
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in **Cosmos Machinery Enterprises Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

DISCLOSEABLE TRANSACTION COMPENSATION FOR RELOCATION OF PLANTS IN DONGGUAN

Financial adviser



REXCAPITAL (Hong Kong) Limited

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DEFINITIONS

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

“Company”	Cosmos Machinery Enterprises Limited, a company incorporated in Hong Kong with limited liability, whose securities are listed on the Stock Exchange
“Compensation”	the compensation by SASAC for relocation of the Plants of Dong Hua pursuant to the Compensation Agreement
“Compensation Agreement”	the agreement dated 5th December, 2007 entered into between Dong Hua and SASAC in relation to the Compensation
“Directors”	the directors of the Company
“Dong Hua”	Dong Hua Machinery Limited (東華機械有限公司), a 75.56% owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“Land”	a parcel of land located at 15 Jianshe Road, Dongguan, the PRC with a site area of 51,645 sq.m.
“Latest Practicable Date”	21st December, 2007
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Plants”	16 buildings of construction area of 47,474.94 sq.m., comprising production workshops, offices and staff quarters build on the Land in Dongguan
“PRC”	The People’s Republic of China, but for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SASAC”	The State-owned Assets Supervision and Administration Commission of Dongguan (東莞國有資產監督管理委員會)
“sq.m.”	square metre

For the purpose of this circular, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.0295. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

LETTER FROM THE BOARD



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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 118)

Executive Directors:

Tang To (*Chairman*)
Jiang Wei
Wong Yiu Ming (*Chief Executive Officer*)
Yan Wing Fai Richard
Li Tin Loi

Registered office:

8th Floor
Tai Tung Industrial Building
29-33 Tsing Yi Road
Tsing Yi Island
New Territories
Hong Kong

Non-executive Directors:

Tang Kwan (*Honorary Chairman*)
Wu Ding (*Vice Chairman*)
Kan Wai Wah
Qu Jinping

Independent non-executive Directors:

Yip Jeffery
Yeung Shuk Fan
Cheng Tak Yin

24th December, 2007

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

COMPENSATION FOR RELOCATION OF PLANTS IN DONGGUAN

1. INTRODUCTION

On 5th December, 2007, the Board announced that Dong Hua has entered into the Compensation Agreement with SASAC in relation to the Compensation for relocation of Plants in Dongguan.

The purpose of this circular is to provide you with information in relation to the Compensation as contemplated under the Compensation Agreement.

LETTER FROM THE BOARD

2. THE COMPENSATION AGREEMENT

Date : 5th December, 2007

Parties

(A) Dong Hua : Dong Hua Machinery Limited (東華機械有限公司), a 75.56% owned subsidiary of the Company; and

(B) SASAC : The State-owned Assets Supervision and Administration Commission of Dongguan (東莞國有資產監督管理委員會).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, SASAC is independent of and not connected with the Company and any of its connected person, and has no prior transactions with the Group which require aggregation under Rule 14.22 of the Listing Rules.

Land : A parcel of land located at 15 Jianshe Road, Dongguan, the PRC with a site area of 51,645 sq.m.

Plants : 16 buildings of total construction area of 47,474.94 sq.m., comprising production workshops, offices and staff quarters build on the Land.

Amount of Compensation : Aggregate amount of compensation for relocation of the Plants: RMB76,092,641.79 (equivalent to approximately HK\$78,337,000).

The aggregate amount of Compensation for relocation of the Plants was agreed after arm's length negotiations between the Company and the SASAC. Both parties agreed to use the replacement cost basis to value the relocation costs of the new plants in a new site after considering the scale and standards of the existing factory buildings, their functions, structures and also their facilities and so on.

LETTER FROM THE BOARD

Payment of Compensation : The Compensation shall be paid in cash in the manner as follows:

1. as to RMB30,000,000.00 to be paid within 10 working days from the date of the Compensation Agreement, which was paid on 18th December, 2007;
2. as to RMB36,092,641.79 to be paid within 10 working days from serving a notice of commencement foundation piling of the new plant by Dong Hua to SASAC, which is expected to be in June, 2008; and
3. as to the balance of RMB10,000,000.00 to be paid within 10 working days from serving a notice of handover of the Land and the Plants from Dong Hua to SASAC, which is expected to be served within 30 months from the effective date of the Compensation Agreement.

