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**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS;
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

Financial Adviser to Cosmos Machinery Enterprises Limited



**Independent Financial Adviser to the Code Independent Board Committee,
the LR Independent Board Committee and the Independent Shareholders**



THE SUBSCRIPTION AGREEMENT

On 30 April 2018 (after trading hours), the Company entered into the Subscription Agreement with the First Subscriber and the Second Subscriber, pursuant to which the Company will allot and issue, and the First Subscriber and the Second Subscriber will subscribe for 108,750,000 Shares and 36,250,000 Shares respectively at the Subscription Price of HK\$0.55 per Subscription Share.

The 145,000,000 Subscription Shares represent (i) approximately 20.23% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The gross proceeds from the Subscription are expected to be HK\$79,750,000 (based on the Subscription Price of HK\$0.55 per Share). The net proceeds of the Subscription (after deducting related professional fees and related expenses) are expected to be approximately HK\$76,800,000 and the net Subscription Price per Subscription Share will be approximately HK\$0.53. The Company intends to use the net proceeds from the Subscription for investment and expansion in the machinery manufacturing business, plastic products and processing business and industrial supplies trading business, repayment of existing bank borrowings and general working capital of the Group.

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

IMPLICATIONS UNDER THE LISTING RULES AND THE TAKEOVERS CODE

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

The First Subscriber is a controlling shareholder of the Company. As at the date of this announcement, it directly holds 127,052,600 Shares (representing approximately 17.72% of the total issued share capital of the Company) and indirectly holds 170,104,452 Shares (representing approximately 23.73% of the total issued share capital of the Company), together representing approximately 41.45% in the issued share capital of the Company. Prior to the Subscription, the Second Subscriber does not directly hold any Shares. The Second Subscriber is owned as to approximately 57.14% by Mr. Tang To and approximately 42.86% by Mr. Tang Yu, Freeman, both executive Directors, and through its intermediate holding companies, the Second Subscriber indirectly controls the First Subscriber. Therefore the First Subscriber and the Second Subscriber are connected persons of the Company pursuant to the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the announcement, reporting and Independent Shareholders' approval requirements.

Upon Completion, the First Subscriber will directly hold 235,802,600 Shares and indirectly hold 170,104,452 Shares, together representing approximately 47.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Second Subscriber will directly hold 36,250,000 Shares, representing approximately 4.21% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The First Subscriber, the Second Subscriber and their associates and parties acting in concert will be interested in a total of 450,949,858 Shares in aggregate, representing approximately 52.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by them or parties acting in concert with them as their aggregate direct and indirect shareholding interests in the Company would increase from the existing approximately 41.45% to approximately 51.30% upon Completion, unless the Whitewash Waiver is granted by the Executive. In this regard, the Subscribers will make an application to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the EGM by way of poll.

The Executive may or may not grant the Whitewash Waiver and in the event that it is not granted, the Subscription Agreement shall lapse and the Subscription will not proceed.

GENERAL

The EGM will be convened for the Independent Shareholders to consider, and if thought fit, approve the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

By virtue of the Subscribers' interest in the Subscription Agreement, the Subscribers and their respective associates and parties acting in concert with them shall abstain from voting on the resolution(s) to be proposed at the EGM in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

Pursuant to the Listing Rules, the LR Independent Board Committee, which comprises all the independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, has been established to advise the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder. Pursuant to the Takeovers Code, the Code Independent Board Committee, which comprises Mr. Qu Jinping, being a non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, all being independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Since Mr. Kan Wai Wah, a non-executive Director, is a director of the First Subscriber, Mr. Kan Wai Wah has not been included in the Code Independent Board Committee.

Challenge Capital Management Limited has been appointed as the Independent Financial Adviser to advise the LR Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, and to advise the Code Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

A circular containing (i) details of the Subscription Agreement and the Whitewash Waiver; (ii) the recommendation from the LR Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder; (iii) the recommendation from the Code Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver; (iv) the letter of advice from Challenge Capital Management Limited to the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver; and (v) notice of the EGM is expected to be despatched to the Shareholders on or before 21 May 2018.

