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MAJOR TRANSACTION
DISPOSAL OF THE ENTIRE SHARE CAPITAL OF GB HK
AND THE ENTIRE EQUITY INTEREST IN GB SHENZHEN

Capitalised terms used on this cover page have the same meaning as defined in the section headed “*Definitions*” in this circular, unless the context otherwise requires.

A letter from the Board is set out on pages 6 to 25 of this circular.

The Disposals have been approved by written shareholders’ approval obtained from the Closely Allied Group, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. Accordingly, no general meeting will be convened for the purpose of approving the Disposals. This circular is being despatched to the Shareholders for information only.

24 November 2023

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DEFINITIONS

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

“%”	per cent.;
“Annual Report 2022”	the Company’s annual report for the year ended 31 December 2022;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Bad Debts”	any amount owed for over one year after the date on which invoice is issued;
“Board”	the board of Directors;
“Closely Allied Group”	a closely allied group of Shareholders, comprising Mr. Tang To, Ms. Leung Yee Mei, Ginta, Saniwell, Cosmos Holdings and Tai Shing;
“Codo”	Codo Development Limited, a company incorporated in Hong Kong with limited liability, which is a substantial Shareholder (as defined under the Listing Rules);
“Company”	Cosmos Machinery Enterprises Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 118);
“Completion”	completion of the Disposals in accordance with the MOU, the Sale and Purchase Agreement I and/or the Sale and Purchase Agreement II;
“Completion Audit”	an audit to be carried out by Purchaser I pursuant to the MOU, and Purchaser II pursuant to the Sale and Purchase Agreement II, to verify the audited financial statements of the GB Subsidiaries for the period ended 31 August 2023, and the profit and loss of the GB Subsidiaries for the Completion Audit Period;
“Completion Audit Period”	the period from 1 September 2023 to 31 October 2023 as agreed between the parties to the Sale and Purchase Agreement I and the Sale and Purchase Agreement II on 1 November 2023 (please refer to the section headed “ <i>Extension of time for Completion and the Completion Audit</i> ” in this circular for further details);

DEFINITIONS

“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules;
“Consideration Formula”	the formula to ascertain the amount of the consideration payable for the GB Shenzhen Equity Interest (subject to Price Adjustment) as set out in the MOU and the Sale and Purchase Agreement II and as described under the section headed “ <i>Consideration payable for the GB Shenzhen Equity Interest</i> ” in this circular;
“Cosmos Holdings”	Cosmos Machinery (Holdings) Limited, a company incorporated in Hong Kong with limited liability, which is a controlling Shareholder (as defined under the Listing Rules);
“Deed of Security”	the deed of security entered into by Purchaser I, Purchaser II, the Vendor and GB Shenzhen on 1 November 2023 in relation to the arrangements for the settlement of consideration under the Sale and Purchase Agreement II;
“Director(s)”	director(s) of the Company;
“Disposal I”	the sale and purchase of the GB HK Shares pursuant to the terms of the Sale and Purchase Agreement I;
“Disposal II”	the sale and purchase of the GB Shenzhen Equity Interest pursuant to the terms of the Sale and Purchase Agreement II;
“Disposals”	Disposal I and Disposal II;
“Expiry Day”	31 January 2024;
“GB HK”	Gainbase Industrial Limited, a company incorporated in Hong Kong with limited liability and an indirect non-wholly-owned subsidiary of the Company prior to Completion;
“GB HK Shares”	the entire share capital of GB HK;
“GB Shenzhen”	Shenzhen Gainbase Printed Circuit Board Co., Ltd* (深圳邦基线路板有限公司), a company established in the PRC with limited liability and an indirect non-wholly-owned subsidiary of the Company prior to Completion;

DEFINITIONS

“GB Shenzhen Equity Interest”	the entire equity interest in GB Shenzhen;
“GB Subsidiaries”	GB HK and GB Shenzhen;
“Ginta”	Ginta Company Limited, a company incorporated in Hong Kong with limited liability;
“Group”	the Company and its subsidiaries;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKD Deposit”	the HK\$20,000,000 deposit received by the Vendor from Purchaser I upon the execution of the MOU;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Hung Cheong”	Hung Cheong Realty Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of Cosmos Holdings;
“Incumbrances”	any mortgage, charge (whether fixed or floating), pledge, lien, option, right of pre-emption, right of retention of title or any other form of security interest or any obligation (including any conditional obligation) to create any of the same;
“Latest Practicable Date”	21 November 2023, 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;
“Mandatory Provident Fund Service Provider”	Manulife (International) Limited;
“MOU”	the memorandum of understanding dated 16 October 2023 entered into between Purchaser I and the Vendor in relation to the Disposals;
“MPF”	the Mandatory Provident Fund;
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region and Taiwan;

DEFINITIONS

“Price Adjustment”	the price adjustment applicable to the consideration under the Sale and Purchase Agreement II as described under the section headed “ <i>Price Adjustment</i> ” in this circular;
“Purchaser I”	Onpress PCB Limited, a company incorporated in Hong Kong with limited liability, an associated company of Purchaser II, and a third party independent of the Company and its connected persons;
“Purchaser II”	Heshan Onpress Printed Circuits Ltd* (鶴山安栢電路版廠有限公司), a company established in the PRC with limited liability, an associated company of Purchaser I, and a third party independent of the Company and its connected persons;
“Remaining Group”	the remaining group comprising the Company and its subsidiaries (other than GB HK and GB Shenzhen);
“RMB”	Renminbi, the lawful currency of the PRC;
“RMB Deposit”	the RMB deposit in the sum of RMB20,000,000 to be paid by Purchaser II to the Vendor before Completion which shall form part of the consideration payable for the GB Shenzhen Equity Interest under the MOU and the Sale and Purchase Agreement II;
“Sale and Purchase Agreement I”	the sale and purchase agreement entered into between the Vendor and Purchaser I dated 16 October 2023 relating to Disposal I;
“Sale and Purchase Agreement II”	the sale and purchase agreement entered into between the Vendor, Purchaser II and GB Shenzhen dated 16 October 2023 relating to Disposal II;
“Saniwell”	Saniwell Holding Inc., a company incorporated in the Cook Islands with limited liability;
“Second RMB Payment”	the sum of RMB50,000,000 being a part of the consideration for Disposal II to be paid by Purchaser II upon Completion under the terms of the Sale and Purchase Agreement II, the payment for which is extended to a date on or before the Expiry Day under the Deed of Security;

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong);
“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Shortfall”	has the meaning as defined in the section headed “ <i>Deed of Security</i> ” in this circular;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Tai Shing”	Tai Shing Agencies Limited, a company incorporated in the British Virgin Islands with limited liability, which is a substantial Shareholder (as defined under the SFO);
“US\$” or “USD”	United States dollars, the lawful currency of the United States of America;
“USD Second Security”	the sum of US\$7,300,000 (together with any interests earned thereon) deposited by Purchaser I, acting as the duly authorised agent for and on behalf of Purchaser II as purchaser under the Sale and Purchase Agreement II, on or before Completion; and
“Vendor”	Gainbase Industrial (Holding) Limited, a company incorporated in Hong Kong with limited liability and an indirect non-wholly-owned subsidiary of the Company.

