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大同機械企業有限公司

COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 118)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF SALE SHARES

DISPOSAL OF SALE SHARES

The Board is pleased to announce that on 10 July 2024 (after trading hours), the Seller and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Seller conditionally agreed to sell to the Purchaser, and the Purchaser conditionally agreed to purchase from the Seller, the Sale Shares at the Consideration.

As at the date of this announcement, the Target Company is a subsidiary of the Company and the financial results, assets and liabilities of the Target Group have been consolidated into the accounts of the Group. Upon Completion, the Group will cease to hold any interest, directly or indirectly, in the Target Group, and each member of the Target Group will cease to be a subsidiary of the Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Purchaser is the son of Mr. Yip, who is a director and a substantial shareholder of the Target Company and hence a connected person of the Company at the subsidiary level. The Purchaser is an associate of Mr. Yip and hence a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Given that (i) the Purchaser is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Sale and Purchase Agreement; and (iii) all the independent non-executive Directors have confirmed that the terms of the Sale and Purchase Agreement are fair and reasonable, and that the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Disposal is only subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and Shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

Nonetheless, as one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Disposal is more than 25% but all of them are less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company proposes to obtain a written approval for the Disposal from Mr. Tang To and his associates (being a closely allied group of Shareholders). Accordingly, no extraordinary general meeting will be convened to approve the Disposal as permitted under Rule 14.44 of the Listing Rules.

GENERAL

Pursuant to Rule 14.41(a) of the Listing Rules, a circular containing, among other things, (i) details of the Sale and Purchase Agreement and the Disposal; (ii) financial information of the Group; and (iii) other information required under the Listing Rules is expected to be despatched to the Shareholders on or before 31 July 2024.

As the Disposal is subject to the satisfaction and/or waiver, where applicable, of the conditions precedents, the Disposal may or may not proceed to Completion. Shareholders and potential investors should exercise caution when dealing in the Shares or any securities of the Company.

SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that on 10 July 2024 (after trading hours), the Seller (a wholly-owned subsidiary of the Company) and the Purchaser entered into the Sale and Purchase Agreement pursuant to which the Seller conditionally agreed to sell to the Purchaser, and the Purchaser conditionally agreed to purchase from the Seller, the Sale Shares at the Consideration. The principal terms of the Sale and Purchase Agreement are set out below:

Date

10 July 2024

Parties

- (i) The Seller; and
- (ii) the Purchaser.

Subject Matter

The Seller conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Shares, being 5,200 ordinary shares of the Target Company (representing 52% of the total number of its issued shares).

As at the date of this announcement, the Target Company is held as to 52% by the Seller and 48% by Mr. Yip.

Consideration

The consideration payable for the sale and purchase of the Sale Shares is HK\$52,993,165, to be paid by the Purchaser to the Seller in the following manner:

- (a) a sum of HK\$2,000,000 has been paid upon the execution of the Sale and Purchase Agreement;
- (b) a further sum of HK\$23,000,000 shall be paid on or before 31 July 2024; and
- (c) the remaining balance of the Consideration, in the sum of HK\$27,993,165, shall be paid on the Completion Date.

The Consideration was determined after arm's length negotiations between the Seller and the Purchaser after taking into account (i) the appraised fair market value of KFE Hong Kong Co., Limited (an indirect wholly-owned subsidiary of the Target Company) and its subsidiaries, which amounted to approximately HK\$76,627,000 as at 31 December 2023; (ii) the appraised fair market value of the properties owned by the Target Company, which amounted to HK\$11,400,000 as at 15 June 2024; (iii) the assets and liabilities of the Target Group; and (iv) the business prospects of the Target Group.

Conditions

Completion is conditional upon the satisfaction (or waiver, where applicable) of the following conditions:

- (a) the Purchaser's payment of the Deposits;
- (b) the obtaining of all consents which are necessary in respect of the Sale and Purchase Agreement and the transactions contemplated therein;
- (c) none of the Purchaser's warranties in the Sale and Purchase Agreement being found to be, and no event occurring or matter arising which may render or renders such warranties, untrue, inaccurate or misleading in a material respect on and as at the Completion Date;
- (d) none of the Seller's warranties in the Sale and Purchase Agreement being found to be, and no event occurring or matter arising which may render or renders such warranties, untrue, inaccurate or misleading in a material respect on and as at the Completion Date; and
- (e) the execution of the Sale and Purchase Agreement and the transactions contemplated thereunder having complied with all applicable requirements under the Listing Rules, including obtaining Shareholders' approval if necessary.

Save for the conditions referred to in paragraphs (a), (b) (in respect of the consents to be obtained by the Purchaser) and (c) above which can be waived by the Seller, and the conditions referred to in paragraphs (b) (in respect of the consents to be obtained by the Seller) and (d) above which can be waived by the Purchaser, none of the conditions can be waived.