Delivery of Possession : The Company shall deliver possession of the Land and the vacated Plants to SASAC within 30 months from the effective date of the Compensation Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Compensation Agreement is not subject to any other regulatory approval.

The Directors (including independent non-executive Directors) consider that the terms of the Compensation Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. INFORMATION ON THE GROUP AND SASAC

The Group is principally engaged in trading of industrial consumables, manufacturing and selling of plastic processing products, machinery and printed circuit boards.

The SASAC is a PRC Government body to supervise the preservation and increment of the value of state-owned assets in state enterprises. The consent from SASAC is required in most of the asset disposal or corporate reorganization exercises.

LETTER FROM THE BOARD

4. BACKGROUND AND REASON FOR THE COMPENSATION

The Group entered into a State-owned Land Use Right Grant Contract with a delegated entity of SASAC in Dongguan in 1997 to obtain a long-term lease on the Land at a yearly rental of approximately RMB427,000.00. The Company invested and built the production workshops, staff quarters and offices on the Land totally 16 buildings with total construction area of 47,474.94 sq.m.

Due to the urban planning of Dongguan, SASAC planned to call back the Land and requested Dong Hua to move out from the Land. After due consideration, the Company decided to co-operate with the state's planning and plans to relocate the Plants. However, the possible relocation will result in loss on the investments in the existing Plants on the Land, furthermore, extra cost including but not limited to new plant renovation, relocation, and staff compensation and so on will be incurred. Under such background, the Company negotiated and entered into the Compensation Agreement with SASAC to compensate Dong Hua for the possible cost incurred.

The Company will relocate its production workshops, offices, staff quarters and other facilities of Dong Hua to the parcel of land at Er Huan Road, Zhou Wu District, Fu Cheng, Dongguan, PRC. Such parcel of land with a site area of 66,365 sq.m. was purchased in 1993 on which 19,203 sq.m. of the site area have been utilized by the Group since 1994 to construct factory buildings. The remaining 47,162 sq.m. of site area will be further developed by the Group to relocate the production workshops, offices, staff quarters and other facilities of Dong Hua.

5. FINANCIAL EFFECT OF THE COMPENSATION

With reference to the unaudited account of the Group for the six months ended 30th June, 2007, the net book value of the Land and the Plants were approximately RMB257,000 (equivalent to approximately HK\$265,000) and approximately RMB23.5 million (equivalent to approximately HK\$24.2 million) as at 30th June, 2007 respectively. It is estimated that the Compensation will result in a book profit of approximately RMB52.3 million (equivalent to approximately HK\$53.8 million) with reference to the net book value of the Land and the Plants as at 30th June, 2007 (before expenses).

The Directors are of the opinion that the relocation would not have any material adverse impact on the business operation of the Group.

6. USE OF PROCEEDS

The proceeds from the Compensation will be entirely used as the construction of new factories and replacement of machineries.

LETTER FROM THE BOARD

7. GENERAL

The transaction contemplated under the Compensation Agreement constitutes a discloseable transaction for the Company under the Listing Rules.

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

Yours faithfully,
For and on behalf of the Board of
Cosmos Machinery Enterprises Limited
TANG To
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company (the “Chief Executive”) in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong (the “SFO”)) as recorded in the register of directors’ and chief executive’s interests and short positions required to be maintained under section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), to be notified to the Company and the Stock Exchange are as follows:

(a) Interests in the Shares

Name of Directors	Number of shares held				Total	Approximate % of total issued shares of the Company
	Personal interests	Family interests	Corporate interests	Other interests		
Tang To	2,970,000	2,000 <i>(Note 2)</i>	300,617,458 <i>(Note 1)</i>	224,000 <i>(Note 3)</i>	303,813,458	42.79
Wong Yiu Ming	11,696,072	–	–	–	11,696,072	1.65
Tang Kwan	–	297,157,052 <i>(Note 4)</i>	–	–	297,157,052	41.85
Kan Wai Wah	136,400	–	–	–	136,400	0.02
Cheng Tak Yin	1,716,000	–	–	4,400	1,720,400	0.24

Notes:

- As at the Latest Practicable Date, 3,460,406 Shares of those 300,617,458 Shares were held by Ginta Company Limited (“Ginta”) which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang and 50% by his spouse. Mr. Tang was deemed to be interested in the remaining 297,157,052 Shares of those 300,617,458 Shares under the SFO through his deemed interests in Codo Development Limited (“Codo”).