* *For identification purposes only*

** *For the purpose of this circular, unless otherwise stated, the conversion of RMB into HKD is based on the approximate exchange rate of RMB1 = HK\$1.059*

LETTER FROM THE BOARD



大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

Executive Directors:

Tang To (Chairman)
Tang Yu, Freeman (Chief Executive Officer)

Non-executive Director:

Kan Wai Wah

Independent Non-executive Directors:

Yeung Shuk Fan
Lam Kwok Ming
Lee Wai Yip, Alvin

Registered Office:

10th Floor, Billion Plaza 2
No. 10 Cheung Yue Street
Cheung Sha Wan
Kowloon, Hong Kong

24 November 2023

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION DISPOSAL OF THE ENTIRE SHARE CAPITAL OF GB HK AND THE ENTIRE EQUITY INTEREST IN GB SHENZHEN

1. INTRODUCTION

Reference is made to the announcements of the Company dated 16 October 2023 and 1 November 2023 in relation to the MOU, the Sale and Purchase Agreement I, the Sale and Purchase Agreement II, the Deed of Security and the Disposals contemplated thereunder.

On 16 October 2023, the Vendor entered into (i) the MOU and the Sale and Purchase Agreement I with Purchaser I, and (ii) the Sale and Purchase Agreement II with Purchaser II and GB Shenzhen. Pursuant to the MOU, the Sale and Purchase Agreement I and the Sale and Purchase Agreement II, among other things, the Vendor agreed to sell, and Purchaser I and Purchaser II respectively agreed to purchase, the GB HK Shares and the GB Shenzhen Equity Interest at the respective considerations of HK\$1 and approximately RMB137,000,000 with the aggregate amount of consideration being approximately HK\$145,083,001 (subject to Price Adjustment, as detailed in the section headed “Price Adjustment” in this circular).

LETTER FROM THE BOARD

On 1 November 2023, Purchaser I, Purchaser II, the Vendor and GB Shenzhen entered into the Deed of Security in relation to the arrangements for the settlement of consideration under the Sale and Purchase Agreement II.

The purpose of this circular is to provide you with, among other things, further information in relation to the Disposals and other information as required under the Listing Rules.

2. MEMORANDUM OF UNDERSTANDING

The MOU is legally binding on the parties to it, and its principal terms are set out below:

Date: 16 October 2023

Parties: (1) Purchaser I; and
(2) the Vendor.

Sale and purchase: Subject to completion and satisfaction of the results of due diligence investigation to be carried out by Purchaser I on the company affairs of GB HK and GB Shenzhen, Purchaser I shall purchase and the Vendor shall sell the GB HK Shares and the GB Shenzhen Equity Interest.

As at the Latest Practicable Date, the due diligence investigation has been completed by Purchaser I.

Consideration: Please refer to the consideration stated under the sections headed “*Sale and Purchase Agreement I*” and “*Sale and Purchase Agreement II*” in this circular.

Completion: Under the terms of the MOU, subject to the satisfaction or waiver of the conditions precedent as set out in the Sale and Purchase Agreement I and the Sale and Purchase Agreement II, Completion shall take place on 1 November 2023 (or such other date as the parties may agree).

However, the time for Completion has been extended to a date on or before 24 November 2023 as agreed between the parties on 1 November 2023 (please refer to the section headed “*Extension of time for Completion and the Completion Audit*” in this circular for further details).

LETTER FROM THE BOARD

Deposit:

Upon the signing of the MOU, Purchaser I shall cause a payment in favour of the Vendor as the HKD Deposit (which has been received by the Vendor).

Further, under the terms of the MOU, the Sale and Purchase Agreement II shall provide that the RMB Deposit be paid by Purchaser II to the Vendor before Completion, and upon receipt of which, the Vendor shall return the HKD Deposit to Purchaser I. The RMB Deposit shall form part of the consideration payable for the GB Shenzhen Equity Interest.

In the absence of default on the part of the Vendor, if Purchaser I does not proceed to signing of a formal sale and purchase agreement or shall not procure Purchaser II to enter into an agreement in respect of the sale and purchase of the GB Shenzhen Equity Interest, Purchaser I may terminate the MOU and the transactions contemplated thereunder on the condition that the HKD Deposit will be forfeited by the Vendor as liquidated damages.

**Completion Audit and
Price Adjustment:**

The Completion Audit will be carried out by Purchaser I (scheduled to be completed on or before 31 October 2023). The Price Adjustment applicable to the consideration payable for the GB Shenzhen Equity Interest would be determined in accordance with the Completion Audit.

3. SALE AND PURCHASE AGREEMENT I

On 16 October 2023, pursuant to the MOU, the Vendor and Purchaser I entered into the Sale and Purchase Agreement I, under which the Vendor agreed to sell and Purchaser I agreed to purchase the GB HK Shares.

LETTER FROM THE BOARD

The terms of the Sale and Purchase Agreement I are supplemental to the MOU, but prevail over the MOU in case of discrepancies or inconsistency. The principal terms of the Sale and Purchase Agreement I are set out below:

- Date:** 16 October 2023
- Parties:** (1) Purchaser I; and
(2) the Vendor.
- Sale and purchase:** Subject to the terms of the Sale and Purchase Agreement I, the Vendor shall with full title guarantee sell or procure the sale of and Purchaser I shall purchase the GB HK Shares free from all claims or Incumbrances.
- Consideration:** HK\$1, payable in such manner as the Vendor and Purchaser I shall agree.

