000
Operating activities			
Cash generated from operations	16(b)	74,031	70,623
Income tax paid		<u>(8,975)</u>	<u>(6,074)</u>
Net cash generated from operating activities		<u>65,056</u>	<u>64,549</u>
Investing activities			
Payment for purchase of property, plant and equipment		(12,407)	(13,325)
Proceeds from disposal of property, plant and equipment		320	154
Proceeds from disposal of other financial assets		7	—
Interest received		227	411
Decrease in time deposits with maturity over 3 months		<u>—</u>	<u>2,942</u>
Net cash used in investing activities		<u>(11,853)</u>	<u>(9,818)</u>
Financing activities			
Proceeds from shares issued under share option	22(c)(iii)	360	—
Payment for repurchase of shares	22(c)(ii)	(2,920)	—
Proceeds from new bank loans		46,200	119,000
Repayment of bank loans		(58,200)	(145,036)
Decrease/(increase) in pledged bank deposits		1,441	(2,354)
Interest paid		(588)	(853)
Dividends paid to equity shareholders of the Company		<u>(39,500)</u>	<u>(32,098)</u>
Net cash used in financing activities		<u>(53,207)</u>	<u>(61,341)</u>
Net decrease in cash and cash equivalents		(4)	(6,610)
Cash and cash equivalents at 1 January		31,665	38,838
Effect of foreign exchange rate changes		<u>(1,611)</u>	<u>(563)</u>
Cash and cash equivalents at 31 December	16(a)	<u>30,050</u>	<u>31,665</u>

The notes on pages 84 to 139 form part of these financial statements.

Notes to the financial statements

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The functional currencies of the Company, its subsidiaries in the People’s Republic of China (“PRC”) and a subsidiary in Hong Kong are United States dollars, Renminbi and Hong Kong dollars respectively. For the purposes of presenting the consolidated financial statements, the Group adopted United States dollars as its presentation currency.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented (see note 30).

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 30).

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(h)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in note 1(q)(ii).

When the investments are derecognised or impaired (see note 1(h)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 35 years after the date of completion.

Buildings	20 — 35 years
Leasehold improvements	2 — 10 years
Machinery and equipment	6 — 14 years
Motor vehicles	5 — 6 years
Office equipment, furniture and fixtures	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(h)). Cost comprises direct costs of construction as well as interest charges during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(g) Leased assets

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

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risk and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Lease prepayments

Lease prepayments represent the cost of acquiring land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 1(h)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights (50 years).

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in equity instrument below its cost.

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

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

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

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

(ii) ***Impairment of other assets***

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

- property, plant and equipment;
- lease prepayments; and

- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*

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

- *Recognition of impairment losses*

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

- *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(iii) ***Interim financial reporting and impairment***

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(h)(i) and (ii)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less provision for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less provision for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) **Employee benefits**

(i) ***Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) ***Share-based payments***

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

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

(iii) ***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(o) **Income tax**

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

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

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

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

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

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are loaded onto shipping vessels or delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax ("VAT") or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and

activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(u) Segment reporting

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 20 and 23 contain information about the assumptions and their risk factors relating to valuation of fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The management reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions.

(c) Provision for impairment of doubtful debts

Provision for impairment of doubtful debts is assessed and provided based on the management's review of ageing analysis and estimate of the expected credit losses to be incurred. A considerable level of judgement is exercised by the management when assessing the credit worthiness of each individual customer and current market and customer-specific conditions. Any increase or decrease in the provision for impairment of doubtful debts would affect profit or loss in future years.

(d) Impairment of property, plant and equipment

Property, plant and equipment are assessed at each reporting period to identify indications that they may be impaired. Such indications include physical damage of an item of property, plant and equipment and a decrease in the revenue derived from an item of property, plant and equipment. If any such indication exists, the recoverable amount of that property, plant and equipment item is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years. The recoverable amount of an item of property, plant and equipment is based on the higher of fair value less cost of disposal and the value-in-use calculations. These calculations of value in use adopt estimated future cash flow based on reasonable assumptions that represent current market assessments of the time value of money and the risks specific to the assets that will exist over the remaining useful life of the item.

(e) Income taxes

The Group files income taxes, including the dividend withholding tax in the People's Republic of China, with a number of tax authorities. Estimation is required in determining the provision for taxation. There are many transactions and determination of the ultimate tax payment are uncertain during the ordinary course of business, where the final tax outcomes of these matters are different from the amounts originally recorded, the differences may impact the current income tax and deferred income tax provisions in the period in which the final tax outcomes become available.

3 REVENUE AND SEGMENT REPORTING**(a) Revenue**

The principal activities of the Group are design, development, manufacture and sale of customised metal castings for use in various industries.

Revenue represents the sales value of casting products to customers after allowances for goods returns, excludes value added tax and is after the deduction of any trade discounts.

The amount of each significant category of revenue is as follows:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Sales of:		
— Automobile parts and components	222,372	226,887
— Mechanical parts	56,920	54,262
— Compressor parts	<u>23,833</u>	<u>28,357</u>
	<u>303,125</u>	<u>309,506</u>

The Group's customer base includes two customers (2015: two customers), with each of whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2016. Revenue from these customers, including sales to entities which are known to the Group to be under common control, arose in sales of automobile parts and components during the reporting period are set out below:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Largest customer	39,420	43,571
— Percentage of total revenue	13%	14%
Second largest customer	35,517	32,095
— Percentage of total revenue	12%	10%

Details of concentrations of credit risk arising from these customers are set out in note 23(a).

Further details regarding the Group's principal activities are disclosed in note 3(b).

(b) Segment reporting

The Group manages its businesses according to the manufacturing source of its products, i.e. its operating subsidiaries in the PRC, which are engaged in the design, development, manufacture and sale of customised metal casting. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments:

- Tianjin CMT Industry Company Limited ("CMT")
- Suzhou CMS Machinery Company Limited ("CMS")
- CMW (Tianjin) Industry Company Limited ("CMWT")
- Suzhou CMB Machinery Company Limited ("CMB")

(i) Segment results, assets and liabilities

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

Segment assets include all tangible assets, lease prepayments and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the operating activities of the individual segments and bank borrowings managed directly by the segments.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profits is “adjusted EBITDA” i.e. “adjusted earnings before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including investment income and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group’s earnings are further adjusted for items not specifically attributable to individual segments, such as directors’ and auditors’ remuneration and other head office or corporate administrative costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group’s reportable segments as provided to the Group’s most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below:

	CMT		CMS		CMWT		CMB		TOTAL	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue from external customers	8,255	45,369	102,618	104,521	145,610	130,436	46,642	29,180	303,125	309,506
Inter-segment revenue	1,421	871	2,603	2,345	2,425	14,083	2,565	3,345	9,014	20,644
Reportable segment revenue	9,676	46,240	105,221	106,866	148,035	144,519	49,207	32,525	312,139	330,150
Reportable segment profit/(loss) (adjusted EBITDA)	(419)	1,216	23,790	26,250	44,777	43,918	6,533	3,446	74,681	74,830
Interest income from bank deposits	56	164	101	128	57	57	13	62	227	411
Interest expense	(92)	(431)	(496)	(422)	—	—	—	—	(588)	(853)
Depreciation and amortisation for the year	(1,121)	(1,608)	(4,431)	(5,480)	(9,264)	(9,707)	(5,442)	(5,567)	(20,258)	(22,362)
Reportable segment assets	44,896	56,238	84,368	101,872	165,685	159,549	99,136	106,588	394,085	424,247
Additions to non-current segment assets during the year	—	26	2,822	3,469	7,063	3,235	2,002	4,656	11,887	11,386
Reportable segment liabilities	40	1,517	20,892	14,703	39,282	30,221	14,461	18,215	74,675	64,656

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities**

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Revenue		
Reportable segment revenue	312,139	330,150
Elimination of inter-segment revenue	<u>(9,014)</u>	<u>(20,644)</u>
Consolidated revenue (<i>note 3(a)</i>)	<u>303,125</u>	<u>309,506</u>
	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Profit		
Reportable segment profit	74,681	74,830
Elimination of depreciation related to inter-segment fixed assets transfer	320	503
Elimination of inter-segment profit	<u>(730)</u>	<u>(4,320)</u>
Reportable segment profit derived from the Group's external customers	74,271	71,013
Depreciation and amortisation	(20,258)	(22,362)
Interest income	227	411
Finance costs	(588)	(853)
Unallocated head office and corporate expenses	<u>(1,300)</u>	<u>(418)</u>
Consolidated profit before taxation	<u>52,352</u>	<u>47,791</u>
	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Assets		
Reportable segment assets	394,085	424,247
Elimination of inter-segment receivables	<u>(16,773)</u>	<u>(7,195)</u>
	377,312	417,052
Non-current financial assets	—	37
Unallocated head office and corporate assets	<u>11,643</u>	<u>4,838</u>
Consolidated total assets	<u>388,955</u>	<u>421,927</u>

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	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Liabilities		
Reportable segment liabilities	74,675	64,656
Elimination of inter-segment payables	<u>(16,773)</u>	<u>(7,195)</u>
	57,902	57,461
Unallocated head office and corporate liabilities	<u>28,057</u>	<u>39,886</u>
Consolidated total liabilities	<u>85,959</u>	<u>97,347</u>

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered.

	Revenue from external customers	
	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
The PRC	184,448	172,764
United States	86,766	107,879
Japan	15,706	15,232
Other countries	<u>16,205</u>	<u>13,631</u>
Total	<u>303,125</u>	<u>309,506</u>

Most of the Group's property, plant and equipment ("specified non-current assets") are located in the PRC. Accordingly, no geographical segment analysis based on the location of specified non-current assets is presented.

4 OTHER REVENUE AND NET INCOME

	2016 \$'000	2015 \$'000
a. Other revenue		
Interest income	227	411
Sundry income	<u>1,346</u>	<u>960</u>
	<u>1,573</u>	<u>1,371</u>
b. Other net income		
Net foreign exchange gain	4,920	2,842
Loss of disposal of property, plant and equipment	(173)	(232)
Loss on disposal of other financial assets	<u>(30)</u>	<u>—</u>
	<u>4,717</u>	<u>2,610</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2016 \$'000	2015 \$'000
a. Finance costs		
Interest on bank loans wholly repayable within five years	<u>588</u>	<u>853</u>
	<u>2016</u>	<u>2015</u>
	<u>\$'000</u>	<u>\$'000</u>
b. Staff costs		
Salaries, wages and other benefits	40,210	41,198
Contributions to retirement benefit schemes	3,126	3,677
Equity settled share-based payment expenses (note 20(c))	1	29
Termination benefits	<u>159</u>	<u>3,399</u>
	<u>43,496</u>	<u>48,303</u>

Pursuant to the restructuring of CMT in 2015, the Group terminated the employment of certain staff. Termination benefits represent payments made to these staff.

	2016	2015
	\$'000	\$'000
c. Other items		
Amortisation of lease prepayments	184	196
Depreciation	20,074	22,166
Operating lease charges: minimum lease payments (including property rentals)	407	362
Provision for doubtful debts	2,560	—
Auditors' remuneration-audit services	<u>489</u>	<u>522</u>

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	\$'000	\$'000
Current tax		
Provision for income tax for the year	10,152	7,863
(Over)/under-provision in respect of prior years	<u>(846)</u>	<u>31</u>
	9,306	7,894
	-----	-----
Deferred tax		
Origination and reversal of temporary differences	<u>601</u>	<u>(55)</u>
	<u>9,907</u>	<u>7,839</u>

(i) Overseas income tax

Pursuant to the rules and regulations of the Cayman Islands, the Company and CMW (Cayman Islands) Co., Ltd. ("CMW(CI)") are not subject to any income tax in the Cayman Islands.

(ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax is made for the year as the Group did not generate any income subject to Hong Kong Profits Tax during the years presented.

(iii) *PRC Corporate Income Tax*

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC Corporate Income Tax (“CIT”) of the Group is calculated based on the following rates:

	<i>Notes</i>	2016	2015
CMT	(1)	25%	15%
CMS	(1)	15%	15%
CMWT	(2)	15%	15%
CMB	(3)	15%	15%

Notes:

- (1) In September 2011 and October 2011, CMS and CMT were granted the status of Advanced and New Technology Enterprise (“ANTE”) that entitled them to a preferential CIT rate of 15% for the three-year period ended 31 December 2013. CMS and CMT renewed and obtained the ANTE certificates in October 2014, respectively, and are entitled to a preferential CIT rate of 15% for a period of three years from 2014 to 2016.

Pursuant to the restructuring of CMT in 2015, CMT did not satisfy all the criteria for an ANTE set out in the relevant PRC tax regulations in 2016 and consequently is subject to a statutory CIT rate of 25% for 2016.

- (2) In May 2013, CMWT was granted the status of ANTE that entitled it to a preferential CIT rate of 15% for the three-year period ended 31 December 2014. CMWT renewed and obtained the ANTE certificate in August 2015 and is entitled to a preferential CIT rate of 15% for a period of three years from 2015 to 2017.

- (3) In May 2014, CMB was granted the status of ANTE that entitled it to a preferential CIT rate of 15% for the three-year period ended 31 December 2015.

CMB renewed and obtained the ANTE certificate in November 2016 and is entitled to a preferential CIT rate of 15% for the three-year period ended 31 December 2018.

In addition, pursuant to CIT Law effective on 1 January 2008 and Implementation Rules to the CIT Law, dividends payable by subsidiaries in the PRC to foreign investors are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Pursuant to the tax treaty between the PRC and Hong Kong, the holding companies of CMB, CMT and CMS are established in Hong Kong, and therefore, provided these companies meet the criteria for “beneficial owner” set out in the relevant PRC tax circular, dividends payable by CMB, CMT and CMS are subject to a reduced withholding tax rate of 5%.

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(b) Reconciliation between actual tax expense and accounting profit at applicable tax rates:

	2016 \$'000	2015 \$'000
Profit before taxation	<u>52,352</u>	<u>47,791</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	14,004	10,828
Tax effect of non-deductible expenses	125	139
Tax effect of unused tax losses not recognised	256	282
Tax effect of distributed profits of subsidiaries	1,850	1,270
(Over)/under-provision in prior years	(846)	31
Origination/(reversal) of previous year unrecognised temporary differences	272	(54)
Tax effect of tax concessions	<u>(5,754)</u>	<u>(4,657)</u>
Actual tax expense	<u>9,907</u>	<u>7,839</u>

7 DIRECTORS' REMUNERATION

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

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000 (note 25(a))	Bonuses \$'000	Share-based payments (note) \$'000	2016 Total \$'000
Executive directors						
Mr. King Fong-Tien	65	40	—	34	—	139
Mr. Tsao Ming-Hong	65	40	—	10	—	115
Ms. Chen Shun-Min	65	51	—	43	—	159
Ms. Ho Pei-Lin	65	—	—	—	—	65
Non-executive director						
Mr. Christian Odgaard PEDERSEN	39	—	—	—	—	39
Independent non-executive directors						
Mrs. Chiu Lin Mei-Yu	39	—	—	—	—	39
Mr. Chen Pou-Tsang	39	—	—	—	—	39
Mr. Lam Ting-Lok	39	—	—	—	—	39
Total	<u>416</u>	<u>131</u>	<u>—</u>	<u>87</u>	<u>—</u>	<u>634</u>

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	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000 <i>(note 25(a))</i>	Bonuses \$'000	Share-based payments (note) \$'000	2015 Total \$'000
Executive directors						
Mr. King Fong-Tien	65	27	—	6	—	98
Mr. Tsao Ming-Hong	65	41	—	7	8	121
Ms. Chen Shun-Min	65	52	—	16	8	141
Ms. Ho Pei-Lin	65	—	—	—	—	65
Non-executive director						
Mr. Christian Odgaard PEDERSEN	39	—	—	—	3	42
Independent non-executive directors						
Mrs. Chiu Lin Mei-Yu	39	—	—	—	3	42
Mr. Chen Pou-Tsang	39	—	—	—	—	39
Mr. Lam Ting-Lok	39	—	—	—	—	39
Total	<u>416</u>	<u>120</u>	<u>—</u>	<u>29</u>	<u>22</u>	<u>587</u>

Note: These represent the estimated fair value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(n)(ii). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 20.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2015: three) individuals are as follows:

	2016 \$'000	2015 \$'000
Salaries, allowances and benefits in kind	184	282
Bonuses	287	126
Share-based payments	—	12
	<u>471</u>	<u>420</u>

The emoluments of three (2015: three) individuals with the highest emoluments are within the following bands:

	2016 <i>Number of individuals</i>	2015 <i>Number of individuals</i>
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>
	<u>3</u>	<u>3</u>

9 OTHER COMPREHENSIVE INCOME

	2016			2015		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Exchange differences on translation of financial statements of subsidiaries in the PRC and in Hong Kong	<u>(21,970)</u>	<u>—</u>	<u>(21,970)</u>	<u>(20,115)</u>	<u>—</u>	<u>(20,115)</u>

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the Company's ordinary equity shareholders of \$42,445,000 (2015: \$39,952,000) and the weighted average number of 999,125,000 (2015: 1,006,212,000) ordinary shares in issue during the year.

