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21 October 2021

To: the Independent Board Committee

Dear Sirs,

PROPOSAL FOR THE PRIVATISATION OF GOOD FRIEND INTERNATIONAL HOLDINGS INC.
BY GOOD FRIEND (H.K.) CORPORATION LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES ACT)

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the proposed privatisation of the Company by way of a scheme of arrangement under section 86 of the Companies Act involving the cancellation of the Scheme Shares and, in consideration thereof, the payment of the Cancellation Price to the Scheme Shareholders, and the withdrawal of the listing of the Shares and the TDRs on the Stock Exchange and the Taiwan Stock Exchange, respectively. Details of the Proposal and the Scheme are contained in the Scheme Document, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Scheme Document.

The board of directors of the Company has established the Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Koo Fook Sun, Louis, Mr. Yu Yu-Tang and Mr. Kao Wen-Cheng to make a recommendation to the Independent Shareholders as to the Proposal and the Scheme. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal and the Scheme.

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

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, which we have assumed to be true, accurate and complete in all material respects. We have reviewed, among other things, the Company's audited financial statements for the years ended 31 December 2019 and 2020 and the unaudited financial statements for the six-month periods ended 30 June 2020 and 2021. We have discussed with the Directors their statement set out in the section headed "Material Change" in Appendix I to the Scheme Document that, save as disclosed in that section, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date. We have also reviewed the trading performance of the Shares and the TDRs, and conducted site visits to selected properties of the Group. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Scheme Document were true as at the publication date of the Scheme Document and will continue to be true up to the time the Scheme becomes effective or the Proposal lapses, and that Shareholders will be notified of any material changes to such representations as soon as reasonably practicable pursuant to Rule 9.1 of the Takeovers Code until the Scheme becomes effective or the Proposal lapses.

We have not considered the tax and regulatory implications on the Scheme Shareholders of acceptance or non-acceptance of the Scheme, since these depend on their individual circumstances.

TERMS OF THE PROPOSAL

The Proposal will be implemented by way of the Scheme. This involves the following principal steps:

(i) all the Scheme Shares held by the Scheme Shareholders on the Effective Date will be cancelled in exchange for the payment to each Scheme Shareholder the Cancellation Price of HK$1.50 in cash for every Scheme Share by the Offeror. Shareholders should note that the Cancellation Price will not be increased, and the Offeror does not reserve the right to do so; and

(ii) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares and, upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The Offeror, together with the Offeror Concert Parties, will then hold 100.0% of the issued share capital in the Company. 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 so issued, credited as fully paid, to the Offeror. An application will be made to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Effective Date and a notice will be given to the Taiwan Stock Exchange for the withdrawal of the listing of the TDRs on the Taiwan Stock Exchange in accordance with the Operating Rules accordingly.

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

(i) 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;

(ii) (a) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (b) the number of votes cast (by way of poll) by Independent 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 all Independent Shareholders;

(iii) (a) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company by cancelling and extinguishing the Scheme Shares; (b) 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 the EGM to approve the withdrawal of listing of the Shares and the TDRs on the Stock Exchange and the Taiwan Stock Exchange, respectively upon the Scheme becoming effective; and (c) the passing of an ordinary resolution by a simple majority of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to immediately thereafter restore the number of issued Shares in the share capital of the Company to the number prior to the cancellation and extinguishment of the Scheme Shares by an application of the reserve created as a result of the aforesaid cancellation and extinguishment of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, to be allotted and issued to the Offeror;

(iv) the sanction of the Scheme (with or without modifications) by the Grand Court and, to the extent necessary, its confirmation of the reduction of the number of issued Shares in the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration; and

(v) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Act in relation to the reduction of the issued share capital of the Company involved in the Scheme.

The Company is incorporated in the Cayman Islands, and the operations of the Group are mainly in the PRC. As set out in the Explanatory Statement in the Scheme Document, in general, Taiwan companies and Taiwan nationals who directly or indirectly make investment in the PRC need to obtain a prior approval from the MOEAIC for each investment. Such prior approval can be replaced by a post report to the MOEAIC within 6 months after the investment is made if the accumulated investment amount in the PRC entity by the Taiwan investor does not exceed USD1 million. Fair Friend, a company incorporated under Taiwan laws, is the major shareholder of the Offeror holding more than 10% in the Company. The Offeror's increased shareholding in the Company pursuant to the Scheme would cause Fair Friend to increase its investment amount in the PRC and thus a prior approval from the MOEAIC is required. As set out in the Explanatory Statement in the Scheme Document, an application has been made to MOEAIC by Fair Friend on 24 August 2021, which is currently expected to be granted before the date of the EGM and the Court Meeting. Further announcement(s) will be made by the Company in relation to the status of the approval from MOEAIC.

Further details of the Conditions are set out in the section headed "Conditions of the Proposal" in the Explanatory Statement in the Scheme Document.

All the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror, the Company and UOBKH may agree or, to the extent applicable, as the Grand Court may direct and in all cases, as permitted by the Executive), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

The listing of the Shares and the TDRs on the Stock Exchange and the Taiwan Stock Exchange, respectively, will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Proposal and the Scheme, we have taken into account the following principal factors and reasons:

1. Background

The Company is a company incorporated in the Cayman Islands with limited liability whose Shares have been listed on the Main Board of the Stock Exchange since 11 January 2006 with a market capitalisation of approximately HK$403.1 million as at the Last Trading Day. On 18 March 2010 the Company issued and listed 67,200,000 units of Taiwan depository receipts on the Taiwan Stock Exchange. The TDRs listed represented new Shares which were issued under general mandate granted to the Directors to allot and issue Shares. As at the Latest Practicable Date, 59,281,000 units of TDRs are in issue (all of which are held by Independent TDR Holders), each representing one Share in issue and approximately 14.7% and 40.0% of the total issued Shares and the Scheme Shares, respectively, as at the Latest Practicable Date. The underlying Shares of the TDRs have the same rights (including voting right) as the other Shares and thus the TDR Holders (through giving instructions to the Depository Agent under the terms of the Depository Agreement) may exercise the voting rights attached to the underlying Shares if the TDRs are not converted.

The Group is principally engaged in (i) the design and production of CNC machine tools, which can be broadly classified into vertical machining centres, where the workpiece manipulated by the cutting tool remains stationary, and lathes, where the workpiece is rotated or moved around the cutting tool, which generates the largest part of its revenue, (ii) the design and construction of three-dimensional car parking garage structures, which allow a car to be moved horizontally and/or vertically on platforms within a car parking system and as a minor activity, and (iii) the design and assembling of forklift trucks in various configurations.

On 29 July 2021 (after trading hours), the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the proposed privatisation of the Company by way of a scheme of arrangement.

2. Reasons for the Proposal and the Scheme

As set out in the Explanatory Statement in the Scheme Document, the Proposal will allow the Company more flexibility in implementing its long-term growth strategy, as it will permit the Offeror and the Company to make strategic decisions focused on long-term growth and benefits. The Explanatory Statement in the Scheme Document goes on to say that the Proposal represents an opportunity for Scheme Shareholders to realise their investment at an attractive exit premium in return for cash, and to redeploy it into other investment opportunities that may be considered more attractive. As set out in the section headed "Analysis of price performance and trading liquidity", the Cancellation Price under the Proposal and the Scheme represents premia over the closing prices of the Shares for different periods up to and including the Last Trading Day.

As set out in the Explanatory Statement in the Scheme Document, there is little benefit to the Company in maintaining the listing status of the Company. It has not been successful in utilising its listing status in Hong Kong for any equity fund raising activities in recent years, nor has it been able to attract any prospective strategic or financial investors to further commit any resources. The Proposal entails the privatisation and delisting of the Company and is expected to substantially reduce the administrative costs and management resources to be committed in maintaining its listing status in Hong Kong and Taiwan and compliance with regulatory requirements in the near term.

In addition, as explained in the Explanatory Statement in the Scheme Document, the trading liquidity of the Shares has been at a relatively low level over a prolonged period in recent years, with an average daily trading volume of approximately 9,143 Shares for the two months up to and including the Last Trading Day, representing less than approximately 0.01% of the total issued Shares as at the Last Trading Day. The low trading liquidity of the Shares has rendered it difficult for Shareholders to execute substantial on-market disposals timely without adversely affecting the price of the Shares. Additionally, the low trading liquidity of Shares hinders the Company's ability to raise further funds from the equity market for the Group's business developments. As set out in the section headed "Trading liquidity", the Shares are generally not actively traded on the Stock Exchange. The TDRs, which are traded on the Taiwan Stock Exchange, have been relatively more actively traded since the second half of 2020.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and extinguished and the share certificates in respect of the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company 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. Listing of the TDRs will also be withdrawn from the Taiwan Stock Exchange upon or after all the Shares are delisted from the Stock Exchange.

Further background to, and reasons for, the Proposal and the Scheme are set out in the Explanatory Statement in the Scheme Document.