The consideration for Disposal I was arrived at arm's length negotiations between the parties after taking into consideration of various factors, including but not limited to the assets and liabilities of GB HK, the net asset value of GB HK as at 31 August 2023 (which was approximately negative HK\$4,800,000) and the future prospects of the business carried out by GB HK.

- Conditions precedent:** Completion of Disposal I is conditional upon:
- (1) production by the Vendor of the audited accounts for GB HK for the accounting reference period ended 31 August 2023;
 - (2) passing at a general meeting of Purchaser I of resolutions approving the transactions provided for in the Sale and Purchase Agreement I and authorising the directors of Purchaser I to take all steps necessary to complete the Sale and Purchase Agreement I; and
 - (3) completion of Disposal II.

LETTER FROM THE BOARD

Completion: Under the terms of the Sale and Purchase Agreement I, completion shall take place on 1 November 2023 (or such other date as the parties may agree) after the conditions precedent to Disposal I have been fulfilled or waived. However, the time for Completion has been extended to a date on or before 24 November 2023 as agreed between the parties on 1 November 2023 (please refer to the section headed “*Extension of time for Completion and the Completion Audit*” in this circular for further details).

If the conditions precedent to Disposal I have not been fulfilled or waived by Purchaser I by Completion, then Purchaser I may give notice in writing to the Vendor cancelling the Sale and Purchase Agreement I, which shall from the date such notice is given be void and of no effect and none of the parties to it shall be under any liability in respect of the Sale and Purchase Agreement I.

4. SALE AND PURCHASE AGREEMENT II

On 16 October 2023, pursuant to the MOU, the Vendor, GB Shenzhen and Purchaser II entered into the Sale and Purchase Agreement II, under which the Vendor agreed to sell and Purchaser II agreed to purchase the GB Shenzhen Equity Interest.

The terms of the Sale and Purchase Agreement II are supplemental to the MOU, but prevail over the MOU in case of discrepancies or inconsistencies. The principal terms of the Sale and Purchase Agreement II are set out below:

Date: 16 October 2023

Parties:

- (1) Purchaser II;
- (2) the Vendor; and
- (3) GB Shenzhen.

Sale and purchase: Subject to the completion of due diligence investigation to be carried out by Purchaser II (or its appointed third party) to the satisfaction of Purchaser II, upon the terms of the Sale and Purchase Agreement II, the Vendor shall sell and Purchaser II shall purchase the GB Shenzhen Equity Interest.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the due diligence investigation has been completed by Purchaser II.

Consideration:

Subject to Price Adjustment, the consideration is an amount to be determined in accordance with the Consideration Formula, which is expected to be approximately RMB137,000,000 (determined with reference to the financial statements of the GB Subsidiaries as at 31 August 2023).

For further details, please refer to the section headed “*Consideration payable for the GB Shenzhen Equity Interest*” in this circular.

The consideration for Disposal II was arrived at arm’s length negotiations between the parties after taking into consideration of various factors, including but not limited to the assets and liabilities of GB Shenzhen and the future prospects of the business carried out by GB Shenzhen.

Conditions:

Completion of Disposal II is conditional upon:

- (1) the provision to Purchaser II of the audited financial statements of GB Shenzhen completed by Shenzhen GaoXinHuaYuan CPA* (深圳高信華源會計師事務所), which is preliminarily acceptable to Purchaser II as a basis for Disposal II; and
- (2) the approval of resolution(s) by the board/general meeting of the Vendor and Purchaser II, approving the transactions agreed under the Sale and Purchase Agreement II and all acts required to complete the Sale and Purchase Agreement II, as well as the execution of the Sale and Purchase Agreement II and the performance of all obligations thereunder.

LETTER FROM THE BOARD

The Vendor shall also obtain all necessary approvals and consents required under the Listing Rules in respect of the transactions under the Sale and Purchase Agreement II (including the approval of the Shareholders).

Completion:

Under the terms of the Sale and Purchase Agreement II, completion shall take place on 1 November 2023 (or such other date as the parties may agree) after the conditions precedent to Disposal II have been fulfilled or waived. However, the time for Completion has been extended to a date on or before 24 November 2023 as agreed between the parties on 1 November 2023 (please refer to the section headed “*Extension of time for Completion and the Completion Audit*” in this circular for further details).

If the conditions precedent to Disposal II are not met by the date of Completion or if the Vendor fails to fulfil any of its obligations upon Completion, Purchaser II may, at its discretion:

- (1) defer completion of Disposal II by not more than 28 days;
- (2) continue with completion of Disposal II to the extent possible; or
- (3) terminate the Sale and Purchase Agreement II, however, Purchaser II reserves all rights to request the Vendor or GB Shenzhen to compensate loss, pay damages or liquidated damages for any breach of representations, warranties or undertakings or any other terms under the Sale and Purchase Agreement II which accrued before the termination.

LETTER FROM THE BOARD

Payment of consideration:

Under the terms of the Sale and Purchase Agreement II, Purchaser II will pay the consideration to the Vendor in the following instalments (subject to any deferment as referred to in “*Completion*” above):

- (1) the Second RMB Payment upon Completion (i.e. a total of RMB70,000,000 will have been paid, taking into account the RMB Deposit which will have been paid prior to Completion);
- (2) RMB20,000,000 on or before 31 January 2024;
and
- (3) the balance of the consideration payable for the GB Shenzhen Equity Interest (subject to Price Adjustment) to be settled on or before 30 April 2024.

However, pursuant to the terms of the Deed of Security, among other things, the parties agreed that the Second RMB Payment may be paid on a date on or before the Expiry Day (please refer to the section headed “*Deed of Security*” in this circular for further details).

Deposit:

Under the terms of the Sale and Purchase Agreement II, the RMB Deposit shall be paid by Purchaser II to the Vendor before Completion, upon receipt of which, the Vendor shall return the HKD Deposit to Purchaser I. The RMB Deposit shall form part of the consideration payable for the GB Shenzhen Equity Interest.

In the absence of default on the part of the Vendor, if Purchaser II does not pay the first instalment of the consideration upon Completion (or within a reasonable time) under the Sale and Purchase Agreement II (in the amount of RMB50,000,000), either party may terminate the Sale and Purchase Agreement II on the condition that the RMB Deposit will be forfeited by the Vendor as liquidated damages.