In the event that the conditions have not been satisfied or waived on or before the Long Stop Date, or such later date as may be agreed between the Seller and the Purchaser in writing, the party who is entitled to waive the outstanding condition(s) may elect in its sole discretion to (i) waive the outstanding condition(s) and continue with Completion on such terms as the parties may agree in respect of the unsatisfied condition(s), or (ii) terminate the Sale and Purchase Agreement by notice to the other party.

Completion

Completion shall take place at the Seller's office at or before 4:00 p.m. on the Completion Date or such later date as the parties may agree in writing.

Upon Completion, the Group will cease to hold any interest, directly or indirectly, in the Target Group, and each member of the Target Group will cease to be a subsidiary of the Company.

GENERAL INFORMATION

The Group

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

The Seller

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

The Purchaser

The Purchaser is a Hong Kong resident, and the son of Mr. Yip.

Target Company

The Target Company is a company incorporated in Hong Kong with limited liability and is held as to 52% and 48% by the Seller and Mr. Yip, respectively. It is principally engaged in investment holding activities. The subsidiaries of the Target Company are engaged in the business of trading printed circuit boards.

Financial information of the Target Group

Set out below is the financial information of the Target Group based on the unaudited financial statements of the Target Group for the financial years ended 31 December 2022 and 31 December 2023.

	For the financial year ended 31 December 2022 <i>(Note)</i> (unaudited) <i>HK\$'000</i>	For the financial year ended 31 December 2023 <i>(Note)</i> (unaudited) <i>HK\$'000</i>
Profit before taxation and extraordinary items	10,682	8,272
Profit after taxation and extraordinary items	9,347	6,339

Note: The Target Company was incorporated on 8 August 2023, therefore the figures for the year ended 31 December 2022 reflects the results of KFE International Limited and its subsidiaries only (being all of the members of the Target Group except for the Target Company).

The figures for the year ended 31 December 2023 reflects the results of all of the members of the Target Group, including the Target Company.

The unaudited net assets value and the fair value of the entire equity interest in the Target Group were approximately HK\$90,768,000 as at 30 June 2024.

EFFECTS OF THE DISPOSAL AND USE OF PROCEEDS

Upon Completion, the Group will cease to have any interest in the Target Group. Each member of the Target Group will cease to be a subsidiary of the Company, and the financial results of the Target Group thereafter will no longer be consolidated in the financial statements of the Group.

It is expected that the Company would record a gain of approximately HK\$2,915,000 upon Completion. Such gain is estimated based on the Consideration less the consolidated net assets and reclassification of translation reserve of the Target Group as at 30 June 2024, prorated by the Group's 52% interest in the Target Company. The actual gain or loss in connection with the Disposal will be assessed after Completion and is subject to audit.

The sale proceeds from the Disposal are intended to be used by the Group as general working capital and/or funding for any future investment opportunities that may arise.

REASONS FOR AND BENEFITS OF THE DISPOSAL

In May 2024, the Group has completed the disposal on the Group's printed circuit boards processing business. The Board does not hold an optimistic view on the business prospects of printed circuit boards trading, and the Disposal represents an opportunity for the Group to exit this business and 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.

In view of the above, the Directors (including all the independent non-executive Directors) consider that although the Disposal is not in the ordinary and usual course of business of the Group, the terms and conditions for the Disposal are on normal commercial terms, fair and reasonable, and are in the interest of the Company and its Shareholders as a whole.

None of the Directors (including the independent non-executive Directors) has a material interest in the Sale and Purchase Agreement, and none of the Directors has abstained from voting on the relevant Board resolutions.

LISTING RULES IMPLICATIONS

To the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, the Purchaser is the son of Mr. Yip, who is a director and a substantial shareholder of the Target Company and hence a connected person of the Company at the subsidiary level. The Purchaser is an associate of Mr. Yip and hence a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Given that (i) the Purchaser is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Sale and Purchase Agreement; and (iii) all the independent non-executive Directors have confirmed that the terms of the Sale and Purchase Agreement are fair and reasonable, and that the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Disposal is only subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and Shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

Nonetheless, as one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Disposal is more than 25% but all of them are less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

WRITTEN SHAREHOLDERS' APPROVAL

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 Disposal. As such, no Shareholders would be required to abstain from voting at a general meeting of the Company approving the Disposal 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.