On 30 April 2018 (after trading hours), the Company entered into the Subscription Agreement with the First Subscriber and the Second Subscriber, pursuant to which the Company will allot and issue, and the First Subscriber and the Second Subscriber will subscribe for 108,750,000 Shares and 36,250,000 Shares respectively, at the Subscription Price of HK\$0.55 per Subscription Share.

THE SUBSCRIPTION AGREEMENT

Set out below are the principal terms of the Subscription Agreement:

Date

30 April 2018

Parties

- (i) the Company, being the issuer;
- (ii) Cosmos Machinery (Holdings) Limited, being the First Subscriber; and
- (iii) Saniwell Holding Inc., being the Second Subscriber.

For further details about the Subscribers, please refer to the section headed “INFORMATION ON THE SUBSCRIBERS” in this announcement.

The Subscription Shares

The 145,000,000 Subscription Shares represent (i) approximately 20.23% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The aggregate consideration of the Subscription Shares is HK\$79,750,000.

The Subscription Shares to be allotted and issued shall rank *pari passu* in all respects among themselves and with all existing Shares in issue as at the date of Completion, including the right to rank in full for all distributions declared, made or paid by the Company at any time after the date of the Subscription Agreement.

The Subscription Price

The Subscription Price of HK\$0.55 per Subscription Share represents:

- (i) a premium of approximately 11.1% to the closing price of HK\$0.495 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 6.8% to the average closing price of approximately HK\$0.515 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 10.4% to the average closing price of approximately HK\$0.498 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 12.0% to the average closing price of approximately HK\$0.491 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day; and
- (v) a discount of approximately 63.5% to the audited net asset value attributable to owners of the Company as at 31 December 2017 of approximately HK\$1.507 per Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers with reference to recent market trading prices of the Shares.

Based on the Subscription Price of HK\$0.55 per Subscription Share and the 108,750,000 Subscription Shares and 36,250,000 Subscription Shares to be allotted and issued to the First Subscriber and Second Subscriber respectively, the total Subscription monies payable by the First Subscriber and the Second Subscriber to the Company pursuant to the Subscription Agreement amount to approximately HK\$59,812,500 and approximately HK\$19,937,500 respectively, which will be settled in cash.

Lock-up period

Pursuant to the terms of the Subscription Agreement:

- (i) Each of the Subscribers undertakes to the Company that from the date of the Completion and on or prior to the date being 6 months after the date of the Completion, it will not and will procure that none of its nominees and companies controlled by it or trusts associated with it (whether individually or together and whether directly or indirectly) will (a) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or (otherwise) any Shares or any interests therein or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Shares or interests or (b) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (a) or (b) above is to be settled by delivery of Shares or such other securities, in cash or otherwise or (c) announce any intention to enter into or effect any such transaction described in (a) or (b) above; and

- (ii) The Company undertakes to each of the Subscribers that (except for (a) the new Shares to be allotted and issued to each of the Subscribers and (b) any Shares or other securities or rights issued or granted to shareholders by way of bonus or under any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with its articles of association or on the exercise of rights existing at the date of the Subscription Agreement) from the date of the Completion and on or prior to the date being 6 months after the date of the Completion it will not (x) allot or issue or offer to allot or issue or grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares or (y) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the transaction described in (x) above or (z) announce any intention to enter into or effect any such transaction described in (x) or (y) above.

Conditions precedent to the Subscription Agreement

Completion is conditional upon:

- (i) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares (and such listing and permission not subsequently revoked prior to Completion);
- (ii) the passing of resolution(s) by the Independent Shareholders at the EGM to approve the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver;
- (iii) the Executive granting or agreeing to grant the Whitewash Waiver in accordance with the requirements of the SFC and the Takeovers Code; and
- (iv) the representations and warranties of the Subscribers being true and accurate and not misleading at all times from the date of the Subscription Agreement up to and including the date of Completion.

