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## LETTER FROM THE BOARD

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大同機械企業有限公司

**COSMOS MACHINERY ENTERPRISES LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 118)**

*Executive Directors:*

Tang To  
Wong Yiu Ming  
Tang Yu, Freeman

*Registered Office:*

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

*Non-executive Directors:*

Kan Wai Wah  
Qu Jinping

*Independent non-executive Directors:*

Yeung Shuk Fan  
Cheng Tak Yin  
Ho Wei Sem  
Huang Zhi Wei

19 May 2018

*To the Shareholders of the Company*

Dear Sir or Madam,

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

**INTRODUCTION**

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

The purpose of this circular is to:

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

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

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

### THE SUBSCRIPTION AGREEMENT

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

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

#### Date

30 April 2018

#### Parties

- (i) the Company, being the issuer;
- (ii) Cosmos Machinery (Holdings) Limited, being the First Subscriber; and
- (iii) Saniwell Holding Inc., being the Second Subscriber.

#### The Subscription Shares

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

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

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### The Subscription Price

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

- (i) a discount of approximately 12.7% to the closing price of HK\$0.63 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 11.1% to the closing price of HK\$0.495 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 6.8% to the average closing price of approximately HK\$0.515 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 10.4% to the average closing price of approximately HK\$0.498 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 12.0% to the average closing price of approximately HK\$0.491 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 63.5% to the audited net asset value attributable to owners of the Company as at 31 December 2017 of approximately HK\$1.507 per Share; and
- (vii) a discount of approximately 64.0% to the adjusted net asset value attributable to owners of the Company as at 31 December 2017 after taking into account the market value of the properties of the Group as at 31 March 2018 as set out in the property valuation report in Appendix II to this circular of approximately HK\$1.528 per Share.

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

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

### Lock-up period

Pursuant to the terms of the Subscription Agreement:

- (i) Each of the Subscribers undertakes to the Company that from the date of the Completion and on or prior to the date being 6 months after the date of the Completion, it will not and will procure that none of its nominees and companies controlled by it or trusts associated with it (whether individually or together and whether directly or indirectly) will (a) offer,

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lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or (otherwise) any Shares or any interests therein or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Shares or interests or (b) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (a) or (b) above is to be settled by delivery of Shares or such other securities, in cash or otherwise or (c) announce any intention to enter into or effect any such transaction described in (a) or (b) above; and

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

### **Conditions precedent to the Subscription Agreement**

Completion is conditional upon:

- (i) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares (and such listing and permission not subsequently revoked prior to Completion);
- (ii) the passing of resolution(s) by the Independent Shareholders at the EGM to approve the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver;
- (iii) the Executive granting or agreeing to grant the Whitewash Waiver in accordance with the requirements of the SFC and the Takeovers Code; and
- (iv) the representations and warranties of the Subscribers being true and accurate and not misleading at all times from the date of the Subscription Agreement up to and including the date of Completion.