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Weighted average number of ordinary shares

	2016 '000	2015 '000
Issued ordinary shares at 1 January	1,006,212	1,006,212
Effect of share options exercised	182	—
Effect of share repurchased	<u>(7,269)</u>	<u>—</u>
Weighted average number of ordinary shares at 31 December	<u>999,125</u>	<u>1,006,212</u>

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2016 and 31 December 2015 are the same as the basic earnings per share as all potential ordinary shares do not have a dilutive effect for the years ended 31 December 2016 and 31 December 2015.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings \$'000	Leasehold Improvement \$'000	Machinery and equipment \$'000	Motor vehicles \$'000	Office equipment, furniture and fixtures \$'000	Sub-total \$'000	Construction in progress \$'000	Total \$'000
Cost:								
At 1 January 2016	79,542	4,012	274,863	2,297	15,188	375,902	5,895	381,797
Exchange adjustment	(5,084)	(265)	(19,984)	(121)	(923)	(26,377)	(406)	(26,783)
Additions	—	474	2,351	25	259	3,109	8,778	11,887
Transfer from construction in progress	—	—	7,395	75	705	8,175	(8,175)	—
Disposals	—	(277)	(5,347)	(713)	(2,175)	(8,512)	—	(8,512)
At 31 December 2016	<u>74,458</u>	<u>3,944</u>	<u>259,278</u>	<u>1,563</u>	<u>13,054</u>	<u>352,297</u>	<u>6,092</u>	<u>358,389</u>
Accumulated depreciation:								
At 1 January 2016	(18,383)	(1,328)	(159,619)	(1,815)	(9,533)	(190,678)	—	(190,678)
Exchange adjustment	1,274	109	11,601	94	572	13,650	—	13,650
Charge for the year	(2,308)	(854)	(15,686)	(116)	(1,110)	(20,074)	—	(20,074)
Written back on disposals	—	277	5,136	622	1,984	8,019	—	8,019
At 31 December 2016	<u>(19,417)</u>	<u>(1,796)</u>	<u>(158,568)</u>	<u>(1,215)</u>	<u>(8,087)</u>	<u>(189,083)</u>	<u>—</u>	<u>(189,083)</u>
Carrying amount:								
At 31 December 2016	<u>55,041</u>	<u>2,148</u>	<u>100,710</u>	<u>348</u>	<u>4,967</u>	<u>163,214</u>	<u>6,092</u>	<u>169,306</u>

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	Buildings	Leasehold improvement	Machinery and equipment	Motor vehicles	Office equipment, furniture and fixtures	Sub-total	Construction in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost:								
At 1 January 2015	80,675	3,961	286,827	2,587	17,625	391,675	9,372	401,047
Exchange adjustment	(4,339)	(240)	(18,041)	(145)	(1,421)	(24,186)	(413)	(24,599)
Additions	—	1,629	2,808	29	579	5,045	6,341	11,386
Transfer from construction in progress	3,206	—	5,418	30	751	9,405	(9,405)	—
Disposals	—	(1,338)	(2,149)	(204)	(2,346)	(6,037)	—	(6,037)
At 31 December 2015	<u>79,542</u>	<u>4,012</u>	<u>274,863</u>	<u>2,297</u>	<u>15,188</u>	<u>375,902</u>	<u>5,895</u>	<u>381,797</u>
Accumulated depreciation:								
At 1 January 2015	(16,957)	(1,838)	(154,717)	(1,877)	(11,280)	(186,669)	—	(186,669)
Exchange adjustment	1,045	89	10,622	110	640	12,506	—	12,506
Charge for the year	(2,471)	(917)	(17,528)	(222)	(1,028)	(22,166)	—	(22,166)
Written back on disposals	—	1,338	2,004	174	2,135	5,651	—	5,651
At 31 December 2015	<u>(18,383)</u>	<u>(1,328)</u>	<u>(159,619)</u>	<u>(1,815)</u>	<u>(9,533)</u>	<u>(190,678)</u>	<u>—</u>	<u>(190,678)</u>
Carrying amount:								
At 31 December 2015	<u>61,159</u>	<u>2,684</u>	<u>115,244</u>	<u>482</u>	<u>5,655</u>	<u>185,224</u>	<u>5,895</u>	<u>191,119</u>

12 LEASE PREPAYMENTS

	2016	2015
	\$'000	\$'000
Cost:		
At 1 January	9,321	9,891
Exchange adjustment	<u>(598)</u>	<u>(570)</u>
At 31 December	<u>8,723</u>	<u>9,321</u>
Accumulated amortisation:		
At 1 January	(1,919)	(1,837)
Exchange adjustment	131	114
Charge for the year	<u>(184)</u>	<u>(196)</u>
At 31 December	<u>(1,972)</u>	<u>(1,919)</u>
Net book value:		
At 31 December	<u>6,751</u>	<u>7,402</u>

13 INVESTMENT IN SUBSIDIARIES

Name of company	Place of Incorporation/ operation	Particulars of issued and paid up capital/ Registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest %	Held by the Company %	Held by a subsidiary %	
China Metal International (BVI) Limited ("CMIBVI")	British Virgin Islands	\$162	100	100	—	Investment Holding
CMB (Hong Kong) Company Limited ("CMBHK")	Hong Kong	HK\$639,600,000	100	100	—	Investment holding and trading of casting products
CMP (Hong Kong) Industry Company Limited ("CMPHK")	Hong Kong	HK\$179,195,000	100	—	100	Investment holding
CMT (note)	PRC	\$30,000,000	100	—	100	Manufacturing and sale of casting products
CMS (note)	PRC	\$24,000,000	100	—	100	Manufacturing and sale of casting products
CMWCI	Cayman Islands	\$50,000,000	100	100	—	Investment holding and trading of casting products
CMWT (note)	PRC	\$32,000,000	100	—	100	Manufacturing and sale of casting products
CMB (note)	PRC	\$82,000,000	100	—	100	Manufacturing and sale of casting products

On 1 March 2016, the Company made an additional contribution to into CMBHK, which were 1,400,000 ordinary shares of HK\$390 each or HK\$546,000,000 in total (equivalent to \$70,000,000).

Note: The entity is wholly foreign owned enterprise established in PRC.

14 INVENTORIES

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

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Raw materials	3,435	2,321
Work in progress	5,930	5,860
Finished goods	33,205	29,475
Consumables	<u>3,386</u>	<u>3,501</u>
	<u>45,956</u>	<u>41,157</u>

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

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Carrying amount of inventories sold	<u>216,387</u>	<u>225,210</u>

15 TRADE AND OTHER RECEIVABLES

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Trade receivables	118,375	129,602
Less: provision for doubtful debts	<u>(2,560)</u>	<u>—</u>
	115,815	129,602
Bills receivable	5,796	3,980
Other receivables, deposits and prepayments	<u>9,795</u>	<u>8,477</u>
	<u>131,406</u>	<u>142,059</u>

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Included in trade receivables are amounts due from related companies of \$1,263,000 (2015: \$1,129,000), details of which are disclosed in note 25(b).

(a) **Ageing analysis**

As of 31 December 2016, the ageing analysis of trade receivables and bills receivable (which are included in trade and other receivables), based on the customer acceptance date and net of provision for doubtful debts, is as follows:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Within 3 months	85,943	104,986
3 to 12 months	34,619	27,512
12 to 24 months	788	924
Over 24 months	<u>261</u>	<u>178</u>
	<u>121,611</u>	<u>133,582</u>

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 to 180 days from the date of billings. Normally, the Group does not obtain collateral from customers. Further details on the Group's credit policy are set out in note 23(a).

(b) **Transferred financial assets that are not derecognised in their entirety**

At 31 December 2016, the Group endorsed certain bill receivables accepted by banks ("bank acceptance bills") in the PRC with a carrying amount of \$1,677,000 (2015: Nil) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the management of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to such bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of the bank acceptance bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the bank acceptance bills, including the sale, transfer or pledge of the bank acceptance bills to any other third parties. The aggregate carrying amount of the trade payables settled by the bank acceptance bills during the year to which the suppliers have recourse was \$1,677,000 (2015: Nil) as at 31 December 2016.

(c) Transferred financial assets that are derecognised in their entirety

As at 31 December 2016, bank acceptance bills of \$1,736,000 (2015: \$3,420,000) that have not matured were transferred to certain suppliers of the Group and derecognised in their entirety as all the risk and rewards of ownership of these bank acceptance bills were substantially transferred. The maximum exposure of the Group in relation to the continuing involvement in these bills is represented by the carrying amount of these bills in the event that these bills will not be settled by the issuing banks when they fall due.

(d) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade receivables and bills receivable are recorded using a provision account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly (see note 1(h)(i)).

At 31 December 2016, trade receivables and bills receivable of \$2,560,000 were individually determined to be impaired.

(e) Trade receivables and bills receivable that are not impaired

The ageing analysis of trade receivables and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Neither past due nor impaired	<u>115,205</u>	<u>108,515</u>
Less than 3 months past due	5,340	22,631
3 to 12 months past due	751	1,851
12 to 24 months past due	315	407
Over 24 months past due	—	178
	<u>6,406</u>	<u>25,067</u>
	<u>121,611</u>	<u>133,582</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

16 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2016 \$'000	2015 \$'000
Cash at bank and in hand	<u>30,050</u>	<u>31,665</u>

(b) Reconciliation of profit before taxation to cash generated from operations:

	<i>Notes</i>	2016 \$'000	2015 \$'000
Profit before taxation		52,352	47,791
Adjustments for:			
Provision for doubtful debts	5(c)	2,560	—
Amortisation of lease prepayments	5(c)	184	196
Depreciation	5(c)	20,074	22,166
Loss on disposal of property, plant and equipment	4(b)	173	232
Loss on disposal of other financial assets	4(b)	30	—
Interest income	4(a)	(227)	(411)
Finance costs	5(a)	588	853
Foreign exchange gain		(7,076)	(7,255)
Equity settled share-based payment expenses	5(b)	1	29
Changes in working capital:			
(Increase)/decrease in inventories		(4,799)	11,017
Decrease in trade and other receivables		8,093	3,369
Increase in amounts due from related companies		(304)	(15)
Decrease in amounts due to related companies		(74)	(1,064)
Increase/(decrease) in trade and other payables		<u>2,456</u>	<u>(6,285)</u>
Cash generated from operations		<u>74,031</u>	<u>70,623</u>

17 TRADE AND OTHER PAYABLES

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Trade payables	27,264	19,008
Bills payable	11,134	16,633
Other payables	<u>15,228</u>	<u>17,914</u>
	<u>53,626</u>	<u>53,555</u>

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

Bills payable of \$11,134,000 (2015: \$16,633,000) as at 31 December 2016 were secured by bank deposits of \$3,173,000 (2015: \$4,614,000).

As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Within 1 month	21,760	17,336
1 to 3 months	12,483	11,988
3 to 6 months	4,078	6,275
Over 6 months	<u>77</u>	<u>42</u>
	<u>38,398</u>	<u>35,641</u>

18 BANK LOANS

At 31 December 2016, unsecured bank loans were repayable as follows:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Within 1 year or on demand	<u>5,000</u>	<u>24,000</u>
After 1 year but within 2 years	17,000	—
After 2 years but within 5 years	<u>5,000</u>	<u>15,000</u>
	<u>22,000</u>	<u>15,000</u>

At 31 December 2016, the Group had banking facilities totalling \$163,866,000 (2015: \$134,320,000) which were utilised to the extent of \$35,295,000 (2015: \$43,681,000).

19 RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the relevant local government authorities in Tianjin and Suzhou whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees’ salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

Employees engaged by the Group in Taiwan are covered by the retirement schemes in Taiwan which are administered by CMP. As disclosed in note 25(a), CMP is responsible for the retirement liability of these persons and the Group is not obliged to incur any liability beyond the contribution.

The Group has no other material obligations for the payment of pension benefits beyond the annual contributions described above.

20 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company granted to eligible participants on 3 January 2011 a total of 22,300,000 share options to subscribe for ordinary shares of nominal value of HK\$0.01 each in the share capital of the Company under the Share Option Scheme adopted by the Company on 8 December 2004.

The Company adopted the new Share Option Scheme on 13 May 2014 and the existing Share Option Scheme was terminated from 13 May 2014. Options granted prior to such termination will continue to be valid and exercisable in accordance with the rules of the existing Share Option Scheme. There is no impact on the existing share options granted.

(a) The terms and conditions of the grants are as follows:

	Number of share involved in the option	Vesting conditions	Contractual life of options
<i>Options granted to directors:</i>			
— on 3 January 2011	4,800,000	(i) 40% on the third anniversary of the date of grant; (ii) 30% on the fourth anniversary of the date of grant; (iii) 30% on the fifth anniversary of the date of grant	10 years
<i>Options granted to employees:</i>			
— on 3 January 2011	17,500,000	(i) 40% on the third anniversary of the date of grant; (ii) 30% on the fourth anniversary of the date of grant; (iii) 30% on the fifth anniversary of the date of grant	10 years
Total share options	<u>22,300,000</u>		

(b) The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price	Number of options (thousand)	Weighted average exercise price	Number of options (thousand)
Outstanding at the beginning of the year	HK\$2.52	7,180	HK\$2.52	9,520
Lapsed during the year	HK\$2.52	—	HK\$2.52	(2,340)
Exercised during the year	HK\$2.52	<u>(1,110)</u>	HK\$2.52	<u>—</u>
Outstanding at the end of the year	HK\$2.52	<u>6,070</u>	HK\$2.52	<u>7,180</u>
Exercisable at the end of the year	HK\$2.52	<u>6,070</u>	HK\$2.52	<u>4,720</u>

The options outstanding at 31 December 2016 had an exercise price of HK\$2.52 (2015: HK\$2.52) and a weighted average remaining contractual life of 4 years (2015: 5 years).

(c) **Fair value of share options and assumptions:**

The fair value of services received in return for share options granted is based on the fair value of share options at grant date, measured using the binomial lattice model, with following inputs:

Fair value at measurement date	HK\$1.02
Share price	HK\$2.52
Exercise price	HK\$2.52
Expected volatility	55.83%
Option life	10 years
Expected dividends	3.477%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes Rate)	2.821%

The expected volatility is estimated taking into account historic average share price volatility. Expected dividends are based on the Company's historical dividend.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

An expense of \$1,000 was charged to administrative expenses in profit or loss for the year ended 31 December 2016 (2015: \$29,000).

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) **Current taxation in the consolidated statement of financial position represents:**

	2016	2015
	\$'000	\$'000
At 1 January	3,372	1,726
(Over)/Under-provision in respect of prior years	(846)	31
Provision for income tax for the year	10,152	7,863
Income tax paid	(8,975)	(6,074)
Exchange adjustment	<u>(212)</u>	<u>(174)</u>
At 31 December	<u>3,491</u>	<u>3,372</u>

(b) Deferred tax liabilities recognised:

The deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation differences	Deductible loss	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Deferred tax arising from:			
At 1 January 2015	1,966	(585)	1,381
Credited to profit or loss	(54)	(1)	(55)
Exchange adjustment	<u>(109)</u>	<u>31</u>	<u>(78)</u>
At 31 December 2015	<u>1,803</u>	<u>(555)</u>	<u>1,248</u>
At 1 January 2016	1,803	(555)	1,248
Charged to profit or loss	58	543	601
Exchange adjustment	<u>(117)</u>	<u>12</u>	<u>(105)</u>
At 31 December 2016	<u>1,744</u>	<u>—</u>	<u>1,744</u>

(c) Deferred tax liabilities not recognised

At 31 December 2016, deferred tax liabilities have not been recognised in respect of temporary differences relating to the undistributed profits of subsidiaries in the PRC amounting to \$134,680,000 (2015: \$124,753,000). Deferred tax liabilities of \$11,440,000 (2015: \$9,273,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and the directors consider it probable that these profits will not be distributed in the foreseeable future.

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end the year are set out below:

	Share Capital \$'000 (note 22(c))	Share premium \$'000 (note 22(d)(i))	Capital redemption reserve \$'000 (note 22(d)(ii))	Capital reserve- share option \$'000	Contributed surplus \$'000 (note 22(d)(vi))	Retained profits \$'000	Total \$'000
At 1 January 2016	1,293	44,330	42	1,199	74,653	47,620	169,137
Dividends approved in respect of the previous year	—	—	—	—	—	(19,574)	(19,574)
Profit for the year	—	—	—	—	—	30,689	30,689
Purchase and cancellation of own shares par value paid	(13)	—	—	—	—	—	(13)
— premium paid	—	(2,907)	—	—	—	—	(2,907)
— transfer between reserves	—	—	13	—	—	(13)	—
Shares issued under share option scheme	1	514	—	(155)	—	—	360
Equity settled share-based transactions	—	—	—	1	—	—	1
Dividends declared in respect of the current year	—	—	—	—	—	(19,926)	(19,926)
At 31 December 2016	<u>1,281</u>	<u>41,937</u>	<u>55</u>	<u>1,045</u>	<u>74,653</u>	<u>38,796</u>	<u>157,767</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Share Capital \$'000 <i>(note 22(c))</i>	Share premium \$'000 <i>(note 22(d)(i))</i>	Capital redemption reserve \$'000 <i>(note 22(d)(ii))</i>	Capital reserve- share option \$'000	Contributed surplus \$'000 <i>(note 22(d)(vi))</i>	Retained profits \$'000	Total \$'000
At 1 January 2015	1,293	44,330	42	1,170	74,653	32,183	153,671
Dividends approved in respect of the previous year	—	—	—	—	—	(10,062)	(10,062)
Profit for the year	—	—	—	—	—	47,535	47,535
Equity settled share-based transactions	—	—	—	29	—	—	29
Dividends declared in respect of the current year	—	—	—	—	—	(22,036)	(22,036)
At 31 December 2015	<u>1,293</u>	<u>44,330</u>	<u>42</u>	<u>1,199</u>	<u>74,653</u>	<u>47,620</u>	<u>169,137</u>

(b) Dividends
(i) Dividends payable to equity shareholders of the Company attributable to the year

	2016 \$'000	2015 \$'000
Interim dividend declared and paid of 1.00 cent (2015: 0.80 cent) per ordinary share	9,963	8,050
Special interim dividend declared and paid of 1.00 cent (2015: 1.39 cent) per ordinary share	9,963	13,986
Final dividend proposed after the end of the reporting period of 0.82 cent (2015: 0.97 cent) per ordinary share	8,200	9,760
No special final dividend proposed after the end of the reporting period in 2016 (2015: 0.99 cent per ordinary share)	—	9,961
	<u>28,126</u>	<u>41,757</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year**

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Final dividend in respect of previous financial year, approved and paid during the year of 0.97 cent (2015: 1.00 cent) per ordinary share	9,664	10,062
Special final dividend in respect of previous financial year, approved and paid during the year of 0.99 cent (2015: nil) per ordinary share	<u>9,910</u>	<u>—</u>
	<u><u>19,574</u></u>	<u><u>10,062</u></u>

(c) Share capital**(i) Authorised and issued share capital**

	2016		2015	
	Number of		Number of	
	shares		shares	
	<i>(thousand)</i>	<i>\$'000</i>	<i>(thousand)</i>	<i>\$'000</i>
Authorised:				
Ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>12,853</u>	<u>10,000,000</u>	<u>12,853</u>
Issued:				
At 1 January	1,006,212	1,293	1,006,212	1,293
Share repurchased and cancelled	(9,956)	(13)	—	—
Shares issued under share option scheme	<u>1,110</u>	<u>1</u>	<u>—</u>	<u>—</u>
At 31 December	<u><u>997,366</u></u>	<u><u>1,281</u></u>	<u><u>1,006,212</u></u>	<u><u>1,293</u></u>

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

(ii) Repurchase of own shares

During the year ended 31 December 2016, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Period	Number of shares repurchased	Highest price	Lowest price	Aggregate price paid
		paid per share HK\$	paid per share HK\$	
April 2016	9,956,000	2.39	2.24	22,610,000

During the year ended 31 December 2016, the repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of \$13,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of \$2,907,000 was charged to share premium.

(iii) Shares issued under share option scheme

In November 2016, options were exercised to subscribe for 1,110,000 ordinary shares in the Company at a consideration of HK\$2,797,200 (equivalent to \$360,000) of which HK\$11,100 (equivalent to \$1,000) was credited to share capital and the balance of HK\$2,786,100 (equivalent to \$359,000) was credited to the share premium account \$155,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(n)(ii).

(d) Nature and purpose of reserves**(i) Share premium**

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) Capital redemption reserve

Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the distributable reserves of the Company.

(iii) ***Statutory surplus reserve***

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance of the reserve after such issue is not less than 25% of their registered capital.

(iv) ***exchange fluctuation reserve***

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(r).

(v) ***other reserve***

Other reserve represents the difference between the contributed capital of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange.

(vi) ***Contributed surplus***

Pursuant to the reorganisation in 2004, the Company became the holding company of the Group on 8 December 2004. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus.

(e) **Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents.

The adjusted net debt-to-capital ratio at 31 December 2016 and 2015 was as follows:

	<i>Note</i>	2016 \$'000	2015 \$'000
Current liabilities			
Bank loans	18	5,000	24,000
Trade and other payables	17	<u>53,626</u>	<u>53,555</u>
		58,626	77,555
Non-current liabilities			
Long-term loans	18	<u>22,000</u>	<u>15,000</u>
Total debts		80,626	92,555
Less: Cash and cash equivalents	16	<u>(30,050)</u>	<u>(31,665)</u>
Adjusted net debt		<u><u>50,576</u></u>	<u><u>60,890</u></u>
Total equity		<u><u>302,996</u></u>	<u><u>324,580</u></u>
Adjusted net debt-to-capital ratio		<u><u>17%</u></u>	<u><u>19%</u></u>

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due within 60 to 180 days from the date of billing except for receivables related to moulds development which are not due until the mass production of related products. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Cash and cash equivalents are normally placed with licenced banks that have high credit ratings. Given their high credit ratings, management does not expect any licenced bank to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 21% (2015: 17%) of the trade receivables was due from the Group's largest customer, and 54% (2015: 49%) of the trade receivables were due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and fixed asset acquisitions beyond certain limits.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2016					
	Contractual undiscounted cash flow					
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 3 years \$'000	More than 3 years \$'000	Total \$'000	Carrying amount at 31 Dec \$'000
Bank loans	5,346	17,179	5,038	—	27,563	27,000
Trade and other payables	<u>53,626</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>53,626</u>	<u>53,626</u>
	<u>58,972</u>	<u>17,179</u>	<u>5,038</u>	<u>—</u>	<u>81,189</u>	<u>80,626</u>

	2015					
	Contractual undiscounted cash flow					
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 3 years \$'000	More than 3 years \$'000	Total \$'000	Carrying amount at 31 Dec \$'000
Bank loans	24,476	233	15,062	—	39,771	39,000
Trade and other payables	<u>53,555</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>53,555</u>	<u>53,555</u>
	<u>78,031</u>	<u>233</u>	<u>15,062</u>	<u>—</u>	<u>93,326</u>	<u>92,555</u>

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's interest rate profile as monitored by management is set out in (i) below.

(i) **Interest rate profile**

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2016		2015	
	Effective interest rate p.a.		Effective interest rate p.a.	
	%	\$'000	%	\$'000
Variable rate borrowings:				
Bank loans	1.57%	27,000	1.66%	39,000

(ii) **Sensitivity analysis**

At 31 December 2016, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately \$135,000 (2015: \$195,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2015.

(d) **Currency risk**

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in foreign currencies, i.e. currencies other than the functional currencies of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euros and Japanese Yen.

In respect of trade receivables, payables and bank loans held in currencies other than the functional currencies of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government. As at 31 December 2016, the Group had cash at bank and bank deposits denominated in Renminbi, equivalent to \$17,485,000 (2015: \$25,258,000).

(i) *Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in United States dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2016			2015		
	United States Dollars \$'000	Euros \$'000	Japanese Yen \$'000	United States Dollars \$'000	Euros \$'000	Japanese Yen \$'000
Trade and other receivables	527	132	—	279	465	68
Cash and cash equivalents	1,361	749	672	613	940	57
Inter-company receivables/(payables) within the Group	70,768	(2,247)	85	49,981	190	(389)
Trade and other payables	<u>(235)</u>	<u>(100)</u>	<u>(6)</u>	<u>(243)</u>	<u>—</u>	<u>(10)</u>
Net exposure arising from recognised assets and liabilities	<u>72,421</u>	<u>(1,466)</u>	<u>751</u>	<u>50,630</u>	<u>1,595</u>	<u>(274)</u>

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would have arisen if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000
United States Dollars	5%	2,975	5%	2,532
	(5)%	(2,975)	(5)%	(2,532)
Euros	5%	(81)	5%	80
	(5)%	81	(5)%	(80)
Japanese Yen	5%	38	5%	(14)
	(5)%	(38)	(5)%	14

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and retained profit of each entity of the Group measured in the respective functional currencies, translated into United States dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

(e) **Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2016 and 2015.

24 COMMITMENTS**Capital commitments**

Capital commitments, representing purchase of property, plant and equipment, not provided for in the financial statements are as follows:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Contracted for	<u>8,086</u>	<u>4,693</u>

25 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2016, transactions with the following parties are considered as related party transactions:

Name of parties	Relationship
China Metal Products Company Limited ("CMP")	Shareholder of the Company
Yanmar Co., Ltd. ("Yanmar")	Shareholder of the Company
Vald. Birn A/S ("Birn")	Affiliated company
China Metal Japan Co., Ltd. ("CMJ")	Affiliated company
China Metal Automotive International Co., Limited ("CMAI")	Affiliated company
Qingdao Sourcing Specialists Trading Co., Limited ("QSST")	Affiliated company

(a) Recurring transactions

Particulars of significant transactions between the Group and one of the above related parties during the year are as follows:

	2016 \$'000	2015 \$'000
Sales of goods to		
— Yanmar	9,428	9,698
— Birn	<u>439</u>	<u>960</u>
	<u>9,867</u>	<u>10,658</u>
Commissions payable to		
— CMAI	1,014	1,184
— CMJ	333	254
— QSST	<u>23</u>	<u>—</u>
	<u>1,370</u>	<u>1,438</u>
Reimbursement of expenses to		
— CMAI	3,457	3,948
— CMP	<u>233</u>	<u>246</u>
	<u>3,690</u>	<u>4,194</u>

Included in the reimbursement of expenses to CMP is the Group's share of contributions to retirement schemes of certain eligible employees in Taiwan of \$155,000 (2015: \$153,000) for the year ended 31 December 2016. The schemes are administered by CMP. Based on an agreement between the Group and CMP, CMP is responsible for the retirement liability of these employees. The Group is not obliged to incur any liability beyond the contribution.

In addition, remuneration of key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and highest paid employees as disclosed in note 8, are as follows:

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Short-term employee benefits	3,116	3,243
Equity settled share-based transactions	<u>1</u>	<u>29</u>
	<u><u>3,117</u></u>	<u><u>3,272</u></u>

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Amounts due from related companies

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Trade		
— Birn	312	441
— Yanmar	<u>951</u>	<u>688</u>
	<u><u>1,263</u></u>	<u><u>1,129</u></u>
Non-trade		
— CMAI	<u>304</u>	<u>—</u>
	<u><u>304</u></u>	<u><u>—</u></u>
	<u><u>1,567</u></u>	<u><u>1,129</u></u>

All the other amounts due from related companies are unsecured, interest-free and are expected to be recovered within one year. There was no impairment allowance made against these amounts at 31 December 2016 (2015: Nil).

(c) Amounts due to related companies

	2016	2015
	<i>\$'000</i>	<i>\$'000</i>
Non-trade		
— CMP	34	21
— CMJ	64	24
— CMAI	<u>—</u>	<u>127</u>
	<u>98</u>	<u>172</u>

The amounts are unsecured, interest-free and are expected to be settled within one year.

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CMAI, CMJ and Birn above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in Section “Connected Transactions” of the Report of the Directors.

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	2016 \$'000	2015 \$'000
Non-current assets			
Investments in subsidiaries	13	235,910	165,910
Current assets			
Inventories		6,938	8,946
Trade and other receivables		14,768	27,035
Amounts due from subsidiaries		7,100	76,425
Amounts due from related companies		1,773	559
Cash and cash equivalents		3,590	1,612
		<u>34,169</u>	<u>114,577</u>
Current liabilities			
Trade and other payables		654	888
Bank loans		5,000	24,000
Amounts due to subsidiaries		84,543	71,425
Amounts due to related companies		115	37
		<u>90,312</u>	<u>96,350</u>
Net current (liabilities)/assets		<u>(56,143)</u>	<u>18,227</u>
Total assets less current liabilities		179,767	184,137
Non-current liabilities			
Long-term loans		<u>22,000</u>	<u>15,000</u>
NET ASSETS		<u>157,767</u>	<u>169,137</u>
CAPITAL AND RESERVES			
Share capital	22(a)	1,281	1,293
Reserves		<u>156,486</u>	<u>167,844</u>
TOTAL EQUITY		<u>157,767</u>	<u>169,137</u>

27 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 22(b).

28 COMPARATIVE FIGURES

Certain comparative figures in the consolidated statement of financial position have been reclassified to conform to the current period's presentation.

Certain comparative expenses in the consolidated statement of profit or loss have been reclassified to conform to the current period's presentation. As a result, "Cost of sales" for the year ended 31 December 2015 decreased by \$5,391,000 and "Administrative expenses" for the year ended 31 December 2015 increased by \$5,391,000.

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider the immediate parent and ultimate controlling party of the Group to be United Elite Agents Limited, a company incorporated in the British Virgin Islands and China Metal Products Company Limited, a company listed and incorporated in Taiwan respectively. The ultimate controlling party produces financial statements available for public use.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position, except for the following:

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) *Classification and measurement*

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

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

(b) *Impairment*

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Group expects no material impact for the revenue recognition as it does not have any service contracts with its customers. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

The Group does not plan to early adopt the above new standards or amendments. With respect to HKFRS 9 and HKFRS 15 given the Group has not completed its assessment of their full impact on the Group, their possible impact on the Group's results of operations and financial position has not been quantified.

3. FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

The following financial information is extracted from the annual report of the Company for the year ended 31 December 2015.

Consolidated statement of profit or loss

For the year ended 31 December 2015

(Expressed in United States dollars)

	Note	2015 \$'000	2014 \$'000
Revenue	3	309,506	346,855
Cost of sales		<u>(230,601)</u>	<u>(260,839)</u>
Gross profit		78,905	86,016
Other revenue	4(a)	1,371	2,193
Other net income/(loss)	4(b)	2,610	(700)
Selling and distribution costs		(16,838)	(18,939)
Administrative expenses		<u>(17,404)</u>	<u>(17,536)</u>
Profit from operations		48,644	51,034
Finance costs	5(a)	<u>(853)</u>	<u>(1,223)</u>
Profit before taxation	5	47,791	49,811
Income tax	6	<u>(7,839)</u>	<u>(8,777)</u>
Profit for the year		<u>39,952</u>	<u>41,034</u>
Attributable to:			
Equity shareholders of the Company		39,952	41,034
Non-controlling interests		<u>—</u>	<u>—</u>
Profit for the year		<u>39,952</u>	<u>41,034</u>
Earnings per share	10		
Basic (cents)		3.97	4.08
Diluted (cents)		<u>3.97</u>	<u>4.08</u>

The notes on page 146 to 201 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 23(b).

Consolidated statement of profit or loss and other comprehensive income*For the year ended 31 December 2015**(Expressed in United States dollars)*

	<i>Note</i>	2015 \$'000	2014 \$'000
Profit for the year		39,952	41,034
Other comprehensive income for the year (after tax and reclassification adjustment):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries in the People's Republic of China ("PRC") and in Hong Kong	9	<u>(20,115)</u>	<u>(2,362)</u>
Total comprehensive income for the year		<u>19,837</u>	<u>38,672</u>
Attributable to:			
Equity shareholders of the Company		19,837	38,672
Non-controlling interests		<u>—</u>	<u>—</u>
Total comprehensive income for the year		<u>19,837</u>	<u>38,672</u>

The notes on page 146 to 201 form part of these financial statements.

Consolidated statement of financial position

At 31 December 2015

(Expressed in United States dollars)

	Note	2015 \$'000	2014 \$'000
Non-current assets			
Property, plant and equipment	11	191,119	214,378
Lease prepayments	12	7,402	8,054
Other financial assets	14	37	37
		<u>198,558</u>	<u>222,469</u>
Current assets			
Inventories	15(a)	41,157	52,174
Trade and other receivables	16	145,492	147,452
Amounts due from related companies	26(b)	441	426
Pledged bank deposits	18	4,614	2,260
Cash and cash equivalents	17	31,665	38,838
Time deposits		—	2,942
		<u>223,369</u>	<u>244,092</u>
Current liabilities			
Trade and other payables	18	53,555	60,370
Bank loans	19	24,000	44,357
Amounts due to related companies	26(c)	172	1,236
Current taxation	22(a)	3,372	1,726
		<u>81,099</u>	<u>107,689</u>
Net current assets		<u>142,270</u>	<u>136,403</u>
Total assets less current liabilities		340,828	358,872
Non-current liabilities			
Long-term loans	19	15,000	20,679
Deferred tax liabilities	22(b)	1,248	1,381
		<u>16,248</u>	<u>22,060</u>
NET ASSETS		<u>324,580</u>	<u>336,812</u>
CAPITAL AND RESERVES			
Share capital	23(c)	1,293	1,293
Reserves		<u>323,287</u>	<u>335,519</u>
Total equity attributable to equity shareholders of the Company		324,580	336,812
Non-controlling interests		—	—
TOTAL EQUITY		<u>324,580</u>	<u>336,812</u>

The notes on page 146 to 201 form part of these financial statements.

Consolidated statement of changes in equity*For the year ended 31 December 2015**(Expressed in United States dollars)*

Note	Attributable to equity shareholders of the Company										Non-controlling interests	Total
	Share capital	Share premium	Capital redemption reserve	Statutory surplus reserve	Exchange fluctuation reserve	Capital reserve-share option	Other reserve	Retained profits	Sub-total			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Balance at 1 January 2014	1,291	43,484	42	23,181	47,908	1,333	20,074	192,698	330,011	—	330,011	
Changes in equity for 2014:												
Profit for the year	—	—	—	—	—	—	—	41,034	41,034	—	41,034	
Other comprehensive income	9	—	—	—	(2,362)	—	—	—	(2,362)	—	(2,362)	
Total comprehensive income		—	—	—	(2,362)	—	—	41,034	38,672	—	38,672	
Dividends approved in respect of the previous year	23(b)(ii)	—	—	—	—	—	—	(18,771)	(18,771)	—	(18,771)	
Transfer to statutory surplus reserve		—	—	—	2,794	—	—	(2,794)	—	—	—	
Shares issued under share option scheme	23(c)(ii)	2	846	—	—	—	(237)	—	611	—	611	
Equity settled share-based transactions	21(c)	—	—	—	—	—	74	—	74	—	74	
Dividends approved in respect of the current year	23(b)(i)	—	—	—	—	—	—	(13,785)	(13,785)	—	(13,785)	
Balance at 31 December 2014		<u>1,293</u>	<u>44,330</u>	<u>42</u>	<u>25,975</u>	<u>45,546</u>	<u>1,170</u>	<u>20,074</u>	<u>198,382</u>	<u>336,812</u>	<u>—</u>	<u>336,812</u>

The notes on page 146 to 201 form part of these financial statements.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

Attributable to equity shareholders of the Company											
	Share capital	Share premium	Capital redemption reserve	Statutory surplus reserve	Exchange fluctuation reserve	Capital reserve-share option	Other reserve	Retained profits	Sub-total	Non-controlling interests	Total
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2015	1,293	44,330	42	25,975	45,546	1,170	20,074	198,382	336,812	—	336,812
Changes in equity for 2015:											
Profit for the year	—	—	—	—	—	—	—	39,952	39,952	—	39,952
Other comprehensive income	9	—	—	—	(20,115)	—	—	—	(20,115)	—	(20,115)
Total comprehensive income					(20,115)			39,952	19,837		19,837
Dividends approved in respect of the previous year	23(b)(ii)	—	—	—	—	—	—	(10,062)	(10,062)	—	(10,062)
Transfer to statutory surplus reserve		—	—	2,157	—	—	—	(2,157)	—	—	—
Equity settled share-based transactions	21(c)	—	—	—	—	29	—	—	29	—	29
Dividends approved in respect of the current year	23(b)(i)	—	—	—	—	—	—	(22,036)	(22,036)	—	(22,036)
Balance at 31 December 2015	<u>1,293</u>	<u>44,330</u>	<u>42</u>	<u>28,132</u>	<u>25,431</u>	<u>1,199</u>	<u>20,074</u>	<u>204,079</u>	<u>324,580</u>	<u>—</u>	<u>324,580</u>

The notes on page 146 to 201 form part of these financial statements.

Consolidated cash flow statement*For the year ended 31 December 2015**(Expressed in United States dollars)*

	<i>Note</i>	2015 \$'000	2014 \$'000
Operating activities			
Cash generated from operations	17(b)	70,623	62,247
Income tax paid		<u>(6,074)</u>	<u>(10,169)</u>
Net cash generated from operating activities		<u>64,549</u>	<u>52,078</u>
Investing activities			
Payment for purchase of property, plant and equipment		(13,325)	(19,255)
Proceeds from disposal of property, plant and equipment		154	183
Interest received		411	763
Decrease/(increase) in time deposits with maturity over 3 months		<u>2,942</u>	<u>(2,942)</u>
Net cash used in investing activities		<u>(9,818)</u>	<u>(21,251)</u>
Financing activities			
Proceeds from shares issued under share option		—	611
Proceeds from new bank loans		119,000	234,297
Repayment of bank loans		(145,036)	(222,602)
Increase in pledged bank deposits		(2,354)	(459)
Interest paid		(853)	(1,323)
Dividends paid to equity shareholders of the Company		<u>(32,098)</u>	<u>(32,556)</u>
Net cash used in financing activities		<u>(61,341)</u>	<u>(22,032)</u>
Net (decrease)/increase in cash and cash equivalents		(6,610)	8,795
Cash and cash equivalents at 1 January		38,838	30,384
Effect of foreign exchange rate changes		<u>(563)</u>	<u>(341)</u>
Cash and cash equivalents at 31 December	17(a)	<u>31,665</u>	<u>38,838</u>

The notes on page 146 to 201 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2015

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The functional currencies of the Company, its subsidiaries in the People’s Republic of China (“PRC”) and a subsidiary in Hong Kong are United States dollars, Renminbi and Hong Kong dollars respectively. For the purposes of presenting the consolidated financial statements, the Group adopted United States dollars as its presentation currency.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the group:

- Amendments to HKAS 19, *employee benefits: Defined benefit plans: Employee contributions*
- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

These developments do not have an impact on the Group's financial results or financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a

contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(h)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in note 1(q)(ii).

When the investments are derecognised or impaired (see note 1(h)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 35 years after the date of completion.

Buildings	20 — 35 years
Leasehold improvements	2 — 10 years
Machinery and equipment	6 — 14 years
Motor vehicles	5 — 6 years
Office equipment, furniture and fixtures	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(h)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(g) **Leased assets**

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

(i) ***Classification of assets leased to the Group***

Assets that are held by the Group under leases which transfer to the Group substantially all the risk and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) ***Lease prepayments***

Lease prepayments represent the cost of acquiring land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 1(h)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights (50 years).

(iii) ***Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) **Impairment of assets**

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

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

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

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

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

(ii) *Impairment of other assets*

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

- property, plant and equipment;
- lease prepayments; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(iii) *Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(h)(i) and (ii)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits**(i) *Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Share-based payments*

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

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

(iii) **Termination benefits**

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(o) **Income tax**

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

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

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

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

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

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax ("VAT") or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

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

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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

(u) Segment reporting

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 21 and 24 contain information about the assumptions and their risk factors relating to valuation of fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The management reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions.

(c) Allowance for impairment of doubtful debts

Allowance for impairment of doubtful debts is assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the allowance for impairment of doubtful debts would affect profit or loss in future years.

(d) Impairment of property, plant and equipment

Property, plant and equipment are assessed at each reporting period to identify indications that they may be impaired. Such indications include physical damage of an item of property, plant and equipment and a decrease in the revenue derived from an item of property, plant and equipment. If any such indication exists, the recoverable amount of that property, plant and equipment item is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years. The recoverable amount of an item of property, plant and equipment is based on value-in-use calculations. These calculations use cash flow projections based on reasonable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the item.

(e) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

3 REVENUE AND SEGMENT REPORTING**(a) Revenue**

The principal activities of the Group are design, development, manufacture and sale of customised metal castings for use in various industries.

Revenue represents the sales value of casting products to customers after allowances for goods returned, excludes VAT and is after the deduction of any trade discounts.

The amount of each significant category of revenue is as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Sales of:		
— Automobile parts and components	226,887	228,871
— Mechanical parts	54,262	82,063
— Compressor parts	<u>28,357</u>	<u>35,921</u>
	<u>309,506</u>	<u>346,855</u>

The Group's customer base is diversified and includes only two customers with whom transactions have exceeded 10% of the Group's revenues (2014: two customers). In 2015 revenues from sales of automobile parts and components to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately \$44 million and \$32 million in the United States and the PRC, respectively (2014: \$47 million and \$41 million in the United States and the PRC, respectively). Details of concentrations of credit risk arising from these customers are set out in note 24(a).

Further details regarding the Group's principal activities are disclosed below:

(b) Segment reporting

The Group manages its businesses according to the manufacturing source of its products, i.e. its operating subsidiaries in the PRC, which are engaged in the design, development, manufacture and sale of customised metal casting. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments:

- Tianjin CMT Industry Company Limited ("CMT")
- Suzhou CMS Machinery Company Limited ("CMS")
- CMW (Tianjin) Industry Company Limited ("CMWT")
- Suzhou CMB Machinery Company Limited ("CMB")

(i) Segment results, assets and liabilities

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

Segment assets include all tangible assets, lease prepayments and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the operating activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profits is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as

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including investment income and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group’s earnings are further adjusted for items not specially attributed to individual segments, such as directors’ and auditors’ remuneration and other head office or corporate administrative costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group’s reportable segments as provided to the Group’s most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below:

	CMT		CMS		CMWT		CMB		TOTAL	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Revenue from external customers	45,369	73,879	104,521	125,984	130,436	133,119	29,180	13,873	309,506	346,855
Inter-segment revenue	871	216	2,345	1,086	14,083	1,482	3,345	5,207	20,644	7,991
Reportable segment revenue	<u>46,240</u>	<u>74,095</u>	<u>106,866</u>	<u>127,070</u>	<u>144,519</u>	<u>134,601</u>	<u>32,525</u>	<u>19,080</u>	<u>330,150</u>	<u>354,846</u>
Reportable segment profit (adjusted EBITDA)	<u>1,216</u>	<u>14,801</u>	<u>26,250</u>	<u>26,329</u>	<u>43,918</u>	<u>31,522</u>	<u>3,446</u>	<u>(1,641)</u>	<u>74,830</u>	<u>71,011</u>
Interest income from bank deposits	164	207	128	328	57	64	62	164	411	763
Interest expense	(431)	(635)	(422)	(588)	—	—	—	—	(853)	(1,223)
Depreciation and amortisation for the year	(1,608)	(1,997)	(5,480)	(5,043)	(9,707)	(10,220)	(5,567)	(4,470)	(22,362)	(21,730)
Reportable segment assets	56,238	78,572	101,872	117,477	159,549	165,188	106,588	102,332	424,247	463,569
Additions to non-current segment assets during the year	26	86	3,469	3,649	3,235	2,705	4,656	9,153	11,386	15,593
Reportable segment liabilities	1,517	9,121	14,703	14,377	30,221	30,982	18,215	11,029	64,656	65,509

(ii) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

	2015 \$'000	2014 \$'000
Revenue		
Reportable segment revenue	330,150	354,846
Elimination of inter-segment revenue	<u>(20,644)</u>	<u>(7,991)</u>
Consolidated revenue (note 3(a))	<u>309,506</u>	<u>346,855</u>
	2015 \$'000	2014 \$'000
Profit		
Reportable segment profit	74,830	71,011
Elimination of depreciation related to inter-segment fixed assets transfer	503	405
Elimination of inter-segment (profit)/loss	<u>(4,320)</u>	<u>1,010</u>
Reportable segment profit derived from the Group's external customers	71,013	72,426
Depreciation and amortisation	(22,362)	(21,730)
Interest income	411	763
Finance costs	(853)	(1,223)
Unallocated head office and corporate expenses	<u>(418)</u>	<u>(425)</u>
Consolidated profit before taxation	<u>47,791</u>	<u>49,811</u>

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	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Assets		
Reportable segment assets	424,247	463,569
Elimination of inter-segment receivables	<u>(7,195)</u>	<u>(1,672)</u>
	417,052	461,897
Non-current financial assets	37	37
Unallocated head office and corporate assets	<u>4,838</u>	<u>4,627</u>
	421,927	466,561
Consolidated total assets	<u><u>421,927</u></u>	<u><u>466,561</u></u>
	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Liabilities		
Reportable segment liabilities	64,656	65,509
Elimination of inter-segment payables	<u>(7,195)</u>	<u>(1,672)</u>
	57,461	63,837
Unallocated head office and corporate liabilities	<u>39,886</u>	<u>65,912</u>
	97,347	129,749
Consolidated total liabilities	<u><u>97,347</u></u>	<u><u>129,749</u></u>

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods delivered.

	Revenue from external customers	
	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
The PRC	172,764	190,448
United States	107,879	111,251
Japan	15,232	27,005
Other countries	<u>13,631</u>	<u>18,151</u>
	309,506	346,855
Total	<u><u>309,506</u></u>	<u><u>346,855</u></u>

Most of the Group's property, plant and equipment ("specified non-current assets") are located in the PRC. Accordingly, no geographical segment analysis based on the location of specified non-current assets is presented.

4 OTHER REVENUE AND NET INCOME/(LOSS)

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
(a) Other revenue		
— Interest income	411	763
— Sundry income	<u>960</u>	<u>1,430</u>
	<u>1,371</u>	<u>2,193</u>
	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
(b) Other net income/(loss)		
Net foreign exchange gain/(loss)	2,842	(729)
Net (loss)/gain on sale of property, plant and equipment	(232)	6
Others	<u>—</u>	<u>23</u>
	<u>2,610</u>	<u>(700)</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	853	1,323
Less: interest expense capitalised into construction in progress*	<u>—</u>	<u>(100)</u>
	<u>853</u>	<u>1,223</u>

* The borrowing costs have been capitalised at a rate of 0.95% — 1.83% per annum in 2014.

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	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
(b) Staff costs:		
Salaries, wages and other benefits	41,198	38,600
Contributions to retirement benefit schemes	3,677	3,435
Equity settled share-based payment expenses (note 21)	29	74
Termination benefits	<u>3,399</u>	<u>—</u>
	<u>48,303</u>	<u>42,109</u>

Pursuant to the restructuring of CMT in 2015, the Group terminated the employment of certain staff. Termination benefits represent payments made to these staff.

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
(c) Other items:		
Amortisation of lease prepayments	196	200
Depreciation	22,166	21,530
Operating lease charges: minimum lease payments (including property rentals)	362	398
Auditors' remuneration — audit services	522	513

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS**(a) Taxation in the consolidated statement of profit or loss represents:**

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Current tax		
Provision for income tax for the year	7,863	7,413
Under/(over)-provision in respect of prior years	<u>31</u>	<u>(12)</u>
	7,894	7,401
Deferred tax		
Origination and reversal of temporary differences	<u>(55)</u>	<u>1,376</u>
	<u>7,839</u>	<u>8,777</u>

(i) Overseas income tax

Pursuant to the rules and regulations of the Cayman Islands, the Company and CMW (Cayman Islands) Co., Ltd. (“CMW(CI)”) are not subject to any income tax in the Cayman Islands.

(ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax is made for the year as the Group did not generate any income subject to Hong Kong Profits Tax during the years presented.

(iii) PRC Corporate Income Tax

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC Corporate Income Tax (“CIT”) of the Group is calculated based on the following rates:

	<i>Notes</i>	2015	2014
CMT	(1)	15%	15%
CMS	(1)	15%	15%
CMWT	(2)	15%	15%
CMB	(3)	15%	15%

Notes:

- (1) In September 2011 and October 2011, CMS and CMT were granted the status of Advanced and New Technology Enterprise (“ANTE”) that entitled them to a preferential CIT rate of 15% for the three-year period ended 31 December 2013. CMS and CMT renewed and obtained the ANTE certificates in March 2015 and October 2014, respectively, and are entitled to a preferential CIT rate of 15% for a period of three years from 2014 to 2016.
- (2) In May 2013, CMWT was granted the status of ANTE that entitled it to a preferential CIT rate of 15% for the three-year period ended 31 December 2014. CMWT renewed and obtained the ANTE certificate in August 2015 and are entitled to a preferential CIT rate of 15% for a period of three years from 2015 to 2017.
- (3) In May 2014, CMB was granted the status of ANTE that entitled it to a preferential CIT rate of 15% for the three-year period ended 31 December 2015.

In addition, pursuant to CIT Law effective on 1 January 2008 and Implementation Rules to the CIT Law, dividends payable by subsidiaries in the PRC to foreign investors are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to the tax treaty between the PRC and Hong Kong, the holding companies of CMB, CMT and CMS are established in Hong Kong, and therefore, provided these companies meet the criteria for “beneficial owner” set out in the relevant PRC tax circular, dividends payable by CMB, CMT and CMS are subject to a reduced withholding tax rate of 5%.

(b) **Reconciliation between tax expense and accounting profit at applicable tax rates:**

	2015 \$'000	2014 \$'000
Profit before taxation	<u>47,791</u>	<u>49,811</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	10,828	10,638
Tax effect of non-deductible expenses	139	4
Tax effect of unused tax losses not recognised	282	—
Tax effect of distributed profits of subsidiaries	1,270	803
Under/(over)-provision in prior years	31	(12)
(Reversal)/origination of deferred tax liability arising from depreciation timing difference	(54)	1,961
Tax effect of tax concessions	<u>(4,657)</u>	<u>(4,617)</u>
Actual tax expense	<u>7,839</u>	<u>8,777</u>

7 DIRECTORS' REMUNERATION

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

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Bonuses	Share-based payments (note)	2015 Total
	\$'000	\$'000	\$'000 (note 26(a))	\$'000	\$'000	\$'000
Executive directors						
Mr. King Fong-Tien	65	27	—	6	—	98
Mr. Tsao Ming-Hong	65	41	—	7	8	121
Ms. Chen Shun-Min	65	52	—	16	8	141
Ms. Ho Pei-Lin	65	—	—	—	—	65
Non-executive director						
Mr. Christian Odgaard Pedersen	39	—	—	—	3	42
Independent non-executive directors						
Mrs. Chiu Lin Mei-Yu	39	—	—	—	3	42
Mr. Chen Pou-Tsang	39	—	—	—	—	39
Mr. Lam Ting-Lok	39	—	—	—	—	39
Total	416	120	—	29	22	587

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	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000 <i>(note 26(a))</i>	Bonuses \$'000	Share-based payments (note) \$'000	2014 Total \$'000
Executive directors						
Mr. King Fong-Tien	65	20	—	12	—	97
Mr. Tsao Ming-Hong	65	43	—	11	6	125
Mr. Wu Cheng-Tao*	23	—	—	—	—	23
Ms. Chen Shun-Min	64	56	—	43	6	169
Ms. Ho Pei-Lin	49	—	—	—	—	49
Non-executive director						
Mr. Christian Odgaard Pedersen	39	—	—	—	2	41
Independent non-executive directors						
Mrs. Chiu Lin Mei-Yu	39	—	—	—	2	41
Mr. Chen Pou-Tsang	39	—	—	—	—	39
Mr. Lam Ting-Lok	39	—	—	—	—	39
Total	<u>422</u>	<u>119</u>	<u>—</u>	<u>66</u>	<u>16</u>	<u>623</u>

* Mr. Wu Cheng-Tao resigned as director of the company on 9 May 2014.

Note: These represent the estimated fair value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(n)(ii). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 21.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2014: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2014: three) individuals are as follows:

	2015 \$'000	2014 \$'000
Salaries, allowances and benefits in kind	282	227
Bonuses	126	143
Share-based payments	<u>12</u>	<u>13</u>
	<u>420</u>	<u>383</u>

The emoluments of the three (2014: three) individuals with the highest emoluments are within the following bands:

	2015 <i>Number of individuals</i>	2014 <i>Number of individuals</i>
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>1</u>
	<u>3</u>	<u>3</u>

9 OTHER COMPREHENSIVE INCOME

	2015			2014		
	Before-tax amount \$'000	Tax (expense)/ benefit \$'000	Net-of-tax amount \$'000	Before-tax amount \$'000	Tax (expense)/ benefit \$'000	Net-of-tax amount \$'000
Exchange differences on translation of financial statements of subsidiaries in the PRC and in Hong Kong	<u>(20,115)</u>	<u>—</u>	<u>(20,115)</u>	<u>(2,362)</u>	<u>—</u>	<u>(2,362)</u>

10 EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to the Company's ordinary equity shareholders of \$39,952,000 (2014: \$41,034,000) and the weighted average number of 1,006,212,000 (2014: 1,004,904,000) ordinary shares in issue during the year.

(i) Weighted average number of ordinary shares

	2015	2014
	'000	'000
Issued ordinary shares at 1 January	1,006,212	1,004,332
Effect of share options exercised	<u>—</u>	<u>572</u>
Weighted average number of ordinary shares at 31 December	<u>1,006,212</u>	<u>1,004,904</u>

(b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2015 is the same as the basic earnings per share as all potential ordinary shares are anti-dilutive. The calculation of diluted earnings per share for the year ended 31 December 2014 is based on the profit attributable to ordinary equity shareholders of the Company of \$41,034,000 and the weighted average number of ordinary shares of 1,005,712,000 calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2014
	'000
Weighted average number of ordinary shares at 31 December	1,004,904
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>808</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>1,005,712</u>

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment, furniture and fixtures	Sub-total	Construction in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost:								
At 1 January 2015	80,675	3,961	286,827	2,587	17,625	391,675	9,372	401,047
Exchange adjustments	(4,339)	(240)	(18,041)	(145)	(1,421)	(24,186)	(413)	(24,599)
Additions	—	1,629	2,808	29	579	5,045	6,341	11,386
Transfer from construction in progress	3,206	—	5,418	30	751	9,405	(9,405)	—
Disposals	—	(1,338)	(2,149)	(204)	(2,346)	(6,037)	—	(6,037)
At 31 December 2015	79,542	4,012	274,863	2,297	15,188	375,902	5,895	381,797
Accumulated amortisation and depreciation:								
At 1 January 2015	(16,957)	(1,838)	(154,717)	(1,877)	(11,280)	(186,669)	—	(186,669)
Exchange adjustments	1,045	89	10,622	110	640	12,506	—	12,506
Charge for the year	(2,471)	(917)	(17,528)	(222)	(1,028)	(22,166)	—	(22,166)
Written back on disposals	—	1,338	2,004	174	2,135	5,651	—	5,651
At 31 December 2015	(18,383)	(1,328)	(159,619)	(1,815)	(9,533)	(190,678)	—	(190,678)
Carrying amount:								
At 31 December 2015	61,159	2,684	115,244	482	5,655	185,224	5,895	191,119