LETTER FROM THE BOARD

Notwithstanding the above, pursuant to the terms of the Deed of Security, among other things, the parties agreed that the RMB Deposit may be paid on a date on or before the Expiry Day (please refer to the section headed “*Deed of Security*” in this circular for further details).

Completion Audit and Price Adjustment:

The Completion Audit will be carried out by Purchaser II or its appointed third party (scheduled to be completed on or before 31 October 2023). The Price Adjustment applicable to the consideration payable for the GB Shenzhen Equity Interest would be determined in accordance with the Completion Audit.

Consideration payable for the GB Shenzhen Equity Interest

Under the MOU and the Sale and Purchase Agreement II, the consideration payable for the GB Shenzhen Equity Interest (subject to Price Adjustment) is determined as follows:

$$\textit{Consideration before Price Adjustment} = S + C + AR + MPF - AP - D - E - T$$

where:

S denotes: stock and work in progress

C denotes: cash on hand

AR denotes: accounts receivable, notes receivable, prepayments, other receivables and other current assets (which, for the avoidance of doubt, excludes Bad Debts)

AP denotes: accounts payable and other payables

D denotes: bank loans or debts owed to any third parties

E denotes: an amount agreed under the Sale and Purchase Agreement II, being the potential labour restructuring costs estimated based on the number of employees before Completion

T denotes: taxes payable

MPF denotes: HK\$3,000,000, being the amount of refund of the employer’s MPF contribution made by GB HK (subject to adjustment as set out in the section headed “*Price Adjustment*” in this circular)

LETTER FROM THE BOARD

Each of the component in the Consideration Formula shall be determined with reference to the aggregate value of the relevant line items of the financial statements of the GB Subsidiaries as at the day before Completion (i.e. 31 October 2023), subject to adjustments with reference to the results of the Completion Audit as further detailed in the section headed “*Price Adjustment*” in this circular. With reference to the financial statements of the GB Subsidiaries as at 31 August 2023, and assuming no Price Adjustment is applicable, the consideration payable for the GB Shenzhen Equity Interest under the Consideration Formula is approximately RMB137,000,000.

In determining the consideration for the Disposals, the Board has taken into consideration the following factors:

- (1) The unfavourable prospects of the printed circuit boards industry and the continuing losses recorded for the GB Subsidiaries

The Group’s printed circuit boards segment has recorded loss for two consecutive years for the years ended 31 December 2021 and 2022 of approximately HK\$19,670,000 and HK\$14,759,000, respectively. The loss made by the Group in this segment has been mainly attributable to the unsatisfactory financial performance of the GB Subsidiaries. As disclosed in the Annual Report 2022, the Group did not anticipate a quick turnaround for this business. The Board has maintained this view having considered the financial performance of the GB Subsidiaries in 2023;

- (2) The difficulties in identifying a potential buyer to acquire the GB Subsidiaries and the likelihood that the GB Subsidiaries would be wound up but for the Disposals

The Company has reached out to a number of third parties or advisors to solicit potential purchaser(s) to acquire the GB Subsidiaries in the second quarter of 2023, but no potential buyer has been identified given (i) the substantial costs that may incur (e.g. relocation expenses and potential labour redundancy costs) and (ii) the poor financial performance of the GB Subsidiaries.

Purchaser I and Purchaser II approached the Group in August 2023 and indicated an interest to acquire the GB Subsidiaries. The Board considered that it was a good opportunity to dispose of the GB Subsidiaries to Purchaser I and Purchaser II taking into account the following:

- (i) the Disposals will enable the Group to dispose of the loss-making subsidiaries in the printed circuit boards segment and accordingly improve the overall financial performance of the Group;

LETTER FROM THE BOARD

- (ii) the Vendor is able to receive the consideration in cash by the first quarter of 2024; and
 - (iii) the Group will be able to avoid incurring substantial costs (including substantial labour redundancy costs, liability for termination of an existing lease together with other non-realizable current assets, and settlement of trade payables with suppliers in a shorter period of time), time and manpower if the GB Subsidiaries were to be liquidated. The Board has considered the report prepared by an HR consultancy firm in assessing the staff compensation costs that would be payable if GB Shenzhen was liquidated;
- (3) The assets and liabilities of the GB Subsidiaries
- (i) the net asset value of GB HK was approximately negative HK\$4,800,000 as at 31 August 2023;
 - (ii) the fixed assets held by GB Shenzhen are primarily composed of machinery and equipment of the factory. Such machinery and equipment have an average age of over 7 years, and the Directors considered there is limited re-sale value of the fixed assets owned by GB Shenzhen in the market because the machinery and equipment become obsolete as compared to newer equipment that has since been introduced, demand for used production machinery owned by GB Shenzhen was expected to be limited in view of the unfavourable prospects of printed circuit boards segment, and the equipment was made to fit GB Shenzhen's production plant and processes and therefore will not be readily marketable;
 - (iii) GB Shenzhen had no fixed liabilities as at 31 August 2023; and
 - (iv) the significant potential liabilities of GB Shenzhen (including the costs that may incur as rental and labour redundancy costs) will be primarily taken up by Purchaser II upon Completion; and
- (4) The Consideration Formula was to facilitate the parties to calculate (a) an amount of consideration which is close to the net current asset value of GB Shenzhen upon (or around the time of) Completion and (b) price adjustments to the consideration with reference to specific components easily.

In view of the above, the Directors considered that the aggregate consideration for the Disposals represents a fair value of the GB Subsidiaries and the Disposals are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Price Adjustment

The consideration payable for the GB Shenzhen Equity Interest is subject to Price Adjustment, which would affect the final instalment payable by Purchaser II to the Vendor for completion of Disposal II.