Mr. Tang To together with his associates, are entitled to exercise voting rights in respect of 450,813,463 Shares (representing approximately 52.30% of the total number of issued Shares) 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 Company Limited ^(Note 3)	3,460,406	0.40
Saniwell Holding Inc. ^(Note 4)	36,250,000	4.20
Cosmos Machinery (Holdings) Limited ^(Note 5)	235,802,600	27.36
Tai Shing Agencies Limited ^(Note 5)	170,104,452	19.74
Total:	450,813,463	52.30

Notes:

- Percentages are rounded to two decimal points.
- Ms. Leung Yee Mei is the spouse of Mr. Tang To.
- Ginta Company Limited is approximately 99.999% owned by Fullwin Limited, which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse respectively.
- Saniwell Holding Inc. is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members, and Saniwell Holding Inc. in turn is owned as to approximately 57.14% by Mr. Tang To.
- Cosmos Machinery (Holdings) Limited is a subsidiary, and Tai Shing Agencies Limited is an indirect subsidiary, of Codo Development Limited. Codo Development Limited is owned as to approximately (i) 25.06% by Keepsound Investments Limited, which is owned as to 94% by Saniwell Holding Inc.; and (ii) 30.25% by Friendchain Investments Limited, which is owned as to approximately 57.42% by Saniwell Holding Inc..

The Company proposes to obtain a written approval for the Disposal from Mr. Tang To and his associates (being a closely allied group of Shareholders). Accordingly, no extraordinary general meeting will be convened to approve the Disposal as permitted under Rule 14.44 of the Listing Rules.

GENERAL

Pursuant to Rule 14.41(a) of the Listing Rules, a circular containing, among other things, (i) details of the Sale and Purchase Agreement and the Disposal; (ii) financial information of the Group; and (iii) other information required under the Listing Rules is expected to be despatched to the Shareholders on or before 31 July 2024.

As the Disposal is subject to the satisfaction and/or waiver, where applicable, of the conditions precedents, the Disposal may or may not proceed to Completion. Shareholders and potential investors should exercise caution when dealing in the Shares or any securities of the Company.

DEFINITIONS

“associate”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors of the Company;
“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 Disposal in accordance with the Sale and Purchase Agreement;
“Completion Date”	the business day on which the last of the conditions to the Disposal (except such conditions which are expressed to be satisfied on or as at Completion) are satisfied or waived (or another day as the Seller and Purchaser may agree in writing)
“connected person”	has the meaning ascribed thereto in the Listing Rules;
“connected transaction(s)”	has the meaning ascribed thereto in the Listing Rules;
“Consideration”	the consideration payable for the Sale Shares under the Sale and Purchase Agreement, being HK\$52,993,165;
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Deposits”	part of the Consideration in the amount of HK\$25,000,000, being (i) the HK\$2,000,000 paid by the Purchaser upon execution of the Sale and Purchase Agreement, and (ii) the HK\$23,000,000 payable on or before 31 July 2024;
“Directors”	directors of the Company;

“Disposal”	the sale and purchase of the Sale Shares pursuant to the terms of the Sale and Purchase Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	15 September 2024 (or such other date as the Seller and Purchaser may agree in writing)
“Mr. Yip”	Mr. Yip Kar Shun 葉嘉信, the father of the Purchaser, and a director and a substantial shareholder of the Target Company;
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, the Macao Special Administrative Region and Taiwan;
“Purchaser”	Mr. Yip Kin Keung 葉建強, the son of Mr. Yip;
“Sale and Purchase Agreement”	the sale and purchase agreement entered into between the Seller and the Purchaser dated 10 July 2024;
“Sale Shares”	5,200 ordinary shares in the Target Company held by the Seller, representing 52% of the Target Company’s total number of issued shares;
“Seller”	Major Success Company Limited 致騰有限公司, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;
“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	the holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules;
“Target Company”	Able Popular Limited 致興有限公司, a company incorporated in Hong Kong with limited liability and an indirect non-wholly-owned subsidiary of the Company;

“Target Group”

the Target Company together with its subsidiaries, namely (i) KFE International Limited, (ii) KFE Hong Kong Co., Limited, (iii) KFE (Shenzhen) Co., Ltd.* (協榮二葉科技(深圳)有限公司), (iv) KFE (Suzhou) Co., Ltd.* (協榮二葉電子(蘇州)有限公司), (v) Kyohei Futaba Engineering Co., Ltd.* (協榮二葉エンジニアリング株式会社) and (vi) KFE (Thailand) Company Limited; and

“%”

percent.

By order of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

Hong Kong, 10 July 2024

As at the date of this announcement, the Board comprises six Directors, of which two are executive Directors, namely Mr. Tang To and Mr. Tang Yu, Freeman, one is non-executive Director, namely Mr. Kan Wai Wah, and three are independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Lam Kwok Ming and Mr. Lee Wai Yip, Alvin.

* For identification purposes only.