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	Buildings \$'000	Leasehold improvements \$'000	Machinery and equipment \$'000	Motor vehicles \$'000	Office equipment, furniture and fixtures \$'000	Sub-total \$'000	Construction in progress \$'000	Total \$'000
Cost:								
At 1 January 2014	64,343	4,272	274,326	2,561	14,685	360,187	30,825	391,012
Exchange adjustments	(441)	(26)	(2,085)	(21)	(96)	(2,669)	(354)	(3,023)
Additions	94	728	1,897	24	304	3,047	12,837	15,884
Transfer from construction in progress	16,679	—	13,853	71	3,333	33,936	(33,936)	—
Disposals	—	(1,013)	(1,164)	(48)	(601)	(2,826)	—	(2,826)
At 31 December 2014	<u>80,675</u>	<u>3,961</u>	<u>286,827</u>	<u>2,587</u>	<u>17,625</u>	<u>391,675</u>	<u>9,372</u>	<u>401,047</u>
Accumulated amortisation and depreciation:								
At 1 January 2014	(14,713)	(2,077)	(139,830)	(1,654)	(10,693)	(168,967)	—	(168,967)
Exchange adjustments	80	12	1,009	13	64	1,178	—	1,178
Charge for the year	(2,324)	(786)	(16,913)	(279)	(1,228)	(21,530)	—	(21,530)
Written back on disposals	—	1,013	1,017	43	577	2,650	—	2,650
At 31 December 2014	<u>(16,957)</u>	<u>(1,838)</u>	<u>(154,717)</u>	<u>(1,877)</u>	<u>(11,280)</u>	<u>(186,669)</u>	<u>—</u>	<u>(186,669)</u>
Carrying amount:								
At 31 December 2014	<u>63,718</u>	<u>2,123</u>	<u>132,110</u>	<u>710</u>	<u>6,345</u>	<u>205,006</u>	<u>9,372</u>	<u>214,378</u>

12 LEASE PREPAYMENTS

	2015 \$'000	2014 \$'000
Cost:		
At 1 January	9,891	9,984
Exchange adjustments	<u>(570)</u>	<u>(93)</u>
At 31 December	<u>9,321</u>	<u>9,891</u>
Accumulated amortisation:		
At 1 January	(1,837)	(1,649)
Exchange adjustments	114	12
Charge for the year	<u>(196)</u>	<u>(200)</u>
At 31 December	<u>(1,919)</u>	<u>(1,837)</u>
Net book value:		
At 31 December	<u>7,402</u>	<u>8,054</u>

13 INVESTMENTS IN SUBSIDIARIES

Name of company	Place of Incorporation/ operation	Particulars of issued and paid up capital/ Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest %	Held by the Company %	Held by a subsidiary %	
China Metal International (BVI) Limited	British Virgin Islands/Taiwan	\$162	100	100	—	Investment holding
CMB (Hong Kong) Company Limited	Hong Kong/ Taiwan	HK\$93,600,000	100	100	—	Investment holding and trading of casting products
CMP (Hong Kong) Industry Company Limited	Hong Kong/ Taiwan	HK\$179,195,000	100	—	100	Investment holding
Tianjin CMT Industry Company Limited	PRC	\$30,000,000	100	—	100	Manufacturing and sale of casting products
Suzhou CMS Machinery Company Limited	PRC	\$24,000,000	100	—	100	Manufacturing and sale of casting products
CMW (Cayman Islands) Co., Ltd.	Cayman Islands/Taiwan	\$50,000,000	100	100	—	Investment holding and trading of casting products
CMW (Tianjin) Industry Co., Ltd.	PRC	\$32,000,000	100	—	100	Manufacturing and sale of casting products
Suzhou CMB Machinery Co., Ltd.	PRC	\$82,000,000	100	—	100	Manufacturing and sale of casting products

14 OTHER NON-CURRENT FINANCIAL ASSETS

	2015 \$'000	2014 \$'000
Unquoted equity securities outside Hong Kong, at cost	186	186
Less: impairment loss	(149)	(149)
	<u>37</u>	<u>37</u>

There is no quoted market price for the unquoted equity securities outside Hong Kong held by the Group and accordingly a reasonable estimate of the fair value could not be made without incurring excessive costs.

As at 31 December 2015, the Group's unquoted equity securities were individually determined to be impaired on the basis of a material decline in their estimated future cash flows which indicated that the cost of the Group's investment in them may not be entirely recovered. There is no additional impairment loss recognised during the year of 2015.

15 INVENTORIES

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

	2015 \$'000	2014 \$'000
Raw materials	2,321	3,841
Work in progress	5,860	8,483
Finished goods	29,475	35,883
Others	<u>3,501</u>	<u>3,967</u>
	<u>41,157</u>	<u>52,174</u>

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

	2015 \$'000	2014 \$'000
Carrying amount of inventories sold	230,601	260,839
Reversal of write-down of inventories	<u>—</u>	<u>—</u>
	<u>230,601</u>	<u>260,839</u>

16 TRADE AND OTHER RECEIVABLES

	2015 \$'000	2014 \$'000
Trade receivables	129,161	128,860
Bills receivable	3,980	5,720
Other receivables, deposits and prepayments	<u>12,351</u>	<u>12,872</u>
	<u>145,492</u>	<u>147,452</u>

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Included in trade receivables are amounts due from related companies of \$688,000 (2014: \$915,000), details of which are disclosed in note 26(b).

(a) Ageing analysis

As of 31 December 2015, the ageing analysis of trade receivables and bills receivable (which are included in trade and other receivables), based on the delivery date and net of allowance for doubtful debts, is as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Within 3 months	104,527	112,175
3 to 12 months	27,512	21,661
12 to 24 months	924	683
Over 24 months	<u>178</u>	<u>61</u>
	<u>133,141</u>	<u>134,580</u>

Trade receivables and bills receivable are due within 60 to 120 days from the date of billing. Further details on the Group's credit policy are set out in note 24(a).

(b) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly (see note 1(h)(i)).

No additional allowance for doubtful debts was provided for during the year.

(c) Trade receivables and bills receivable that are not impaired

The ageing analysis of trade receivables and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Neither past due nor impaired	<u>108,074</u>	<u>111,259</u>
Less than 3 months past due	22,631	21,725
3 to 12 months past due	1,851	1,076
12 to 24 months past due	407	459
Over 24 months past due	<u>178</u>	<u>61</u>
	<u>25,067</u>	<u>23,321</u>
	<u>133,141</u>	<u>134,580</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

17 CASH AND CASH EQUIVALENTS**(a) Cash and cash equivalents comprise:**

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Cash at bank and in hand	31,665	18,410
Deposits with banks	<u>—</u>	<u>20,428</u>
	<u>31,665</u>	<u>38,838</u>

(b) Reconciliation of profit before taxation to cash generated from operations:

	<i>Note</i>	2015 \$'000	2014 \$'000
Profit before taxation		47,791	49,811
Adjustments for:			
Amortisation of lease prepayments	5(c)	196	200
Depreciation	5(c)	22,166	21,530
Net loss/(gain) on sale of property, plant and equipment	4(b)	232	(6)
Interest income	4(a)	(411)	(763)
Finance costs	5(a)	853	1,223
Foreign exchange gain		(7,255)	(532)
Equity settled share-based payment expenses	5(b)	29	74
Changes in working capital			
Decrease in inventories		11,017	4,868
Decrease/(increase) in trade and other receivables		3,369	(16,837)
(Increase)/decrease in amounts due from related companies		(15)	192
(Decrease)/increase in amounts due to related companies		(1,064)	1,170
(Decrease)/increase in trade and other payables		<u>(6,285)</u>	<u>1,317</u>
Cash generated from operations		<u>70,623</u>	<u>62,247</u>

18 TRADE AND OTHER PAYABLES

	2015 \$'000	2014 \$'000
Trade payables	19,008	31,823
Bills payable	16,633	7,745
Other payables	<u>17,914</u>	<u>20,802</u>
	<u>53,555</u>	<u>60,370</u>

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

Bills payable of \$16,633,000 (2014: \$7,745,000) as at 31 December 2015 were secured by bank deposits of \$4,614,000 (2014: \$2,260,000).

As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Within 1 month	17,336	11,996
1 to 3 months	11,988	18,733
3 to 6 months	6,275	8,733
Over 6 months	<u>42</u>	<u>106</u>
	<u>35,641</u>	<u>39,568</u>

19 BANK LOANS

At 31 December 2015, unsecured bank loans were repayable as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Within 1 year or on demand	<u>24,000</u>	<u>44,357</u>
After 1 year but within 2 years	—	6,429
After 2 years but within 5 years	<u>15,000</u>	<u>14,250</u>
	<u>15,000</u>	<u>20,679</u>

At 31 December 2015, the Group had banking facilities totalling \$134,320,000 (2014: \$127,592,000) which were utilised to the extent of \$43,681,000 (2014: \$67,803,000).

20 RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the relevant local government authorities in Tianjin and Suzhou whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees’ salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

Employees engaged by the Group in Taiwan are covered by the retirement schemes in Taiwan which are administered by CMP. As disclosed in note 26(a), CMP is responsible for the retirement liability of these persons and the Group is not obliged to incur any liability beyond the contribution.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

21 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company granted to eligible participants on 3 January 2011 a total of 22,300,000 share options to subscribe for ordinary shares of nominal value of HK\$0.01 each in the share capital of the Company under the Share Option Scheme adopted by the Company on 8 December 2004.

The Company adopted new Share Option Scheme on 13 May 2014 and the existing Share Option Scheme was terminated from 13 May 2014. Options granted prior to such termination will continue to be valid and exercisable in accordance with the rules of the existing Share Option Scheme. There is no impact on the existing share options granted.

(a) The terms and conditions of the grants are as follows:

	Number of share involved in the option	Vesting conditions	Contractual life of options
<i>Options granted to directors:</i>			
— on 3 January 2011	4,800,000	(i) 40% on the third anniversary of the date of grant; (ii) 30% on the fourth anniversary of the date of grant; (iii) 30% on the fifth anniversary of the date of grant	10 years
<i>Options granted to employees:</i>			
— on 3 January 2011	17,500,000	(i) 40% on the third anniversary of the date of grant; (ii) 30% on the fourth anniversary of the date of grant; (iii) 30% on the fifth anniversary of the date of grant	10 years
Total share options	<u>22,300,000</u>		

(b) The number and weighted average exercise prices of share options are as follows:

	2015		2014	
	Weighted average exercise price	Number of options (thousand)	Weighted average exercise price	Number of options (thousand)
Outstanding at the beginning of the year	HK\$2.52	9,520	HK\$2.52	12,700
Lapsed during the year	HK\$2.52	(2,340)	HK\$2.52	(1,300)
Exercised during the year	HK\$2.52	<u>—</u>	HK\$2.52	<u>(1,880)</u>
Outstanding at the end of the year	HK\$2.52	<u>7,180</u>	HK\$2.52	<u>9,520</u>
Exercisable at the end of the year	HK\$2.52	<u>4,720</u>	HK\$2.52	<u>2,680</u>

The options outstanding at 31 December 2015 had an exercise price of HK\$2.52 (2014: HK\$2.52) and a weighted average remaining contractual life of 5 years (2014: 6 years).

(c) Fair value of share options and assumptions:

All options are to be settled by physical delivery of shares.

The fair value of services received in return for share options granted is based on the fair value of share options at grant date, measured using the binomial lattice model, with following inputs:

Fair value at measurement date	HK\$1.02
Share price	HK\$2.52
Exercise price	HK\$2.52
Expected volatility	55.83%
Option life	10 years
Expected dividends	3.477%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes Rate)	2.821%

The expected volatility is estimated taking into account historic average share price volatility. Expected dividends are based on the Company's historical dividend.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

An expense of \$29,000 was charged to administrative expenses in profit or loss for the year ended 31 December 2015 (2014: \$74,000).

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2015 \$'000	2014 \$'000
At 1 January	1,726	4,492
Under/(over)-provision in respect of prior year	31	(12)
Provision for income tax for the year	7,863	7,413
Income tax paid	(6,074)	(10,169)
Exchange adjustments	<u>(174)</u>	<u>2</u>
At 31 December	<u>3,372</u>	<u>1,726</u>

(b) Deferred tax liabilities recognised:

The deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Depreciation differences \$'000	Deductible loss \$'000	Withholding tax for undistributed profits \$'000	Total \$'000
At 1 January 2014	—	—	—	—
Charged/(credited) to profit or loss	1,961	(585)	—	1,376
Exchange adjustment	<u>5</u>	<u>—</u>	<u>—</u>	<u>5</u>
At 31 December 2014	<u>1,966</u>	<u>(585)</u>	<u>—</u>	<u>1,381</u>
At 1 January 2015	1,966	(585)	—	1,381
Charged/(credited) to profit or loss	(54)	(1)	—	(55)
Exchange adjustment	<u>(109)</u>	<u>31</u>	<u>—</u>	<u>(78)</u>
At 31 December 2015	<u>1,803</u>	<u>(555)</u>	<u>—</u>	<u>1,248</u>

(c) Deferred tax liabilities not recognised

At 31 December 2015, deferred tax liabilities have not been recognised in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to

\$124,753,000 (2014: \$127,195,000). Deferred tax liabilities of \$9,273,000 (2014: \$8,390,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and the directors consider it probable that these profits will not be distributed in the foreseeable future.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital \$'000	Share premium \$'000 <i>(note 23(d)(i))</i>	Capital redemption reserve \$'000 <i>(note 23(d)(ii))</i>	Capital reserve share option \$'000	Contributed surplus \$'000 <i>(note 23(d)(vi))</i>	Retained profits \$'000	Total \$'000
At 1 January 2015	1,293	44,330	42	1,170	74,653	32,183	153,671
Dividends approved in respect of the previous year	—	—	—	—	—	(10,062)	(10,062)
Profit for the year	—	—	—	—	—	47,535	47,535
Equity settled share-based transactions	—	—	—	29	—	—	29
Dividends declared in respect of the current year	—	—	—	—	—	(22,036)	(22,036)
At 31 December 2015	<u>1,293</u>	<u>44,330</u>	<u>42</u>	<u>1,199</u>	<u>74,653</u>	<u>47,620</u>	<u>169,137</u>

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	Share capital \$'000	Share premium \$'000 <i>(note 23(d)(i))</i>	Capital redemption reserve \$'000 <i>(note 23(d)(ii))</i>	Capital reserve share option \$'000	Contributed surplus \$'000 <i>(note 23(d)(vi))</i>	Retained profits \$'000	Total \$'000
At 1 January 2014	1,291	43,484	42	1,333	74,653	61,555	182,358
Dividends approved in respect of the previous year	—	—	—	—	—	(18,771)	(18,771)
Profit for the year	—	—	—	—	—	3,184	3,184
Shares issued under share option scheme	2	846	—	(237)	—	—	611
Equity settled share-based transactions	—	—	—	74	—	—	74
Dividends declared in respect of the current year	—	—	—	—	—	(13,785)	(13,785)
At 31 December 2014	<u>1,293</u>	<u>44,330</u>	<u>42</u>	<u>1,170</u>	<u>74,653</u>	<u>32,183</u>	<u>153,671</u>

(b) Dividends
(i) Dividends payable to equity shareholders of the Company attributable to the year

	2015 \$'000	2014 \$'000
Interim dividend declared and paid of 0.80 cent (2014: 0.88 cent) per ordinary share	8,050	8,833
Special interim dividend declared and paid of 1.39 cents (2014: 0.49 cent) per ordinary share	13,986	4,952
Final dividend proposed after the end of the reporting period of 0.97 cent (2014: 1.00 cent) per ordinary share	9,760	10,062
Special final dividend proposed after the end of the reporting period of 0.99 cent per ordinary share in 2015	<u>9,961</u>	<u>—</u>
	<u>41,757</u>	<u>23,847</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2015 \$'000	2014 \$'000
Final dividend in respect of previous financial year, approved and paid during the year of 1.00 cent (2014: 0.88 cent) per ordinary share	10,062	8,833
Special final dividend in respect of previous financial year, approved and paid in 2014 of 0.99 cent per ordinary share	<u>—</u>	<u>9,938</u>
	<u>10,062</u>	<u>18,771</u>

(c) **Share capital**(i) *Authorised and issued share capital*

	2015		2014	
	Number of shares (thousand)	\$'000	Number of shares (thousand)	\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>12,853</u>	<u>10,000,000</u>	<u>12,853</u>
<i>Issued:</i>				
At 1 January	1,006,212	1,293	1,004,332	1,291
Shares issued under share option scheme	<u>—</u>	<u>—</u>	<u>1,880</u>	<u>2</u>
At 31 December	<u>1,006,212</u>	<u>1,293</u>	<u>1,006,212</u>	<u>1,293</u>

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

(ii) ***Shares issued under share option scheme***

On 11 September 2014, options were exercised to subscribe for 1,880,000 ordinary shares in the Company at a consideration of HK\$4,737,600 (equivalent to \$611,000) of which HK\$18,800 (equivalent to \$2,000) was credited to share capital and the balance of HK\$4,718,800 (\$609,000) was credited to the share premium accounts. \$237,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(n)(ii).

(d) **Nature and purpose of reserves**

(i) ***Share premium***

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) ***Capital redemption reserve***

Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the distributable reserves of the Company.

(iii) ***Statutory surplus reserve***

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance of the reserve after such issue is not less than 25% of their registered capital.

(iv) ***Exchange fluctuation reserve***

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries in the PRC and in Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(r).

(v) ***Other reserve***

Other reserve represents the difference between the contributed capital of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange.

(vi) ***Contributed surplus***

Pursuant to the reorganisation in 2004, the Company became the holding company of the Group on 8 December 2004. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus.

(vii) ***Distributability of reserves***

As at 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company was \$167,844,000 (2014: \$152,378,000).

(e) **Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents.

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The adjusted net debt-to-capital ratio at 31 December 2015 and 2014 was as follows:

	<i>Note</i>	2015 \$'000	2014 \$'000
Current liabilities			
Bank loans	19	24,000	44,357
Trade and other payables	18	<u>53,555</u>	<u>60,370</u>
		77,555	104,727
Non-current liabilities			
Long-term loans	19	<u>15,000</u>	<u>20,679</u>
Total debts		92,555	125,406
Less: Cash and Cash equivalents	17	<u>(31,665)</u>	<u>(38,838)</u>
Adjusted net debt		<u>60,890</u>	<u>86,568</u>
Total equity		<u>324,580</u>	<u>336,812</u>
Adjusted net debt-to-capital ratio		<u>19%</u>	<u>26%</u>

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

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due within 60 to 120 days from the date of billing except for receivables related to moulds development which are not due until the mass production of related products. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Cash and cash equivalents are normally placed with licensed banks that have a credit rating. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, the Group had a certain concentration of credit risk as 40% (2014: 42%) of the total trade and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and fixed asset acquisitions beyond certain limits.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2015					
	Contractual undiscounted cash flow					
	Within 1	More than	More than	More than	Total	Carrying amount at 31 Dec
	year or on demand	1 year but less than 2 years	2 years but less than 3 years	3 years		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Bank loans	24,476	233	15,062	—	39,771	39,000
Trade and other payables	53,555	—	—	—	53,555	53,555
	<u>78,031</u>	<u>233</u>	<u>15,062</u>	<u>—</u>	<u>93,326</u>	<u>92,555</u>

	2014					
	Contractual undiscounted cash flow					
	Within	More than	More than	More than	Total	Carrying amount at 31 Dec
	1 year or on demand	1 year but less than 2 years	2 years but less than 3 years	3 years		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Bank loans	44,856	6,694	14,303	—	65,853	65,036
Trade and other payables	60,370	—	—	—	60,370	60,370
	<u>105,226</u>	<u>6,694</u>	<u>14,303</u>	<u>—</u>	<u>126,223</u>	<u>125,406</u>

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's interest rate profile as monitored by management is set out in (i) below.