As at the Latest Practicable Date, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited (“Cosmos Holdings”) and Tai Shing Agencies Limited (“Tai Shing”), was deemed to be interested in 297,157,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust, (ii) 8.37% by Elegant Power Enterprises Limited (“Elegant Power”); (iii) 30.25% by Friendchain Investments Limited (“Friendchain”), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.

- As at the Latest Practicable Date, 2,000 Shares were held by the spouse of Mr. Tang.
- As at the Latest Practicable Date, 224,000 Shares were jointly held by Mr. Tang and his spouse.
- As at the Latest Practicable Date, Mr. Tang Kwan was deemed to be interested in the block of 297,157,052 Shares under the SFO through his deemed interests in Codo Development Limited (“Codo”). As at the Latest Practicable Date, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan’s family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.
- All shareholding positions stated above are in long position.

(b) Interests in Share Options

Name of directors	Capacity	Number of Options held	Number of Underlying shares	Approximate % of total issued shares of the Company
Wong Yiu Ming	Beneficial owner	2,000,000	2,000,000	0.28
Yan Wing Fai Richard	Beneficial owner	1,600,000	1,600,000	0.23
Li Tin Loi	Beneficial owner	1,600,000	1,600,000	0.23

All shareholding positions stated above are in long position. The percentage shown was calculated based on the number of issued shares of the Company as at the Latest Practicable Date of 710,022,692 shares.

As at the Latest Practicable Date, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Company and its subsidiaries.

As at the Latest Practicable Date, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at Latest Practicable Date, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

Name of Substantial Shareholder	Number of shares held			Approximate % of total issued shares of the Company
	Direct Interests	Deemed Interests	Total	
Law Kit Fong	–	297,157,052 <i>(Note 1)</i>	297,157,052	41.85
Codo	–	297,157,052 <i>(Note 2)</i>	297,157,052	41.85
Cosmos Holdings	127,052,600	170,104,452 <i>(Note 3)</i>	297,157,052	41.85
Tai Shing	170,104,452	–	170,104,452	23.96
Saniwell Holding Inc.	–	297,157,052 <i>(Note 4)</i>	297,157,052	41.85
China Resources (Holdings) Company Limited	169,649,046 <i>(Note 5)</i>	–	169,649,046	23.89

Notes:

1. Ms. Law Kit Fong is deemed to be interested in the block of 297,157,052 Shares through her direct and indirect interests in Elegant Power and Codo. As at the Latest Practicable Date, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 Shares. As at the Latest Practicable Date, Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).
2. As at the Latest Practicable Date, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 30th June, 2007, Codo is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power, which is wholly-owned by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.
3. Cosmos Holdings was deemed to be interested in 170,104,452 Shares through its subsidiary, Tai Shing.
4. As at the Latest Practicable Date, Saniwell Holding Inc. was deemed to be interested in the block of 297,157,052 Shares under the SFO through its deemed interests in Codo. Codo is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.
5. As shown by the latest interest disclosure information maintained pursuant to Part XV of the SFO provided to the Company by China Resources Corporation, China Resources Co., Limited and CRC Bluesky Limited, the above three companies were deemed to be interested in shares owned by China Resources (Holdings) Company Limited.

All shareholding positions stated above are in long position. The percentage shown was calculated based on the number of issued shares of the Company as at the Latest Practicable Date of 710,022,692 shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

4. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2006, being the date to which the latest published audited financial statements of the Group were made up.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against either the Company or any of its subsidiaries.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

8. MISCELLANEOUS

- (i) The qualified accountant of the Company is Mr. Ho Kwong Sang, who is a Certified Public Accountant and a Chartered Certified Accountant of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants respectively.
- (ii) The joint company secretaries of the Company are Mr. Ho Kwong Sang and Ms. Tam Pui Ling who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (iii) The share registrar of the Company in Hong Kong is Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The registered office of the Company is at 8th Floor, Tai Tung Industrial Building, 29-33 Tsing Yi Road, Tsing Yi Island, New Territories, Hong Kong.
- (v) In case of inconsistency, the English text of this circular shall prevail over its Chinese text.