The amount of Price Adjustment is determined with reference to the Completion Audit, which will affect the consideration for Disposal II as follows:

- (1) in respect of any profit recorded in the Completion Audit Period, the consideration would increase by the amount of such profit;
- (2) in respect of any loss recorded in the Completion Audit Period, the consideration would decrease by the amount of such loss (and for the avoidance of doubt, any payment made by the GB Subsidiaries in respect of any labour restructuring costs shall be accrued as an expenditure for the Completion Audit Period);
- (3) the consideration would decrease by an amount corresponding to any liabilities or losses arising from any liabilities, accidents or incidents that have occurred or causes leading to such liabilities, accidents or incidents have already been formed prior to Completion (unless the Vendor has adequately disclosed such incidents to Purchaser II prior to Completion or the parties have taken such liabilities, accidents or incidents into account in the consideration for Disposal II at the time of the signing of the MOU);
- (4) Purchaser II shall deduct from the final instalment of the consideration payable for the GB Shenzhen Equity Interest by the amount of Bad Debts of the GB Subsidiaries (furthermore, Purchaser II may claim against the Vendor for the amount of such Bad Debts on 31 October 2024);
- (5) if the MPF refund from the Mandatory Provident Fund Service Provider is less than the previously agreed estimate of HK\$3,000,000, then Purchaser II shall reduce the final instalment of the consideration by the amount of the shortfall, conversely, if the MPF refund exceeds HK\$3,000,000, the final instalment payable shall increase accordingly; and
- (6) to the extent that there is any difference between the financial statements of the GB Subsidiaries and the Completion Audit, the consideration shall be adjusted with reference to the Completion Audit.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Directors did not expect any significant upward Price Adjustment to be made given that: (i) in respect of Price Adjustment items (1), (2) and (6), the GB Subsidiaries were not in a position of material gain as compared to their financial position as at 31 August 2023. Based on unaudited management accounts, the GB Subsidiaries have each recorded losses for September and October 2023. Accordingly, no upward adjustment is expected for Price Adjustment item (1); (ii) Price Adjustment items (3) and (4) would only decrease the consideration payable for the GB Shenzhen Equity Interest but in any event the Directors are not aware of any undisclosed asset or liabilities or gain or losses (and if any would arise, they would be disclosed to Purchaser II prior to Completion) and any material Bad Debts of the GB Subsidiaries; and (iii) in respect of Price Adjustment item (5), the Directors do not anticipate the MPF refund to be significantly more than the stated amount.

Therefore, the Price Adjustment is not expected to result in the Disposals being categorised as a very substantial disposal under Chapter 14 of the Listing Rules. If the Price Adjustment eventually increases the consideration payable for the GB Shenzhen Equity Interest, resulting in the Disposals being categorised as a very substantial disposal under Chapter 14 of the Listing Rules, the Company will comply with the relevant provisions under the Listing Rules as applicable.

5. DEED OF SECURITY

On 1 November 2023, Purchaser I, Purchaser II, the Vendor and GB Shenzhen entered into the Deed of Security. The principal terms of which are set out below:

Parties:

- (1) Purchaser I;
- (2) Purchaser II;
- (3) the Vendor; and
- (4) GB Shenzhen.

Date: 1 November 2023

Payment of consideration for Disposal II: The agreed manner of payment as set out under the Sale and Purchase Agreement II remains unchanged save as except that Purchaser II shall pay to the Vendor the RMB Deposit and the Second RMB Payment in the aggregate amount of RMB70,000,000 on or before the Expiry Day.

LETTER FROM THE BOARD

Security: The HKD Deposit and the USD Second Security shall be held for the benefit and be charged as a security in favour of the Vendor for the due performance of Purchaser I and Purchaser II of the Deed of Security, including Purchaser II's liability to make payment and satisfaction of the RMB Deposit and the Second RMB Payment.

Forfeiture and appropriation: The HKD Deposit shall be forfeited to the Vendor for any breach of Purchaser I or Purchaser II of the Deed of Security without prejudice to any remedy that may be available to the Vendor under the Sale and Purchase Agreement II.

If the aggregate payments made by Purchaser II as set out in "*Payment of consideration for Disposal II*" above on or before the Expiry Day is less than the total sum of the RMB Deposit and the Second RMB Payment (the "**Shortfall**"), the USD Second Security shall be appropriated by the Vendor to the extent of the Shortfall forthwith after the Expiry Day. Upon the appropriation by the Vendor, the payment obligation of Purchaser II in respect of the RMB Deposit and the Second RMB Payment shall be treated as fully satisfied under the Sale and Purchase Agreement II.

Any balance of the USD Second Security left after the appropriation of the Shortfall shall be released to Purchaser I within fifteen days after the Expiry Day.

Release of the HKD Deposit and the USD Second Security: Upon full settlement by Purchaser II of the RMB Deposit and the Second RMB Payment received by the Vendor in accordance with the Deed of Security, the HKD Deposit and the USD Second Security shall be fully released to Purchaser I on the fifteenth day after the Expiry Day.

The HKD Deposit and the USD Second Security shall be partially released to Purchaser I in the amount equivalent to any partial payment of the RMB Deposit and/or the Second RMB Payment from time to time received by the Vendor from Purchaser II before Completion.

LETTER FROM THE BOARD

6. EXTENSION OF TIME FOR COMPLETION AND THE COMPLETION AUDIT

On 1 November 2023, Purchaser I, Purchaser II, the Vendor and GB Shenzhen have agreed to extend the time for Completion from 1 November 2023 to a date on or before 24 November 2023 (or such other date as the parties may agree). Notwithstanding the extended time for Completion, the parties have agreed that the Completion Audit Period for the Completion Audit to be carried out by Purchaser I and Purchaser II shall run from 1 September 2023 to 31 October 2023 only.

7. INFORMATION OF THE GROUP

The Group is principally engaged in the business of (i) manufacturing of machinery, (ii) processing and manufacturing of plastic products, (iii) processing and trading of printed circuit boards, and (iv) trading of industrial consumables.

8. INFORMATION OF THE VENDOR

The Vendor is a company incorporated in Hong Kong with limited liability and is an indirect non-wholly-owned subsidiary of the Company. Its principal business is investment holding.

9. INFORMATION OF PURCHASER I AND PURCHASER II

Purchaser I is a company incorporated in Hong Kong with limited liability and is principally engaged in trading of printed circuits boards, and Purchaser II is a company established in the PRC with limited liability and is principally engaged in manufacturing of printed circuits boards.

Mr. Ngo Tai Tak is the ultimate beneficial owner of Purchaser I and Purchaser II.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, Purchaser I, Purchaser II and their ultimate beneficial owner are third parties independent of the Company and its connected persons.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is, and in the 12 months immediately preceding the Latest Practicable Date, there has been, no material loan arrangement between (a) Purchaser I, Purchaser II and any of their respective directors, legal representatives and/or ultimate beneficial owner who can exert influence on the Disposals; and (b) the Company, any connected person at the Company's level and/or any connected person of the Company's subsidiaries involved in the Disposals.

