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

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code: 118)

CONNECTED TRANSACTION

The Board is pleased to announce that on 12 September 2005, the Group (through GTPL, a wholly-owned subsidiary of the Company) has entered into the Agreement with Yunchang Ministry whereby GTPL has agreed to acquire and Yunchang Ministry has agreed to dispose of its 39% equity interest in GL Precision Plastic Products at a consideration of USD305,800 (equivalent to approximately HKD2,379,000).

As GL Precision Plastic Products, a subsidiary of the Company, is currently owned by GTPL and Yunchang Ministry as to 51% and 49% respectively, Yunchang Ministry is a substantial shareholder of a subsidiary of the Company and thereby is a connected person of the Company within the meaning of the Listing Rules. As such, the signing of the Agreement and the Acquisition contemplated thereby will constitute a connected transaction for the Company and will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

1. THE AGREEMENT

Date

12 September 2005

Parties

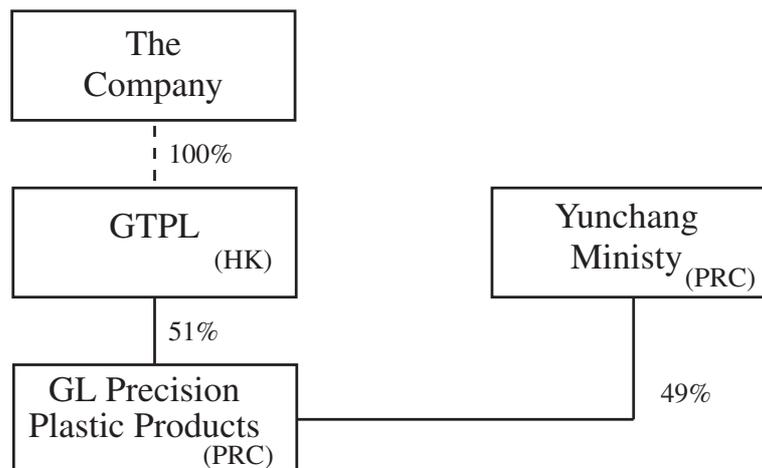
- (1) GTPL, a wholly-owned subsidiary of the Company, as purchaser
- (2) Yunchang Ministry as vendor

Particulars of the Agreement

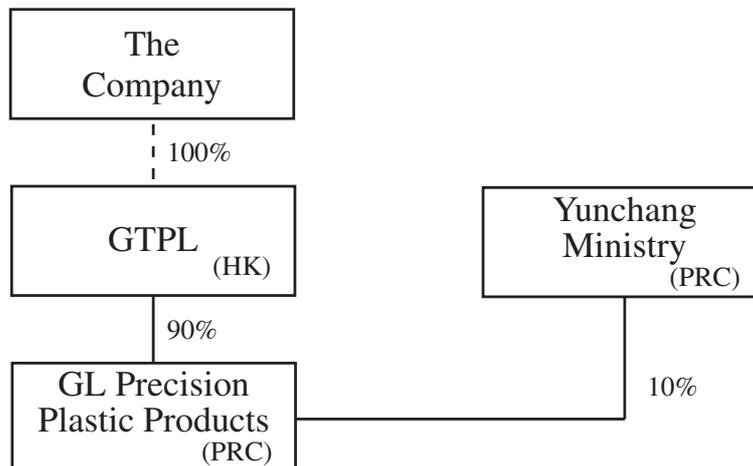
Pursuant to the Agreement, GTPL has agreed to acquire and Yunchang Ministry has agreed to dispose of its 39% equity interest in GL Precision Plastic Products at the consideration of USD305,800 (equivalent to approximately HKD2,379,000). Upon the completion of the Agreement, GL Precision Plastic Products will be owned as to 90% by GTPL and as to 10% by Yunchang Ministry, and it will remain as a subsidiary of the Company. Currently, the Board has no intention to acquire the remaining 10% equity interests held by Yunchang Ministry in GL Precision Plastic Products.