(i) **Interest rate profile**

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2015		2014	
	Effective interest rate p.a.		Effective interest rate p.a.	
	%	\$'000	%	\$'000
Variable rate borrowings:				
Bank loans	1.66%	<u>39,000</u>	1.49%	<u>65,036</u>

(ii) **Sensitivity analysis**

At 31 December 2015, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately \$195,000 (2014: \$325,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2014.

(d) **Currency risk**

The Group is exposed to currency risk primarily through sales and purchase which give rise to receivables, payables and cash balances that are denominated in foreign currencies, i.e. currencies other than the functional currencies of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euros, Japanese Yen, Hong Kong Dollars and Taiwan Dollars.

In respect of trade receivables, payables and bank loans held in currencies other than the functional currencies of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government. As at 31 December 2015, the Group had cash at bank and bank deposits denominated in Renminbi, amounted to \$25,258,000 (2014: \$36,732,000).

(i) *Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in United States dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of subsidiaries in the PRC and in Hong Kong into the Group's presentation currency are excluded.

	2015					2014				
	United States Dollars	Euros	Japanese Yen	Hong Kong Dollars	Taiwan Dollars	United States Dollars	Euros	Japanese Yen	Hong Kong Dollars	Taiwan Dollars
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	279	465	68	—	—	759	137	16	—	—
Cash and cash equivalents	613	940	57	43	5	715	2,238	126	129	24
Inter-company receivable/ (payable) within the Group	49,981	190	(389)	—	(21)	38,428	439	—	—	4
Trade and other payables	(243)	—	(10)	—	—	—	—	—	—	—
Net exposure arising from recognised assets and liabilities	<u>50,630</u>	<u>1,595</u>	<u>(274)</u>	<u>43</u>	<u>(16)</u>	<u>39,902</u>	<u>2,814</u>	<u>142</u>	<u>129</u>	<u>28</u>

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would have arisen if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2015		2014	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000
United States Dollars	5%	2,532	5%	1,995
	(5)%	(2,532)	(5)%	(1,995)
Euros	5%	80	5%	141
	(5)%	(80)	(5)%	(141)
Japanese Yen	5%	(14)	5%	7
	(5)%	14	(5)%	(7)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and retained profit of each entity of the Group measured in the respective functional currencies, translated into United States dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of subsidiaries in the PRC and in Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(e) Equity price risk

The Group is exposed to equity price changes arising from investments in unquoted equity securities held for long term strategic purpose. All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2015 and 2014.

25 COMMITMENTS**Capital commitments**

Capital commitments, representing purchase of property, plant and equipment, not provided for in the consolidated financial statements are as follows:

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Contracted for	<u>4,693</u>	<u>6,357</u>

26 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2015, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
China Metal Products Company Limited ("CMP")	Shareholder of the Company
Vald. Birn A/S ("Birn")	Shareholder of the Company
Yanmar Co., Ltd. ("Yanmar")	Shareholder of the Company
China Metal Japan Company Limited ("CMJ")	Affiliated company
China Metal Automotive International Co., Limited ("CMAI")	Affiliated company

(a) Recurring transactions

Particulars of significant transactions between the Group and the one of the above related parties during the year are as follows:

	2015 \$'000	2014 \$'000
Sales of goods to		
— Yanmar	9,698	16,960
— Birn	<u>960</u>	<u>1,417</u>
	<u>10,658</u>	<u>18,377</u>
Commission to		
— CMAI	1,184	1,334
— CMJ	<u>254</u>	<u>436</u>
	<u>1,438</u>	<u>1,770</u>
Reimbursement of expenses to		
— CMAI	3,948	5,969
— CMP	<u>246</u>	<u>331</u>
	<u>4,194</u>	<u>6,300</u>

Included in the reimbursement of expenses to CMP is the Group's share of contributions to retirement schemes of certain eligible employees in Taiwan of \$153,000 (2014: \$232,000) for the year ended 31 December 2015. The schemes are administered by CMP. Based on an agreement between the Group and CMP, CMP is responsible for the retirement liability of these employees. The Group is not obliged to incur any liability beyond the contribution.

In addition, remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of highest paid employees as disclosed in note 8, is as follows:

	2015 \$'000	2014 \$'000
Short-term employee benefits	3,243	3,324
Equity settled share-based transactions	<u>29</u>	<u>74</u>
	<u>3,272</u>	<u>3,398</u>

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Amounts due from related companies

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Trade		
— Yanmar	<u>688</u>	<u>915</u>
	<u>688</u>	<u>915</u>
Non-trade		
— CMP	—	4
— Birn	<u>441</u>	<u>422</u>
	<u>441</u>	<u>426</u>
	<u>1,129</u>	<u>1,341</u>

All the other amounts due from related companies are unsecured, interest-free and are expected to be recovered within one year. There was no provision made against these amounts at 31 December 2015.

(c) Amounts due to related companies

	2015	2014
	<i>\$'000</i>	<i>\$'000</i>
Non-trade		
— CMP	21	—
— CMJ	24	94
— CMAI	<u>127</u>	<u>1,142</u>
	<u>172</u>	<u>1,236</u>

The amounts are unsecured, interest-free and are expected to be settled within one year.

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CMAI, CMJ and Birn above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in Section “Connected Transactions” of the Report of the Directors.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	2015 \$'000	2014 \$'000
Non-current assets			
Investments in subsidiaries	13	<u>165,910</u>	<u>165,910</u>
Current assets			
Inventories		8,946	10,984
Trade and other receivables		27,035	31,529
Amounts due from subsidiaries		76,425	72,249
Amounts due from related companies		559	272
Cash and cash equivalents		<u>1,612</u>	<u>2,438</u>
		<u>114,577</u>	<u>117,472</u>
Current liabilities			
Trade and other payables		888	876
Bank loans	19	24,000	44,357
Amounts due to subsidiaries		71,425	63,728
Amounts due to related companies		<u>37</u>	<u>71</u>
		<u>96,350</u>	<u>109,032</u>
Net current assets		<u>18,227</u>	<u>8,440</u>
Total assets less current liabilities		184,137	174,350
Non-current liabilities			
Long-term loans	19	<u>15,000</u>	<u>20,679</u>
NET ASSETS		<u>169,137</u>	<u>153,671</u>
CAPITAL AND RESERVES			
	23(a)		
Share capital		1,293	1,293
Reserves		<u>167,844</u>	<u>152,378</u>
TOTAL EQUITY		<u>169,137</u>	<u>153,671</u>

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the directors proposed a final dividend and special final dividend. Further details are disclosed in note 23(b).

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, the directors consider the immediate parent and ultimate controlling party of the Group to be United Elite Agents Limited, a company incorporated in the British Virgin Islands and China Metal Products Company Limited, a company listed and incorporated in Taiwan respectively. The ultimate controlling party produces financial statements available for public use.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
<i>Annual improvements to HKFRSs 2012-2014 Cycle</i>	1 January 2016
<i>HKFRS 14, Regulatory deferral accounts</i>	1 January 2016
<i>Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations</i>	1 January 2016
<i>Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
<i>Amendments to HKAS 16 and HKAS 41, Agriculture: Bearer plants</i>	1 January 2016
<i>Amendments to HKAS 27, Equity method in separate financial statements</i>	1 January 2016
<i>Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: Applying the consolidation exception</i>	1 January 2016
<i>Amendments to HKAS 1, Disclosure initiative</i>	1 January 2016
<i>HKFRS 9, Financial instruments</i>	1 January 2018
<i>HKFRS 15, Revenue from contracts with customers</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments and standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position, except for the following:

HKFRS 9 reduces the complexity of the accounting for financial instruments focusing on three main phases 1) the classification and measurement of financial assets and financial liabilities; 2) impairment and 3) hedge accounting. The new impairment methodology replaces the "incurred loss" model with an "expected credit loss" model and it is not necessary for a credit event to have occurred before credit losses are recognised.

HKFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In addition, the International Accounting Standards Board issued a new standard, IFRS 16, *Leases*, effective for annual periods beginning on or after 1 January 2019. We expect that the HKICPA will issue the equivalent standard soon to maintain convergence with IFRSs. IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17, *Leases* and the related interpretations including IFRIC 4, *Determining whether an arrangement contains a lease*.

The Group does not plan to early adopt the above new standards or amendments. With respect to HKFRSs 9, 15, and 16, given the Group has not completed its assessment of their full impact on the Group, their possible impact on the Group's results of operations and financial position has not been quantified.

4. INDEBTEDNESS

As at 31 May 2017, the Group had total outstanding indebtedness of approximately US\$27 million comprising (a) unsecured long term bank loans of approximately US\$12 million; and (b) unsecured short term bank borrowing of approximately US\$15 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any borrowings (including bank overdrafts, liabilities under acceptances other than normal trade bills, acceptance credits and finance lease commitments), debt securities, mortgages and charges, loan capital and contingent liabilities or guarantees as at the close of business on 31 May 2017. Save for the replacement of a

US\$10 million unsecured short term bank borrowing by a US\$10 million unsecured long term bank loan on 20 June 2017, the board of directors of the Company confirmed that there had been no material change in the indebtedness and contingent liabilities of the Group since 31 May 2017 up to the Latest Practicable Date.

5. MATERIAL CHANGE

The board of directors of the Company confirmed that there had been no material change in the financial or trading position or outlook of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up and until the Latest Practicable Date.

6. UNAUDITED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2017

(a) The Unaudited Financial Information

On 12 May 2017, the Company published an inside information announcement (the “Inside Information Announcement”) pursuant to Rule 13.09(1) of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO reproducing certain unaudited financial information of the Company and certain of its subsidiaries prepared in accordance with Generally Accepted Accounting Principles in Taiwan by CMP, which is different from the accounting standards adopted by the Company and has not been verified by the Company. Such information is required to be released to the Taiwan market pursuant to applicable laws and regulations of Taiwan (including those of the Taiwan Stock Exchange). Set forth below are the correspondent disclosures from such announcement.

Name of the investing entity	Name of the investee entity	Percentage of shareholding in the investee entity held by the investing entity	Unaudited profit/(loss) of the investee entity for the three months ended 31 March 2017
United Elite Agents Limited	The Company	59.87%	US\$11,081,660
The Company	China Metal International (BVI) Limited	100.00%	US\$3,102,096
The Company	CMW (Cayman Islands) Co., Ltd.	100.00%	US\$8,192,580
The Company	CMB (Hong Kong) Company Limited	100.00%	US\$(711,763)
China Metal International (BVI) Limited	CMP (Hong Kong) Industry Company Limited	100.00%	US\$3,102,096
CMP (Hong Kong) Industry Company Limited	Tianjin CMT Industry Company Limited	100.00%	US\$(28,000)

Name of the investing entity	Name of the investee entity	Percentage of shareholding in the investee entity held by the investing entity	Unaudited profit/(loss) of the investee entity for the three months ended 31 March 2017
CMP (Hong Kong) Industry Company Limited	Suzhou CMS Machinery Company Limited	100.00%	US\$3,503,000
CMB (Hong Kong) Company Limited	Suzhou CMB Machinery Company Limited	100.00%	US\$(563,000)
CMW (Cayman Islands) Co., Ltd.	CMW (Tianjin) Industry Company Limited	100.00%	US\$7,876,000

The financial information relating to “profit(loss)” of the investee entities constitutes a profit forecast under Rule 10 of the Takeovers Code.

For the purpose of reporting on such profit forecast under Rule 10 of the Takeovers Code, and since the financial information set out in the Inside Information Announcement is in relation to the profit or loss of each investee entity and not of the Group and as the unaudited profits of the Company’s subsidiaries as set out in the Inside Information Announcement represented approximately 90% of the unaudited consolidated profits attributable to equity holders of the Company for the three months ended 31 March 2017, the Company considered that it is more meaningful to disclose the consolidated financial information of the Company (the “**Profit Estimate**”) based on Hong Kong Financial Reporting Standards (the same as the accounting policies adopted by the Company) set out as below:

	For the three months ended 31 March 2017 <i>(unaudited)</i>
Consolidated profit attributable to equity holders of the Company	US\$11,476,566

Note: The difference of US\$394,906 between the profit of the Company for the three months ended 31 March 2017 as set out in the Inside Information Announcement (being US\$11,081,660) and the consolidated profit attributable to equity holders of the Company for the three months ended 31 March 2017 (being US\$11,476,566) is mainly due to the amortization expenses of intangible assets recognised under the Taiwan Generally Accepted Accounting Principles resulting from the acquisition of non-controlling interests of CMW (Cayman Islands) Co., Ltd.

Shareholders should note that the Profit Estimate has been reported on by KPMG and the Independent Financial Adviser pursuant to Rule 10 of the Takeovers Code.

(b) Report on Unaudited Financial Information

The following is the text of a report received from the Company's reporting accountant, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



8th Floor
Prince's Building
10 Charter Road
Central
Hong Kong

13 July 2017

The Board of Directors
China Metal International Holdings Inc.

Dear Sirs,

China Metal International Holdings Inc. ("the Company")

Profit Estimate for Three-month period Ended 31 March 2017

We refer to the estimate of the consolidated profit attributable to equity holders of the Company for the three-month period ended 31 March 2017 ("the Profit Estimate") set forth in the section headed "6. UNAUDITED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2017" in Appendix I "FINANCIAL INFORMATION OF THE GROUP" of the Scheme Document of the Company dated 13 July 2017.

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the unaudited consolidated management accounts of the Company and its subsidiaries (collectively referred to as "the Group") for the three-month period ended 31 March 2017.

The Company's directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled based on the unaudited consolidated management accounts of the Company for the three-month period ended 31 March 2017 and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the Company’s published annual report filed with The Stock Exchange of Hong Kong Limited for the year ended 31 December 2016.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

(c) Profit Forecast Report

The following is the text of a report received from the Company's Independent Financial Adviser, First Shanghai Capital Limited for the purpose of incorporation in this circular.

**FIRST SHANGHAI CAPITAL LIMITED**

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

13 July 2017

The Board of Directors
China Metal International Holdings Inc.
Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to equity holders of China Metal International Holdings Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) for the three months ended 31 March 2017 (the “**Profit Estimate**”) set forth in Appendix I to the scheme document of the Company dated 13 July 2017 (the “**Scheme Document**”) in relation to the proposed privatization of the Company by United Elite Agents Limited. The Profit Estimate is required to be reported on under Rule 10 of the Code on Takeovers and Mergers issued by the Securities and Futures Commission. The Profit Estimate has been prepared by the directors of the Company (the “**Directors**”) based on the unaudited consolidated management accounts of the Group for the three months ended 31 March 2017.

We have reviewed the Profit Estimate and discussed with you the bases upon which the Profit Estimate was prepared. In addition, we have considered, and relied upon, the report on the Profit Estimate dated 13 July 2017 issued by KPMG, the auditors of the Company, to you, the text of which is set out in the Appendix I to the Scheme Document, which stated that, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled based on the unaudited consolidated management accounts of the Company for the three months ended 31 March 2017 and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the Company's published annual report filed with The Stock Exchange of Hong Kong Limited for the year ended 31 December 2016.

Based on the above, we are of the opinion that the Profit Estimate, for which the Directors are solely responsible for, have been prepared with due care and consideration.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Fanny Lee
Managing Director

Allen Wang
Director

1. RESPONSIBILITY STATEMENTS

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

The directors of the Offeror and CMP jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than 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) 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 statement in this Scheme Document misleading.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than 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 and the Offeror Concert Parties) 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 statement contained in this Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorized share capital of the Company was HK\$100,000,000 divided into 10,000,000,000 Shares;
- (b) the issued share capital of the Company was HK\$9,973,660 divided into 997,366,000 Shares;
- (c) the Company had not issued any Shares since 31 December 2016, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (d) all of the issued Shares ranked pari passu in all respects with each other, including all rights as to dividends, voting and capital;
- (e) there were Share Options, granted under the Old ESOP, exercisable into an aggregate of 6,070,000 new Shares at an exercise price of HK\$2.52 per new Share with exercise period expiring on 3 January 2021. In the event that any of the Share Options which are subject to the Option Offer are exercised on or before the Latest

Option Exercise Date in accordance with the relevant provisions of the Old ESOP, any Shares issued as a result of the exercise of such Share Options will be subject to and eligible to participate in the Scheme; and

- (f) other than the Shares referred to in paragraph (b) above and the Share Options as disclosed above, there were no other shares in issue and there were no other outstanding options, warrants, derivatives or other convertible securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which the Directors and chief executive of the Company were deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code") were as follows:

Name of Director	Company/ name of associated corporation	Personal interest	Number of ordinary shares held and underlying shares			Total	Approximate % of interest in the relevant issued share capital (Note 2)
			Family interest (Note 1)	Options vested (exercised)/ unvested			
Mr. Tsao	Company	6,373,766	—	1,000,000	7,373,766	0.74%	
Ms. CHEN Shun-Min	Company	4,695,320	—	900,000	5,595,320	0.56%	
Ms. Ho	Company	1,644,628	—	—	1,644,628	0.16%	
Mr. Christian Odgaard PEDERSEN	Company	1,500,000	—	300,000	1,800,000	0.18%	
Mrs. CHIU LIN Mei-Yu	Company	—	120,000	180,000	300,000	0.03%	
Mr. CHEN Pou-Tsang	Company	212,000	—	—	212,000	0.02%	
Mr. Tsao	CMP	6,092,879	1,727,462	—	7,820,341	2.03%	
Ms. CHEN Shun-Min	CMP	5,875	—	—	5,875	0.00%	
Ms. Ho	CMP	1,275,202	—	—	1,275,202	0.33%	

Notes:

1. The relevant shares were held by the spouse and/or children aged under 18 of the relevant Directors.
2. Calculated on the basis of 997,366,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their associate(s) had an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, Mr. Tsao and Ms. Ho had irrevocably undertaken, pursuant to their respective Undertakings, that they would opt out of the Scheme and therefore they would not vote at the Court Meeting in respect of the relevant resolutions in relation to the Proposal. In addition, Mr. Tsao had agreed under his Undertaking not to exercise his Share Options, which are exercisable into 1,000,000 new Shares, from the date of his Undertaking until the date the Proposal has been completed or (as the case may be) until such time it is determined that the Proposal will not be proceeded with.