The Company may waive in writing the condition set out in (iv) above. Save as aforementioned, none of the conditions precedent can be waived by any parties to the Subscription Agreement.

In the event that the conditions precedent above are not fulfilled or waived (as the case may be) by 5:00 p.m. on the Long Stop Date (or such later date as may be agreed by the Subscribers and the Company), the Subscription Agreement and all rights and obligations thereunder shall cease and terminate and none of the parties thereto shall have any claim against the other.

As at the date of this announcement, none of the conditions precedent has been fulfilled.

Completion of the Subscription

Completion shall take place at 10:00 am (Hong Kong time) on the fifth Business Day after the date on which all the conditions precedent to the Subscription Agreement set out above have been fulfilled or waived (as the case may be) (or such other location, time and/or date as the Subscribers and the Company may agree in writing), and in any event not later than the Long Stop Date (or such later date as may be agreed by the Subscribers and the Company).

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

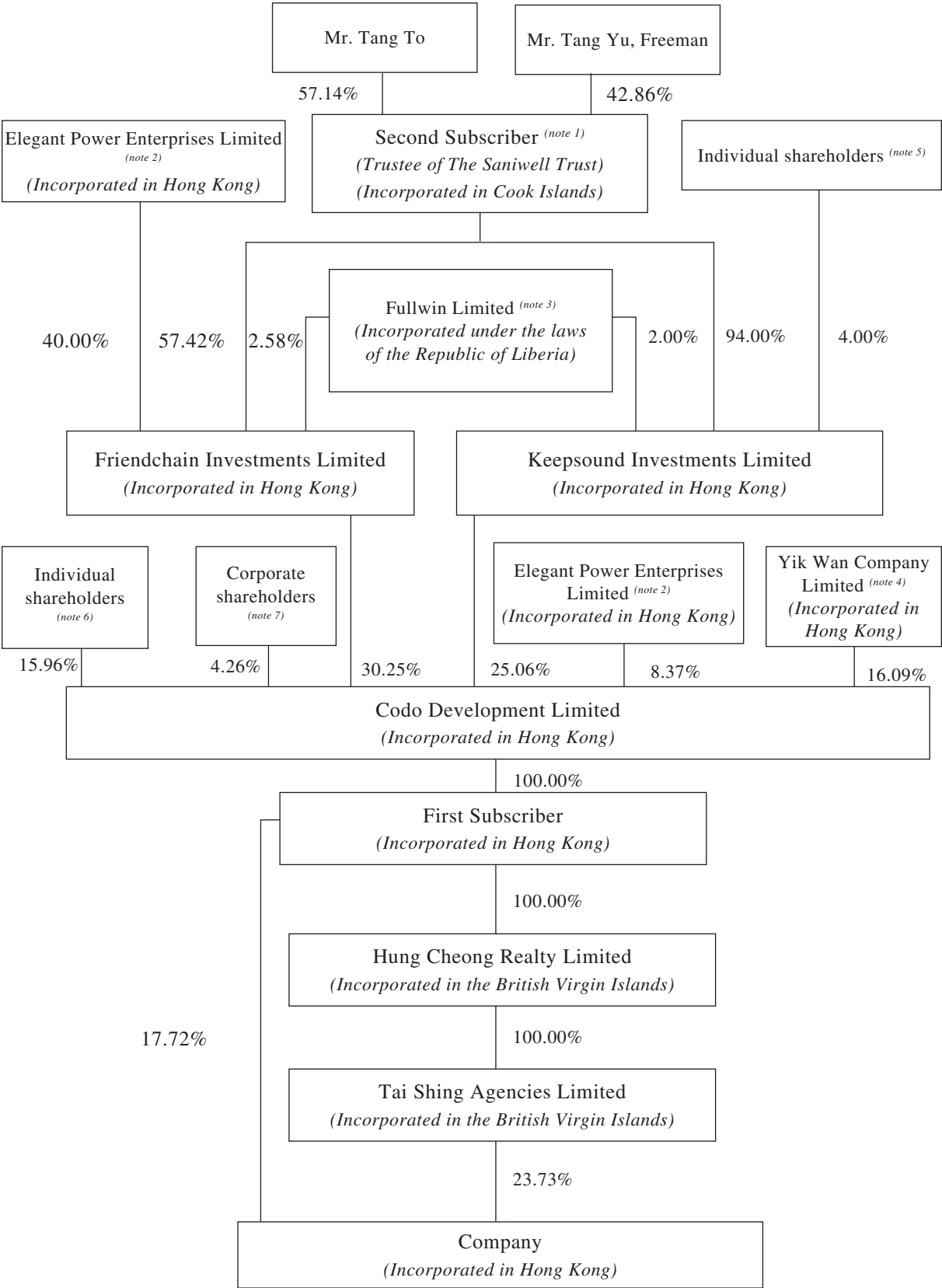
INFORMATION ON THE SUBSCRIBERS

The First Subscriber is an investment holding company incorporated under the laws of Hong Kong with limited liability. As at the date of this announcement, the First Subscriber directly holds 127,052,600 Shares (representing approximately 17.72% of the total issued share capital of the Company) and indirectly holds 170,104,452 Shares (representing approximately 23.73% of the total issued share capital of the Company), together representing approximately 41.45% of the total issued share capital of the Company and therefore is a controlling shareholder of the Company.

The Second Subscriber is a company incorporated under the laws of Cook Islands and is owned as to approximately 57.14% by Mr. Tang To and approximately 42.86% by Mr. Tang Yu, Freeman, both executive Directors. It is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To and certain of his family members. Prior to the Subscription, the Second Subscriber does not directly hold any Shares. The Second Subscriber through its intermediate holding companies indirectly controls the First Subscriber. As such, the Second Subscriber is a connected person of the Company.

As at the date of this announcement, the First Subscriber, the Second Subscriber and their associates and parties acting in concert with them are interested in a total of 485,066,904 Shares, representing approximately 67.66% of the issued share capital of the Company. Upon Completion, the First Subscriber, the Second Subscriber and their associates and parties acting in concert with them will be interested in a total of 450,949,858 Shares, representing approximately 52.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

For illustration purpose, the simplified shareholding structure of the Subscribers as at the date of this announcement is set out below:



Notes:

- (1) The Second Subscriber is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To, an executive Director, and certain of his family members.
- (2) Elegant Power Enterprises Limited is owned as to 0.002% by Mr. Kan Wai Wah, a non-executive Director, and 99.998% by Ms. Law Kit Fong, one of Mr. Kan Wai Wah's associates.
- (3) Fullwin Limited is owned as to 50% by Mr. Tang To, an executive Director, and 50% by his spouse.
- (4) Yik Wan Company Limited is owned directly and indirectly by several associates of Mr. Kan Wai Wah, a non-executive Director. Each associate holds between 0.04% to 14.29% shareholding interests in Yik Wan Company Limited.
- (5) The individual shareholders of Keepsound Investment Limited are associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors. Each individual shareholder holds between 0.33% to 2.00% shareholding interests in Keepsound Investment Limited.
- (6) The individual shareholders of Codo Development Limited include several associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors, holding in aggregate 15.48% shareholding interests in Codo Development Limited, and an Independent Third Party, holding 0.48% shareholding interests in Codo Development Limited. Each individual shareholder holds between 0.48% to 4.24% shareholding interests in Codo Development Limited.
- (7) The corporate shareholders of Codo Development Limited are Cranswick Holdings Limited and Silver View Investment Limited, holding 2.60% and 1.67% shareholding interests in Codo Development Limited respectively.

According to public information available to the Company, Cranswick Holdings Limited is incorporated in Hong Kong and is owned by associates of Mr. Tang To and Mr. Tang Yu, Freeman, both executive Directors. Silver View Investment Limited is incorporated in Hong Kong and is owned by Independent Third Parties.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The principal activities of the Group are manufacturing of machineries, manufacturing of plastic processing products, processing and trading of printed circuit boards and trading of industrial supplies.

The gross proceeds from the Subscription are expected to be approximately HK\$79,750,000 (based on the Subscription Price of HK\$0.55 per Share). The net proceeds of the Subscription (after deducting related professional fees and related transaction expenses) are expected to be approximately HK\$76,800,000 and the net Subscription Price per Subscription Share will be approximately HK\$0.53.

The Group has achieved a turnaround with net profit of approximately HK\$43,850,000 for the financial year ended 31 December 2017 as compared with a net loss of approximately HK\$333,885,000 for the financial year ended 31 December 2016. It has made considerable progress in the restructuring of its plastic products and processing segments, as well as machinery manufacturing segment in the financial year ended 31 December 2017. The Board considers that the Subscription could raise a substantial amount of additional capital and funding to equip the Group with more resources to further develop the Group's existing businesses and additional investments in research and development for further growth.

The Company intends to use the net proceeds from the Subscription as follows:

- (a) 20% – 30% of the net proceeds for funding and working capital to support existing businesses of the Group in order to increase market share in high potential niche markets in its machinery manufacturing business, to expand business scale in its plastic products and processing business, to increase business scale and to enhance solution based business model in its industrial supplies trading business;
- (b) 15% – 20% of the net proceeds for investment in research and development of the Group in order to enhance product features and functionalities in its machinery manufacturing business and to ramp up industrial digitalization solutions research and developments in its machinery manufacturing business;
- (c) 15% – 25% of the net proceeds for investments in plants and machineries and other business in order to upgrade and expand manufacturing plants in Wuxi in its machinery manufacturing business, to invest in new machineries for the production plants in Zhuhai and Dongguan for the plastic processing business, to invest in digital systems in the manufacturing, warehousing, distribution facilities in its machinery manufacturing, plastic products and processing, as well as industrial supplies trading businesses; and
- (d) 5% – 10% of the net proceeds for funding for restructuring in order to further support restructuring of machinery business, which includes asset relocation and optimization, organizational restructuring and production efficiency enhancement.

Besides, in anticipation of the possible interest rate hike in Hong Kong, the Board may consider to use 5% – 15% of the net proceeds from the Subscription to repay bank loans to reduce the finance cost of the Group.

The Subscription would also enhance the general working capital of the Group without incurring additional interest burden and the capital base of the Group would be strengthened. The Company intends to use the remaining net proceeds for the general working capital of the Group.

The Board has also considered other ways of fund raising such as bank borrowing, rights issue or open offer. In regards to bank borrowing, while it continues to play a key role to support ongoing operating working capital for the Group, the Board considers that it is not appropriate to solely rely on bank borrowings to fund product research and development. Furthermore, having considered the contemplated rise in interest rate, the Board considers that it would result in additional interest burden to and higher gearing ratio of the Group, rendering it not the optimal method for the Group. As regards to the viability of a rights issue or an open offer, the Board considers that a rights issue or open offer would result in less favourable terms to the Company than the Subscription as well as incur more transaction costs including but not limited to underwriting commission and other additional costs for the preparation of the listing documents and that such corporate exercises would have a relatively more time consuming process which may affect the overall business plan of the Group.

The Board (other than the independent non-executive Directors who will express their views after receiving advice from the Independent Financial Adviser) is of the view that the Subscription reflects the confidence and commitment of the controlling shareholders of the Company towards the long-term and sustainable growth of the Group, and that the continuing support of the controlling shareholders of the Company would be beneficial to the long-term business development of the Group.

Based on the above, the Board (other than the independent non-executive Directors who will express their views after receiving advice from the Independent Financial Adviser) considers that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activity in the past 12 months immediately preceding the date of this announcement.

EFFECT ON THE SHAREHOLDING STRUCTURE

As at the date of this announcement:

- (i) the Company had 716,930,692 Shares in issue; and
- (ii) the Company did not have any outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

Set out below are the shareholding structures of the Company (i) as at the date of this announcement; and (ii) immediately upon Completion (assuming no other change in the shareholding of the Company):

Shareholders	As at the date of this announcement		Immediately upon Completion	
	Number of Shares	Approx. %	Number of Shares	Approx. %
The First Subscriber, the Second Subscriber and parties acting in concert with them				
The First Subscriber	127,052,600	17.72	235,802,600	27.36
The Second Subscriber	–	–	36,250,000	4.21
Tai Shing Agencies Limited ^(note 1)	170,104,452	23.73	170,104,452	19.73
Mr. Tang To ^(note 2) and his associates ^(note 3) (other than the First Subscriber, Tai Shing Agencies Limited and the Second Subscriber)	8,656,406	1.21	8,656,406	1.00
Mr. Wong Yiu Ming ^(note 4)	9,468,000	1.32	9,468,000	1.10
Mr. Kan Wai Wah ^(note 5)	136,400	0.02	136,400	0.02
China Resources (Holdings) Company Limited ^(note 6)	169,649,046	23.66	169,649,046	19.68
Sub-total:	485,066,904	67.66	630,066,904	73.10
Director				
Mr. Cheng Tak Yin ^(note 7)	1,406,000	0.20	1,406,000	0.16
Public Shareholders	230,457,788	32.15	230,457,788	26.74
Total:	716,930,692	100.00	861,930,692	100.00

Notes:

(1) Tai Shing Agencies Limited is an indirect wholly-owned subsidiary of the First Subscriber.

- (2) Mr. Tang To is an executive Director and a director of both the First Subscriber and the Second Subscriber.
- (3) Out of these 8,656,406 Shares, 4,970,000 Shares are personally held by Mr. Tang To, 2,000 Shares are held by his spouse, 224,000 Shares are jointly held by Mr. Tang To and his spouse while 3,460,406 Shares are held by Ginta Company Limited, which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- (4) Mr. Wong Yiu Ming is an executive Director and is presumed to be acting in concert with the Subscribers under class (6) presumption under the definition of “acting in concert” under the Takeovers Code until Completion. This class (6) presumption will cease to apply after Completion.
- (5) Mr. Kan Wai Wah is a non-executive Director and a director of the First Subscriber.
- (6) China Resources (Holdings) Company Limited is presumed to be a party acting in concert with the Subscribers under Note 1 to the definition of “acting in concert” under the Takeovers Code. This presumption will cease to apply after Completion since China Resources (Holdings) Company Limited will hold less than 20% of the voting rights of the Company upon Completion.
- (7) Mr. Cheng Tak Yin is an independent non-executive Director.

IMPLICATIONS UNDER THE LISTING RULES AND THE TAKEOVERS CODE

Listing Rules Implications

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

The First Subscriber is a controlling shareholder of the Company. As at the date of this announcement, it directly holds 127,052,600 Shares (representing approximately 17.72% of the total issued share capital of the Company) and indirectly holds 170,104,452 Shares (representing approximately 23.73% of the total issued share capital of the Company), together representing approximately 41.45% in the issued share capital of the Company. Therefore the First Subscriber is a connected person of the Company pursuant to the Listing Rules.

Prior to the Subscription, the Second Subscriber does not hold any Shares. The Second Subscriber is owned as to approximately 57.14% by Mr. Tang To and approximately 42.86% by Mr. Tang Yu, Freeman, both executive Directors. The Second Subscriber, through its intermediate holding companies, indirectly controls the First Subscriber. As such, the Second Subscriber is a connected person of the Company pursuant to the Listing Rules.

Accordingly, the Subscription Agreement and the transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the announcement, reporting and Independent Shareholders’ approval requirements.

The Whitewash Waiver

Upon Completion:

- (i) The First Subscriber will directly hold 235,802,600 Shares and indirectly hold 170,104,452 Shares, together representing approximately 47.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Second Subscriber will directly hold 36,250,000 Shares, representing approximately 4.21% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.
- (ii) The First Subscriber, the Second Subscriber and their associates and parties acting in concert with them will be interested in a total of 450,949,858 Shares respectively representing approximately 52.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by them or parties acting in concert with them as their aggregate direct and indirect shareholding interests in the Company would increase from the existing approximately 41.45% to approximately 51.30% upon Completion, unless the Whitewash Waiver is granted by the Executive. In this regard, the Subscribers will make an application to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders of the Subscription and the Whitewash Waiver at the EGM by way of poll.

Upon Completion, Mr. Wong Yiu Ming and China Resources (Holdings) Company Limited will no longer be presumed to be acting in concert with the Subscribers under class (6) presumption under the definition of “acting in concert” under the Takeovers Code and under Note 1 to the definition of “acting in concert” under the Takeovers Code respectively.

As at the date of this announcement, other than 485,066,904 Shares held by the Subscribers and parties acting in concert with them as disclosed in the section headed “EFFECT OF THE SHAREHOLDING STRUCTURE” in this announcement and all the transactions contemplated under the Subscription Agreement as disclosed in the section headed “THE SUBSCRIPTION AGREEMENT” in this announcement, neither the Subscribers nor any parties acting in concert with them:

- (i) holds, owns, controls or directs any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company nor has entered into any outstanding derivatives in respect of the securities in the Company;

- (ii) has secured any irrevocable commitment from any Independent Shareholders to vote in favour of or against the resolution(s) approving the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver;
- (iii) has any arrangement as referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) or contracts with any other parties in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company which might be material to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver;
- (iv) has any agreement or arrangement to which the Subscribers or any parties acting in concert with them is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver; and
- (v) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

As at the date of this announcement, the Company does not believe that the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this announcement, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible but in any event before the despatch of the circular. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver do not comply with other applicable rules and regulations.

Dealing in the Company's Securities

The Subscribers have confirmed that none of the Subscribers nor the parties acting in concert with them has acquired any voting rights in the Company nor dealt in any securities of the Company in the 6 months prior to the date of this announcement which would constitute disqualifying transaction under paragraph 3 of the Whitewash Guidance Note set out in Schedule VI of the Takeovers Code.

The Executive may or may not grant the Whitewash Waiver and in the event that it is not granted, the Subscription Agreement shall lapse and the Subscription will not proceed.

GENERAL

The EGM will be convened for the Independent Shareholders to consider, and if thought fit, approve the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

By virtue of the Subscribers' interest in the Subscription Agreement, the Subscribers and their respective associates and parties acting in concert with them shall abstain from voting on the resolution(s) to be proposed at the EGM in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Mr. Tang To, Mr. Tang Yu, Freeman and Mr. Kan Wai Wah, being associates of the Subscribers, shall also abstain from voting on the Board resolutions in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

Save as disclosed above, as at the date of this announcement, no other Director has a material interest in the Subscription Agreement which requires any of them to abstain from voting on the Board resolutions in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Mr. Wong Yiu Ming, an executive Director, was involved in the discussions and negotiations on behalf of the Company with the Subscribers in relation to the Subscription. However, since Mr. Wong Yiu Ming does not have a material interest in the Subscription Agreement, he is not required to abstain from voting on the Board resolutions in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

Pursuant to the Listing Rules, the LR Independent Board Committee, which comprises all the independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, has been established to advise the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder.

Pursuant to the Takeovers Code, the Code Independent Board Committee, which comprises Mr. Qu Jinping, being a non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, all being independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Since Mr. Kan Wai Wah, a non-executive Director, is a director of the First Subscriber, Mr. