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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Cosmos Machinery Enterprises Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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VERY SUBSTANTIAL DISPOSAL

Financial Adviser

AMASSE CAPITAL
寶 積 資 本

A notice convening the EGM to be held at Units 1217-1223A, 12/F., Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong on Wednesday, 29th May, 2013 at 9:30 a.m is set out on pages 48 to 50 of this circular. An ordinary resolution will be proposed at the EGM to consider and, if thought fit, to approve amongst others the SPA-A and SPA-B. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the registered office of the Company, at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

10th May, 2013

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 10th April, 2013 in respect of the Disposal
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	Cosmos Machinery Enterprises Limited, a company incorporated in Hong Kong with limited liability, whose securities are listed on the Stock Exchange
“Directors”	the directors of the Company
“Disposal”	the disposal of 4,700 and 121 ordinary shares of the Disposal Company in accordance with the SPA-A and SPA-B respectively
“Disposal Company”	Hon Kiu Machine Factory Limited, a company incorporated in Hong Kong with limited liability
“Disposal Group”	Disposal Company and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be held at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong on Wednesday, 29th May, 2013 at 9:30 a.m. for the purpose of considering and, if thought fit, approving, among other things, the SPA-A and SPA-B, and the transactions contemplated thereunder respectively
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a party and, if applicable, the ultimate beneficial owner of the party who is not fallen into the definition of connected persons of the Company under Chapter 14A of the Listing Rules and independent of the connected persons of the Company and their associates (as defined in the Listing Rules)

DEFINITIONS

“Latest Practicable Date”	6th May, 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	31st May, 2013 (or such other date as the Vendor and the Purchaser A and/or Purchaser B may agree)
“PRC”	the People’s Republic of China
“Purchaser A”	北京首赫投資有限責任公司(Beijing Sunbeway Investment Co., Ltd*), incorporated in the PRC with limited liability
“Purchaser B”	北京金源益通商貿有限公司(Beijing Jin Yuan Yi Tong Trading Co., Ltd*), incorporated in the PRC with limited liability
“Registrar”	the Company’s share registrar, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Remaining Group”	the Group immediately after completion of SPA-A and SPA-B
“SPA-A”	the conditional sale and purchase agreement dated 9th April, 2013 entered into between, among others, the Vendor and Purchaser A in relation to the sale and purchase of 4,700 ordinary shares of the Disposal Company
“SPA-B”	the conditional sale and purchase agreement dated 9th April, 2013 entered into between, among others, the Vendor and Purchaser B in relation to the sale and purchase of 121 ordinary shares of the Disposal Company
“Shareholders”	holders of Shares
“Share(s)”	ordinary share(s) of HK\$0.40 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Fair Friend (Hong Kong) Enterprise Co., Limited, incorporated in Hong Kong with limited liability and a directly wholly-owned subsidiary of the Group

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“%”	per cent.

Unless specified otherwise, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.253. 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.

* *The English names of Purchaser A and Purchaser B are for identification purpose only.*

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:

Mr. Tang To (*Chairman*)
Mr. Wong Yiu Ming
Mr. Jiang Wei
Mr. Tang Yu, Freeman

Registered and head office:

Units 1217-1223A
12th Floor, Trade Square
No. 681 Cheung Sha Wan Road
Kowloon
Hong Kong

Non-Executive Directors

Mr. Wu Ding (*Vice Chairman*)
Mr. Kan Wai Wah
Mr. Qu Jinping

Independent Non-Executive Directors:

Ms. Yeung Shuk Fan
Mr. Cheng Tak Yin
Mr. Ho Wei Sem
Mr. Huang Zhi Wei

10th May, 2013

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL

INTRODUCTION

Reference is made to the Announcement in respect of the Disposal.

THE DISPOSAL

On 9th April, 2013 (after trading hours of the Stock Exchange), the Vendor, a directly wholly-owned subsidiary of the Company, entered into the SPA-A and SPA-B with Purchaser A and Purchaser B respectively.

LETTER FROM THE BOARD

The SPA-A

Date: 9th April, 2013

Parties

Vendor: Fair Friend (Hong Kong) Enterprise Co., Limited

Purchaser: 北京首赫投資有限責任公司 (Beijing Sunbeway Investment Co., Ltd*)

To the best knowledge, information and belief of the Directors having made all reasonable enquiry and so far as the Directors are aware, Purchaser A and its ultimate beneficial owner(s) are Independent Third Parties.

Assets disposed

4,700 ordinary shares of the Disposal Company, representing 47% of the issued share capital of the Disposal Company.

Consideration

The consideration for the 4,700 ordinary shares of the Disposal Company is in aggregate RMB455,430,000 (equiv. to HK\$570,653,790).

The consideration will be satisfied by the Purchaser as to:–

- (i) RMB91,086,000 (equiv. to HK\$114,130,758) as refundable deposit in cash payable within 2 Business Days of the SPA-A; and
- (ii) RMB364,344,000 (equiv. to HK\$456,523,032) in cash payable upon completion.

The deposit (without interest) shall be refunded by the Vendor to the Purchaser A within 3 Business Days after the termination of the SPA-A.

Conditions precedent

Completion of the SPA-A is conditional upon, among other things, the satisfaction of certain conditions precedent, including the following:

- (a) the approval of the SPA-A by Shareholders at the EGM;
- (b) Purchaser A having completed and being satisfied with the results of its due diligence review on the legal, financial and business aspects of the Disposal Company; and

* For identification purpose only

LETTER FROM THE BOARD

- (c) Purchaser A (together with its concert parties) to file relevant submissions to the China Securities Regulatory Commission and/or Shenzhen Stock Exchange, and notify Shenzhen Haoningda Meters Co., Ltd within 3 days from the date of the SPA-A.

The above conditions precedent are required to be fulfilled on or before the Long Stop Date unless extended by both parties. Condition (a) cannot be waived by either party to the SPA-A. As at the Latest Practicable Date, condition (b) and (c) were fulfilled.

Pursuant to the SPA-A, in the case that the settlement of the consideration under the SPA-A by Purchaser A could not be made within 10 Business Days after the fulfillment of the conditions precedent owing to the lengthy administrative approval procedures, Purchaser A could assign its rights under the SPA-A to another purchaser, who must be an Independent Third Party, with sufficient financial resources for such settlement.

The SPA-B

Date: 9th April, 2013

Parties

Vendor: Fair Friend (Hong Kong) Enterprise Co., Limited

Purchaser: 北京金源益通商貿有限公司(Beijing Jin Yuan Yi Tong Trading Co., Ltd*)

To the best knowledge, information and belief of the Directors having made all reasonable enquiry and so far as the Directors are aware, Purchaser B and its ultimate beneficial owner(s) are Independent Third Parties.

Assets disposed

121 ordinary shares of the Disposal Company, representing 1.21% of the issued share capital of the Disposal Company.

Consideration

The consideration for the 121 ordinary shares of the Disposal Company is in aggregate RMB11,724,900 (equiv. to HK\$14,691,300).

The consideration will be satisfied by the Purchaser as to:–

- (i) RMB2,344,980 (equiv. to HK\$2,938,260) as refundable deposit in cash payable within 2 Business Days of the SPA-B; and
- (ii) RMB9,379,920 (equiv. to HK\$11,753,040) in cash payable upon completion.

The deposit (without interest) shall be refunded by the Vendor to the Purchaser B within 3 Business Days after the termination of the SPA-B.

* For identification purpose only

LETTER FROM THE BOARD

Conditions precedent

Completion of the SPA-B is conditional upon, among other things, the satisfaction of certain conditions precedent, including the following:

- (a) the approval of the SPA-B by Shareholders at the EGM;
- (b) Purchaser B having completed and being satisfied with the results of its due diligence review on the legal, financial and business aspects of the Disposal Company; and
- (c) Purchaser B (together with its concert parties) to file relevant submissions to the China Securities Regulatory Commission and/or Shenzhen Stock Exchange, and notify Shenzhen Haoningda Meters Co., Ltd within 3 days from the date of the SPA-B.

The above conditions precedent are required to be fulfilled on or before the Long Stop Date unless extended by both parties. Condition (a) cannot be waived by either party to the SPA-B. As at the Latest Practicable Date, condition (b) and (c) were fulfilled.

Pursuant to the SPA-B, in the case that the settlement of the consideration under the SPA-B by Purchaser B could not be made within 10 Business Days after the fulfillment of the conditions precedent owing to the lengthy administrative approval procedures, Purchaser B could assign its rights under the SPA-B to another purchaser, who must be an Independent Third Party, with sufficient financial resources for such settlement.