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

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

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

### **Completion of the Subscription**

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

### **APPLICATION FOR LISTING**

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

### **INFORMATION ON THE SUBSCRIBERS**

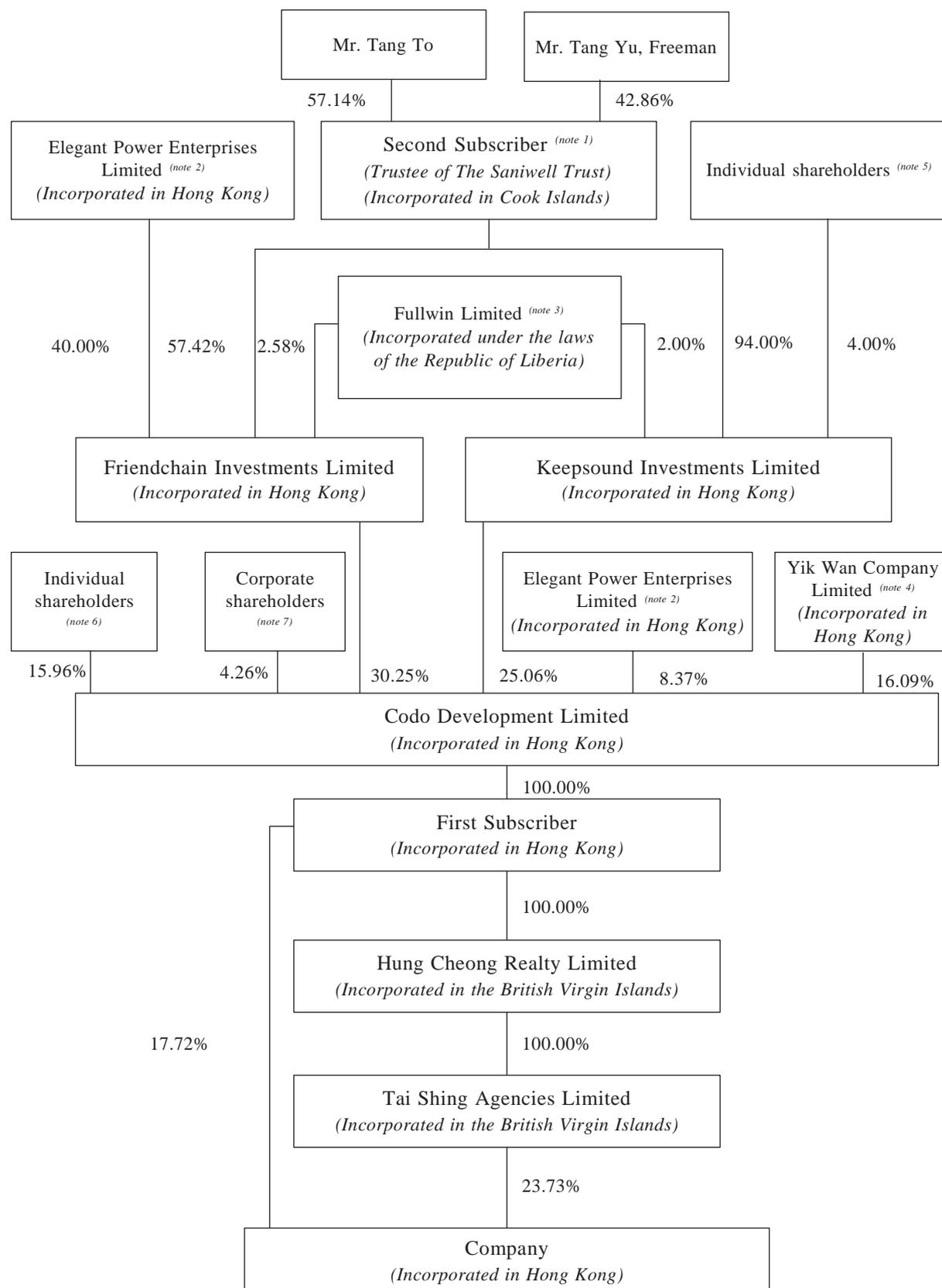
The First Subscriber is a company incorporated under the laws of Hong Kong with limited liability and is principally engaged in the business of investment holding. As at the Latest Practicable Date, the First Subscriber directly holds 127,052,600 Shares (representing approximately 17.72% of the total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

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

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

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



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*Notes:*

- (1) The Second Subscriber is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To, an executive Director, and certain of his family members.
- (2) Elegant Power Enterprises Limited is owned as to 0.002% by Mr. Kan Wai Wah, a non-executive Director, and 99.998% by Ms. Law Kit Fong, one of Mr. Kan Wai Wah's associate.
- (3) Fullwin Limited is owned as to 50% by Mr. Tang To, an executive Director, and 50% by his spouse.
- (4) Yik Wan Company Limited is owned directly and indirectly by several associates of Mr. Kan Wai Wah, a non-executive Director. Each associate holds between 0.04% to 14.29% shareholding interests in Yik Wan Company Limited.
- (5) The individual shareholders of Keepsound Investments Limited are associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors. Each individual shareholder holds between 0.33% to 2.00% shareholding interests in Keepsound Investments Limited.
- (6) The individual shareholders of Codo Development Limited include several associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors, holding in aggregate 15.48% shareholding interests in Codo Development Limited, and an Independent Third Party, holding 0.48% shareholding interests in Codo Development Limited. Each individual shareholder holds between 0.48% to 4.24% shareholding interests in Codo Development Limited.
- (7) The corporate shareholders of Codo Development Limited are Cranswick Holdings Limited and Silver View Investment Limited, holding 2.60% and 1.67% shareholding interests in Codo Development Limited respectively.