LETTER FROM THE BOARD

10. INFORMATION ON THE GB SUBSIDIARIES

GB HK and GB Shenzhen are indirect non-wholly-owned subsidiaries of the Company before Completion, and are incorporated in Hong Kong and the PRC with limited liability respectively. The principal business of GB HK is the trading of printed circuit boards as a trading arm of GB Shenzhen, and the principal business of GB Shenzhen is the processing of printed circuit boards and the operation of the processing factory of printed circuit boards.

Set out below is the financial information of the GB Subsidiaries as extracted from the consolidated financial statements for the financial years ended 31 December 2021 and 2022:

	For the financial year ended 31 December 2021 (audited) HK\$'000	For the financial year ended 31 December 2022 (audited) HK\$'000
GB HK		
Profit/(loss) before tax	(16,481)	(16,249)
Profit/(loss) after tax	(16,289)	(16,249)
GB Shenzhen <i>(Note)</i>		
Profit/(loss) before tax	4,426	(9,918)
Profit/(loss) after tax	3,755	(9,828)

Note: The conversion rate between RMB and HKD adopted for each of the financial years ended 31 December 2021 and 2022 is RMB1 = HK\$1.206 and RMB1 = HK\$1.164, respectively.

The unaudited net assets value and the fair value of entire equity interest in GB Shenzhen and GB HK as at 31 August 2023 were approximately RMB209,143,000 and negative HK\$4,800,000 respectively.

11. EFFECT OF THE DISPOSALS

Upon Completion, the Group will cease to have any interest in the GB Subsidiaries. The GB Subsidiaries will cease to be subsidiaries of the Company, and the financial results of the GB Subsidiaries thereafter will no longer be consolidated in the financial statements of the Group.

Assuming that (i) the actual consideration payable for Disposal II is equal to the estimated consideration (i.e. approximately RMB137,000,000, which is determined with reference to the financial statements of the GB Subsidiaries as at 31 August 2023), and (ii) no Price Adjustment is applicable, it is expected that upon Completion, the Group will record a loss on the Disposals of approximately HK\$52,000,000. Such loss is estimated based on the consideration for the Disposals, less the consolidated net assets of the GB Subsidiaries and reclassification of translation reserve as of 31 August 2023, prorated by the Group's 52% interest in the GB Subsidiaries. The loss on the Disposals expected by the Company is unaudited and subject to final confirmation as at the Completion date.

LETTER FROM THE BOARD

12. REASONS FOR AND BENEFITS OF THE DISPOSALS

As disclosed in the Annual Report 2022, the Group's printed circuit boards processing business has recorded a notable operating loss due to a combination of unfavourable scenarios, including among others, a notable shift by European automotive parts manufacturer to conduct sourcing outside of the PRC, unfavourable currency movements, a supply crisis of silicon chips, and depressed consumer confidence. The GB Subsidiaries have recorded a significant decrease in revenue in last two years, and their financial performance have not improved since the end of the reporting period for Annual Report 2022. The Group remains sceptical of a quick turnaround given the aforementioned factors.

The Disposals represent an opportunity for the Group to exit the printed circuit boards processing business in view of the difficult and changing circumstances, and will allow the Group to focus its resources on other business segments with more potential for positive cash flow, thereby enhancing the Group's financial position. After the Disposals, the only company within the Group that remains active in the printed circuit boards segment is KFE Hong Kong Co. Limited.

The Disposals are being carried out after arm's length negotiation and on normal commercial terms, and the Directors are of the view that the Disposals are in the interests of the Company and the Shareholders as a whole and the terms of the MOU, the Sale and Purchase Agreement I and the Sale and Purchase Agreement II are fair and reasonable and on normal commercial terms.

13. USE OF PROCEEDS

As at 31 August 2023, there were intercompany receivables of HK\$80,170,711 due from GB HK to the Remaining Group and intercompany receivables of RMB114,135,494 due from the Remaining Group to GB Shenzhen. The intercompany receivables between the GB Subsidiaries and the Remaining Group will be set-off against each other, and along with the costs of the Disposals, be deducted from the proceeds from the Disposals. Therefore, assuming that (i) the actual consideration payable for Disposal II is equal to the estimated consideration (i.e. approximately RMB137,000,000, which is determined with reference to the financial statements of the GB Subsidiaries as at 31 August 2023), and (ii) no Price Adjustment is applicable, it is expected that the Group will be distributed net proceeds in the amount of approximately RMB50,000,000 in proportion to its interest in the Vendor, which is expected to be used for the general working capital of the Company and/or funding for any future investment opportunity that may arise.

LETTER FROM THE BOARD

14. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of Disposal I is more than 5% but all of which are less than 25%, Disposal I, on a standalone basis, constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of Disposal II is more than 25% but all of which are less than 75%, Disposal II, on a standalone basis, constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

However, as the MOU, the Sale and Purchase Agreement I and the Sale and Purchase Agreement II were entered into on the same day by (i) the Vendor, (ii) GB Shenzhen (in respect of the Sale and Purchase Agreement II) and (iii) Purchaser I or Purchaser II, where Purchaser I and Purchaser II are associated with each other, and completion of the Sale and Purchase Agreement I is conditional on the completion of the Sale and Purchase Agreement II, they are required to be aggregated pursuant to Rules 14.22 and 14.23 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposals, on an aggregated basis, is more than 25% but all of which are less than 75%, the Disposals constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Disposals. As such, no Shareholder would be required to abstain from voting at a general meeting of the Company approving the Disposals if the Company were to convene such a general meeting. Accordingly, written Shareholders' approval (from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights at that general meeting) may be accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules.