Completion of SPA-A and SPA-B are not inter-conditional to each other. However, considering the disparity in transaction sizes, it is the discretion decision of the Board to combine both the SPA-A and SPA-B to be approved by the Shareholders in one resolution to be proposed at the EGM. Neither SPA-A nor SPA-B will be completed on a standalone basis if the combined resolution to approve both the SPA-A and SPA-B could not be passed at the EGM.

INFORMATION OF THE GROUP, THE VENDOR, PURCHASER A, PURCHASER B AND THE DISPOSAL COMPANY

The Group is principally engaged in manufacturing and sale of plastic injection moulding machine; manufacturing, processing and sale of plastic products; trading of industrial consumables; and in the printed circuit board business.

The Vendor is an investment holding company and directly wholly-owned by the Company.

Purchaser A is principally engaged in projects investment, investment management, project management, sale of chemical products, machineries, communication equipments, natural resource and electronic products, etc.

Purchaser B is principally engaged in import and export of products, sale of chemical products, machineries, electronic products and accessories of vehicles, etc.

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The Disposal Company is an investment holding company holding 51,000,000 shares (representing 63.75%) of Shenzhen Haoningda Meters Co., Ltd, which is a joint stock limited company in the PRC and whose shares are listed on the Shenzhen Stock Exchange. The Disposal Company is currently held as to (i) 49.4% by the Vendor; (ii) 17.6% by Silver International Investment Limited; (iii) 16.5% by Mr. Or Leung Chit; and (iv) 16.5% by Mr. Wang Rongan. Upon completion of both SPA-A and SPA-B, the Disposal Company will be held as to (i) 47.0% by Purchaser A; (ii) 1.21% by Purchaser B; (iii) 1.19% by the Vendor; (iv) 17.6% by Silver International Investment Limited; (v) 16.5% by Mr. Or Leung Chit; and (vi) 16.5% by Mr. Wang Rongan. To the best knowledge, information and belief of the Directors having made all reasonable enquiry and so far as the Directors are aware, each of Silver International Investment Limited (together with its ultimate beneficial owner), Mr. Or Leung Chit and Mr. Wang Rongan is an Independent Third Party.

Shenzhen Haoningda Meters Co., Ltd has been focusing on the fields of electrical instrumentation, microelectronics and components over the years. It is a national high-tech enterprise which incorporates research, development, production, sales and services. It concentrates on the research and development and production of intelligent energy metering instrumentation products, meter reading system and energy metering automated management system.

Financial information on the Disposal Company

The Disposal Company is an investment holding company. There is no consolidation account being prepared for the Disposal Group.

The audited net asset value of the Disposal Company (at company-level) was approximately HK\$6 million as at 31st December, 2012, representing the original cost of its investment in Shenzhen Haoningda Meters Co., Ltd. of approximately of HK\$12 million since 1998 and the corresponding shareholder's loan of approximately HK\$6 million drawn for the same investment since 1998. The audited net profits before and after taxation and extraordinary items of the Disposal Company for the year ended 31st December, 2011 was approximately HK\$17 million. The audited net profits before and after taxation and extraordinary items of the Disposal Company for the year ended 31st December, 2012 was approximately HK\$11 million. These net profits represented mainly the dividend incomes from Shenzhen Haoningda Meters Co., Ltd.

Based on the published annual report of Shenzhen Haoningda Meters Co., Ltd for the year ended 31st December, 2012, which was prepared based on general accepted accounting principles in the PRC, the following financial information are extracted for information purposes. The auditor of the Company confirms that there is no material difference between the general accepted accounting principles in the PRC and the Hong Kong Financial Reporting Standards.

The audited net assets of Shenzhen Haoningda Meters Co., Ltd as at 31st December, 2012 was approximately RMB936 million (equiv. to approximately HK\$1,173 million).

LETTER FROM THE BOARD

The audited net profits before and after taxation and extraordinary items of Shenzhen Haoningda Meters Co., Ltd for each of the two years ended 31st December, 2012 and 2011 are set out below:

	Year ended 31st December,	
	2012	2011
Net profit before taxation and extraordinary items	RMB28.7 million (equiv. to HK\$36.0 million)	RMB25.9 million (equiv. to HK\$32.5 million)
Net profit after taxation and extraordinary items	RMB20.2 million (equiv. to HK\$25.3 million)	RMB22.4 million (equiv. to HK\$28.1 million)

BASIS OF THE CONSIDERATION

The consideration under both SPA-A and SPA-B were arrived at after arm's length negotiations between the Vendor and Purchaser A and Purchaser B respectively, with reference to:-

- (i) the net asset value of Shenzhen Haoningda Meters Co., Ltd and the proportionate net asset value attributable to the Disposal Company of approximately RMB597 million (equiv. to HK\$748 million). Accordingly, the attributable value to the 48.21% share of the net asset value of the Disposal Company under the Disposal is approximately RMB288 million (equiv. to HK\$361 million). Therefore, the aggregate considerations under SPA-A and SPA-B represents a premium of approximately 62% to the attributable value derived above;
- (ii) the aggregate market value of the 51,000,000 shares of Shenzhen Haoningda Meters Co., Ltd of RMB1,065 million (equiv. to HK\$1,334 million) owned by the Disposal Company with reference to its closing share price of RMB20.88 per share on the date of both the SPA-A and SPA-B. Accordingly, the attributable value to the aggregate equity interest (48.21%) in the Disposal Company under the Disposal is approximately RMB513 million (equiv. to HK\$643 million). Therefore, the aggregate considerations under SPA-A and SPA-B represents a discount of approximately 9% to the attributable value derived above;
- (iii) the Group's position as a non-controlling shareholder in the Disposal Company which was regarded as non-core business to the Group;
- (iv) the expectation that a direct disposal in the A-Share market will create an adverse impact on the share price of Shenzhen Haoningda Meters Co., Ltd which is therefore not considered by the Directors as a desirable way to do so; and
- (v) the inability of the Group to exert absolute control over the Disposal Company to effectuate any disposal of the shares of Shenzhen Haoningda Meters Co., Ltd in the A-Share market.

LETTER FROM THE BOARD

Therefore, given the fluctuation in the A-Share market, the uncertainty in the share price of Shenzhen Haoningda Meters Co., Ltd if its shares be disposal in the market directly, and the uncertainty in the timing and ability in executing a direct disposal in the market, the Directors consider the discount of approximately 9 % to the attributable market value derived in (ii) above be fair and reasonable.

The Directors consider the overall terms of SPA-A and SPA-B are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

REASONS FOR THE DISPOSAL

As the Disposal Company is only an associate company within the Group and is thus not regarded as core business of the Group, the Group will still maintain its existing principal businesses as disclosed above after completion of the Disposal.

The Directors consider that the Disposal could allow the Group to focus its resources, apply the proceeds from the Disposal on its principal businesses and improve the financial strength of the Group which would be in the interest of the Company and Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

Since Purchaser A and Purchaser B only offered to purchase in aggregate of 48.21% equity interest in the Disposal Company, upon completion of SPA-A and SPA-B, the Vendor's equity interest in the Disposal Company will decrease from 49.4% to 1.19%. The Company will continue to hold the remaining 1.19% equity interest in the Disposal Company and will treat it as an available-for-sale financial asset in the consolidated financial statements of the Company.

The actual financial effect from the Disposal and to be accounted for in the consolidated financial statements of the Company for the financial year ending 31st December, 2013 will be computed basing on the financial information of the Disposal Group as at completion of both the SPA-A and SPA-B and which is subject to audit.

For illustrative purposes, there is an estimated gain of approximately HK\$208 million arising on the Disposal based on the considerations under SPA-A and SPA-B, the commission expense of approximately HK\$17.2 million payable to an introducing agent, an Independent Third Party, legal and professional fee of approximately HK\$4.8 million, and the carrying value of the Group's investment in the Disposal Group of approximately HK\$355 million. The Disposal is expected to increase the consolidated assets while it has no effect on the consolidated liabilities of the Group.

The proceeds from the Disposal will be used for general working capital purposes.

IMPLICATIONS OF THE DISPOSAL UNDER THE LISTING RULES

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements. According to the Listing Rules, any Shareholder and his/her/its

LETTER FROM THE BOARD

associate(s) with a material interest in the Disposal are required to abstain from voting on the resolution in respect of the Disposal at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquires, no shareholder of the Company is required to abstain from voting for the resolution to be proposed at the EGM to approve the SPA-A and SPA-B.

EGM

A notice convening the EGM to be held at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong on Wednesday, 29th May, 2013 at 9:30 a.m. is set out on pages 48 to 50 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the registered office of the Company at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the EGM or the adjourned meeting thereof (as the case may be). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be).

RECOMMENDATION

The Board considers that the terms of both the SPA-A and SPA-B contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to approve both the SPA-A and SPA-B (and the transactions contemplated thereunder) at the EGM.

As completion of both SPA-A and SPA-B are subject to the fulfillment of certain conditions precedent, the issue of this circular should not be regarded in any way as implying that the Disposal will be completed. Therefore, the Shareholders and investors in general should exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

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

Yours faithfully
By Order of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

1. FINANCIAL STATEMENTS OF THE GROUP AND DISPOSAL GROUP

Set out below are consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group for the years ended 31st December, 2010, 2011 and 2012 under the Listing Rules 14.68(2)(a)(i)(B), which have been reviewed by an independent auditor, Cheng & Cheng Limited, in accordance with Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December,		
	2012	2011	2010
	HK\$'000	HK\$'000	HK\$'000
Turnover	2,121,595	2,416,690	2,426,658
Cost of sales	(1,757,903)	(2,016,014)	(1,994,388)
Gross profit	363,692	400,676	432,270
Other income and gains, net	23,620	31,849	16,166
Distribution costs	(138,863)	(140,354)	(130,039)
Administrative expenses	(241,614)	(222,805)	(199,935)
Other operating expenses	–	–	(636)
Allowance for impairment of bad and doubtful debts	(4,718)	(9,609)	(12,552)
Profit from operations	2,117	59,757	105,274
Finance costs	(19,399)	(23,148)	(13,760)
Investment income, net	4,139	3,575	4,943
Gain on deregistration of a subsidiary	–	–	454
Gain on dilution of interest in an associate	155	–	200,670
Gain on disposal of an associate	–	–	87
Share of results of associates	10,127	9,481	13,059
(Loss) Profit before taxation	(2,861)	49,665	310,727
Taxation	(10,277)	(15,152)	(13,349)
(Loss) Profit for the year	(13,138)	34,513	297,378

	Year ended 31st December,		
	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
– Equity shareholders of the Company	(24,175)	26,579	275,671
– Non-controlling interests	11,037	7,934	21,707
	<u>(13,138)</u>	<u>34,513</u>	<u>297,378</u>
(Loss) Earnings per share for (loss) profit attributable to the equity shareholders of the Company during the year			
– Basic	(3.37 cents)	3.72 cents	38.82 cents
– Diluted	<u>(3.37 cents)</u>	<u>3.70 cents</u>	<u>38.73 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31st December,		
	2012	2011	2010
	HK\$'000	HK\$'000	HK\$'000
(Loss) Profit for the year	(13,138)	34,513	297,378
Other comprehensive income for the year, net of tax:			
Cash flow hedges	–	6	–
Change in fair value of available-for-sale financial assets	(569)	357	411
Share of other comprehensive (expense) income of associates	(719)	21,366	8,290
Surplus on revaluation of properties held for own use	7,405	5,383	12,196
Exchange differences arising from translation of financial statements of foreign operations	(315)	49,787	17,886
	5,802	76,899	38,783
Total comprehensive (expense) income for the year	<u>(7,336)</u>	<u>111,412</u>	<u>336,161</u>
Attributable to:			
– Equity shareholders of the Company	(18,928)	98,067	311,322
– Non-controlling interests	11,592	13,345	24,839
Total comprehensive (expense) income for the year	<u>(7,336)</u>	<u>111,412</u>	<u>336,161</u>

CONSOLIDATED BALANCE SHEET

	As at 31st December,		
	2012	2011	2010
	HK\$'000	HK\$'000	HK\$'000
Non-current Assets			
Property, plant and equipment	708,834	709,341	531,856
Leasehold land and land use rights	56,392	57,524	34,678
Interests in associates	421,823	414,581	384,692
Available-for-sale financial assets	6,704	7,273	5,085
Deferred tax assets	5,643	4,516	5,352
	<u>1,199,396</u>	<u>1,193,235</u>	<u>961,663</u>
Current Assets			
Inventories	649,602	641,080	605,521
Trade and other receivables	713,699	700,330	754,237
Derivative financial instruments	–	–	591
Current tax recoverable	673	–	587
Pledged bank deposits	53,562	67,015	56,153
Cash and cash equivalents	209,206	227,254	320,836
	<u>1,626,742</u>	<u>1,635,679</u>	<u>1,737,925</u>
Current Liabilities			
Trade and other payables	846,189	844,908	894,401
Amounts due to associates	1,317	1,317	1,317
Derivative financial instruments	–	–	597
Bank and other borrowings			
– due within one year	355,772	341,207	284,519
Obligations under finance leases			
– due within one year	15,903	14,545	7,246
Current tax payable	5,601	5,248	7,079
	<u>1,224,782</u>	<u>1,207,225</u>	<u>1,195,159</u>
Net Current Assets	<u>401,960</u>	<u>428,454</u>	<u>542,766</u>
Total Assets less Current Liabilities	<u>1,601,356</u>	<u>1,621,689</u>	<u>1,504,429</u>

	As at 31st December,		
	2012	2011	2010
	HK\$'000	HK\$'000	HK\$'000
Non-current Liabilities			
Bank and other borrowings			
– due after one year	–	160	152
Obligations under finance leases			
– due after one year	15,277	24,609	3,301
Deferred tax liabilities	8,177	6,460	7,216
	<u>23,454</u>	<u>31,229</u>	<u>10,669</u>
Total Non-current Liabilities	23,454	31,229	10,669
Net Assets	<u>1,577,902</u>	<u>1,590,460</u>	<u>1,493,760</u>
Equity			
Capital and reserves attributable to the Company's equity shareholders:			
Share capital	286,772	286,772	284,412
Reserves	1,092,165	1,111,097	1,015,214
Proposed final dividend	–	3,585	10,689
	<u>1,378,937</u>	<u>1,401,454</u>	<u>1,310,315</u>
Non-controlling interests	198,965	189,006	183,445
	<u>1,577,902</u>	<u>1,590,460</u>	<u>1,493,760</u>
Total Equity	<u>1,577,902</u>	<u>1,590,460</u>	<u>1,493,760</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company												Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share options reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Hedging reserve HK\$'000	Others HK\$'000	Proposed final dividend HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	
Balance at 1st January, 2010	283,972	244,118	37	-	18,694	89,869	(6)	(1,673)	-	365,050	1,000,061	166,840	1,166,901
Profit for the year	-	-	-	-	-	-	-	-	-	275,671	275,671	21,707	297,378
Other comprehensive income for the year:													
Fair value gains:													
- Available-for-sale financial assets	-	-	-	-	-	-	-	411	-	-	411	-	411
Share of reserves of associates	-	-	-	-	-	8,290	-	-	-	-	8,290	-	8,290
Surplus on revaluation of properties held for own use	-	-	-	-	12,051	-	-	-	-	-	12,051	1,961	14,012
Deferred taxation adjustment	-	-	-	-	(1,660)	-	-	-	-	-	(1,660)	(156)	(1,816)
Deemed acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	744	-	-	744	(744)	-
Exchange differences arising from translation of financial statements of foreign operations	-	-	-	-	-	15,815	-	-	-	-	15,815	2,071	17,886
Total other comprehensive income for the year	-	-	-	-	10,391	24,105	-	1,155	-	-	35,651	3,132	38,783
Total comprehensive income for the year	-	-	-	-	10,391	24,105	-	1,155	-	275,671	311,322	24,839	336,161
Transactions with owners:													
Realised on liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(712)	(712)
Realised on liquidation of an associate	-	-	-	-	-	(89)	-	-	-	-	(89)	-	(89)
Realised on dilution of interest in an associate	-	-	-	-	-	(2,241)	-	-	-	-	(2,241)	-	(2,241)
Recognition on grant of share options	-	-	-	536	-	-	-	-	-	-	536	-	536
Shares issued upon exercise of share options	440	311	-	(25)	-	-	-	-	-	-	726	-	726
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(7,522)	(7,522)
Proposed final dividend	-	-	-	-	-	-	-	-	10,689	(10,689)	-	-	-
Balance at 31st December, 2010	284,412	244,429	37	511	29,085	111,644	(6)	(518)	10,689	630,032	1,310,315	183,445	1,493,760

APPENDIX I
**FINANCIAL INFORMATION OF THE GROUP
AND DISPOSAL GROUP**

	Attributable to equity shareholders of the Company											Total equity HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share options reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Hedging reserve HK\$'000	Others HK\$'000	Proposed final dividend HK\$'000	Retained profits HK\$'000	Total HK\$'000		Non- controlling interests HK\$'000
Balance at 1st January, 2011	284,412	244,429	37	511	29,085	111,644	(6)	(518)	10,689	630,032	1,310,315	183,445	1,493,760
Profit for the year	-	-	-	-	-	-	-	-	-	26,579	26,579	7,934	34,513
Other comprehensive income for the year:													
Fair value gains:													
- Available-for-sale financial assets	-	-	-	-	-	-	-	357	-	-	357	-	357
Share of reserves of associates	-	-	-	-	-	21,366	-	-	-	-	21,366	-	21,366
Surplus on revaluation of properties held for own use	-	-	-	-	5,135	-	-	-	-	-	5,135	705	5,840
Deferred taxation adjustment	-	-	-	-	(346)	-	-	-	-	-	(346)	(111)	(457)
Cash flow hedges	-	-	-	-	-	-	6	-	-	-	6	-	6
Exchange differences arising from translation of financial statements of foreign operations	-	-	-	-	-	44,970	-	-	-	-	44,970	4,817	49,787
Total other comprehensive income for the year	-	-	-	-	4,789	66,336	6	357	-	-	71,488	5,411	76,899
Total comprehensive income for the year	-	-	-	-	4,789	66,336	6	357	-	26,579	98,067	13,345	111,412
Transactions with owners:													
Realised on disposal of properties held for own use	-	-	-	-	(1,889)	-	-	-	-	1,889	-	-	-
Shares issued upon exercise of share options	2,360	1,665	-	(131)	-	-	-	-	-	-	3,894	-	3,894
Changes in the ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	(32)	-	(84)	-	-	(116)	375	259
Dividend paid to the non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(8,609)	(8,609)
2010 final dividend paid	-	-	-	-	-	-	-	-	(10,689)	(17)	(10,706)	-	(10,706)
Capital injection from the non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	450	450
Proposed final dividend	-	-	-	-	-	-	-	-	3,585	(3,585)	-	-	-
Balance at 31st December, 2011	286,772	246,094	37	380	31,985	177,948	-	(245)	3,585	654,898	1,401,454	189,006	1,590,460

APPENDIX I
**FINANCIAL INFORMATION OF THE GROUP
AND DISPOSAL GROUP**

	Attributable to equity shareholders of the Company												
	Share capital	Share premium	Capital redemption reserve	Share options reserve	Property revaluation reserve	Translation reserve	Hedging reserve	Others	Proposed final dividend	Retained profits	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January, 2012	286,772	246,094	37	380	31,985	177,948	-	(245)	3,585	654,898	1,401,454	189,006	1,590,460
Loss for the year	-	-	-	-	-	-	-	-	-	(24,175)	(24,175)	11,037	(13,138)
Other comprehensive income for the year:													
Fair value loss:													
- Available-for-sale financial assets	-	-	-	-	-	-	-	(569)	-	-	(569)	-	(569)
Share of reserves of associates	-	-	-	-	-	(719)	-	-	-	-	(719)	-	(719)
Surplus on revaluation of properties held for own use	-	-	-	-	8,092	-	-	-	-	-	8,092	697	8,789
Deferred taxation adjustment	-	-	-	-	(1,263)	-	-	-	-	-	(1,263)	(121)	(1,384)
Exchange differences arising from translation of financial statements of foreign operations	-	-	-	-	-	(294)	-	-	-	-	(294)	(21)	(315)
Total other comprehensive income for the year	-	-	-	-	6,829	(1,013)	-	(569)	-	-	5,247	555	5,802
Total comprehensive income for the year	-	-	-	-	6,829	(1,013)	-	(569)	-	(24,175)	(18,928)	11,592	(7,336)
Transactions with owners:													
Realised on dilution of interest in an associate	-	-	-	-	-	(4)	-	-	-	-	(4)	-	(4)
Dividend paid to the non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,633)	(1,633)
2011 final dividend paid	-	-	-	-	-	-	-	-	(3,585)	-	(3,585)	-	(3,585)
Balance at 31st December, 2012	286,772	246,094	37	380	38,814	176,931	-	(814)	-	630,723	1,378,937	198,965	1,577,902

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31st December,		
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Profit from operations	2,117	59,757	105,274
Adjustments for:			
Depreciation of property, plant and equipment	76,177	67,601	53,497
Amortisation of leasehold land and land use rights	1,469	882	704
Deficit on revaluation of properties held for own use	91	–	–
Impairment losses on goodwill	–	–	100
Share-based payments	–	–	536
Loss on disposal of property, plant and equipment and leasehold land and land use rights	1,700	239	5,172
Allowance for impairment of bad and doubtful debts	4,718	9,609	12,552
Write-down of inventories	2,538	5,778	13,039
	<hr/>	<hr/>	<hr/>
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	88,810	143,866	190,874
Increase in inventories	(11,218)	(15,083)	(88,220)
(Increase) Decrease in trade and other receivables	(19,645)	82,547	(89,518)
Increase (Decrease) in trade and other payables	3,252	(94,003)	215,665
	<hr/>	<hr/>	<hr/>
Cash generated from operations	61,199	117,327	228,801
Hong Kong profits tax paid	(2,551)	(407)	(1,005)
Overseas tax paid	(8,851)	(16,900)	(10,660)
	<hr/>	<hr/>	<hr/>
NET CASH GENERATED FROM OPERATING ACTIVITIES	49,797	100,020	217,136
	<hr/>	<hr/>	<hr/>

	Year ended 31st December,		
	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
INVESTING ACTIVITIES			
Amounts advanced from associates	–	–	59,499
Increase in pledged bank deposits	13,436	(7,579)	(13,870)
Acquisition of a subsidiary	–	–	(100)
Capital contribution to associates	–	(544)	–
Purchase of an available-for-sale financial asset	–	(1,831)	–
Purchase of property, plant and equipment and leasehold land and land use rights	(70,077)	(214,716)	(198,107)
Proceeds from liquidation of an associate	–	–	1,362
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	7,716	10,418	7,722
Proceeds from changes in the ownership interests in subsidiaries	–	259	–
Interest received	4,126	3,555	2,385
Dividend received from associates	6,283	6,634	14,572
Dividend received from listed available-for-sale financial asset	13	20	–
Dividend received from an available-for-sale financial asset	–	–	2,558
NET CASH USED IN INVESTING ACTIVITIES	(38,503)	(203,784)	(123,979)
FINANCING ACTIVITIES			
Repayment of bank loans	(461,926)	(179,731)	(194,564)
Interest paid	(19,399)	(23,148)	(13,760)
Repayment of obligations under finance leases	(14,873)	(9,959)	(11,238)
Dividend paid to non-controlling shareholders of subsidiaries	(1,633)	(8,610)	(7,522)
Dividend paid	(3,585)	(10,706)	–
Bank loans raised	446,504	233,218	211,159
Capital injection by non-controlling shareholders	–	450	–
Amounts advanced to associates	(3,967)	(5,132)	(51,946)

	Year ended 31st December,		
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
FINANCING ACTIVITIES			
Proceeds from issue of shares	–	3,894	726
	<hr/>	<hr/>	<hr/>
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(58,879)	276	(67,145)
	<hr/>	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(47,585)	(103,488)	26,012
	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	220,470	310,733	282,728
	<hr/>	<hr/>	<hr/>
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(323)	13,225	1,993
	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	172,562	220,470	310,733
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

1. GENERAL

Cosmos Machinery Enterprises Limited (the “Company”) is a public limited company domiciled and incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The address of its registered office is Units 1217-1223A, 12/F., Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong. The Company and its subsidiaries (the “Group”) are principally engaged in manufacturing and sale of plastic injection moulding machine; manufacturing, processing and sale of plastic products; trading of industrial consumables; and in the printed circuit board business.

The Financial Information is presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Group.

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The financial information of the Group has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purpose of inclusion in the circular to be issued by the Company in connection with the Disposal. The amounts included in the financial information for each of the years ended 31st December, 2010, 2011 and 2012 have been recognised and measured in accordance with the relevant accounting policies of the Group adopted in the preparation of its consolidated financial statements, which conform with the Hong Kong Financial Reporting Standards issued by the HKICPA.

The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for each of the three years ended 31st December, 2010, 2011 and 2012 include the results, changes in equity and cash flows of the Group throughout the three years ended 31st December, 2010, 2011 and 2012.

The consolidated balance sheet of the Group at 31st December, 2010, 2011 and 2012 include assets, liabilities and equity of the Group which were in existence on those dates.

3. THE DISPOSAL EVENTS AFTER THE REPORT PERIOD

On 9th April, 2013, the Vendor and Purchaser A entered into the SPA-A, pursuant to which Purchaser A conditionally agreed to purchase from the Vendor, and the Vendor conditionally agreed to sell to Purchaser A, 4,700 ordinary shares of the Disposal Company, representing 47% of the issued share capital of the Disposal Company, at a consideration of RMB455,430,000 (equiv. to HK\$570,653,790) which will be satisfied in cash.

On 9th April, 2013, the Vendor and Purchaser B entered into the SPA-B, pursuant to which Purchaser B conditionally agreed to purchase from the Vendor, and the Vendor conditionally agreed to sell to Purchaser B, 121 ordinary shares of the Disposal Company, representing 1.21% of the issued share capital of the Disposal Company, at a consideration of RMB11,724,900 (equiv. to HK\$14,691,300) which will be satisfied in cash.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders’ approval requirements.

Included in the consolidated income statement of the Group are the following results attributable to 48.21% of the Disposal Company (the “Disposal”) for each of the reporting period:

	Year ended 31st December,		
	2012	2011	2010
	HK\$'000	HK\$'000	HK\$'000
Share of results of associates	7,919	7,515	9,488

Included in the consolidated balance sheet of the Group are the following assets and liabilities attributable to the Disposal at the end of each reporting period:

	At 31st December,		
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current assets			
Interests in associates	354,604	352,752	331,186

Included in the consolidated statement of cash flows of the Group are the following statement of cash flows items attributable to the Disposal for each of the reporting period:

	Year ended 31st December,		
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Cash flows from investing activities			
Dividend received	5,370	5,230	14,221
Net cash generated from investing activities	5,370	5,230	14,221
Net increase in cash and cash equivalents	5,370	5,230	14,221

2. INFORMATION AND TRADING PROSPECTS OF THE REMAINING GROUP

As set out in the section headed “FINANCIAL EFFECT OF THE DISPOSAL” in the Letter from the Board in this circular, it is estimated that the Remaining Group would record an accounting gain of approximately HK\$208 million as a result of the Disposal, which is calculated with reference to the considerations under SPA-A and SPA-B, the commission expense of approximately HK\$17.2 million payable to an introducing agent, an Independent Third Party, legal and professional fee of approximately HK\$4.8 million, and the carrying value of the Group’s investment in the Disposal Group of approximately HK\$355 million.

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix II to this circular, the Remaining Group’s total assets and total liabilities as at 31st December, 2012 would become approximately HK\$3,025,770,000 and HK\$1,248,236,000 respectively assuming that the Disposal was completed on 31st December, 2012.

The Company believes that the Disposal would represent a good opportunity for the Remaining Group to reallocate its resources, including proceeds from the Disposal, for the continuing development of the existing principal businesses of the Remaining Group. In addition, the Disposal will bring in 100% cash consideration which can reduce the relevant bank borrowings of the Remaining Group and thus leading to considerable saving in future finance costs.

For the financial year ended 31st December, 2012, an unstable global economic climate, coupled with the credit crunch that occurred in Europe and America, reverberated throughout the world economy, and confidence crisis rippled over the market. Customers from various industries had to suspend their development of new products or defer their investment plans, which significantly and negatively impacted the Group’s overall businesses. In China, due to the tightening of credit by domestic banks it was difficult for enterprises to raise funds. That combined with high inflation rate, rising operating cost and intense

competition within the industry, the Group's consolidated performance for the financial year ended 31st December, 2012 was not encouraging, and some individual member companies even recorded losses. Nevertheless, other performance indicators of the Group, such as turnover days, repayment capability, and debt ratio remained healthy and stable.

Looking forward, with the central banks of the US, Europe and Japan continuing their monetary easing policies, the overseas market has recently shown a mild sign of recovery. Hence, it is believed that the market may turn active in a mild tone. Nevertheless, the issue of the core problem of the advanced countries has not been truly resolved, sovereign debts have not been effectively controlled, and mishaps of the financial crisis may emerge again anytime. Thus, it is unlikely that we can anticipate any steady recovery in the consumer market. The liquidity that flooded the market is poised to affect the fluctuation of currency exchange rates and commodity prices. The real economy will therefore remain difficult. In view of the domestic market having been in the doldrums for quite a while, the new leadership of the government shall maintain steady and healthy monetary and proactive fiscal policies. Although fund raising has recently been loosened for small and medium enterprises, the Chinese government's concern about the property market bubble has remained unchanged. And they may go further to strictly guard against the resurgence of price inflation. It is therefore foreseen that the government's financial policy may remain to be tight. The country will promote its policy to reform national income distribution. Under this circumstance, labour cost will continue to rise, and the coming year's operating environment will not be easy.

Nevertheless, our nation has clearly been persistent in optimizing the industrial structure. It has actively promoted independent innovation of science and technology, technological upgrade, and has supported enterprises to expedite the deployment of new technology, new material, new techniques and new facilities – in order to enhance market competition. Last year, businesses within the Group spent strenuous effort to research and develop new products, cultivate new customers that require high-end quality, thus fortifying an excellent foundation that has created an opportunity for the Group's various businesses to thrive for good results.

The year 2013 will remain to be a year full of changes. The Remaining Group will therefore continue with its prudence to proactively cope with the situation, to implement steady and healthy financial strategies, to maintain scientific and technological research and development, to increase injection of resources for automated facilities and human resource training, and to seek for opportunity that allow us to concentrate our resources towards the development of various core businesses.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

Set out below is the management discussion and analysis on the Remaining Group for each of the years ended 31st December, 2010, 2011 and 2012 (the "Reporting Periods"). The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the audited consolidated financial statements of the Company for the years ended 31st December, 2010, 2011 and 2012.

Financial review

The Remaining Group reported revenue of approximately HK\$2,427 million, HK\$2,417 million, HK\$2,122 million for each of the years ended 31st December, 2010, 2011 and 2012, respectively. The Remaining Group reported a year-on-year decline of revenue of approximately 0.4% for 2011 and a year on-year decline of revenue of approximately 12.2% for 2012. The gross profit margin of the Remaining Group remained stable at 18%, 17%, 17% for each of the years ended 31st December, 2010, 2011 and 2012, respectively.

Liquidity and financial resources

As at the end of each of the Reporting Periods, the Remaining Group's current assets amounted to HK\$1,737 million, HK\$1,636 million and HK\$1,627 million respectively.

As at the end of each of the Reporting Periods, the Remaining Group's current liabilities amounted to HK\$1,195 million, HK\$1,207 million and HK\$1,225 million respectively.

As at the end of each of the Reporting Periods, the Remaining Group's cash and cash equivalents amounted to HK\$321 million, HK\$227 million and HK\$209 million respectively.

As at the end of each of the Reporting Periods, the Remaining Group's interest bearing borrowings amounted to HK\$295 million, HK\$381 million and HK\$387 million respectively.

As at each of the Reporting Periods, the gearing ratio of the Remaining Group, defined as total liabilities over total assets, remained stable at 45%, 44% and 44% respectively.

Interest-bearing borrowings

As at the end of each of the Reporting Periods, the Remaining Group had the interest-bearing borrowings as follows:

	31st December,		
	2010	2011	2012
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Amounts payable:–			
– Within one year	292	356	372
– Over one year	3	25	15

For the year ended 31st December, 2010, HKD denominated loans amounted for 62% and RMB denominated accounted for 38%.

For the year ended 31st December, 2011, HKD denominated loans amounted for 63% and RMB denominated accounted for 37%.

For the year ended 31st December, 2012, HKD denominated loans amounted for 68% and RMB denominated accounted for 32%.

During each of the Reporting Periods, the Group had no fixed interest rate borrowings.

Foreign Exchange Exposure

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. Foreign exchange risks arising from fluctuation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

Future Plan for Material Investment

During each of the Reporting Periods, the Group has no plan for material investment.

Material Acquisitions or Disposals of Subsidiaries and Associates

On 9th February, 2010, an associate of the Group, Shenzhen Haoningda Meters Co., Ltd (a company incorporated as a joint stock limited company in the PRC) completed its initial public offering of its A shares and commenced the trading on the Shenzhen Stock Exchange. As a result, the Group's effective equity interest in this associate was reduced from 41.99% to 31.50% approximately. Due to dilution of shareholding, the gain on deemed disposal of HK\$200,670,330 had been recognised in the consolidated income statement for the financial year ended 31st December, 2010.

Save as disclosed above, during the Reporting Periods, the Remaining Group neither held any significant non-consolidated investments nor underwent any material acquisitions or disposals of subsidiaries and associates.

Number and Remuneration of Employees

During the Reporting Periods, under the Remaining Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates. Employees are also granted discretionary bonus subject to the individual's performance and business results of the Remaining Group.

The Remaining Group operated a share option scheme for the purpose of providing incentives and rewards to eligible participants including any employees of the Remaining Group. As at the end of each of the Reporting Periods, 19,900,000, 14,000,000 and 14,000,000 share options were outstanding and exercisable at an exercise price of HK\$0.66 per Share, respectively.