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

### **REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS**

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

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

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

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

- (a) 20% – 30% of the net proceeds for funding and working capital to support existing businesses of the Group in order to increase market share in high potential niche markets in its machinery manufacturing business, to expand business scale in its plastic products and processing business, to increase business scale and to enhance solution based business model in its industrial supplies trading business;
- (b) 15% – 20% of the net proceeds for investment in research and development of the Group in order to enhance product features and functionalities in its machinery manufacturing business such as applications enhancement, production quality/efficiency upgrade and development of new product series, and to ramp up industrial digitalization solutions research and developments in its machinery manufacturing business such as refinement and enhancement of real time machine data monitoring, analytics functions, and software/hardware integration solutions;
- (c) 15% – 25% of the net proceeds for investments in plants and machineries and other business in order to upgrade and expand manufacturing plants in Wuxi in its machinery manufacturing business, to invest in new machineries for the production plants in Zhuhai and Dongguan for the plastic processing business, to invest in digital systems in the manufacturing, warehousing, distribution facilities in its machinery manufacturing, plastic products and processing, as well as industrial supplies trading businesses; and
- (d) 5% – 10% of the net proceeds for funding for restructuring in order to further support restructuring of machinery business, which includes asset relocation and optimization, organizational restructuring and production efficiency enhancement.

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

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

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

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

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

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

- (i) the existing financial position and operation performance of the Group;
- (ii) there being no material adverse change to the Group's existing businesses;
- (iii) there being no premature reduction of the existing loan facilities from financial institutions; and
- (iv) there will be no material change in the economic environment or market conditions in Hong Kong, the Mainland China or other countries in which the Group operates or intends to operate.

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

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

### **FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS**

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

### **EFFECT ON THE SHAREHOLDING STRUCTURE**

As at the Latest Practicable Date:

- (i) the Company had 716,930,692 Shares in issue; and
- (ii) the Company did not have any outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

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

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

Notes:

- (1) Tai Shing Agencies Limited is an indirect wholly-owned subsidiary of the First Subscriber.
- (2) Mr. Tang To is an executive Director and a director of both the First Subscriber and the Second Subscriber.
- (3) Out of these 8,656,406 Shares, 4,970,000 Shares are personally held by Mr. Tang To, 2,000 Shares are held by his spouse, 224,000 Shares are jointly held by Mr. Tang To and his spouse while 3,460,406 Shares are held by Ginta Company Limited, which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.

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- (4) Mr. Wong Yiu Ming is an executive Director and is presumed to be acting in concert with the Subscribers under class (6) presumption under the definition of “acting in concert” under the Takeovers Code until Completion. This class (6) presumption will cease to apply after Completion.
- (5) Mr. Kan Wai Wah is a non-executive Director and a director of the First Subscriber.
- (6) China Resources (Holdings) Company Limited is presumed to be a party acting in concert with the Subscribers under Note 1 to the definition of “acting in concert” under the Takeovers Code. This presumption will cease to apply after Completion since China Resources (Holdings) Company Limited will hold less than 20% of the voting rights of the Company upon Completion.
- (7) Mr. Cheng Tak Yin is an independent non-executive Director.

### IMPLICATIONS UNDER THE LISTING RULES AND THE TAKEOVERS CODE

#### Listing Rules Implications

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

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

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

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

#### The Whitewash Waiver

Upon Completion:

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

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

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

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

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

- (i) held, owned, controlled or directed any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company nor has entered into any outstanding derivatives in respect of the securities in the Company;
- (ii) had secured any irrevocable commitment from any Independent Shareholders to vote in favour of or against the resolution(s) approving the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver;
- (iii) had any arrangement as referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with any persons;
- (iv) had any agreement or arrangement to which the Subscribers or any parties acting in concert with them is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver; and

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

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

### **Dealing in the Company's Securities**

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

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

### **THE EGM**

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

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

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

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

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

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

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

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

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

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

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## LETTER FROM THE BOARD

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### RECOMMENDATIONS

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

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

### FURTHER INFORMATION

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

Yours faithfully,  
By order of the Board  
**Cosmos Machinery Enterprises Limited**



**TANG To**  
*Chairman*