2. SHAREHOLDING STRUCTURE

The current shareholding structure of GL Precision Plastic Products before the completion of the Acquisition is set out as follows:



The shareholding structure of GL Precision Plastic Products immediately after the completion of the Acquisition is set out as follows:



3. PARTICULARS OF ASSET TO BE ACQUIRED

GL Precision Plastic Products, located in Wuxi, the PRC, was incorporated in the PRC in 2001 as a Sino-foreign joint venture, the principal businesses of which are the manufacturing and sale of plastic products produced by GL Precision Plastic Products in the PRC. It is currently owned as to 51% by GTPL and as to 49% by Yunchang Ministry and is therefore an indirect non-wholly owned subsidiary of the Company. Upon the completion of the Agreement, GL Precision Plastic Products will be owned as to 90% by GTPL and as to 10% by Yunchang Ministry, and it will remain as an indirect non-wholly owned subsidiary of the Company.

The total registered capital of GL Precision Plastic Products amounted to USD900,000 (equivalent to approximately HKD7,002,000) as at 31 December 2004. The unaudited net asset value (based on the PRC accounting standards) of GL Precision Plastic Products as at 30 June 2005 is approximately RMB8,100,600 (equivalent to approximately HKD7,789,000). Based on the aforesaid unaudited net asset value of GL Precision Plastic Products as at 30 June 2005, the value of the Acquisition is approximately RMB3,159,234 (equivalent to approximately HKD3,038,000).

The audited net profit before and after taxation (based on the PRC accounting standards) of GL Precision Plastic Products for the year ended 31 December 2003 amounted to RMB2,154,836 (equivalent to approximately HKD2,072,000) and RMB1,888,949 (equivalent to approximately HKD1,816,000) respectively. The audited net profit before and after taxation (based on the PRC accounting standards) of GL Precision Plastic Products for the year ended 31 December 2004 amounted to RMB1,716,375 (equivalent to approximately HKD1,650,000) and RMB1,502,103 (equivalent to approximately HKD1,444,000) respectively.

GTPL acquired an aggregate of 51% equity interest in GL Precision Plastic Products in 2001. The original purchase cost of the 39% equity interest in GL Precision Plastic Products by Yunchang Ministry was USD351,000 (equivalent to approximately HKD2,731,000) and Yunchang Ministry owns such equity interest since the incorporation of GL Precision Plastic Products in 2001. GL Precision Plastic Products does not have any shareholder's loan.

4. BASIS AND PAYMENT TERM OF THE CONSIDERATION

The consideration for the Acquisition under the Agreement is USD305,800 (equivalent to approximately HKD2,379,000). The consideration shall be payable in cash upon the completion of the Acquisition and shall be funded by the internal resources of the Group. The consideration for the Acquisition has been arrived at after arm's length negotiations between the parties and are on normal commercial terms, with reference to the financial performance and the unaudited net asset value of GL Precision Plastic Products as at 30 June 2005 of approximately RMB8,100,600 (equivalent to approximately HKD7,789,000). The consideration represents an approximately 22% discount of 39% of the unaudited net asset value of GL Precision Plastic Products as at 30 June 2005.

Upon the completion of the Acquisition, GL Precision Plastic Products will be owned as to 90% by GTPL and as to 10% by Yunchang Ministry and will continue to be an indirect non-wholly owned subsidiary of the Company.

5. COMPLETION DATE

The completion of the Acquisition shall take place within the 30 days after satisfaction of the following conditions as set out in the Agreement:

- (i) each of the parties to the Agreement and GL Precision Plastic Products having obtained valid board resolutions approving the transactions contemplated under the Agreement;
- (ii) in view that the Company, being the controlling shareholder of GTPL, is listed on the main board of the Stock Exchange, GTPL shall procure that the Agreement complies with the requirements of the Stock Exchange; and
- (iii) having obtained all the necessary approval(s) in relation to the Agreement from the relevant government authorities in the PRC.