3. Financial information and prospects of the Group

Financial results

Set out below is a summary of the consolidated financial results of the Group for the six-month period ended 30 June 2020 and 2021, and for the two years ended 31 December 2019 and 2020. Details of the financial information of the Group are set out in Appendix I to the Scheme Document:

	For the six months ended 30 June		For the year ended 31 December	
	2021	**2020**	**2020**	**2019**
	RMB million	*RMB million*	*RMB million*	*RMB million*
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Revenue				
– Machine tools	410.7	293.7	696.1	739.1
– Parking garage structures	62.1	74.9	157.2	107.3
– Forklift trucks	–	14.0	22.0	64.3
Total revenue	**472.8**	**382.6**	**875.3**	**910.7**
Cost of revenue	(365.3)	(294.3)	(678.8)	(701.6)
Gross profit	**107.5**	**88.3**	**196.5**	**209.1**
Gross profit margin	*22.7%*	*23.1%*	*22.4%*	*23.0%*
Other income	26.7	26.7	56.9	157.0
Distribution and selling expenses	(49.6)	(44.1)	(94.9)	(121.9)
Administrative expenses	(28.5)	(29.1)	(57.5)	(71.6)
Other gains and losses	(2.7)	3.8	36.5	(7.5)
Finance costs	(7.6)	(9.6)	(18.6)	(24.7)
Share of profit of joint ventures	(0.4)	(0.7)	0.6	1.1
Share of loss of associates	(61.2)	(111.8)	(287.1)	(57.1)
Other costs and expenses	(17.0)	(12.6)	(64.8)	(50.2)
(Loss)/profit before tax	**(32.8)**	**(89.1)**	**(232.4)**	**34.2**
Income tax expense	(7.0)	(6.2)	(15.8)	(22.1)
(Loss)/profit attributable to owners of the Company	**(39.8)**	**(95.3)**	**(248.2)**	**12.1**
Net profit margin	*N/M*	*N/M*	*N/M*	*1.3%*
(Loss)/earnings per Share *(RMB)*	**(0.10)**	**(0.24)**	**(0.62)**	**0.03**
Dividend per Share *(RMB)*	–	–	–	–

(i) Revenue

Revenue of the Group comprises the sales of CNC machine tools, parking garage structures and forklift trucks. In 2020, the Group recorded revenue from machine tools of approximately RMB696.1 million on a sales volume of 1,601 units, accounting for approximately 79.5% of total revenue of the Group, which represented a decrease of approximately 5.8% as compared to 2019, primarily due to a temporary shutdown of the manufacturing plants in China as a result of lockdown measures due to the Covid-19 pandemic. Revenue from parking garage structures amounted to approximately RMB157.2 million in 2020, an increase of approximately 46.5% as compared to approximately RMB107.3 million in 2019 principally as a result of an increase in acceptance certificates issued by parking garage structure customers during 2020. Revenue from the sale of forklift trucks decreased by approximately 65.8% in 2020, from approximately RMB64.3 million in 2019 to approximately RMB22.0 million, due to an overall rebalancing of the Group's sales mix with management of the Group taking the decision to de-emphasise the forklift truck business for the time being given gross margin pressures and the intention to focus more management time on CNC machine tools and parking garage structures. In 2020, the Group recorded revenue of approximately RMB875.3 million as a whole, representing a decrease of approximately 3.9% as compared to approximately RMB910.7 million in 2019, due to the reasons set out above. In 2020 the Group's revenue was primarily derived from customers based in the PRC.

For the six months ended 30 June 2021, the Group recorded revenue of approximately RMB472.8 million, representing an increase of approximately 23.6% as compared to the same period in 2020. This was principally driven by an increase in revenue from machine tools from approximately RMB293.7 million in the six months ended 30 June 2020 to approximately RMB410.7 million, representing an increase of approximately 39.8%, primarily as a result of an increase in sales orders from customers in the PRC. The Group recorded revenue from parking garage structures of approximately RMB62.1 million, a decrease of approximately 17.1% as compared to the same period in 2020, due to a reduction in acceptance certificates issued by parking garage structures customers during the period. The Group recorded no revenue for its forklift trucks business for the six months ended 30 June 2021, as compared to approximately RMB14.0 million for the same period in 2020, for the reasons as set out above.

The Company publishes an announcement on a monthly basis setting out the Group's revenue for the year-to-date, broken down by its principal business segments (the "**Sales Announcement(s)**"). As set out in the most recent Sales Announcement published on 10 September 2021, for the eight months ended 31 August 2021, the Group recorded revenue of approximately RMB640.8 million, representing an increase of approximately 21.6% as compared to the same period in 2020. Revenue from machine tools and parking garage structures amounted to approximately RMB566.6 million and RMB74.2 million respectively, representing an approximately 33.7% increase and 11.9% decrease as compared to the same period in 2020. No revenue was recorded from the Group's forklift trucks business for the eight months ended 31 August 2021.

(ii) Gross profit

The Group's gross profit margin decreased from approximately 23.0% in 2019 to approximately 22.4% in 2020, mainly attributable to a reduction in revenue derived from the relatively higher margin CNC machine tool business. Together with the decrease in revenue, the decrease in the gross profit margin meant an overall reduction in gross profit by approximately 6.0%, to approximately RMB196.5 million in 2020.

The gross profit margin for the six months ended 30 June 2021 declined by approximately 0.4 percentage points to approximately 22.7%, as compared to the same period in 2020, mainly due to the increase in cost of materials during the period. Due to an increase in revenue as set out above, the gross profit increased by approximately 21.7% to approximately RMB107.5 million in the first half of 2021 as compared to the same period in 2020.

(iii) Other income

Other income mainly represented sales of scrap materials, repair income and government grants and subsidies, interest income and consultancy income.

In 2020 the Group recorded other income of approximately RMB56.9 million, an approximately 63.8% decrease as compared to 2019, which was primarily attributable to: (i) a one-off compensation income of RMB72.7 million from an associate, FFG Werke GmbH, recorded in 2019, in respect of a litigation claim raised by a customer to the Group's subsidiaries involving machine tools supplied by FFG Werke GmbH, which was not repeated in 2020, (ii) a decrease of approximately RMB10.8 million in government grants and subsidies, and (iii) a decrease in income from the sales of scrap materials of approximately RMB7.6 million.

The Group recorded other income of approximately RMB26.7 million for the six months ended 30 June 2021, broadly comparable to the same period in 2020.

(iv) Distribution, selling and administrative expenses

The Group recorded approximately RMB94.9 million of distribution and selling expenses and approximately RMB57.5 million of administrative expenses, representing an approximately 22.1% and 19.7% decrease respectively as compared to 2019, mainly due to cost control measures deployed by management of the Group.

Distribution and selling expenses increased by approximately 12.5% to approximately RMB49.6 million for the six months ended 30 June 2021, mainly due to an increase in revenue, while administrative expenses decreased by approximately 2.1% to approximately RMB28.5 million.

(v) Other gains and losses and finance costs

The Group's other gains in 2020 of approximately RMB36.5 million principally comprised a reversal of a provision for a litigation claim of approximately RMB23.8 million and net foreign exchange gains of approximately RMB13.3 million, and represented an approximately RMB44.0 million increase as compared to other losses of approximately RMB7.5 million recorded in 2019, principally due to the reversal of a provision as set out above and a net foreign exchange gain as opposed to a loss. In 2020 the Group recorded finance costs principally relating to bank borrowings of approximately RMB18.6 million, an approximately 24.7% decrease as compared to 2019 due to the decrease in interest rates of the Group's banking borrowings.

The Group recorded other losses in the six months ended 30 June 2021 of approximately RMB2.7 million which represented a net foreign exchange loss during the period, as compared to other gains of approximately RMB3.8 million in the same period in 2020. Finance costs dropped by approximately 20.8% to approximately RMB7.6 million as a result of a decrease in interest rates of the Group's banking borrowings.

(vi) Share of results of joint ventures and associates

In 2020 the Group recorded a share of profit of joint ventures of approximately RMB0.6 million, an approximately 45.5% decrease as compared to 2019 mainly due to a temporary shutdown of the manufacturing plants of the joint ventures during 2020.

The Group recorded a share of loss of associates of approximately RMB287.1 million in 2020, as compared to a share of loss of associates of approximately RMB57.1 million in 2019, which represented the Group's share of results of FFG European and American Holdings GmbH ("**FFG EA**"), whose principal investment is a 55.3% equity interest in a company which wholly-owns a Germany-based maker of machine tools and production systems in Germany and the US, MAG Global Holding GmbH. In 2020 FFG EA recorded a loss for the year of approximately RMB551.6 million, an approximately 646.4% increase on the loss of approximately RMB73.9 million in 2019. As advised by the management of the Group, the above increase in loss was principally due to a prolonged shutdown of business operations in Germany during 2020, which led to an approximately 38.3% decrease in revenue for the year, and a decrease of cost of revenue and other expenses of approximately 23.8% during the same period. Further information on FFG EA is set out in the section headed "Financial position".

The Group recorded a share of loss of joint ventures of approximately RMB0.4 million in the six months ended 30 June 2021, representing an approximately 42.9% decrease in loss as compared to the same period in 2020, and a share of loss of associates of approximately RMB61.2 million, an approximately 45.3% decrease in loss as compared to the same period in 2020, primarily as a result of cost control measures implemented by the management of FFG EA.

(vii) Other costs and expenses

The Group's other costs and expenses comprise research and development costs relating to CNC machine tools, impairment loss/reversal of impairment loss on trade receivables and contract assets, other expenses (primarily costs for scrap materials sold) and other operating expenses. In 2020 the Group recorded other costs and expenses of approximately RMB64.8 million, an approximately 29.1% increase as compared to 2019, mainly as a result of an impairment loss on trade receivables and contract assets of approximately RMB13.0 million as opposed to a reversal of impairment loss on trade receivables and contract assets of approximately RMB3.0 million in 2019.

In the six months ended 30 June 2021 the Group recorded other costs and expenses of approximately RMB17.0 million, an approximately 34.9% increase as compared to the same period in 2020, mainly as a result of an increase in research and development costs of approximately 85.8% to approximately RMB19.7 million, partly offset by a reversal of impairment loss on trade receivables and contract assets of approximately RMB2.6 million.

(viii) (Loss)/profit attributable to owners of the Company

The Group recorded a loss attributable to owners of the Company of approximately RMB248.2 million in 2020, as compared to a profit of approximately RMB12.1 million in 2019, mainly due to an increase in the share of loss of associates by approximately RMB230.0 million and the absence of a one-off compensation income of approximately RMB72.7 million recorded in 2019 as set out above, partly offset by a reduction in distribution, selling and administrative expenses.

For the six months ended 30 June 2021, the Group recorded a loss attributable to owners of the Company of approximately RMB39.8 million, an approximately 58.2% decrease in loss as compared to the same period in 2020, mainly due to a higher gross profit as set out above and a reduced share of loss of associates, partly offset by an increase in research and development costs.