Mr. Christian Odgaard Pedersen, who personally held 1,500,000 Scheme Shares as well as 300,000 Share Options as at the Latest Practicable Date, would abstain from voting on the resolutions described in paragraphs (a), (b) and (d)(ii) under the section headed “2. TERMS OF THE PROPOSAL — Conditions of the Proposal” in the Explanatory Statement Part VII of this Scheme Document.

Ms. CHEN Shun-Min and Mr. CHEN Pou-Tsang intend, in respect of their personal beneficial shareholdings to be bound by the Scheme, to vote in favour of the Scheme.

Ms. CHEN Shun-Min and Mrs. CHIU LIN Mei-Yu intend, in respect of their Share Options not exercised before the Scheme Record Date, to accept the Option Offer.

(b) Interests and short positions of the Offeror and other substantial Shareholders in Shares and underlying Shares

As at the Latest Practicable Date, Shareholders (other than the interest disclosed above in respect of the Directors or the chief executives of the Company) who had interests and short positions in the Shares and underlying Shares of the Company which would fall to be disclosed

to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Nature of Interest	Number of Shares	Approximate % of interest in the Company (Note 1)
CMP (Note 2)	Controlled corporation	597,128,059	59.87%
The Offeror (Note 2)	Beneficial owner	597,128,059	59.87%
Vald Birn	Beneficial owner	103,900,922	10.42%

Notes:

1. Calculated on the basis of 997,366,000 Shares in issue as at the Latest Practicable Date.
2. The Offeror is wholly and beneficially owned by CMP, a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation. CMP is deemed to be interested in the Shares beneficially owned by the Offeror.

Save as disclosed above, as at the Latest Practicable Date, there was no person (other than the interest disclosed above in respect of the Directors or the chief executive of the Company) who (i) had an interest or short position in the Shares and underlying Shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred therein; or (ii) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror, its directors and parties acting in concert with the Offeror, owned or controlled any Shares or any options, warrants, derivatives or securities convertible into Shares.

As at the Latest Practicable Date and during the Relevant Period, save for the arrangements contemplated under the Proposal, the Option Offer and the Undertakings, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any party acting in concert with the Offeror.

As at the Latest Practicable Date, save for the Undertakings, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code.

As at the Latest Practicable Date, neither the Offeror nor any party in concert with it has any agreement, arrangement for or understanding for any transfer, charge or pledge of Shares acquired pursuant to the Scheme to any other person.

As at the Latest Practicable Date and during the Relevant Period, the Offeror and any party acting in concert with it had not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

(c) Dealings in the relevant securities of the Company

- (1) During the Relevant Period, none of the Offeror or the parties acting in concert with it had dealt for value in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares.
- (2) During the Relevant Period, the Offer Period and up to the Latest Practicable Date, none of the directors of the Offeror had dealt for value in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares.
- (3) During the Relevant Period, save for the transfer of 861,435 Shares from Mr. Wu Cheng Tao to Ms. Ho on 13 April 2017 under a matrimonial arrangement at nil consideration, none of the Directors had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares.
- (4) During the Offer Period and up to the Latest Practicable Date:
 - (i) no subsidiaries of the Company, pension funds of any member of the Group or any advisers to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders) had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares;
 - (ii) save for the Undertakings, 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 with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares; and
 - (iii) no fund managers connected with the Company had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares.

(d) Interest in the Offeror

As at the Latest Practicable Date, (i) Mr. Tsao, an executive Director of the Company, had personal interest in approximately 1.58% of the issued shares of CMP and was deemed to be interested in approximately 0.27% shareholding in CMP held by his spouse and approximately 0.18% shareholding in CMP held by his child aged under 18; (ii) Ms. Ho, an executive Director of the Company, who personally held approximately 0.33% of the issued shares of CMP and also had indirect shareholding interest in CMP through Quan Yuan; and (iii) Ms. Chen Shun-Min, an executive Director of the Company, had interest in approximately 0.0015% of the issued shares of CMP. As the Offeror is wholly and beneficially owned by CMP, each of Mr. Tsao, Ms. Ho and Ms. Chen Shun-Min therefore has an indirect interest in the shares of the Offeror accordingly.

Save as disclosed above, as at the Latest Practicable Date, none of the Company or any of the Directors had any interest in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of the Offeror.

(e) Dealings in the securities of the Offeror

During the Relevant Period, none of the Company nor the Directors had any dealings in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of the Offeror.

(f) Other arrangements in relation to the Proposal

As at the Latest Practicable Date:

- (i) no benefit was or would be given to any Director as compensation for his loss of office or otherwise in connection with the Proposal;
- (ii) other than the Undertakings, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or the Offeror Concert Parties on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or was dependent upon the Proposal;
- (iii) no consideration, compensation or benefit in whatever form is provided by the Offeror or the Offeror Concert Parties to the Committed Shareholders or their respective concert parties in connection with the Proposal;
- (iv) save for the Undertakings, there are no other arrangements or special deals (under Rule 25 of the Takeovers Code) between the Offeror and the Offeror Concert Parties on one hand and the Committed Shareholders and their respective concert parties on the other hand;

- (v) there was no agreement or arrangement to which the Offeror is a party which relate to circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal; and
- (vi) there was no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of the Offeror or the Shares which might be material to the Proposal.

(g) Other interests

As at the Latest Practicable Date:

- (i) no Shares or any convertible securities, warrants, options or derivatives issued by the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code;
- (ii) save for the the Shares owned or controlled by the Committed Shareholders under the Undertakings, no Shares or any convertible securities, warrants, options or derivatives issued by the Company was owned or controlled by a person who has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code;
- (iii) no Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by any fund managers connected with the Company;
- (iv) other than the respective Undertakings given by Mr. Tsao and Ms. Ho, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal;
- (v) no material contracts have been entered into by the Offeror in which any Director has a material personal interest; and
- (vi) none of the Company and the Directors had borrowed or lent any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened by or against the Company or any of its subsidiaries.

5. MATERIAL CONTRACTS

No contracts (not being 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) had been entered into by the Company or any of its subsidiaries within the two years before the commencement of the Offer Period, up to and including the Latest Practicable Date and were or might be material.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, the following service contracts and appointment letters with the Directors were in force:

- (a) the service agreements dated 28 March 2017 entered into between the Company and each of Mr. King Fong-Tien, Mr. Tsao, Ms. Chen Shun-Min and Ms. Ho, pursuant to which each of Mr. King Fong-Tien, Mr. Tsao, Ms. Chen Shun-Min and Ms. Ho was appointed as an executive Director for a period of three years with retrospective effect commencing from 26 March 2017 unless terminated by not less than one month's notice in writing served by either party on the other, and entitled to receive a Director's fee of HK\$500,000 per annum;
- (b) the appointment letter dated 28 March 2017 entered into between the Company and Mr. Christian Odgaard Pedersen, pursuant to which Mr. Christian Odgaard Pedersen was appointed as a non-executive Director for a period of three years with retrospective effect commencing from 26 March 2017 unless terminated by not less than one month's notice in writing served by either party on the other, and entitled to receive a Director's fee of HK\$300,000 per annum;
- (c) the appointment letter dated 6 December 2016 entered into between the Company and Mr. Lam Ting-Lok, pursuant to which Mr. Lam Ting-Lok was appointed as an independent non-executive Director for a period of three years with retrospective effect commencing from 7 August 2016 unless terminated by not less than one month's notice in writing served by either party on the other, and entitled to receive a Director's fee of HK\$300,000 per annum; and
- (d) the appointment letter dated 28 March 2017 entered into between the Company and Mrs. Chiu Lin Mei-Yu, pursuant to which Mrs. Chiu Lin Mei-Yu was appointed as an independent non-executive Director for a period of three years with retrospective effect commencing from 26 March 2017 unless terminated by not less than one month's notice in writing served by either party on the other, and entitled to receive a Director's fee of HK\$300,000 per annum.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any service contract with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed-term contracts) had been entered into or amended within six (6) months preceding the Announcement Date; or (b) is a continuous contract with a notice period of 12 months or more; or (c) is a fixed term contract with more than 12 months to run irrespective of the notice period.

The prior service agreements of the executive Directors expired on 26 March 2017 and the prior appointment letters with Mr. Christian Odgaard Pedersen and Mrs. Chiu Lin Mei-Yu expired on 26 March 2017 and the prior appointment letter with Mr. Lam Ting Lok expired on 7 August 2016, respectively. However, as the board meeting of the Company to approve the respective service agreements of the executive Directors and the respective appointment letters of Mr. Christian Odgaard Pedersen and Mrs. Chiu Lin Mei-Yu only took place on 28 March 2017 and the board meeting of the Company to approve the appointment letter of Mr. Lam Ting Lok only took place on 6 December 2016, each of the renewed service agreements and appointment letters were to take retrospective effect from their respective expiration dates as mentioned above.

Given the above service agreements and appointment letters were entered into for the renewal of the relevant appointments of the Directors pursuant to regular board meeting procedures of the Company to address the expiration of the previous agreements and letters as part of the normal corporate governance of the Company and were made on terms identical (save as to the commencement date of appointment) to those of the prior service agreements or appointment letters well before the finalisation of the Proposal, there is no correlation between the service agreements and appointment letters with the Undertakings. The Directors confirm that the terms of the service agreements and appointment letters are identical (save as to the commencement date of appointment) to those of the prior service agreements and appointment letters and given that there is no correlation between the service agreements and appointment letters with the Undertakings, there is no special deals implication under Rule 25 of the Takeovers Code.

7. MARKET PRICES

The table below shows the closing prices per Share on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the last trading day of each of the calendar months during the Relevant Period.

Date	Closing price for each Share (HK\$)
30 November 2016	2.56
30 December 2016	2.45
27 January 2017	2.35
28 February 2017	2.38
31 March 2017	2.44
28 April 2017	2.41
Last Trading Day (i.e. 26 May 2017)	2.36
31 May 2017	2.89
30 June 2017	2.91
Latest Practicable Date	2.91

During the Relevant Period, the highest closing price of the Shares was HK\$2.92 on 1 June 2017, 2 June 2017, 5 July 2017, 6 July 2017 and 7 July 2017; and the lowest closing price of the Shares was HK\$2.29 on 17 February 2017.

8. CONSENTS AND QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have been named in this Scheme Document or have given opinion or advice which are contained in this Scheme Document:

Name	Qualification
KGI Capital Asia Limited	a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
First Shanghai Capital Limited	a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified public accountants

KGI Capital, First Shanghai and KPMG have given and have not withdrawn their respective written consents to the issue of this Scheme Document with the inclusion of their letters and advices (as the case may be) and the references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, KGI Capital, First Shanghai and KPMG did not have any shareholdings in the Company.

9. MISCELLANEOUS

- (i) The directors of the Offeror are Mr. Lin Ting-Fung and Mr. King Fong-Tien.
- (ii) The registered office of the Offeror is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The ultimate controlling shareholder of the Offeror is CMP.
- (iii) The board of directors of CMP consists of six directors, namely Mr. Lin Ting-Fung (林廷芳), Mr. Tsao Ming-Hong (曹明宏), Ms. Wu Shu-Chuan (吳淑娟), Ms. Ho Pei-Fen (何佩芬), Mr. Chen Pen Fa (陳本發) and Mr. Ho Cheng Yu (何承育), and three independent directors, namely Mr. Chang Ming-Chieh (張明杰), Mr. Liao Liou-Yi (廖了以) and Mr. Lin Jung Chuen (林榮春).
- (iv) The registered office of CMP is situated at 4th Floor, No. 85, Ren-Ai Road, Section 4, Taipei 106, Taiwan.
- (v) The registered office of the Company is situated at Clifton House, 75 Fort Street, P.O. Box 1350 GT, George Town, Grand Cayman, Cayman Islands.
- (vi) The principal place of business of the Company in Hong Kong is situated at Room 1502, 15th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong.
- (vii) The secretary of the Company is Mr. TSE Kam Fai, who is a fellow member of The Institute of Chartered Secretaries and Administrators and of The Hong Kong Institute of Chartered Secretaries. He is also a member of the Hong Kong Institute of Directors.
- (viii) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, situated at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (ix) The registered office of KGI Capital is situated at 41/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (x) This Scheme Document is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 1502, 15th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong from 9:00 a.m. to 5:00 p.m. (except Saturday, Sunday and public holidays) and on the website of the Company at http://www.hkstockinfo.com/china_metal and the website of the SFC at www.sfc.hk during the period from the date of this Scheme Document until the earlier of (a) the Effective Date or the closing date of the Option Offer, whichever is later; and (b) the date on which the Scheme or the Option Offer lapses or is withdrawn, whichever is later:

- (i) the memorandum and articles of association of the Offeror;
- (ii) the memorandum and articles of association of the Company;
- (iii) the annual reports of the Company for the three years ended 31 December 2016, respectively;
- (iv) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (v) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (vi) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (vii) the report on unaudited financial information issued by KPMG, the text of which is set out in the paragraph headed “(b) Report on Unaudited Financial Information” in Appendix I to this Scheme Document;
- (viii) the report on profit forecast from the Independent Financial Adviser, the text of which is set out in the paragraph headed “(c) Profit Forecast Report” in Appendix I to this Scheme Document;

- (ix) the service contracts and appointment letters with the Directors referred to in the paragraph headed “6. Service contracts” in this Appendix;
- (x) the written consents issued by KGI Capital, First Shanghai and KPMG referred to in the paragraph headed “8. Consents and qualifications of experts” in this Appendix;
- (xi) the Undertakings; and
- (xii) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO: FSD 129 of 2017

—————
IN THE MATTER OF

CHINA METAL INTERNATIONAL HOLDINGS INC.

**AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW (2016 REVISION) OF THE CAYMAN ISLANDS**

—————
SCHEME OF ARRANGEMENT

between

CHINA METAL INTERNATIONAL HOLDINGS INC.

and

**THE HOLDERS OF SCHEME SHARES
(as hereinafter defined)**

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code, and “concert party(ies) shall be construed accordingly
“Business Day”	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
“Cancellation Price”	the cancellation price of HK\$3.01 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Capital Reduction”	the reduction in issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“CMP”	China Metal Products Company Limited, a company incorporated in Taiwan with limited liability, whose shares are listed on the Taiwan Stock Exchange

“Committed Shareholders”	Vald Birn, Yanmar, Mr. Tsao and the Ho Shareholders, who have irrevocably undertaken to the Offeror that, among other things, they will not participate in the Scheme
“Companies Law”	the Companies Law (2016 Revision) of the Cayman Islands, as consolidated and revised
“Company”	China Metal International Holdings Inc., an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Hong Kong Stock Exchange under stock code 319
“Director”	a director of the Company
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Cayman Islands Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Tuesday, 3 October 2017 (Cayman Islands time)
“Grand Dragon”	Grand Dragon Co., Ltd., a company incorporated in Mauritius with limited liability which is the family controlled company of Mr. Ho
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Ho Shareholders”	Mr. Ho, Ms. Ho and Grand Dragon, who as at the Latest Practicable Date collectively held (i) 20,315,551 Shares representing 2.04% of the issued share capital of the Company and (ii) approximately 8.91% shareholding in CMP
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	10 July 2017, being the latest practicable date for ascertaining certain information contained in the Scheme Document
“Mr. Ho”	Mr. Ho Ming-Shiann (何明憲), who is one of the founders of the Company, and the father of Ms. Ho

“Mr. Tsao”	Mr. Tsao Ming-Hong (曹明宏), who is one of the founders of the Company and one of the executive Directors of the Company. As at the Latest Practicable Date, Mr. Tsao held (i) 6,373,766 Shares representing approximately 0.64% of the issued share capital of the Company as well as Share Options exercisable into 1,000,000 new Shares; and (ii) (by himself and taking into account of the deemed interest in shares held by his spouse and child aged under 18) approximately 2.03% shareholding in CMP
“Ms. Ho”	Ms. Ho Pei-Lin (何佩玲), an executive Director of the Company, and the daughter of Mr. Ho
“New ESOP”	the share option scheme of the Company adopted on 13 May 2014
“Offeror”	United Elite Agents Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of the CMP
“Old ESOP”	the share option scheme of the Company adopted on 8 December 2004 which was replaced on 13 May 2014 by the New ESOP
“Proposal”	the proposal for the privatization of the Company by the Offeror by way of the Scheme
“Register”	the principal or branch register of members of the Company (as the case may be)
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law involving the Capital Reduction and the restoration of the issued share capital of the Company to the amount immediately before such Capital Reduction by means of the issuance of new Shares in the same number as the Scheme Shares (which were cancelled under the Scheme) to the Offeror credited as fully paid out of the credit arising in the Company’s books of accounts as a result of the Capital Reduction
“Scheme Document”	this composite scheme document, including each of the letters, statements, appendices and notices in it
“Scheme Record Date”	Tuesday, 3 October 2017, or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme

“Scheme Shares”	Share(s) in issue as at the Scheme Record Date other than those legally and beneficially owned by the Offeror, the Offeror Concert Parties and the Committed Shareholders
“Scheme Shareholders”	holder(s) of Scheme Shares as at the Scheme Record Date
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	the holders of the Shares
“Share Options”	the share option(s) previously granted under the Old ESOP
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“Vald Birn”	Vald. Birn Holding A/S, a company incorporated in Denmark with limited liability, which is a producer of cast iron products for the automotive, pump and hydraulic industries, and as at the Latest Practicable Date held 103,900,922 Shares representing approximately 10.42% of the issued share capital of the Company
“Yanmar”	Yanmar Co., Ltd (ヤンマー株式会社), a company incorporated in Japan with limited liability, which manufactures diesel engines, combine harvesters and other agricultural machinery and other equipment and machinery, and as at the Latest Practicable Date held 43,494,286 Shares representing approximately 4.36% of the issued share capital of the Company

(B) The Company was incorporated as an exempted company on 5 August 2004 in the Cayman Islands under the Companies Law.

(C) The authorized share capital of the Company as at the Latest Practicable Date was HK\$100,000,000 divided into 10,000,000,000 Shares of which 997,366,000 Shares were issued and fully paid, with the remainder being unissued.