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Schemes Ordinance in December 2000. Employees who are employed by subsidiaries in the PRC are members of the state-managed pension scheme operated by the PRC government.

During the Reporting Periods, the total remuneration expenses in respect of the Remaining Group’s employees (including Directors) amounted to approximately HK\$304 million, HK\$349 million and HK\$370 million respectively.

As at the end of each of the Reporting Periods, the total number of employees of the Remaining Group, excluding the associate, was around 6,000, 6,000 and 6,000 respectively.

Capital Commitments

As at the end of each of the Reporting Periods, the Remaining Group’s capital commitments contracted but not provided for amounted to HK\$39 million, HK\$41 million and HK\$29 million respectively. All of these capital commitments were related to construction of factory buildings and acquisition of plant and machinery.

Financial Guarantees and Contingent Liabilities

As at the end of each of the Reporting Periods, the financial guarantees given to financial institutions in respect of credit facilities utilized by a third party was nil, HK\$2 million and nil respectively.

Charge on assets

As at the end of each of the Reporting Periods, assets with the following carrying amounts were pledged by the Group to secure general banking facilities:

	2010	2011	2012
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Buildings	24	28	59
Leasehold land and land use rights	4	5	20
Plant and machinery	37	62	60
Bank deposits	56	67	54
Trade receivable	–	13	–
	<u>121</u>	<u>175</u>	<u>193</u>

4. STATEMENT OF INDEBTEDNESS

As at 31st March, 2013, being the latest practicable date for the purpose of this statement of indebtedness prior the printing of this circular, the Group had the following borrowings:

	<i>Notes</i>	<i>HK\$'million</i>
Bank and other borrowings	1	329
Obligations under finance leases	2	28
		<hr/>
		357
		<hr/> <hr/>

Notes:

1. Bank and other borrowings carried interest ranging from 2.3% to 6.75% per annum and repayable within one year.
2. Obligations under finance leases carried interest ranging from one month HIBOR to 5.75% per annum and repayable within four years.

Disclaimers

Save as disclosed above and apart from intra-group liabilities, as at 31st March, 2013, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that after taking into account the internal financial resources of the Group and the available credit facilities, the Group will have sufficient working capital for at least the next twelve months from the date of this circular.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**Introduction**

The unaudited pro forma financial information of the Remaining Group, comprising the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows, has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal.

Immediately after the Disposal, the Company will continue to hold the remaining 1.19% equity interest in the Disposal Company and will treat it as an available-for-sale financial asset in the consolidated financial statements of the Company. Accordingly, the results of the Disposal Group will no longer be accounted for in the consolidated financial statements of the Group after the completion of the Disposal.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the historical financial information of the Group and other financial information included elsewhere in this circular. The unaudited pro forma financial information of the Remaining Group does not take into account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information of the Remaining Group.

Unaudited Pro Forma Consolidated Balance Sheet

The unaudited pro forma consolidated Balance Sheet of the Remaining Group (the “Unaudited Pro Forma Consolidated Balance Sheet”) has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the Disposal had been completed at the date reported on (i.e. 31st December, 2012).

The Unaudited Pro Forma Consolidated Balance Sheet is based on the audited consolidated balance sheet of the Group as at 31st December, 2012 which is extracted from the Company’s annual report for the year ended 31st December, 2012, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Consolidated Balance Sheet has been prepared by the directors of the Company for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group had the Disposal been actually completed on 31st December, 2012 or at any future date.

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	Consolidated balance sheet of the Group as at 31st December, 2012				Pro forma consolidated balance sheet of the Remaining Group as at 31st December, 2012
	<i>HK\$'000</i> <i>(Audited)</i>	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
ASSETS					
Non-Current Assets					
Property, plant and equipment	708,834	–	–	–	708,834
Leasehold land and land use rights	56,392	–	–	–	56,392
Interests in associates	421,823	(363,357)	(6,232)	–	52,234
Available-for-sale financial assets	6,704	8,753	–	–	15,457
Deferred tax assets	5,643	–	–	–	5,643
	<u>1,199,396</u>	<u>(354,604)</u>	<u>(6,232)</u>	<u>–</u>	<u>838,560</u>
Current assets					
Inventories	649,602	–	–	–	649,602
Trade and other receivables	713,699	–	6,232	–	719,931
Current tax recoverable	673	–	–	–	673
Pledged bank deposits	53,562	–	–	–	53,562
Cash and cash equivalents	209,206	–	–	554,236	763,442
	<u>1,626,742</u>	<u>–</u>	<u>6,232</u>	<u>554,236</u>	<u>2,187,210</u>
Current liabilities					
Trade and other payables	846,189	–	–	–	846,189
Amounts due to associates	1,317	–	–	–	1,317
Bank borrowings	355,772	–	–	–	355,772
Obligations under finance leases	15,903	–	–	–	15,903
Current tax payable	5,601	–	–	–	5,601
	<u>1,224,782</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,224,782</u>
Net Current Assets	<u>401,960</u>	<u>–</u>	<u>6,232</u>	<u>554,236</u>	<u>962,428</u>
Total Assets less Current Liabilities	<u>1,601,356</u>	<u>(354,604)</u>	<u>–</u>	<u>554,236</u>	<u>1,800,988</u>

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	Consolidated balance sheet of the Group as at 31st December, 2012			Pro forma consolidated balance sheet of the Remaining Group as at 31st December, 2012	
	HK\$'000 (Audited)	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Unaudited)
Non-Current Liabilities					
Obligations under finance leases	15,277	-	-	-	15,277
Deferred tax liabilities	8,177	-	-	-	8,177
	<u>23,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,454</u>
Net Assets	<u>1,577,902</u>	<u>(354,604)</u>	<u>-</u>	<u>554,236</u>	<u>1,777,534</u>
Equity					
Capital and reserves attributable to the Company's equity shareholders:					
Share capital	286,772	-	-	-	286,772
Retained earning	630,723	(318,171)	-	554,236	866,788
Reserves	461,442	(36,433)	-	-	425,009
	<u>1,378,937</u>	<u>(354,604)</u>	<u>-</u>	<u>554,236</u>	<u>1,578,569</u>
Non-controlling Interests	<u>198,965</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>198,965</u>
Total Equity	<u>1,577,902</u>	<u>(354,604)</u>	<u>-</u>	<u>554,236</u>	<u>1,777,534</u>

Unaudited Pro Forma Consolidated Income Statement and Unaudited Pro Forma Consolidated Statement of Comprehensive Income

The unaudited pro forma consolidated income statement (the “Unaudited Pro Forma Consolidated Income Statement”) and the unaudited pro forma consolidated statement of comprehensive income (the “Unaudited Pro Forma Consolidated Statement of Comprehensive Income”) of the Remaining Group have been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the Disposal had been completed at the commencement of the period being reported on (i.e. 1st January, 2012).

The Unaudited Pro Forma Consolidated Income Statement and the Unaudited Pro Forma Consolidated Statement of Comprehensive Income are prepared based on the audited consolidated income statement and audited consolidated statement of comprehensive income of the Group for the year ended 31st December, 2012 which is extracted from the Company’s annual report for the year ended 31st December, 2012, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Consolidated Income Statement and the Unaudited Pro Forma Consolidated Statement of Comprehensive Income have been prepared by the directors of the Company for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the results of the Remaining Group had the Disposal been actually completed on 1st January, 2012 or for any future period.

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
Unaudited Pro Forma Consolidated Income Statement

	Consolidated income statement of the Group for the year ended 31st December, 2012				Pro forma consolidated income statement of the Remaining Group for the year ended 31st December, 2012
	HK\$'000 (Audited)	HK\$'000 (Note 1)	HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000 (Unaudited)
Turnover	2,121,595	-	-	-	2,121,595
Cost of sales	(1,757,903)	-	-	-	(1,757,903)
Gross profit	363,692	-	-	-	363,692
Other income and gain, net	23,620	-	-	-	23,620
Distribution costs	(138,863)	-	-	-	(138,863)
Administrative expenses	(241,614)	-	-	-	(241,614)
Allowance for impairment of bad and doubtful debts	(4,718)	-	-	-	(4,718)
Profit from operations	2,117	-	-	-	2,117
Finance costs	(19,399)	-	-	-	(19,399)
Investment income, net	4,139	-	-	-	4,139
Share of results of associates	10,127	-	(8,115)	-	2,012
Gain on dilution of interest in an associate	155	-	-	-	155
Gain on disposal of an associate	-	-	-	239,531	239,531
(Loss) Profit before taxation	(2,861)	-	(8,115)	239,531	228,555
Taxation	(10,277)	-	-	-	(10,277)
(Loss) Profit before non-controlling interests	(13,138)	-	(8,115)	239,531	218,278
Non-controlling interests	(11,037)	-	-	-	(11,037)
(Loss) Profit retained for the year	(24,175)	-	(8,115)	239,531	207,241
Retained profits at 1/1/2012	654,898	-	-	-	654,898
Retained profits at 31/12/2012	630,723	-	(8,115)	239,531	862,139

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
Unaudited Pro Forma Consolidated Statement of Comprehensive Income

	Consolidated statement of comprehensive income of the Group for the year ended 31st December, 2012				Pro forma consolidated statement of comprehensive income of the Remaining Group for the year ended 31st December, 2012
	<i>HK\$'000</i> <i>(Audited)</i>	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 4)</i>	<i>HK\$'000</i> <i>(Note 5)</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
Loss the year	(13,138)	-	(8,115)	239,531	218,278
Other comprehensive income for the year, net of tax:					
Change in fair value of available-for-sales financial assets	(569)	9,359	-	-	8,790
Share of other comprehensive income of associates	(719)	-	715	-	(4)
Surplus on revaluation of properties held for own use	7,405	-	-	-	7,405
Exchange differences arising from translation of financial statements of foreign operations	(315)	-	-	-	(315)
Reserves released upon partial disposal of interests in associates	-	-	-	(38,047)	(38,047)
	<u>5,802</u>	<u>9,359</u>	<u>715</u>	<u>(38,047)</u>	<u>(22,171)</u>
Total comprehensive expense for the year	<u>(7,336)</u>	<u>9,359</u>	<u>(7,400)</u>	<u>201,484</u>	<u>196,107</u>

Unaudited Pro Forma Consolidated Statement of Cash Flows

The unaudited pro forma consolidated statement of cash flows of the Remaining Group (the “Unaudited Pro Forma Consolidated Statement of Cash Flows”) has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the Disposal had been completed at the commencement of the period being reported on (i.e. 1st January, 2012).

The Unaudited Pro Forma Consolidated Statement of Cash Flows is prepared based on the audited consolidated statement of cash flows of the Group for the year ended 31st December, 2012 which is extracted from the Company’s annual report for the year ended 31st December, 2012, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable.

APPENDIX II**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

The Unaudited Pro Forma Consolidated Statement of Cash Flows has been prepared by the directors of the Company for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the cash flows of the Remaining Group had the Disposal been actually completed on 1st January, 2012 or for any future period.

	Consolidated statement of cash flows of the Group for the year ended 31st December, 2012			Pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31st December, 2012
	<i>HK\$'000</i> <i>(Audited)</i>	<i>HK\$'000</i> <i>(Note 6)</i>	<i>HK\$'000</i> <i>(Note 7)</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
OPERATING ACTIVITIES				
Profit from operations	2,117	-	-	2,117
Adjustments for:				
Depreciation and amortisation of property, plant and equipment	76,177	-	-	76,177
Amortisation of leasehold land and land use rights	1,469	-	-	1,469
Loss on disposal of property, plant and equipment	1,700	-	-	1,700
Deficit on revaluation of properties held for own use	91	-	-	91
Allowance for impairment of bad and doubtful debts	4,718	-	-	4,718
Write-down of inventories	2,538	-	-	2,538
Operating cash flows before movements in working capital	88,810	-	-	88,810
Increase in inventories	(11,218)	-	-	(11,218)
Increase in trade and other receivables	(19,645)	-	-	(19,645)
Increase in trade and other payables	3,252	-	-	3,252
Cash generated from operations	61,199	-	-	61,199
Hong Kong profits tax paid	(2,551)	-	-	(2,551)
Overseas tax paid	(8,851)	-	-	(8,851)
NET CASH GENERATED FROM OPERATING ACTIVITIES	49,797	-	-	49,797

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	Consolidated statement of cash flows of the Group for the year ended 31st December, 2012 HK\$'000 (Audited)	HK\$'000 (Note 6)	HK\$'000 (Note 7)	Pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31st December, 2012 HK\$'000 (Unaudited)
INVESTING ACTIVITIES				
Increase in pledged bank deposits	13,436	-	-	13,436
Purchase of property, plant and equipment and leasehold land and land use rights	(70,077)	-	-	(70,077)
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights	7,716	-	-	7,716
Interest received	4,126	-	-	4,126
Dividend received from associates	6,283	-	(5,502)	781
Dividend received from unlisted available-for-sale financial asset	-	-	132	132
Dividend received from listed available-for-sale financial asset	13	-	-	13
Net proceeds from disposal of associates	-	554,236	-	554,236
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(38,503)	554,236	(5,370)	510,363
FINANCING ACTIVITIES				
Repayment of bank and other loans	(461,926)	-	-	(461,926)
Interest paid	(19,399)	-	-	(19,399)
Repayment of obligations under finance leases	(14,873)	-	-	(14,873)
Dividends paid to non-controlling shareholders of subsidiaries	(1,633)	-	-	(1,633)
Dividend paid	(3,585)	-	-	(3,585)
Bank loans raised	446,504	-	-	446,504
Amounts advanced to associates	(3,967)	-	-	(3,967)
NET CASH USED IN FINANCING ACTIVITIES	(58,879)	-	-	(58,879)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(47,585)	554,236	(5,370)	501,281
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	220,470	-	-	220,470
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(323)	-	-	(323)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	172,562	554,236	(5,370)	721,428

Notes to the unaudited pro forma financial information

1. Immediately after completion of the Disposal, the Company will continue to hold the remaining 1.19% equity interest in the Disposal Company and will treat it as an available-for-sale financial asset in the consolidated financial statements of the Company. The adjustment represents the derecognition of equity-accounted interests in the Disposal Group and reclassification to available-for-sales financial assets at fair value as at 31st December, 2012 as if the Disposal had been completed on 31st December, 2012.
2. The adjustment reflects reclassification of amount due from the disposal company to other receivables.
3. The adjustment reflects the cash consideration for disposing 48.21% equity interest in the Disposal Company of RMB467,155,000 (equivalent to approximately HK\$576,236,000). The adjustment also reflects the estimated relevant commission and legal and professional fee payable of approximately HK\$22,000,000.
4. The adjustment represents the derecognition of share of results of the Disposal Group for the year ended 31st December, 2012 as if the Disposal had been completed on 1st January, 2012. The adjustment is not expected to have a continuing effect on the Remaining Group.
5. The adjustment represents the estimated gain on the Disposal of HK\$239,531,000 which is calculated on the basis of the consideration of RMB467,155,000 (equivalent to approximately HK\$576,236,000) after deduction for (i) carrying value of interests in the Disposal Group as at 1st January, 2012; and (ii) the relevant commission and legal and professional fee for the Disposal; and (iii) reserves released upon partial disposal of interests in associates.

The calculation for the estimate gain on Disposal as if the Disposal had been completed on 1st January, 2012 is summarised below:

	<i>RMB'000</i>	<i>HK\$'000</i>
Consideration for the Disposal	467,155	576,236
Less: Carrying value of interests in the Disposal Group	(285,976)	(352,752)
Add: Reserve released upon partial disposal of interests in associates	30,845	38,047
Less: Commission and legal and professional fee	(17,835)	(22,000)
Estimated gain on the Disposal	<u>194,189</u>	<u>239,531</u>

Since the actual carrying amounts of the assets and liabilities of the Disposal Group on completion of the Disposal will be different from the amounts used in the preparation of the unaudited pro forma financial information, the actual gain or loss on the Disposal may be significantly different from the estimated amount shown above.

6. The adjustment represents the estimated net cash inflow of HK\$554,236,000 arising from (i) the Disposal at cash consideration of RMB467,155,000 (equivalent to approximately HK\$576,236,000), and (ii) after deducting the estimated relevant commission and legal and professional fee for the Disposal amounting to HK\$22,000,000 as if the Disposal had been completed on 1st January, 2012.
7. The adjustment represents the reclassification of dividend received from the Disposal Group for the year ended 31st December, 2012 as if the Disposal had been completed on 1st January, 2012.
8. For the purpose of the presentation of the unaudited pro forma financial information, conversion of RMB to HK\$ is calculated at the following exchange rates:

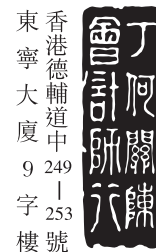
HK\$1.2335 to RMB1 as at 1st January, 2012
HK\$1.2332 to RMB1 as at 31st December, 2012
9. The above pro forma adjustments will have no continuing effect on the Remaining Group in the subsequent reporting periods.

**B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

The following is the text of a report, received from the independent reporting accountants, Ting Ho Kwan & Chan, Certified Public Accountants (Practising), Hong Kong, prepared for the sole purpose of incorporation in this circular, in respect of the unaudited pro forma financial information of the Remaining Group.

**TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)**

9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong



10th May, 2013

The Board of Directors
Cosmos Machinery Enterprises Limited
Units 1217-1223A,
12/F., Trade Square,
No.681 Cheung Sha Wan Road,
Kowloon,
Hong Kong.

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of Cosmos Machinery Enterprises Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), in connection with proposed disposal of 48.21% equity interests in Hon Kiu Machine Factory Limited (the “Disposal Company”). The Disposal Company is an associate of the Group and has 63.75% equity interests in Shenzhen Haoningda Meters Co., Ltd (collectively referred as the “Disposal Group”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed disposal might have affected the financial information presented, for inclusion in Appendix II of the circular of the Company dated 10th May, 2013 (the “Circular”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 30 to 35 to the Circular.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING
ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Remaining Group as at 31st December, 2012 or any future date;
or
- the results and cash flows of the Remaining Group for the year ended 31st December, 2012 or any future periods.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ting Ho Kwan & Chan
Certified Public Accountants (Practising)
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respect and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

Long position in the Shares:

Name	Personal Interests	Number of Shares held			Other Interests	Number of underlying Shares	Approximate % of total issued share capital of the Company	
		Family Interests	Corporate Interests	Total				
Tang To	4,970,000	2,000 <i>(Note 2)</i>	300,617,458 <i>(Note 1)</i>	224,000 <i>(Note 3)</i>	–	305,813,458	42.66%	
Wong Yiu Ming	10,832,072	–	–	–	6,000,000 <i>(Note 4)</i>	16,832,072	2.35%	
Kan Wai Wah	136,400	–	–	–	–	136,400	0.02%	
Cheng Tak Yin	1,406,000	–	–	4,400	–	1,410,400	0.20%	

Note:

- 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 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 (“Keepsound”), 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 (“Fullwin”); (iv) 16.09% by Yik Wan Company Limited (“Yik Wan”); and (v) 20.23% by 5 individuals and 2 limited companies.

- As at Latest Practicable Date, 2,000 Shares were held by the spouse of Mr. Tang.
- As at Latest Practicable Date, 224,000 Shares were jointly held by Mr. Tang and his spouse.
- Underlying shares represent share options granted to the Directors pursuant to the share option scheme of the Company.

Save as disclosed above and certain nominee shares held in trust for the Group, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Long Position in the Shares

Name	Number of Shares held		Total	Approximate % of total issued shares of the Company
	Direct Interests	Deemed Interests		
Law Kit Fong	–	297,157,052 (Note 1)	297,157,052	41.45%
Codo	–	297,157,052 (Note 2)	297,157,052	41.45%
Cosmos Holdings	127,052,600	170,104,452 (Note 3)	297,157,052	41.45%
Tai Shing	170,104,452	–	170,104,452	23.73%
Saniwell Holding Inc.	–	297,157,052 (Note 4)	297,157,052	41.45%
China Resources (Holdings) Company Limited	169,649,046 (Note 5)	–	169,649,046	23.66%

Notes:

- 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 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 Latest Practicable Date, Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power) and 8.37% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).

2. As at Latest Practicable Date, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at Latest Practicable Date, Codo is owned as to (i) 25.06% by Keepsound, 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; (iv) 16.09% by Yik Wan; and (v) 20.23% 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 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, 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; (iv) 16.09% by Yik Wan; and (v) 20.23% 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 the Shares owned by China Resources (Holdings) Company Limited.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any person (other than a Director or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO.

4. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31st December, 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates were interested in any business apart from the Group's businesses, which competes or was likely to compete, whether directly or indirectly, with the businesses of the Group.

6. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business of the Company) within the two years immediately preceding the issue of this circular and up to the Latest Practicable Date and are or may be material:

- (i) the SPA-A and SPA-B; and
- (ii) the introduction agreement in relation to the commission of approximately HK\$17.2 million payable to an introducing agent in procuring Purchaser A and Purchaser B to the Company.

7. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contracts with the Company or any other member of the Group (excluding contracts expiring or which may be terminated by the Company within one year without payment of any compensation (other than statutory compensation)).

8. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular and has given opinions and advice which are contained in this circular:

Name	Qualification
Ting Ho Kwan & Chan	Certified Public Accountants
Cheng & Cheng Limited	Certified Public Accountants

As at the Latest Practicable Date, each of Ting Ho Kwan & Chan and Cheng & Cheng Limited did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. As at the Latest Practicable Date, each of Ting Ho Kwan & Chan and Cheng & Cheng Limited did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 31st December, 2012, the date to which the latest published audited financial statements of the Group were made up.

Each of Ting Ho Kwan & Chan and Cheng & Cheng Limited has given and has not withdrawn their

written consents to the issue of this circular, with the inclusion therein of their letters or the references to its name in the form and context in which they appear.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong from the date of this circular up to and including the date of EGM:

- (a) the memorandum of association and the articles of association of the Company;
- (b) the annual reports of the Company for the three financial years ended 31st December, 2010, 2011 and 2012;
- (c) the material contracts as referred to in this paragraph headed “Material Contracts” in this appendix;
- (d) this circular;
- (e) the review report issued by Cheng & Cheng Limited on the financial information of the Group for the three years ended 31st December, 2010, 2011 and 2012, the text of which is set out in Appendix I to this circular;
- (f) the report issued by Ting Ho Kwan & Chan in connection with the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II to this circular; and
- (g) the consent letters issued by Ting Ho Kwan & Chan and Cheng & Cheng Limited referred to in the paragraph headed “Expert and consent” in this appendix.

11. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Mr. Ho Kwong Sang and Ms. Tam Pui Ling. Both Mr. Ho and Ms. Tam are members of the Hong Kong Institute of Chartered Secretaries.
- (b) The Company’s registered and head office is at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong
- (c) The Company’s principal share registrar and transfer office is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
- (d) The English text of this circular shall prevail over the Chinese translation in the event of inconsistency.

NOTICE OF EGM



大同機械企業有限公司

COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 118)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of Cosmos Machinery Enterprises Limited (“**Company**”) will be held at 9:30 a.m. on Wednesday, 29th May, 2013 at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong to consider and, if thought fit, approve, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the conditional sale and purchase agreement dated 9th April, 2013 (the “**Sale and Purchase Agreement A**”) entered into between Fair Friend (Hong Kong) Enterprise Co., Limited as vendor and 北京首赫投資有限責任公司(Beijing Sunbeway Investment Co., Ltd*) as purchaser in relation to the sale and purchase of 4,700 ordinary shares of Hon Kiu Machine Factory Limited at a consideration of RMB455,430,000 (equiv. to HK\$570,653,790) to be settled by cash (a copy of the Sale and Agreement has been tabled at the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the conditional sale and purchase agreement dated 9th April, 2013 (the “**Sale and Purchase Agreement B**”) entered into between Fair Friend (Hong Kong) Enterprise Co., Limited as vendor and 北京金源益通商貿有限公司(Beijing Jin Yuan Yi Tong Trading Co., Ltd*) as purchaser in relation to the sale and purchase of 121 ordinary shares of Hon Kiu Machine Factory Limited at a consideration of RMB11,724,900 (equiv. to HK\$14,691,300) to be settled by cash (a copy of the Sale and Agreement has been tabled at the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
and

* for identification purpose only

NOTICE OF EGM

- (c) the Directors, acting together, individually or by committee, be and are hereby authorised to take such actions, do all such acts and things and execute all such further documents or deeds as they may consider necessary, appropriate, desirable or expedient for implementation of or giving effect to the Sale and Purchase Agreement A and Sale and Purchase Agreement B and any of the transactions contemplated thereunder.”

Yours faithfully
By Order of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

Hong Kong, 10th May, 2013

Registered office and principal place of business:

Units 1217-1223A
12/F., Trade Square
No. 681 Cheung Sha Wan Road
Kowloon
Hong Kong

As at the date of this notice, the directors of the Company are as follows:

Executive Directors:

Mr. Tang To (*Chairman*)
Mr. Wong Yiu Ming
Mr. Jiang Wei
Mr. Tang Yu, Freeman

Non-Executive Directors

Mr. Wu Ding (*Vice Chairman*)
Mr. Kan Wai Wah
Mr. Qu Jinping

Independent Non-Executive Directors:

Ms. Yeung Shuk Fan
Mr. Cheng Tak Yin
Mr. Ho Wei Sem
Mr. Huang Zhi Wei

NOTICE OF EGM

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the registered office of the Company at Units 1217–1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be).
- (3) Completion and return of an instrument appointing a proxy should not preclude a shareholder of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.