(ix) Dividend

The Company did not declare a dividend for 2019, 2020 or the six months ended 30 June 2021.

Financial position

Set out below is a summary of the consolidated financial position of the Group as at 30 June 2021 and 31 December 2020, details of which are set out in Appendix I to the Scheme Document:

	As at 30 June 2021	**As at 31 December 2020**
	RMB million	*RMB million*
	(Unaudited)	(Audited)
Property, plant and equipment	195.5	204.1
Right-of-use assets	121.2	122.3
Investments in joint ventures and associates	36.9	110.6
Other non-current assets	30.8	29.5
Total non-current assets	**384.4**	**466.5**
Inventories	399.8	431.2
Trade and other receivables and prepayments	207.7	166.7
Contract assets	69.1	52.7
Loan receivables	47.6	49.7
Receivables at fair value through other comprehensive income ("**FYTOCI**")	108.3	120.1
Amounts due from associates and subsidiaries of an associate	397.5	370.8
Amounts due from other related parties	34.7	29.7
Restricted bank balances	68.1	139.4
Bank and cash balances	40.0	104.0
Total current assets	**1,372.8**	**1,464.3**
Total assets	**1,757.2**	**1,930.8**

	As at 30 June 2021 *RMB million* (Unaudited)	As at 31 December 2020 *RMB million* (Audited)
Trade and other payables and accrued expenses	439.6	471.1
Contract liabilities	343.7	260.7
Deferred income	73.0	73.7
Amount due to related parties	41.1	43.8
Provision for litigation claim	–	36.3
Refund liabilities	–	106.2
Bank and other borrowings	436.8	462.3
Other liabilities	31.9	33.9
Total liabilities	**1,366.1**	**1,488.0**
Net assets ("NAV")	**391.1**	**442.8**
Equity attributable to owners of the Company	**391.1**	**442.8**
NAV per Share *(RMB)*	**0.97**	**1.10**

(i) Property, plant and equipment and right-of-use assets

Property, plant and equipment of the Group principally comprises of buildings (including industrial properties where the Group's manufacturing facilities are primarily located and offices in Hangzhou, PRC) and construction in progress relating to a new factory in Henan Province, PRC.

The Group's right-of-use assets comprise of leasehold lands and leased properties related to (i) self-owned properties in the PRC where the Group owns the underlying leasehold lands and (ii) leases of various sales offices and warehouses for the Group's operations under fixed terms of 1 to 5 years.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), a professional independent valuer of the Company, has been engaged by the Company to carry out a valuation of the market value of the properties held by the Group. The aggregate market value of the Group's properties was approximately RMB526.1 million as at 31 August 2021, as valued by JLL. Please refer to the section headed "Property valuation and Re-assessed NAV" for our further analyses on the net asset value of the Group as adjusted by the above valuation of the Group's property interests.

(ii) Investments in joint ventures and associates

As at 30 June 2021 the Group recorded investments in four joint ventures incorporated in the PRC of approximately RMB21.9 million, with principal activities of manufacturing and sale of air compressors and parts, machine tools and related products, and wholesale and export of parking garage structures.

The Group held three associates as at 30 June 2021 with a carrying amount of approximately RMB15.0 million, comprising wholly of the Group's share of net assets of FFG EA, in which the Group holds an approximately 81.4% ownership interest and approximately 33.3% of FFG EA's voting power due to the control over FFG EA being governed by a shareholder committee in which the Group holds one in three member votes.

As at 31 December 2020, as set out in the 2020 annual report of the Group, FFG EA recorded net current liabilities of approximately RMB285.7 million and net assets of approximately RMB337.9 million, as compared to net current assets of approximately RMB387.2 million and net assets of approximately RMB946.2 million as at 31 December 2019. As advised by management of the Group, the approximately 64.3% decrease in net assets from 2019 to 2020 was principally driven by the net loss recorded by FFG EA in 2020 of approximately RMB551.6 million, as set out above.

The Group's two other associates as at 30 June 2021, FFG Europe S.p.A. and FFG Werke GmbH, which are held by the Group as to approximately 30.2% and 39.0% respectively, are incorporated in Italy and Germany respectively. Their principal activities include the manufacture, sale and distribution of machine tools, spare parts and accessories, and training and maintenance service for machine tools and products. As at 30 June 2021 the Group did not record investments in associates related to the above two companies as each of their aggregate accumulated losses exceeded their respective carrying amount of investments in associates.

(iii) Amounts due from associates and subsidiaries of an associate

The Group recorded amounts due from associates and subsidiaries of an associate of approximately RMB397.5 million as at 30 June 2021, which were unsecured, interest free and repayable on demand and which were comprised of shareholder loans and other receivables. As at 31 December 2020, the Group recorded amounts due from associates and subsidiaries of an associate of approximately RMB370.8 million.

(iv) Other assets

The Group recorded other assets of approximately RMB1,006.1 million as at 30 June 2021, which comprised (i) inventories, consisting primarily of machine tools, raw materials and finished goods, of approximately RMB399.8 million, (ii) trade and other receivables and prepayments of approximately RMB207.7 million, (iii) bills receivables at FVTOCI of approximately RMB108.3 million which comprised primarily of customer payments in the form of letters of credit, (iv) contract assets of approximately RMB 69.1 million, relating to the Group's right to bill for work completed and not yet billed because specified payment milestones had not yet been met, (v) restricted bank balances of approximately RMB68.1 million which represent the amounts placed in banks as guarantees issued for trade finance facilities granted to the Group, (vi) a loan receivable due from a non-controlling shareholder of an associate of approximately RMB47.6 million, (vii) bank and cash balances of approximately RMB40.0 million, (viii) amounts due from related parties, other than associates and subsidiaries of an associate as set out in sub-section (iii) above, of approximately RMB34.7 million, and (ix) other non-current assets of approximately RMB30.8 million.

(v) Liabilities

As at 30 June 2021, the Group recorded approximately RMB436.8 million of bank and other borrowings, of which approximately RMB397.4 million are unsecured bank borrowings due within the next twelve months. The Group recorded net current assets of approximately RMB120.7 million as at 30 June 2021. The gearing ratio of the Group as at 30 June 2021, measured by dividing total interest bearing liabilities by total assets as at 30 June 2021, was approximately 22.6%. As set out in Appendix I to the Scheme Document, as at 31 August 2021, the Group recorded total outstanding indebtedness of approximately RMB445.4 million.

The Group recorded other liabilities of approximately RMB929.3 million as at 30 June 2021. This mainly related to (i) approximately RMB439.6 million of trade and other payables and accrued expenses, and (ii) approximately RMB343.7 million of contract liabilities, which arose from billing revenue in advance of the Group's performance obligation of sales contracts.

(vi) Equity attributable to owners of the Company

The Group recorded equity attributable to owners of the Company of approximately RMB391.1 million as at 30 June 2021 (approximately RMB0.97 or HK$1.14 equivalent per Share) and approximately RMB442.9 million as at 31 December 2020 (approximately RMB1.10 or HK$1.30 equivalent per Share). The Cancellation Price of HK$1.50 represents a premium of approximately 31.6% and 15.4% to the equity attributable to owners per Share as at 30 June 2021 and 31 December 2020 respectively.

(vii) Commitments and contingencies

The Group contracted for capital expenditure commitments for property, plant and equipment of approximately RMB24.3 million as at 30 June 2021 which are not provided for in the consolidated financial statements for the six month period ended 30 June 2021. The Group had no material contingent liabilities as at 30 June 2021.

Prospects of the Group

As set out in the 2020 annual report of the Company, at the beginning of 2020 the Covid-19 pandemic brought about unprecedented challenges for the production and operation of the Group, but the overall business performance recovered notably from the second quarter of 2020. As set out in the 2021 interim results announcement of the Company, in the first half of 2021 the Group's machine tools business sustained high order intake momentum, with revenue from this business segment recording notable growth as compared to the first half of 2020. As set out in the section headed "Financial results", revenue from machine tools, parking garage structures and forklift trucks accounted for approximately 86.9%, 13.1% and 0.0% respectively of the Group's total revenue in the first half of 2021. The Group primarily sells its products in the PRC.

As a machinery manufacturer with a primary customer base in the PRC, we consider that the Group's prospects could generally be analysed by reference to national economic statistics and relevant industry data. According to the National Bureau of Statistics of the PRC (the "**NBS**"), the gross domestic product ("**GDP**") of the PRC grew by approximately 6.6%, 6.1% and 2.3% in 2018, 2019 and 2020 respectively, and the GDP contribution from the manufacturing industry grew by approximately 6.2%, 5.7% and 2.3% in 2018, 2019 and 2020 respectively. In the first half of 2021, the GDP of the PRC increased by approximately 12.7% year-on-year, and the GDP contribution from the manufacturing industry grew by approximately 17.0% year-on-year. According to a market report published by the German Machine Tool Builders Association in June 2021 (the "**VDW Report**"), China was the world's largest machine tool consumption and production market with an approximately 32% and 29% market share respectively in 2020. However, pursuant to the VDW Report, machine tool consumption in China dropped by approximately 6.5% to EUR18.6 billion and production dropped by approximately 2.5% to EUR16.9 billion in 2020, primarily due to the adverse impact of the Covid-19 pandemic.

More broadly, the promotion of independence in the production of key technologies in the PRC has been supported by the government of the PRC. We note that in May 2015 the PRC State Council published a strategic plan, "Made in China 2025", which set out a number of aims for promoting and supporting innovation and technological advancement. In particular, high-end numerical control machinery and robotics was one of the ten key industries covered in the document. Among others, the goal is for 80% of the market for high-end machine tools in the PRC to be served by domestic players by 2025. We consider this strategic plan includes policies broadly favourable to the Group but should be viewed in the context of the challenges in production and operation recently faced by the Group given the business environment, as set out above.