(D) the Offeror has proposed the privatization of the Company by way of the Scheme.

1. The primary purpose of the Scheme is that all of the Scheme Shares should be cancelled and extinguished. Upon the Scheme becoming effective, on the assumption that no outstanding Share Options will be exercised before the Scheme Record Date and that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Scheme Record Date, the Offeror will hold approximately 82.55% of the issued share capital of the Company, and the Committed Shareholders will continue to hold in aggregate approximately 17.45% of the issued share capital of the Company.
2. On the Latest Practicable Date, 771,212,584 Shares were legally and/or beneficially owned by the Offeror and parties acting in concert with it and the Committed Shareholders as follows:

Name	Number of Shares
Offeror and parties acting in concert with the Offeror <i>(Note 1)</i>	597,128,059
<i>Committed Shareholders</i>	
Vald Birn	103,900,922
Yanmar	43,494,286
Ho Shareholders	20,315,551
Mr. Tsao	6,373,766

Notes:

1. The Offeror held 597,128,059 Shares and the parties acting in concert with the Offeror did not hold any Shares.
3. Each of the parties acting in concert with the Offeror and each of the Committed Shareholders will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Cayman Islands Grand Court for the purpose of considering and, if thought fit, approving the Scheme.
4. The Offeror has undertaken to the Cayman Islands Grand Court to be bound by the Scheme, 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 or done by it for the purpose of giving effect to this Scheme.

THE SCHEME**PART I****Cancellation of the Scheme Shares**

1. On the Effective Date:
 - (a) the issued 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 taking effect, the share capital of the Company will be increased to its former amount by issuing to the Offeror the same number of Shares as 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 capital reduction referred to in paragraph 1(a) above in paying up in full at par the new Shares issued to the Offeror, credited as fully paid.

PART II**Consideration for the 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 the Cancellation Price.

PART III**General**

3. (a) As soon as possible and in any event not later than seven (7) Business Days after the Effective Date, the Offeror shall send or cause to be sent to Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
- (b) Unless otherwise indicated in writing to the branch share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, all such cheques shall be sent by ordinary post to such Scheme Shareholders at their respective addresses as appearing on the Register on the Scheme Record Date or, in the case of joint holders, at the address as appearing on the Register on the Scheme Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.

- (c) Cheques shall be posted at the risk of the addressee and neither the Offeror nor the Company shall be responsible for any loss or delay in the transmission of the same.
 - (d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
 - (e) On or after the day being six (6) calendar months after the posting of the cheque pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account of the Offeror with a licensed bank of Hong Kong selected by the Company. The Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six (6) years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been cashed. 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.
 - (f) On the expiration of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. Each instrument of transfer and certificate existing on the Scheme Record Date in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Offeror to deliver up the same to the Offeror for the cancellation thereof.
 5. All mandates or relevant instructions to the Company in force as at the Scheme Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
 6. This Scheme shall become effective as soon as a copy of the order of the Cayman Islands Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been registered by the Registrar of Companies in the Cayman Islands.

7. Unless this Scheme shall have become effective on or before 31 December 2017 or such later dates as the Company and the Offeror may agree, or as the Cayman Islands Grand Court, on application of the Company and/or the Offeror may allow, this Scheme shall lapse.
8. The Company and the Offeror may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme that the Cayman Islands Grand Court may think fit to approve or impose.
9. All costs, charges and expenses of the advisers and counsels appointed by the Company, including those charged by the Independent Financial Adviser, will be borne by the Company, all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and all other costs, charges and expenses of this Scheme will be shared between the Offeror and the Company equally.

13 July 2017

IN THE GRAND COURT OF THE CAYMAN ISLANDS FINANCIAL SERVICES DIVISION

Cause No. FSD 129 of 2017

IN THE MATTER of section 86 of the Companies Law (2016 Revision)

AND IN THE MATTER of China Metal International Holdings Inc.

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 11 July 2017 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme**”) proposed to be made between China Metal International Holdings Inc. (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at, Room 1801, 18th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong on Wednesday, 23 August 2017 at 10:00 a.m. at which place and time all Scheme Shareholders are requested to attend. A copy of the Scheme and a copy of an explanatory statement explaining the effect of the Scheme are incorporated in the composite scheme document of which this Notice forms part.

A copy of the composite scheme document can also be obtained from the Hong Kong branch share registrar of the Company.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A pink form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 13 July 2017 dispatched to members of the Company on 13 July 2017.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect of the relevant joint holding.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 10:00 a.m. on Monday, 21 August 2017 but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting.

By the Order, the Court has appointed LAM Ting Lok, an independent non-executive director of the Company, or, failing him, CHIU LIN Mei-Yu (also known as Mary Lin Chiu), also an independent non-executive director of the Company, or, failing her, CHEN Pou-Tsang (also known as Angus P.T. Chen), also an independent non-executive director of the Company, or, failing him, any other director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
China Metal International Holdings Inc.

Dated 13 July 2017

Registered Office:

Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town, Grand Cayman
Cayman Islands

Principal Place of Business in Hong Kong:

Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

**CHINA METAL INTERNATIONAL HOLDINGS INC.****勤美達國際控股有限公司****(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 319)****NOTICE OF EXTRAORDINARY GENERAL MEETING**

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Metal International Holdings Inc. (the “**Company**”) will be held at Room 1801, 18th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong on Wednesday, 23 August 2017 at 11:30 a.m. (Hong Kong time) (or immediately after the conclusion of the meeting of the Scheme Shareholders (as defined in the Scheme hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering, and if thought fit, passing (with or without modifications) the following special resolution and ordinary resolution:-

SPECIAL RESOLUTION

“THAT AS A SPECIAL RESOLUTION:

- (a) the scheme of arrangement dated 13 July 2017 (the “**Scheme**”) between the Company and the holders of Scheme Shares (as defined in the Scheme) in the form of the print thereof which has been produced to this meeting, and for purpose of identification, signed by the chairman of this meeting, subject to any modifications, additions or conditions as may be approved or imposed by the Grand Court of the Cayman Islands, be and is hereby approved;
- (b) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):-
 - (i) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares (the “**Capital Reduction**”);
 - (ii) subject to and forthwith upon the Capital Reduction taking effect, the issued share capital of the Company shall be increased to its former amount by issuing to United Elite Agents Limited the same number of ordinary shares of HK\$0.01 each in the capital of the Company as is equal to the number of Scheme Shares cancelled and extinguished as aforesaid; and

* For identification purposes only

- (iii) the Company shall apply the credit arising in its books of account as a result of the Capital Reduction in paying up in full at par the new ordinary shares of HK\$0.01 each in the capital of the Company issued as aforesaid, credited as fully paid, to United Elite Agents Limited, and the directors of the Company be and are hereby authorised to allot and issue the same accordingly; and
- (c) the directors of the Company be and are hereby authorized to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme and the Capital Reduction pursuant to the Scheme, including (without limitation) giving consent to any modification of, or addition to, the Scheme or the Capital Reduction which the Grand Court of the Cayman Islands may see fit to impose.”

ORDINARY RESOLUTION

“THAT AS AN ORDINARY RESOLUTION:

the undertakings provided by Vald. Birns Holding A/S, Yanmar Co., Ltd., Mr. Tsao Ming-Hong, Mr. Ho Ming-Shiann, Ms. Ho Pei-Lin and Grand Dragon Co., Ltd. to United Elite Agents Limited (the “**Undertakings**”) to opt-out from the scheme of arrangement of the Company referred to in the composite scheme document of the Company dated 13 July 2017 (the “**Scheme Document**”) in the form of the print thereof which has been produced to this meeting and, for the purpose of identification signed by the chairman of this meeting, under the section headed “7. Undertakings to opt out of the Scheme” in Part VII “Explanatory Statement” in the Scheme Document, subject to the consent of the Executive Director of the Securities and Futures Commission of Hong Kong (the “**Executive**”) pursuant to Rule 25 of the Code on Takeovers and Mergers and any conditions that may consequentially be imposed thereon by the Executive, be and are hereby approved.”

By Order of the Board of
China Metal International Holdings Inc.
King Fong-Tien
Chairman

Dated 13 July 2017

Registered Office:

Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town, Grand Cayman
Cayman Islands

Principal Place of Business in Hong Kong:

Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the extraordinary general meeting (or any adjournment thereof) is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by authorised representative or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) not less than 48 hours before the time fixed for holding of the Meeting (being 11:30 a.m. on Monday, 21 August 2017 (Hong Kong time)). In the event that a member of the Company attends the meeting after having lodged his form of proxy, the form of proxy will be deemed to have been revoked.
4. A form of proxy for use at the meeting is enclosed.
5. The special resolution and ordinary resolution as set out above will be determined by way of poll.
6. As at the date of this notice, the board of Directors of the Company consists of eight Directors, of which four are executive Directors, namely Mr. King Fong-Tien, Mr. Tsao Ming-Hong, Ms. Chen Shun Min and Ms. Ho Pei-Lin, one is non-executive Director, namely Mr. Christian Odgaard Pedersen and three are independent non-executive Directors, namely, Mr. Lam Ting Lok, Mrs. Chiu Lin Mei-Yu (also known as Mary Lin Chiu) and Mr. Chen Pou-Tsang (also known as Angus P.T. Chen).

The following is a sample of the Option Offer Letter being sent to the Optionholders in connection with the Option Offer.



凱基金融亞洲

KGI CAPITAL ASIA

中華開發金控

CHINA DEVELOPMENT FINANCIAL

13 July 2017

To the Optionholders

Dear Sir or Madam,

OPTION OFFER

IN RELATION TO

THE PROPOSED PRIVATIZATION OF CHINA METAL INTERNATIONAL HOLDINGS INC. BY UNITED ELITE AGENTS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW)

A composite scheme document dated the same date as this letter issued jointly by United Elite Agents Limited (the “**Offeror**”) and China Metal International Holdings Inc. (the “**Company**”) (the “**Scheme Document**”) is enclosed with this letter. Terms used but not defined in this letter shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On 29 May 2017, the Offeror and the Company jointly announced that on 29 May 2017, the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding the proposed privatization of the Company by way of the Scheme. As stated in the Announcement, the Offeror will make an appropriate offer to the relevant holders of the outstanding Share Options in accordance with Rule 13 of the Takeovers Code (the “**Option Offer**”), subject to and conditional upon the Scheme becoming effective.

This letter explains the terms of the Option Offer and the actions you may take in relation to your Share Options. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the documentation under which each of your Share Options was granted (including the terms of the Old ESOP).

TERMS OF THE OPTION OFFER

On behalf of the Offeror, we are making the Option Offer, which is conditional on the Scheme becoming effective, to you pursuant to the terms of the Old ESOP.

Any outstanding Share Options, to the extent not exercised on or prior to the Latest Option Exercise Date, will lapse automatically fourteen (14) days after the Effective Date. You may accept the Option Offer by lodging a completed Form of Acceptance in respect of the Option Offer by the prescribed deadline and, if the Option Offer becomes unconditional, you will be entitled to the Option Offer Price. In consideration for our agreement to pay you the cash consideration set out above (as applicable to your holdings of the Share Options), all rights and obligations under your Share Options will be immediately cancelled by the Offeror and the Company upon your acceptance.

The Option Offer Price represents the “see-through” price of the outstanding Share Option, being an amount by which the Cancellation Price exceeds the exercise price of the outstanding Share Option.

The Option Offer is conditional upon the Scheme becoming effective. The Conditions of the Scheme are set out in the paragraph headed “2. TERMS OF THE PROPOSAL — Conditions of the Proposal” in the Explanatory Statement in Part VII of the Scheme Document. In addition, all payments in respect of the Option Offer Price will be made by cheques in Hong Kong dollars.

You are further advised to refer to the paragraph headed “16. Registration and Payment”, the paragraph headed “17. Overseas Shareholders and Optionholders”, and the paragraph headed “18. Taxation” in the Explanatory Statement in Part VII of the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Scheme Shareholders and the Optionholders set out in Part V of the Scheme Document and the letter from First Shanghai Capital Limited, the Independent Financial Adviser, set out in Part VI of the Scheme Document, which contain the recommendation of the Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Scheme, the Undertakings and the Option Offer.

COURSE OF ACTION AVAILABLE TO HOLDERS OF SHARE OPTIONS

In summary, the choices available to you in respect of your outstanding Share Options are:

(a) Accept the Option Offer

to the extent any of your outstanding Share Options is not exercised on or prior to the Latest Option Exercise Date, you may accept the Option Offer in accordance with its terms, as set out in this letter and in the Scheme Document by allowing such unexercised outstanding Share Options to remain unexercised on the Effective Date, and sign and

return the completed Form of Acceptance enclosed, by not later than 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017 (or such later time and/or date as may be notified to you through announcement(s)), to receive the Option Offer Price if the Scheme becomes effective;

(b) Become a Scheme Shareholder

you may in accordance with the terms of the Old ESOP exercise all or any of your outstanding vested Share Options (to the extent not already exercised) to its full extent or to the extent specified in your notice of exercise of Share Options to the Company at any time after the date of this letter (being 13 July 2017) and up to the Latest Option Exercise Date and become a Scheme Shareholder. Any Shares issued as a result of the exercise of such outstanding Share Options as mentioned above will be subject to and eligible to participate in the Scheme. Please refer to the Scheme Document for details of the Scheme and the Proposal in this regard; or

(c) Reject the Option Offer

you may do nothing, in which case, if the Scheme becomes effective, your unexercised outstanding Share Options will lapse automatically fourteen (14) days after the Effective Date and you will receive neither the Option Offer Price nor the Cancellation Price.

Following receipt of this letter, if you (i) choose to do nothing (including not returning a Form of Acceptance) or (ii) fail to tick either “Accept” or “Reject” box on a returned Form of Acceptance, and the Scheme becomes effective, you will be treated as if not having accepted the Option Offer in respect of all Share Options held by you as at the Share Option Record Date, your Share Options will automatically lapse upon expiry of the period that is 14 days after the Effective Date and you will receive neither the Share Option Offers Price nor the Cancellation Price.

Each outstanding Share Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document, the Form of Acceptance and the terms of the Old ESOP.

OUTSTANDING SHARE OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE

Information on the outstanding Share Options held by you as at the Latest Practicable Date is available from the company secretary of the Company. If there is any exercise of your outstanding Share Options after the Latest Practicable Date, you may accept the Option Offer only in respect of such outstanding Share Options which remain unexercised or unvested as at the Latest Option Exercise Date.

LAPSED SHARE OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of a Share Option which lapses, will lapse, or has already lapsed, under the terms of the Old ESOP. You cannot exercise or accept the Option Offer in respect of a Share Option which has lapsed in accordance with its terms.

PROFESSIONAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

DECLARATION

By signing and returning the completed Form of Acceptance, you thereby:

- (a) warrant and confirm that each Share Option in respect of which you accept the Option Offer is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever and you acknowledge that any option certificate or documents in respect of such Share Option shall become void once that Share Option has been cancelled as a result of your acceptance of the Option Offer pursuant to the Form of Acceptance;
- (b) acknowledge and agree that you cease to have any rights and obligations, and waive all rights and claims against any party (including the Offeror and the Company), in respect of all the Share Options held by you for which you accept the Option Offer, that all rights and obligations under all such Share Options will be cancelled;
- (c) confirm that the decisions which you have made on the Form of Acceptance cannot be withdrawn or altered;
- (d) authorise the Offeror, CMP, the Company, the Offeror FA and/or such person or persons as any of them may direct to do all acts and things and to complete, amend and execute any document on your behalf as may be necessary or desirable to give effect to or in connection with the acceptance you have made on the Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance (including consenting to the Company and the Offeror, as applicable, exercising their rights to amend the terms of your Share Options such that they may be transferred to the Offeror); and

- (e) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to this letter and the Form of Acceptance; and
- (f) confirm that you have read, understood and agreed to the terms and conditions of the Option Offer (including, without limitation, those set out in the Scheme Document, this letter and the Form of Acceptance), and that you have received and read the Scheme Document and this letter.

GENERAL

- (a) All communications, notices, Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from the holders of Share Options will be delivered by or sent to or from them, or their designated agents, at their risk, and none of the Offeror, CMP, the Company or the Offeror FA accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
- (b) The provisions set out in the Form of Acceptance form part of the terms of the Option Offer.
- (c) The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (d) Due execution of the Form of Acceptance in respect of the Option Offer will constitute an authority to the Offeror, CMP, the Company, the Offeror FA or such person(s) as any of them may direct to complete and execute on behalf of the accepting holder of Share Options, the Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting in the Offeror or such person(s) as the Offeror shall direct, all rights of the holders of Share Options in respect of the outstanding Share Options which are the subject of such acceptance.
- (e) The delivery of the Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Form of Acceptance and this letter, including the date specified for receipt.
- (f) By completing the Form of Acceptance in respect of a particular outstanding Share Option, you irrevocably and at your own risk elect to authorise the Offeror, CMP, the Company, the Offeror FA and/or their respective agent(s) to send to you, or procure the sending to you of, the payment to which you are entitled.

Any acceptance of the Option Offer and the receipt of cash consideration may trigger taxes subject to withholding obligations of the Offeror and/or the Company. Cash consideration under the Option Offer will be paid to you net of such applicable taxes, if any. All Optionholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Option Offer.

HOW TO RETURN THE FORM OF ACCEPTANCE

In order to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance together with the relevant certificate(s) (if any) or any other document(s) evidencing the grant of the outstanding Share Options to you or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Offeror, care of the Company at Room 1502, 15th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong, for the attention of the board of the Offeror and marked “China Metal International Holdings Inc. — Option Offer” by no later than 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017 (or such later time and/or date as may be notified to you through announcement(s)). If you do not complete a Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your Share Options will lapse automatically fourteen (14) days after the Effective Date.

Before forwarding the Form of Acceptance to the board of directors of the Offeror, please ensure that you have signed the Form of Acceptance and that your signature has been witnessed.

Assuming the Option Offer will close on Tuesday, 17 October 2017, payment for the Option Offer Price are expected to be made within seven (7) Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of the duly completed Form of Acceptance by the Offeror.

No acknowledgment of receipt of any Form of Acceptance, the relevant certificate(s) (if any) or any other document(s) evidencing the grant of the outstanding Share Options or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

RESPONSIBILITY STATEMENTS

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

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than 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 letter (other than those expressed by the Offeror and the Offeror Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement contained in this letter misleading.

Yours faithfully,
For and on behalf of
KGI Capital Asia Limited
Kwan Ringo Cheukkai
Head of Investment Banking