6. REASONS FOR AND EFFECTS OF THE ACQUISITION

Currently, the Group is principally engaged in the manufacturing and trading of industrial tools, the manufacturing of machinery and plastic processing products and the sale of plastic products. GL Precision Plastic Products is principally engaged in the manufacturing and sale of plastic products produced by GL Precision Plastic Products in the PRC, which is in line with the current business

strategies of the Group. Upon the completion of the Acquisition, the Group's equity interests in GL Precision Plastic Products will be increased from 51% to 90%, thereby increasing the Group's share of profit (if any) in GL Precision Plastic Products by 39%.

Accordingly, the Directors, including the independent non-executive Directors, consider that the Agreement was entered into on normal commercial terms after arm's length negotiations and that the terms of the Agreement (including the consideration) are fair and reasonable and in the interest of the Company so far as the independent shareholders of the Company as a whole are concerned.

7. GENERAL

So far as the Board is aware having made all reasonable enquiries, Yunchang Ministry is principally engaged in the manufacturing of facilities for the plastic industry in the PRC. Apart from being a substantial shareholder of GL Precision Plastic Products by virtue of its present 49% equity interest in GL Precision Plastic Products, Yunchang Ministry is not otherwise a connected person of the Company under the Listing Rules.

As GL Precision Plastic Products, a subsidiary of the Company, is currently owned by GTPL and Yunchang Ministry as to 51% and 49% respectively, Yunchang Ministry is a substantial shareholder of a subsidiary of the Company and thereby is a connected person of the Company within the meaning of the Listing Rules. As such, the signing of the Agreement and the Acquisition contemplated thereby will constitute a connected transaction for the Company and will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

8. DEFINITIONS:

“Acquisition”	the proposed acquisition of 39% equity interest in GL Precision Plastic Products by GTPL from Yunchang Ministry pursuant to the terms and conditions of the Agreement
“Agreement”	the transfer agreement dated 12 September 2005 and entered into between GTPL as purchaser and Yunchang Ministry as vendor in respect of the Acquisition
“Board”	the board of Directors
“Company”	Cosmos Machinery Enterprises Limited (大同機械企業有限公司), a company incorporated in Hong Kong with limited liability, whose securities are listed on the main board of the Stock Exchange
“Directors”	the directors of the Company
“GL Precision Plastic Products”	無錫吉愛爾精密塑料製品有限公司 (Wuxi GL Precision Plastic Products Co., Ltd.*), a Sino-foreign equity joint venture established in the PRC and an indirect non-wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“GTPL”	Grand Technology Products Limited (格蘭科技產品有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company

“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	the United States dollars, the lawful currency of the United States of America
“Yunchang Ministry”	無錫市新區運昌電子經營部 (Wuxi City Xinqu Yunchang Electronics Trading Ministry*), an entity established in the PRC

Unless otherwise specified, the conversion of Renminbi into Hong Kong dollars is based on the exchange rate of HKD1.00: RMB1.04 and the conversion of United States dollars into Hong Kong dollars is based on the exchange rate of USD1.00: HKD7.78. No representation is made that the amounts stated in this announcement have been, could have been or could be converted at the above rates.

By order of the Board
COSMOS MACHINERY ENTERPRISES LIMITED
TANG To
Chairman

Hong Kong, 12 September 2005

* *For identification purposes only*

As at the date hereof, the Board comprises of eleven directors, of whom five are executive Directors, namely Mr. Tang To, Mr. Zhao Zhuoying, Mr. Wong Yiu Ming, Mr. Yan Wing Fai Richard and Mr. Li Tin Loi; three are non-executive Directors, namely Mr. Tang Kwan, Mr. He Zhiqi and Mr. Kan Wai Wah; and three are independent non-executive Directors, namely Mr. Liang Shangli, Mr. Yip Jeffery and Miss Yeung Shuk Fan.

“Please also refer to the published version of this announcement in The Standard.”