We consider parking garage structures as produced by the Group are primarily used by private motor vehicles. An overall increase in sales and/or ownership of private motor vehicles may be a factor in increasing demand for car parking spaces, including high-capacity and space-saving options afforded by parking garage structures. According to the NBS, the total number of registered private passenger vehicles in the PRC increased from approximately 127.4 million to approximately 207.1 million, representing a compound annual growth rate of approximately 12.9%, from 2015 to 2019. Forklift trucks are frequently used to lift and transport heavy objects over short distances for onward transport, and often onto lorries. As a reasonable proxy for the growth of the forklift truck sector in the PRC, we have reviewed statistics by the NBS on lorries, which indicate that from 2015 to 2019 the total number of registered civil lorries increased from approximately 20.7 million to approximately 27.8 million, a compound annual growth rate of approximately 7.7%.

As set out above and in the section headed "Financial results", the profitability of the Group has been influenced by the financial performance of FFG EA, the Group's associate company with a focus on the German and the US markets. According to the VDW Report, in 2020 machine tool production in Germany dropped by approximately 30.1% to approximately EUR8.8 billion and consumption dropped by approximately 35.0% to approximately EUR4.6 billion, while the US experienced declines in production by approximately 12.0% to approximately EUR4.0 billion and consumption by approximately 17.3% to approximately EUR6.7 billion in 2020.

Going forward, as set out in the 2021 interim results announcement of the Company, the PRC's economy continued to recover from the impact of the Covid-19 pandemic, and management of the Group will keep track of global economic trends and the market situation in order to capture business opportunities and reduce operational risks. It will also continue to improve its operational efficiency through efficient management and continue to control operating costs. While the overall recent business environment for the Group's business in the PRC and globally appears to have been broadly positive, as set out above, uncertainties remain about the future performance of the Group's associates, and the impact of the Covid-19 pandemic in the short to medium term. As set out in the Explanatory Statement in the Scheme Document, the Company has not been successful in utilising its listing status in Hong Kong for any equity fund raising activities in recent years, nor has it been able to attract any prospective strategic or financial investors to further commit any resources. This may continue to adversely impact the Group's financing capabilities, and may no longer justify the administrative, compliance and other costs and expenses associated with maintaining the Company's listing. Based on the above, we consider the future prospects of the Group to be mixed.

4. Information on the Offeror and its intention regarding the Group

As set out in the section headed "Information about the Offeror and the Offeror Concert Parties" in the Explanatory Statement in the Scheme Document, the Offeror is a company incorporated in Hong Kong with limited liability and is principally engaged in the business of trading of machine tools and components.

As at the Latest Practicable Date, the Offeror was owned as to 99.99% by Fair Friend and 0.01% by Mr. Lin. Mr. Chu is the single largest ultimate beneficial owner, holding directly or indirectly (through companies controlled by him) approximately 24.5% of the entire issued share capital of Fair Friend. Together with the Offeror Concert Parties, they hold in aggregate approximately 44.1% of the issued share capital of Fair Friend, and are therefore the controlling shareholders of Fair Friend.

Fair Friend is a company incorporated in Taiwan with limited liability. Fair Friend and its subsidiaries principally engage in three major divisions of businesses including (1) machine tools division, (2) industry equipment division and (3) green energy division.

As set out in the section headed "Intention of the Offeror with regard to the Company" in the Explanatory Statement in the Scheme Document, following the implementation of the Proposal, the Offeror intends that the Group will continue to carry on its business of design and production of CNC machine tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks. The Offeror has no intention to initiate any major redeployment of fixed assets or any material change to the continued employment of employees of the Group.

The Offeror Concert Parties (including Mr. Chu) are considering appropriate plans to optimise their overall private business portfolio, which may consist of combining selected businesses of theirs with the business of the Company with a view to achieving a listing of the restructured business on a stock exchange outside Hong Kong, if the Scheme and the withdrawal of the listing of the Shares and the TDRs on the Stock Exchange and the Taiwan Stock Exchange, respectively, have become effective, and subject to further feasibility studies.

For further information on the Offeror and its intention regarding the Group please see the sections headed "Information about the Offeror and the Offeror Concert Parties" and "Intention of the Offeror with regard to the Company" respectively in the Explanatory Statement in the Scheme Document.

5. Property valuation and Re-assessed NAV

JLL has valued 5 property interests held by the Company and its subsidiaries (the "**Properties**"). The property valuation of JLL is set out in Appendix II to the Scheme Document (the "**Valuation Report**"). According to the Valuation Report, the market value in existing state of the Properties attributable to the Group as at 31 August 2021 is RMB526.1 million (the "**Valuation**"). The Properties comprise (i) four properties held and occupied by the Group in Hangzhou, Zhejiang Province, the PRC, with associated land use rights granted for terms expiring between 2044 and 2056 and (ii) one property held under development by the Group in Zhengzhou, Henan Province, the PRC, with an associated land use right granted for a term expiring on 16 December 2066. As set out in the Valuation Report, the Properties held and occupied by the Group are used for production and ancillary purposes and comprised workshops, office buildings, dormitory buildings, guardhouses and ancillary rooms; while the property held under development by the Group comprised two parcels of land and two industrial buildings under construction.

We have reviewed the Valuation Report and have discussed with JLL (i) the bases and assumptions used, (ii) the valuation methodology adopted and (iii) the due diligence work performed by them. In arriving at the Valuation, we note that JLL has adopted the cost approach with reference to the depreciated replacement cost, pursuant to which the properties were valued based on an estimate of the market value for the existing use of the land, with reference to sales evidence as available in the locality, and, in the case of properties held and occupied by the Group, the current cost of replacement of improvements made, less any deductions for physical deterioration, obsolescence and optimisation. We note that JLL valued the property held under development with reference to land comparable sales evidence and attributed no commercial value to the construction in progress of the property in respect of which the Group has not obtained the relevant construction permits as at the valuation date. JLL confirmed to us that the valuation of this type of property follows usual market practice. JLL also confirmed to us that it has performed site visits to all of the properties covered by the Valuation Report save for the property held under development due to the Covid-19 pandemic situation in Henan Province. We have performed work as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to JLL and its work as regards the Valuation. We concur with the valuation approaches JLL has taken in valuing the Properties.

As stated in section headed "Financial information and prospects of the Group", as at 30 June 2021, the net assets attributable to owners of the Company were approximately RMB391.1 million (or approximately RMB0.97 per Share). Management of the Group has taken into account the Valuation to arrive at the re-assessed NAV per Share attributable to owners of the Company (the "**Re-assessed NAV**"), calculated by management of the Group as follows:

	Total *RMB*
NAV attributable to owners of the Company as at 30 June 2021	391.1 million
Revaluation surplus arising from the Valuation attributable to owners of the Company *(Note 1)*	313.1 million
Net deferred tax on attributable revaluation surplus *(Note 2)*	(70.9) million
Re-assessed NAV	**633.3 million**
Re-assessed NAV per Share *(RMB)* *(Note 3)*	**1.57**
Equivalent to HK$	**1.85**
Cancellation Price *(HK$)*	**1.50**
Discount to the Re-assessed NAV per Share	**18.9%**

Notes:

(1) *This represents the revaluation surplus arising from the excess of the market value of the property interests held by the Group as valued by JLL as at 31 August 2021 over their corresponding book values as at 30 June 2021*

(2) *This represents the potential PRC corporate income tax attributable to the revaluation surplus on all the property interests of the Group*

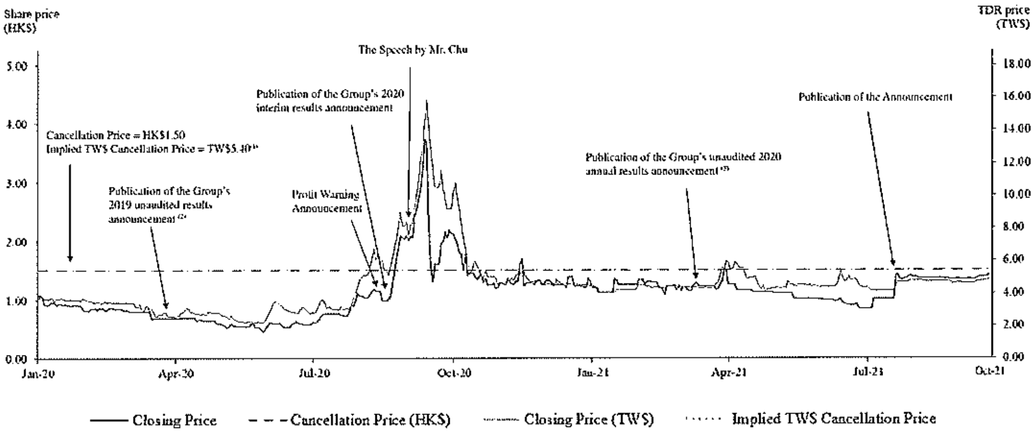
(3) *Based on 403,074,000 Shares in issue as at the Latest Practicable Date*

As set out in the above table, the Cancellation Price of HK$1.50 per Share represents a discount of approximately 18.9% to the Re-assessed NAV per Share of approximately HK$1.85, i.e. the Cancellation Price is lower than the Re-assessed NAV per Share but higher than the NAV per Share attributable to owners of the Company as at 30 June 2021 of approximately RMB0.97 or HK$1.14 equivalent per Share. We set out our analyses with reference to the NAV and the Re-assessed NAV, where applicable, in the sections headed "Privatisation precedents" and "Potential comparable company".