LETTER FROM THE BOARD

The Closely Allied Group is entitled to exercise voting rights in respect of 450,813,463 Shares (representing approximately 52.30% of the total number of issued Shares) as at the Latest Practicable Date as follows:

Name of Shareholder	Number of Shares Held	Approximate % of the Total Number of Issued Shares ^(Note 1)
Tang To	4,970,005	0.57
Tang To and Leung Yee Mei ^(Note 2)	226,000	0.03
Ginta ^(Note 3)	3,460,406	0.40
Saniwell ^(Note 4)	36,250,000	4.20
Cosmos Holdings ^(Note 5)	235,802,600	27.36
Tai Shing ^(Note 5)	170,104,452	19.74
Total:	450,813,463	52.30

Notes:

1. Percentages are rounded to two decimal points.
2. Ms. Leung Yee Mei is the spouse of Mr. Tang To.
3. Ginta is approximately 99.999% owned by Fullwin Limited (incorporated in the Republic of Liberia), which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse respectively.
4. Saniwell is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members, and Saniwell in turn is owned as to approximately 57.14% by Mr. Tang To.
5. Cosmos Holdings is a subsidiary, and Tai Shing is an indirect subsidiary, of Codo. Codo is owned as to approximately (i) 25.06% by Keepsound Investments Limited (incorporated in Hong Kong, “**Keepsound**”), which is owned as to 94% by Saniwell; and (ii) 30.25% by Friendchain Investments Limited (incorporated in Hong Kong, “**Friendchain**”), which is owned as to approximately 57.42% by Saniwell.

The Company has obtained a written approval for the MOU, the Sale and Purchase Agreement I, the Sale and Purchase Agreement II, the Deed of Security and the transactions contemplated thereunder, including the Disposals, from the Closely Allied Group. Accordingly, no extraordinary general meeting will be convened to approve the Disposals as permitted under Rule 14.44 of the Listing Rules.

LETTER FROM THE BOARD

15. RECOMMENDATION

For the reasons set out above, the Directors (including the independent non-executive Directors) are of the view that the terms of the MOU, the Sale and Purchase Agreement I, the Sale and Purchase Agreement II, the Deed of Security and the transactions contemplated thereunder, including the Disposals, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and would recommend the Shareholders to vote in favour of the Disposals if it had been necessary to hold a general meeting for such purpose.

16. ADDITIONAL INFORMATION

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

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group (i) for each of the three years ended 31 December 2020, 2021 and 2022 was disclosed in the annual reports of the Company for the years ended 31 December 2020, 2021 and 2022, respectively, and (ii) for the six months ended 30 June 2023 was disclosed in the interim report of the Company for the six months ended 30 June 2023, all of which are incorporated by reference into this circular. All of the abovementioned annual reports and interim report can be found on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<http://www.cosmel.com>).

The following is the hyperlink to the 2020 annual report of the Company published on 28 April 2021 with its audited consolidated financial statements for the year ended 31 December 2020 on pages 116 to 280:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800757.pdf>

The following is the hyperlink to the 2021 annual report of the Company published on 27 April 2022 with its audited consolidated financial statements for the year ended 31 December 2021 on pages 125 to 284:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700705.pdf>

The following is the hyperlink to the Annual Report 2022 published on 26 April 2023 with its audited consolidated financial statements for the year ended 31 December 2022 on pages 128 to 288:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042601084.pdf>

The following is the hyperlink to the 2023 interim report of the Company published on 22 September 2023 with its unaudited consolidated financial statements for the six months ended 30 June 2023 on pages 4 to 25:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0922/2023092200407.pdf>

2. STATEMENT OF INDEBTEDNESS**Borrowings**

At the close of business on 30 September 2023, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular, the Group had (i) secured and guaranteed interest-bearing borrowings from financial institutions of approximately HK\$26,872,000; (ii) unsecured and guaranteed interest-bearing borrowings from financial institutions of approximately HK\$155,119,000; (iii) unsecured and unguaranteed interest-bearing borrowings from financial institutions of approximately HK\$60,000,000; and (iv) lease liability of approximately HK\$27,864,000. These borrowings are denominated in HKD and RMB.

Pledge of assets

As at close of business on 30 September 2023, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular, the Group had pledged the assets with carrying amounts of approximately HK\$136,766,000 to secure general banking facilities.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, outstanding mortgages, charges, term loans and overdrafts, hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, other borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 30 September 2023. The Directors confirm that there was no material change in the indebtedness status of the Group since 30 September 2023 up to the Latest Practicable Date.

3. WORKING CAPITAL STATEMENT

The Directors, after due and careful consideration, are of the opinion that, after taking into account the financial resources available to the Group, including its internally generated funds, the available credit loan facilities, the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular in the absence of unforeseeable circumstances.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is an investment holding company whose subsidiaries are principally engaged in the business of (i) manufacturing of machinery; (ii) processing and manufacturing of plastic products; (iii) processing and trading of printed circuit boards; and (iv) trading of industrial consumables.

The Board anticipates that after the ease of COVID-19 pandemic restrictions in the PRC, consumption will continue to grow alongside the resumption of business development activities to drive the demand for industrial goods and equipment. Notwithstanding the disruptions brought by geopolitical tensions between the PRC and western countries and the Russia-Ukraine conflict on the supply chain and their negative impact on consumer demands, the Board is of the view that there are still business opportunities for companies with an edge in satisfying demands from megatrends such as renewable energy, lithium battery, electric vehicles, automation equipment and eco-friendly materials. Since the first half of 2023, the Group is still facing stagnant manufacturing demands in the PRC and globally, weak exports of industrial goods and the lack of growth in consumer spending. However, the Group will be proactive in implementing a suitable course of action to navigate the challenging and highly competitive market. Following the Disposals, the Company's processing and manufacturing business remains well positioned to capture such demands and it is keen to focus its resources to develop its core competencies and automation to maintain its competitiveness in providing customized and energy efficient solutions.

After the Disposals, the only company within the Group that remains active in the printed circuit boards segment is KFE Hong Kong Co. Limited. The Company would consider suitable strategies for KFE Hong Kong Co. Limited, which continues to record profit under difficult business circumstances in the past few years. The Group intends to reallocate its resources to other manufacturing and trading segments while exploring suitable investment opportunities and investing in research and development of its manufacturing and production capabilities.