6. Analysis of price performance and trading liquidity

(i) Historical price performance of the Shares

Set out below is the movement of each of the closing prices of the Shares traded on the Stock Exchange and the TDRs traded on the Taiwan Stock Exchange during the period from 2 January 2020 to the Latest Practicable Date to illustrate the general trend of movement of the closing prices of the Shares and the TDRs, which we consider strikes a balance between reviewing near term share price movements and taking into account share price trends over a longer period of time (the "**Review Period**"):



Source: Bloomberg

Notes:

(1) *The Cancellation Price as expressed in TW$ is 5.40, based on the Cancellation Price of HK$1.50 multiplied by the TW$ to HK$ exchange rate on the Last Trading Day as quoted by Oanda Corporation (the "**Implied TW$ Cancellation Price**")*

(2) *The Company delayed the publication of its 2019 annual report to 14 May 2020 due to the outbreak of the Covid-19 pandemic in Germany and Italy. The Company published a supplemental announcement on 12 May 2020 setting out the 2019 audited financial statements of the Group*

(3) *The Company also delayed the publication of its 2020 annual report to 14 May 2021 due to the Covid-19 pandemic. The Company published a supplemental announcement on 14 May 2021 setting out the 2020 audited financial statements of the Group*

As illustrated in the above share price chart, the Shares and the TDRs have been trading below the Cancellation Price during most of the Review Period. The Shares generally trended downward in the first half of 2020, with the lowest share price during the Review Period of HK$0.44 on 4 June 2020. The TDRs closed at TW$2.15 on each of 22 May and 4 June 2020, their lowest during the Review Period. The Shares and the TDRs subsequently trended upward and closed at HK$1.14 (TW$5.90) on 24 August 2020 following the publication of a profit warning announcement on the previous day stating that the Company expected to record a loss attributable to owners of the Company of approximately RMB96.0 million for the six months ended 30 June 2020 (the "**Profit Warning Announcement**"). The publication of the Company's interim results for the six months ended 30 June 2020 was followed by a period of relatively volatile prices of the Shares and the TDRs, with the Shares and the TDRs closing at a period high of HK$3.75 on 23 September 2020 and TW$15.90 on 24 September 2020 respectively. We note that on 15 September 2020 the Commercial Times, a Taiwanese newspaper, published an article quoting a speech by Mr. Chu, an executive Director, Chairman and Chief Executive Officer of the Company and also the single largest ultimate beneficial owner of Fair Friend, stating that, among other matters, the Fair Friend Group may seek to consolidate its Taiwan and overseas businesses and list in Taiwan or overseas in 2024 (the "**Speech by Mr. Chu**"). We also note that the unit prices of the majority of depository receipts listed on the Taiwan Stock Exchange during this period experienced a period of relatively volatile prices between approximately August and October 2020, with the Taiwan Stock Exchange having issued 8 press releases during this period pursuant to which, among other matters, it reminded investors to exercise caution when dealing in depository receipts given the relatively high premia of their unit prices over the respective prices of their underlying shares trading on other stock exchanges. Market speculation around the Speech by Mr. Chu as well as the overall trading performance of depository receipts listed on the Taiwan Stock Exchange during the above period may have influenced the subsequent price of the TDRs and the Shares. The price of the Shares declined to HK$1.30 on 29 September 2020 and increased to HK$2.19 on 9 October 2020, whereas the TDRs declined to a lesser degree, with intermittent price increases, before closing at TW$11.6 on 5 October 2020. Thereafter the price of the Shares and the TDRs broadly trended downward further and closed at HK$1.38 (TW$4.53) on the last trading day of 2020.

From the beginning of 2021 to 14 April 2021 the Shares traded in a range of between HK$1.08 and HK$1.38 and closed at HK$1.17 on 14 April 2021, before the Shares and the TDRs reached a high of HK$1.51 on 19 April 2021 and TW$5.95 on 20 April 2021 respectively. The price of the Shares and the TDRs declined thereafter, closing at HK$0.83 on each trading day from 20 July 2021 to 28 July 2021 while the TDRs increased in price to TW$5.41 on 7 July 2021 before generally decreasing to close at TW$4.11 on 29 July 2021, the last day of trading prior to suspension of trading in the Shares and the TDRs and before publication of the Joint Announcement on 12 August 2021. The Shares and the TDRs closed at HK$1.00 and TW$4.11 respectively on such last trading day.

On the trading day following the Joint Announcement Date the Share price increased by approximately 41.0% to close at HK$1.41 and the price of the TDRs increased by approximately 10.0% to close at TW$4.52. Thereafter the Shares and the TDRs continued to trade below, but close to, the Cancellation Price, and closed at HK$1.42 and TW$4.82 respectively on 18 October 2021, being the Latest Practicable Date.

(ii) Trading liquidity

Set out below are the monthly total trading volumes of each of the Shares and the TDRs and the respective percentages of the monthly total trading volume to the total issued Shares and public float of the Company during the Review Period:

	Monthly total trading volume of the Shares *(Note 1)*	Percentage of the monthly total trading volume of the Shares to the total issued Shares *(Note 2)*	Percentage of the monthly total trading volume of the Shares to public float of the Company *(Note 3)*	Monthly total trading volume of the TDRs *(Note 1)*	Percentage of the monthly total trading volume of the TDRs to the total issued Shares *(Note 4)*	Percentage of the monthly total trading volume of TDRs to public float of the Company *(Note 5)*
2020						
January	778,000	0.2%	0.5%	571,003	0.1%	0.4%
February	1,214,000	0.3%	0.8%	772,000	0.2%	0.5%
March	178,000	0.0%	0.1%	493,003	0.1%	0.3%
April	1,416,000	0.4%	0.9%	1,087,677	0.3%	0.7%
May	4,936,000	1.2%	3.3%	3,153,675	0.8%	2.1%
June	4,124,000	1.0%	2.8%	2,854,282	0.7%	1.9%
July	5,042,000	1.3%	3.4%	19,130,277	4.7%	12.8%
August	5,606,000	1.4%	3.8%	37,448,961	9.3%	25.1%
September	13,481,200	3.3%	9.0%	75,889,013	18.8%	50.9%
October	2,012,000	0.5%	1.3%	228,481,504	56.7%	153.3%
November	712,400	0.2%	0.5%	71,324,057	17.7%	47.8%
December	216,000	0.1%	0.1%	27,959,328	6.9%	18.8%
2021						
January	284,000	0.1%	0.2%	10,026,005	2.5%	6.7%
February	430,000	0.1%	0.3%	7,101,331	1.8%	4.8%
March	218,400	0.1%	0.1%	5,228,248	1.3%	3.5%
April	1,106,000	0.3%	0.7%	33,411,880	8.3%	22.4%
May	54,000	0.0%	0.0%	7,430,994	1.8%	5.0%
June	276,000	0.1%	0.2%	2,886,335	0.7%	1.9%
July	108,000	0.0%	0.1%	16,861,873	4.2%	11.3%
August	6,683,200	1.7%	4.5%	9,528,799	2.4%	6.4%
September	3,196,000	0.8%	2.1%	3,926,464	1.0%	2.6%
From 1 October 2021 to the Latest Practicable Date	1,758,000	0.4%	1.2%	2,324,253	0.6%	1.6%

Notes:

(1) *Source: Stock Exchange, Taiwan Stock Exchange and the Company*

(2) *The calculation is based on the monthly total trading volumes of the Shares divided by all the issued Shares at the end of each month or at the Latest Practicable Date, as applicable*

(3) *The calculation is based on the monthly total trading volumes of the Shares divided by the total number of Shares held by the public at the end of each month or at the Latest Practicable Date, as applicable*

(4) *The calculation is based on the monthly total trading volumes of the TDRs divided by all the issued Shares at the end of each month or at the Latest Practicable Date, as applicable*

(5) *The calculation is based on the monthly total trading volumes of the TDRs divided by the total number of Shares held by the public at the end of each month or at the Latest Practicable Date, as applicable*

As shown in the above table, in 2020 the monthly trading volumes of the Shares represented approximately 0.0% to 1.4% of the total issued Shares, equivalent to approximately 0.1% to 3.8% of the Shares constituting the public float of the Company, save for the month of September 2020, where the monthly trading volumes of the Shares represented approximately 3.3% of the total issued Shares, equivalent to approximately 9.0% of the Shares constituting the public float of the Company.

From January 2020 to June 2020, the monthly trading volumes of the TDRs represented approximately 0.1% to 0.8% of the total issued Shares (equivalent to approximately 0.4% to 2.1% of the TDRs constituting the public float of the Company). Trading subsequently increased for the rest of the year, with monthly trading volumes of the TDRs for the period from July to December 2020 representing approximately 4.7% to 56.7% of the total issued Shares (equivalent to approximately 12.8% to 153.3% of the TDRs constituting the public float of the Company). Trading was particularly high in the month of October 2020, with a monthly trading volume of approximately 56.7% of the total issued Shares (equivalent to approximately 153.3% of the TDRs constituting the public float of the Company).

Monthly trading volumes of the Shares in the period from January 2021 to September 2021 represented approximately 0.0% to 1.7% of the total issued Shares (equivalent to approximately 0.0% to 4.5% of the Shares constituting the public float of the Company), while monthly trading volumes of the TDRs during the same period represented approximately 0.7% to 8.3% of the total issued Shares, equivalent to approximately 1.9% to 22.4% of the Shares constituting the public float of the Company, respectively.

On the basis of the above, we consider that the Shares have not been actively traded, except during the month of September 2020 and September 2021. The TDRs were not actively traded in the first half of 2020, before an increase in trading activity in the second half of 2020, in particular during the month of October 2020, and subsequently a decrease in trading activity for the rest of the period, albeit at a generally higher level than observed for the first half of 2020.

Scheme Shareholders who wish to sell a significant number of Shares in the market may cause downward pressure on the market price of the Shares. While the TDRs have been relatively more actively traded since the second half of 2020, should TDR Holders choose to sell a significant number of their units in the market, a certain degree of downward pressure could be expected. The Proposal and the Scheme represents an opportunity for the Independent Shareholders to exit at a fixed cash price (i.e. Cancellation Price of HK$1.50), which also represents premia over the historical average closing price of the Shares before the Joint Announcement, as further discussed in the section below.

(iii) Cancellation Price comparisons

The Cancellation Price of HK$1.50 per Scheme Share represents:

(i) a premium of approximately 50.0% over the closing price of HK$1.00 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 73.8% over the average closing price of approximately HK$0.86 per Share for the 10 trading days up to and including the Last Trading Day;

(iii) a premium of approximately 61.6% over the average closing price of approximately HK$0.93 per Share for the 30 trading days up to and including the Last Trading Day;

(iv) a premium of approximately 49.0% over the average closing price of approximately HK$1.01 per Share for the 60 trading days up to and including the Last Trading Day;

(v) a premium of approximately 38.9% over the average closing price of approximately HK$1.08 per Share for the 90 trading days up to and including the Last Trading Day;

(vi) a premium of approximately 33.5% over the average closing price of approximately HK$1.12 per Share for the 120 trading days up to and including the Last Trading Day;

(vii) a premium of approximately 28.4% over the average closing price of approximately HK$1.17 per Share for the 180 trading days up to and including the Last Trading Day;

(viii) a premium of approximately 5.6% over the closing price of HK$1.42 per Share on the Latest Practicable Date;

(ix) a premium of approximately 15.4% over the NAV per Share of approximately RMB1.10 (or approximately HK$1.30) as at 31 December 2020;

(x) a premium of approximately 31.6% over the NAV per Share of approximately RMB0.97 (or approximately HK$1.14) as at 30 June 2021; and

(xi) a discount of approximately 18.9% to the Re-assessed NAV per Share of approximately RMB1.57 (or approximately HK$1.85).

The Implied TW$ Cancellation Price of TW$5.40 per TDR represents a premium of approximately 31.4% over the closing price of TW$4.11 per TDR on the Taiwan Stock Exchange on the Last Trading Day, premia of approximately 23.6%, 19.6%, 20.7%, 17.2%, 19.2% and 18.2% respectively over the average closing prices for the 10, 30, 60, 90, 120 and 180 days up to and including the Last Trading Day, and a premium of approximately 12.0% over the closing price of TW$4.82 per TDR on the Latest Practicable Date.

In summary, each of the Cancellation Price and the Implied TW$ Cancellation Price represents premia of between 28.4% and 73.8% and between 17.2% and 23.6% respectively over the closing prices of the Shares and the TDRs for different periods up to and including the Last Trading Day, and the Cancellation Price represents a premium of approximately 31.6% over the NAV per Share as at 30 June 2021 and a discount of approximately 18.9% to the Re-assessed NAV per Share.

7. Peer comparison

(i) Privatisation precedents

We have compared the Proposal to privatisation proposals of companies listed on the Main Board of the Stock Exchange announced since 1 January 2020 and up to the Latest Practicable Date, which have been approved by disinterested shareholders or declared unconditional and involve a cash consideration only (the "**Privatisation Precedents**"). The Privatisation Precedents represent an exhaustive, fair and representative list that we were able to identify from the website of the Stock Exchange, based on the above selection criteria. Although the companies listed below may have different principal activities, market capitalisations and financial fundamentals as compared to those of the Company, the reasons behind the privatisation proposals may vary, and some aspects of pricing may be industry-specific, we consider that the Privatisation Precedents, involving companies listed on the Main Board of the Stock Exchange, provide a meaningful analysis of the overall market trend of the pricing of this type of transaction in the Hong Kong equity capital market as well as a meaningful benchmark for the Scheme Shareholders to evaluate the premium provided in the Proposal.

The table below illustrates the premia or discounts of the cancellation/offer price over or to the respective last trading day price and respective last 10, 30, 60, 90 and 180 trading days average share prices as well as the respective NAV and re-assessed NAV per share, where available, in respect of the Privatisation Precedents:

		Premia/(discount) of the cancellation/offer price over/(to) the closing price/average closing price per share						Premia/(discount) of the cancellation/offer price over/(to) the latest period	
Date of the first Rule 3.5/3.7 announcement	Company name (stock code)	on the last trading day *(Notes 1 and 2)*	for the last 10 trading days *(Notes 1 and 2)*	for the last 30 trading days *(Notes 1 and 2)*	for the last 60 trading days *(Notes 1 and 2)*	for the last 90 trading days *(Notes 1 and 2)*	for the last 180 trading days *(Notes 1 and 2)*	NAV attributable to owners of the company per share *(Note 2)*	re-assessed NAV attributable to owners of the company per share *(Notes 2 and 3)*
27-Jul-21	Nature Home Holding Company Limited (2083)	39.3%	38.0%	31.6%	30.9%	38.4%	53.1%	(19.0%)	(23.1%)
09-Jul-21	Beijing Capital Land Ltd. (2868)	62.8%	76.9%	127.4%	149.9%	142.5%	122.6%	(37.7%)	(49.0%)
25-Jun-21	Bestway Global Holding Inc (3358)	27.0%	32.8%	47.1%	62.8%	72.1%	101.7%	13.3%	0.0%
18-May-21	Chong Hing Bank Limited (1111)	51.2%	95.9%	104.7%	108.3%	112.5%	118.8%	(9.2%)	N/A
20-Apr-21	Inner Mongolia Energy Engineering Co Ltd (1649)	51.3%	54.6%	41.0%	30.1%	25.5%	34.2%	67.6%	N/A
28-Feb-21	Xiezhong International Holdings Ltd (3663)	17.6%	20.8%	25.9%	38.7%	41.8%	15.6%	116.2%	400.0% *(Note 4)*
25-Feb-21	Sichuan Languang Justbon Services Group Co., Ltd (2606)	39.4%	46.6%	46.8%	59.6%	57.4%	26.5%	218.1%	N/A
05-Feb-21	Zhejiang Cangnan Instrument Group Company Ltd (1743)	15.2%	13.1%	18.0%	25.2%	4.4%	(35.9%)	20.2%	N/A
22-Jan-21	Zhuhai Holdings Investment Group Ltd (908)	37.8%	37.5%	52.4%	56.1%	57.4%	82.7%	76.4%	(21.5%)
21-Jan-21	Polytec Asset Holdings Ltd (208)	61.3%	63.2%	72.5%	94.2%	104.1%	99.1%	(53.0%)	(54.6%)
20-Jan-21	Zhejiang New Century Hotel Management Co Ltd (1158)	24.7%	22.3%	20.8%	19.7%	20.3%	27.7%	186.0%	N/A
17-Jan-21	HKC (Holdings) Limited (190)	120.4%	123.0%	119.5%	109.3%	100.3%	79.1%	(70.2%)	(68.3%)
13-Jan-21	China Machinery Engineering Corporation (1829)	45.1%	93.7%	118.5%	126.9%	126.3%	105.1%	(29.4%)	N/A
22-Dec-20	Huifu Payment Ltd (1806)	26.8%	41.8%	47.0%	55.4%	44.9%	45.7%	81.5%	N/A
18-Dec-20	SHK Hong Kong Industries Ltd (666)	50.0%	52.5%	57.1%	66.2%	69.4%	71.5%	(21.6%)	N/A
17-Dec-20	Rivera (Holdings) Ltd (281)	62.5%	63.7%	63.6%	71.1%	73.3%	63.9%	(33.1%)	(57.6%)
14-Dec-20	Creative Enterprise Holdings Ltd (3992)	(23.4%)	0.6%	14.5%	17.0%	27.3%	42.2%	124.0%	N/A
06-Dec-20	I.T Limited (999)	54.6%	96.6%	135.5%	162.4%	173.0%	156.7%	73.1%	N/A
13-Nov-20	CAR Inc (699)	18.0%	31.4%	52.2%	55.8%	57.1%	45.7%	102.9%	N/A
30-Oct-20	Tonly Electronic Holdings Ltd (1249)	19.0%	21.2%	28.0%	25.5%	35.8%	59.4%	81.3%	N/A
15-Oct-20	Shanghai Prime Machinery Company Ltd (2345)	68.4%	108.6%	110.9%	112.6%	129.8%	138.4%	(41.0%)	N/A
04-Oct-20	CIMC-TianDa Holdings Company Ltd (445)	20.4%	21.2%	18.5%	26.8%	36.8%	40.3%	24.3%	N/A
27-Sep-20	China Zhongdi Dairy Holdings Company Ltd (1492)	11.0%	20.0%	22.8%	44.9%	77.6%	124.7%	16.6%	1.1%
24-Sep-20	AMVIG Holdings Ltd (2300)	51.4%	53.5%	56.5%	57.7%	56.1%	40.5%	(45.9%)	N/A
07-Sep-20	Changshouhua Food Company Ltd (1006)	16.4%	24.7%	43.2%	64.1%	65.8%	59.1%	(38.5%)	N/A
27-Aug-20	Leyou Technologies Holdings Ltd (1089)	4.5%	5.7%	8.3%	17.1%	24.6%	29.1%	435.8%	N/A
29-Jul-20	Xinghua Port Holdings Ltd (1990)	23.7%	27.4%	55.2%	92.3%	124.8%	142.9%	122.1%	N/A
08-Jul-20	O-Net Technologies (Group) Ltd (877)	23.6%	25.7%	24.6%	28.0%	34.3%	43.2%	126.5%	N/A
02-Jul-20	Vantage International (Holdings) Limited (15)	80.0%	103.6%	119.5%	115.0%	104.1%	78.6%	(61.7%)	(67.0%)

Date of the first Rule 3.5/3.7 announcement	Company name (stock code)	Premia/(discount) of the cancellation/offer price over/(to) the closing price/average closing price per share on the last trading day *(Notes 1 and 2)*	for the last 10 trading days *(Notes 1 and 2)*	for the last 30 trading days *(Notes 1 and 2)*	for the last 60 trading days *(Notes 1 and 2)*	for the last 90 trading days *(Notes 1 and 2)*	for the last 180 trading days *(Notes 1 and 2)*	Premia/(discount) of the cancellation/ offer price over/(to) the latest period NAV attributable to owners of the company per share *(Note 2)*	re-assessed NAV attributable to owners of the company per share *(Notes 2 and 3)*
21-Jun-20	China Baofeng (International) Limited (3966)	27.5%	61.9%	52.3%	42.5%	38.9%	30.7%	(5.5%)	N/A
17-Jun-20	Golden Meditech Holdings Ltd (801)	41.9%	53.6%	61.3%	55.8%	39.1%	21.6%	(33.2%)	(40.7%)
12-Jun-20	Jinmao Hotel and Jinmao (China) Hotel Investments and Management Ltd (6139)	30.4%	72.8%	82.6%	86.8%	64.6%	38.0%	81.1%	(21.4%)
05-Jun-20	Capxon International Electronic Company Ltd (469)	79.1%	94.2%	88.4%	88.4%	76.1%	54.6%	39.2%	(54.9%)
01-Jun-20	Huadian Fuxin Energy Corporation Ltd (816)	65.6%	85.9%	87.9%	89.3%	85.3%	75.8%	(14.0%)	N/A
20-Apr-20	Allied Properties (HK) Ltd (56)	34.3%	40.6%	39.5%	33.5%	30.1%	22.7%	(66.3%)	(65.8%)
03-Apr-20	Elec & Eltek International Company Limited (1151)	70.5%	46.8%	41.5%	40.5%	44.4%	53.5%	3.2%	3.2%
20-Mar-20	Li & Fung Ltd (494)	150.0%	135.6%	95.2%	72.7%	62.1%	43.3%	8.2%	N/A
20-Jan-20	BBI Life Sciences Corporation (1035)	16.3%	31.4%	42.5%	46.1%	47.9%	56.7%	98.9%	85.7%
	Maximum *(Note 4)*	150.0%	135.6%	135.5%	162.4%	173.0%	156.7%	435.8%	85.7%
	Minimum *(Note 4)*	(23.4%)	0.6%	8.3%	17.0%	4.4%	(35.9%)	(70.2%)	(68.3%)
	Average *(Note 4)*	42.5%	53.7%	59.9%	65.2%	66.5%	63.4%	40.4%	(28.9%)
	Median *(Note 4)*	38.6%	46.7%	52.3%	56.9%	57.4%	54.0%	15.0%	(40.7%)
	The Proposal and the Scheme	50.0%	73.8%	61.6%	49.0%	38.9%	28.4%	31.6%	(18.9%)

Source: Bloomberg and the website of the Stock Exchange

Notes:

(1) Up to and including the last trading day of the shares prior to the publication of the Rule 3.5 announcement or the initial Rule 3.7 announcement (where applicable)

(2) Subject to rounding differences

(3) The re-assessed NAV per share for each of the Privatisation Precedents has been arrived at after making adjustments on net asset value, principally covering (i) revaluation surplus arising from the valuation of respective property interests and (ii) relevant tax effects

(4) Xiezhong International Holdings Ltd shows a premium of the Cancellation Price over the re-assessed NAV per Share attributable to owners of the Company of approximately 400.0% due to a revaluation deficit arising from the property valuation report included in the relevant scheme document. Given the significant deviation from other Privatisation Precedents as evidenced by its being some four times the second highest premium of approximately 85.7%, we consider it an outlier and have not included it in setting out the mean, median, maximum and minimum of the Cancellation Price over the re-assessed NAV per Share attributable to owners of the Company

As set out above, the average and median premia of the Privatisation Precedents over the (average) closing price on the last trading day, and for last 10, 30, 60, 90 and 180 trading days range from approximately 41.9% to 63.4% and approximately 34.3% to 57.4% respectively. The generally higher average premia compared to the median premia is mainly due to the exceptionally high premia over market prices offered pursuant to certain Privatisation Precedents. For example, the privatisation case of Li & Fung Ltd involved a substantial premium of approximately 150.0% over the market price on the last trading day, much higher than the relevant median premium of approximately 34.3%, while the privatisation case of Shanghai Prime Machinery Company Ltd involved substantial premia ranging from 108.6% to 138.4% over the last 10 to 180 trading days. As such, the median premia of the Privatisation Precedents may offer a better analysis compared to average premia which are relatively more prone to distortion by outliers.

Based on the above table, the premia as represented by the Cancellation Price under the Proposal and the Scheme are above the corresponding median premia of the Privatisation Precedents for the last trading day and the last 10 to 30 trading days. Although the premia as represented by the Cancellation Price under the Proposal and the Scheme are below the corresponding median premia of the Privatisation Precedents for the last 60, 90 and 180 trading days, they are all substantially above the respective low ends (ranging from approximately (35.9%) to 17.0%) and well within the corresponding ranges. We consider the premia as represented by the Cancellation Price under the Proposal and the Scheme to be in line with those offered under the Privatisation Precedents and beneficial to the Independent Shareholders.

As set out in the above table, the Privatisation Precedents show an average and median discounts to re-assessed NAV per share of approximately 28.9% and 40.7% respectively, after excluding an outlier (see Note 4 to the table). The Cancellation Price represents a discount of approximately 18.9% to the Re-assessed NAV per Share, which is lower than both the corresponding average and median discounts of the Privatisation Precedents. However, not all the Privatisation Precedents include a property revaluation. The premium of the Cancellation Price over the NAV per Share attributable to owners of the Company as at 30 June 2021 based on book values is, though below the average premium of the Privatisation Precedents, above the median premium.

As a secondary analysis we have also compared the Proposal and the Scheme to privatisation proposals of companies which have been delisted from the Taiwan Stock Exchange in the period from 1 January 2020 to the Latest Practicable Date involving a cash consideration only (the "**Taiwan Privatisation Precedents**"). The Taiwan Privatisation Precedents represent an exhaustive, fair and representative list that we were able to identify from the website of the Taiwan Stock Exchange, based on the above selection criteria.

The table below illustrates the premia or discounts of the cancellation/offer price over or to the respective last trading day price and respective last 10, 30, 60, 90 and 180 trading days average share prices as well as the premia or discounts of the cancellation/offer price over or to the relevant NAV per share in respect of the privatisation proposals:

			Premia/(discount) of the cancellation/offer price over/(to) the closing price/average closing price per share						Premia/(discount) of the cancellation/offer price over/(to) the latest period NAV attributable to owners of the company per share *(Note 2)*
Date of delisting	Date of initial announcement	Company name (stock code)	on the last trading day *(Notes 1 and 2)*	for the last 10 trading days *(Notes 1 and 2)*	for the last 30 trading days *(Notes 1 and 2)*	for the last 60 trading days *(Notes 1 and 2)*	for the last 90 trading days *(Notes 1 and 2)*	for the last 180 trading days *(Notes 1 and 2)*	
18-Jan-21	15-Jul-20	Taiwan Prosperity Chemical Corp (TT.4725)	23.0%	23.5%	25.6%	10.2%	5.5%	(12.0%)	160.1%
15-Jan-21	13-Aug-20	Casetek Holdings Ltd (TT.5264)	15.3%	21.1%	25.2%	41.8%	57.2%	75.4%	26.1%
30-Nov-20	09-Aug-19	Lite-On Semiconductor Corp (TT.5305)	32.4%	33.9%	30.1%	35.9%	31.0%	35.4%	60.6%
30-Oct-20	11-Jun-20	Coland Holdings Ltd (TT.4144)	22.2%	19.5%	21.1%	29.8%	17.1%	2.4%	(10.9%)
30-Oct-20	25-Feb-20	Growww Media Co Ltd (TT.8497)	13.7%	18.5%	23.5%	28.5%	32.5%	35.2%	313.2%
01-Jun-20	27-Feb-20	Taiwan Pulp & Paper Corp (TT.1902)	2.7%	1.7%	1.6%	3.0%	3.2%	5.2%	21.1%
	Maximum		32.4%	33.9%	30.1%	41.8%	57.2%	75.4%	313.2%
	Minimum		2.7%	1.7%	1.6%	3.0%	3.2%	(12.0%)	(10.9%)
	Average		18.2%	19.7%	21.2%	24.9%	24.4%	23.6%	95.0%
	Median		18.7%	20.3%	24.3%	29.1%	24.1%	20.2%	43.3%
	The Proposal and the Scheme *(Note 3)*		31.4%	23.6%	19.6%	20.7%	17.2%	18.2%	31.6%

Source: Bloomberg and the website of the Taiwan Stock Exchange

Notes:

(1) Up to and including the last trading day of the shares prior to the publication of the initial announcement of the respective privatisation

(2) Subject to rounding differences

(3) Calculated with reference to the Implied TW$ Cancellation Price where relevant

As set out above, the premia in Taiwan as represented by the Implied TW$ Cancellation Price under the Proposal and the Scheme are above both the corresponding average and median premia of the Taiwan Privatisation Precedents for the last trading day and the last 10 trading days. They are lower than the corresponding average and median premia for the last 30, 60, 90 and 180 trading days but well within the corresponding ranges, which is favourable to the Independent Shareholders.

We note that none of the Taiwan Privatisation Precedents set out in their public documents on the respective privatisation a re-assessed NAV figure on a similar basis as the Privatisation Precedents in Hong Kong. As set out above, the premium of the Cancellation Price over the NAV per Share attributable to owners of the Company as at 30 June 2021 is below the relevant average and median premia of the Taiwan Privatisation Precedents, but within the corresponding range.

(ii) Potential comparable company

As set out in the section headed "Background", the Group is principally engaged in the design and production of CNC machine tools, the design and construction of three-dimensional car parking garage structures and the design and assembling of forklift trucks. For each of the financial year ended 31 December 2020 and the six month period ended 30 June 2021, each of revenue and segment profits derived from the design and production of CNC machine tools accounted for close to 80% of the Group's revenue and segment profits attributable to owners of the Company, respectively. On this basis we have conducted a search for companies listed on the Stock Exchange that we consider to have a business similar to the Group, i.e. which derive the majority of their revenue and profits from the production of CNC machine tools, according to their latest published annual reports. In our view, based on an exhaustive search conducted on Bloomberg, we identified only one comparable company, Precision Tsugami (China) Corporation Limited (stock code: 1651), with a market capitalisation of approximately HK$3.8 billion as at the Latest Practicable Date ("**Precision Tsugami**", together with its subsidiaries, the "**Precision Tsugami Group**"). The Precision Tsugami Group manufactures and sells CNC machine tools, including lathes, machining centres and grinding machines. As set out in its annual report for the financial year ended 31 March 2021, the Precision Tsugami Group recorded revenue of approximately RMB3,117.0 million and net income of approximately RMB392.0 million for the financial year ended 31 March 2021, and equity attributable to owners of approximately RMB1,758.3 million as at 31 March 2021.

We consider that an earnings-based or cash-flow-based analysis is preferable for the purpose of assessing companies comparable to the Company, as it is more relevant to determining the market valuation of manufacturing businesses with an earnings-based assessment rather than, for example, a balance sheet-based analysis which may be more usual for an asset-heavy business such as a property developer or a bank. As the Group has recorded recent net losses and negative earnings before interest, taxes, depreciation and amortisation, no reasonable earnings- or cash-flow-based ratio can be calculated on this basis.

Any comparative analysis is constrained by the fact that we have identified only one comparable company, Precision Tsugami. Precision Tsugami has a market capitalisation of some six times that of the Company at the Cancellation Price, does not have the loss-making associates as the Company does and, being strongly profitable, creates a difficult basis of comparison with the Company. Due to the limited application of the analysis it should be read in conjunction with our views that are set out in other parts of this letter, including the analysis of the historical Share price, trading liquidity and privatisation precedents. On these grounds, we are of the view that a comparison with Precision Tsugami may not be valid or useful for the Independent Shareholders.

8. Overseas Shareholders

The Scheme Shareholders who are resident overseas or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers. For the TDR Holders, the Scheme Document will be delivered to the Depository Agent for the Depository Agent to take necessary actions on behalf of the TDR Holders, such as relaying messages including notices to the TDR Holders, receiving applications from the TDR Holders to convert their TDRs into Shares and handling payments to the Independent TDR Holders on behalf of the Shareholders. The underlying Shares of the TDRs have the same rights (including voting right) as other Shares and thus the TDR Holders may through giving instructions to the Depository Agent exercise the voting right attached to the underlying Shares if the TDRs are not converted.

The voting mechanism at the EGM and the Court Meeting for TDR Holders is explained in the section headed "Overseas Shareholders" in the Explanatory Statement in the Scheme Document.

On the basis that the Scheme becomes effective on Thursday, 9 December 2021 (Cayman Islands time), a cheque for the cash entitlements to the Scheme Shareholders will be despatched to the recipients to their registered addresses shown in the register of members of the Company at the Scheme Record Time on the Scheme Record Date on or before Monday, 20 December 2021 and the Custodian Bank will accordingly pay the relevant amount to the Depository Agent upon receipt of such payment from HKSCC Nominees. The Depository Agent will further make the relevant payments to the TDR Holders on or about Wednesday, 5 January 2022.

The TDR Holders have the right to convert their TDRs into Shares. There is a time restriction for the TDR Holders to voluntarily exercise their right to convert the TDRs into Shares. The TDR Holders may submit conversion applications to convert their TDRs into Shares until 3:00 p.m. on Monday, 1 November 2021. 1 November 2021 is the latest date for the TDR Holders to submit conversion applications for the Depository Agent to then carry out internal conversion procedures and the conversion from TDRs to Shares will be completed and settled within 10 Business Days of the conversion application. During the period from 2 November 2021 to 30 November 2021 (both dates inclusive), no application of conversion, transfer or issuance of the TDRs will be accepted, and the Register of TDR Holders in Taiwan will be closed from 9 November 2021.

The TDR Holders automatically lose their right to exercise their voting rights attached to the underlying Shares once their TDRs have been converted into Shares, but can still exercise their voting rights of the Shares converted from the TDRs. The Depository Agent will only distribute the Scheme Document to the TDR Holders listed in the Register of TDR Holders in Taiwan and collect their voting instructions on or after 9 November 2021. Once the conversion applications are submitted and the TDR Holders' relevant TDRs are converted, the Depository Agent will not process their voting instructions given they are no longer listed on the Register of TDR Holders in Taiwan.

Under Taiwan laws, there are no appraisal rights for the TDR Holders to petition to the Taiwan court for buying back the cancelled TDRs, the underlying Shares of which have been cancelled in exchange for the Cancellation Price, based on fair market value.

In view of the Cancellation Price to be paid to the Scheme Shareholders, including the underlying Shares of the TDRs held by TDR Holders, the Offeror has sought advice from its Taiwan legal adviser, Tsar & Tsai Law Firm. Based on such legal advice, the Company confirmed that it has no obligation to repurchase the TDRs, the underlying Shares of which have been cancelled in exchange for the Cancellation Price, at a price equal to or no less than the net asset value of the Company. As advised by Tsar & Tsai Law Firm, the rules of the Taiwan Stock Exchange do not require a separate Shareholders' resolution for approving the delisting of TDRs after the underlying Shares are delisted. If the TDR Holders disagree with the Scheme, they can exercise their rights pursuant to the Depository Agreement to vote against the Scheme or to sell the TDRs or the converted Shares.

Please refer to the section headed "Overseas Shareholders" in the Explanatory Statement in the Scheme Document on pages 96 to 101 in the Scheme Document for further details.

DISCUSSION

(i) Group financials and prospects

The Group's principal business is the manufacture and sale of CNC machine tools, mainly in the PRC. The Group's revenues have declined in 2020, with revenue of RMB875.3 million in 2020, around 3.9% lower than in 2019. Revenues increased to RMB472.8 million in the first half of 2021, around 23.5% higher than in the first half of 2020. The Group recorded a net loss of RMB248.2 million in 2020, but reduced its net loss from RMB95.3 million in the first half of 2020 to RMB39.8 million in the first half of 2021. As at 30 June 2021 the Group recorded an NAV of RMB391.1 million, with net current assets of RMB120.7 million and a gearing ratio of 22.6%. The majority of the Group's borrowings are unsecured bank borrowings due within the next twelve months. The Re-assessed NAV of the Group is RMB633.3 million, adjusted for the valuation of the Group's property interests, mainly manufacturing sites in the PRC. The Company did not pay dividends in 2019, 2020 or in the first half of 2021.

The Group's prospects are driven to a large extent by the performance of the machine tool market in the PRC. The Covid-19 pandemic brought challenges to the Group, but overall business performance improved in the first half of 2021. Profitability of the Group is also influenced by the Group's German associate company, which has been loss-making in 2020 and in the first half of 2021. Uncertainties remain about the future performance of the Group's associates, and the impact globally of the Covid-19 pandemic in the short to medium term.

(ii) Share price and trading liquidity

The Proposal and the Scheme call for the Scheme Shares to be cancelled in return for a cash payment of HK$1.50 per Scheme Share. It has been stated that this price will not be increased. The Cancellation Price will be paid to the Scheme Shareholders, including the underlying Shares of the TDRs held by TDR Holders. We have reviewed the trading of the Shares on the Stock Exchange and the TDRs on the Taiwan Stock Exchange. Each of the Cancellation Price and the Implied TW$ Cancellation Price represents premia of between 28.4% and 73.8% and between 17.2% and 23.6% respectively over the closing prices of the Shares and the TDRs for different periods up to and including the Last Trading Day.

Generally speaking, the Shares have not been actively traded on the Stock Exchange, except during the month of September 2020. Consequently, if Shareholders tried to sell a significant number of Shares, this would put downward pressure on the Share price. The TDRs were not actively traded in the first half of 2020, before an increase in trading activity in the second half of 2020, in particular during the month of October 2020. However, while the TDRs have been more actively traded since the second half of 2020, if TDR Holders choose to sell a significant number of their units in the market, this could put pressure on the price of the TDRs.

The Cancellation Price represents a premium of 32.7% over the Company's IPO price of HK$1.13 on 11 January 2006.

(iii) Privatisation precedents

We have reviewed precedents for privatisation of companies listed on the Main Board of the Stock Exchange involving a cash consideration. The premia as represented by the Cancellation Price under the Proposal and the Scheme are above the corresponding median premia of the Privatisation Precedents for the last trading day and the last 10 to 30 trading days. Although the premia under the Proposal and the Scheme are below the corresponding premia of the Privatisation Precedents for the last 60 to 180 trading days, they are all well within the corresponding ranges. We have also reviewed recent privatisation precedents in Taiwan, which return a similar result. On this basis we consider the premium over market price offered under the Proposal and the Scheme to be in line with the market.

(iv) Re-assessed NAV comparison

The Cancellation Price represents a premium over the NAV per Share as at 30 June 2021 of 31.6% and a discount to the Re-assessed NAV of 18.9%. The premium of the Cancellation Price over the NAV per Share is below the median premium of the Taiwan Privatisation Precedents but above the median premium of the Privatisation Precedents. The discount of the Cancellation Price to the Re-assessed NAV is lower than the relevant average and median discounts of the Privatisation Precedents of 28.9% and 40.7% respectively, which we consider a favourable aspect of the Proposal for the Independent Shareholders.

OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, particularly the Cancellation Price premium over recent Share prices and the premia under the Proposal and the Scheme as compared to the majority of the Privatisation Precedents and despite the 18.9% discount to the Re-assessed NAV, we consider the terms of the Proposal and the Scheme are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve the Scheme and implement the Proposal.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

M. N. Sabine

M. N. Sabine
Chairman

Mr. M. N. Sabine is a licensed person registered with the SFC and the Chairman and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 40 years' experience of corporate finance transactions.