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 respects 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 EXECUTIVES IN EQUITY OR DEBT SECURITIES

As at the Latest Practicable Date, the interests and short positions of each Director, chief executives of the Company and their respective associates in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered into the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “**Model Code**”) to be notified to the Company and the Stock Exchange are set out below:

Long positions in the Shares as at the Latest Practicable Date:

Name of Director	Number of Shares Held			Total	Approximate % of the Total Number of Issued Shares
	Personal Interests	Family Interests	Corporate Interests		
Tang To	4,970,005	226,000 <i>(Note 1)</i>	445,617,458 <i>(Note 2)</i>	450,813,463	52.30
Tang Yu, Freeman	–	–	442,157,052 <i>(Note 3)</i>	442,157,052	51.30
Kan Wai Wah	136,400	–	–	136,400	0.02

Notes:

1. 226,000 Shares were held by Mr. Tang To and his spouse jointly.
2. Mr. Tang To was deemed to be interested in 445,617,458 Shares under the SFO, comprising (i) 3,460,406 Shares held by Ginta which is owned as to approximately 99.999% by Fullwin Limited, which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse respectively; (ii) 405,907,052 Shares held by Codo through its wholly-owned subsidiaries, Tai Shing, Hung Cheong and Cosmos Holdings; and (iii) 36,250,000 Shares held by Saniwell (as the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members) which in turn is owned as to approximately 57.14% by Mr. Tang To. As at the Latest Practicable Date, Mr. Tang To was one of the directors of Ginta.
3. Mr. Tang Yu, Freeman was deemed to be interested in 442,157,052 Shares under the SFO, comprising (i) 405,907,052 Shares held by Codo through its wholly-owned subsidiaries, Tai Shing, Hung Cheong and Cosmos Holdings; and (ii) 36,250,000 Shares held by Saniwell (as the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members) which in turn is owned as to approximately 42.86% by Mr. Tang Yu, Freeman.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives of the Company and their respective associates had or was deemed to have any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered into the register referred to therein; or were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed to have, an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, 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 the Company or any of its subsidiaries:

Long positions in the Shares as at the Latest Practicable Date:

Name of Substantial Shareholder	Capacity	Number of Shares Held			Approximate % of the Total Number of Issued Shares
		Direct Interests	Deemed Interests	Total	
Tai Shing	Beneficial owner	170,104,452	–	170,104,452	19.74
Cosmos Holdings	Beneficial owner and interest of controlled corporations	235,802,600	170,104,452 (Note 1)	405,907,052	47.09
Codo	Interest of controlled corporations	–	405,907,052 (Note 2)	405,907,052	47.09
Law Kit Fong	Interest of controlled corporations	–	405,907,052 (Note 3)	405,907,052	47.09
Saniwell	Beneficial owner and interest of controlled corporations	36,250,000	405,907,052 (Note 4)	442,157,052	51.30
China Resources (Holdings) Company Limited	Beneficial owner	169,649,046	–	169,649,046	19.68
CRC Bluesky Limited	Interest of controlled corporations	–	169,649,046 (Note 5)	169,649,046	19.68
China Resources Co., Limited	Interest of controlled corporations	–	169,649,046 (Note 6)	169,649,046	19.68

Notes:

1. Tai Shing was wholly-owned by Hung Cheong, which is a wholly-owned subsidiary of Cosmos Holdings. By virtue of the SFO, Cosmos Holdings was deemed to be interested in 170,104,452 Shares held by Tai Shing.
2. Cosmos Holdings was owned as to approximately (i) 99.999% by Codo; and (ii) 0.001% by Glad Season Investments Limited (incorporated in Hong Kong), which was owned as to 50% by Codo and 50% by Cosmos Holdings (as trustee for Codo). By virtue of the SFO, Codo was deemed to be interested in 405,907,052 Shares held by Cosmos Holdings. As at the Latest Practicable Date, Mr. Tang To, Mr. Tang Yu, Freeman and Mr. Kan Wai Wah were the directors of Cosmos Holdings.

3. Codo was owned as to approximately (i) 8.37% by Elegant Power Enterprises Limited (incorporated in Hong Kong, “**Elegant Power**”); and (ii) 30.25% by Friendchain, which was owned as to 40% by Elegant Power. Elegant Power was owned as to approximately 0.002% by Mr. Kan Wai Wah, a non-executive Director (as trustee for Ms. Law Kit Fong), and approximately 99.998% by Ms. Law Kit Fong. By virtue of the SFO, Ms. Law Kit Fong was deemed to be interested in 405,907,052 Shares held by Codo. As at the Latest Practicable Date, Mr. Tang To and Mr. Kan Wai Wah were the directors of Codo.
4. Codo was owned as to approximately (i) 25.06% by Keepsound, which was owned as to 94% by Saniwell; and (ii) 30.25% by Friendchain, which was owned as to approximately 57.42% by Saniwell. By virtue of the SFO, Saniwell was deemed to be interested in 405,907,052 Shares held by Codo. As at the Latest Practicable Date, Mr. Tang To and Mr. Tang Yu, Freeman were the directors of Saniwell.
5. By virtue of the SFO, CRC Bluesky Limited (incorporated in the British Virgin Islands) was deemed to be interested in 169,649,046 Shares held by China Resources (Holdings) Company Limited (incorporated in Hong Kong), which was a wholly-owned subsidiary of CRC Bluesky Limited.
6. By virtue of the SFO, China Resources Co., Limited (incorporated in the PRC) was deemed to be interested in 169,649,046 Shares held by CRC Bluesky Limited, which was a wholly-owned subsidiary of China Resources Co., Limited.

Save as disclosed herein, as at the Latest Practicable Date, there was no other person so far as was known to the Directors and chief executives of the Company (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, 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 the Company or any of its subsidiaries.

Further, save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which was not expiring or determinable by the Company or such subsidiaries within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, the Group does not have any litigations or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against the Company or any of its subsidiaries.

6. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to the Company or any of its subsidiaries; and
- (b) none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement was subsisting as at the date of this circular and which was significant in relation to the business of the Group as a whole.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Listing Rules) was interested directly or indirectly in any business, apart from their interest in the Company, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. MATERIAL CONTRACTS

The following contract (not being contracts in the ordinary course of business of the Company) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular, which is or may be material:

- (a) the MOU;
- (b) the Sale and Purchase Agreement I;
- (c) the Sale and Purchase Agreement II; and
- (d) the Deed of Security.

9. GENERAL

- (a) The registered office of the Company is at 10th Floor, Billion Plaza 2, No. 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong.
- (b) The company secretary of the Company is Ms. Wong Lai Tong, an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (c) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS ON DISPLAY

Electronic copies of the following documents will be published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<http://www.cosmel.com>) from the date of this circular up to 14 days thereafter:

- (a) the annual reports of the Company for each of the three years ended 31 December 2020, 2021 and 2022;
- (b) the interim report of the Company for the six months ended 30 June 2023;
- (c) the material contracts referred to in the paragraph headed “*Material Contracts*” in this appendix; and
- (d) this circular.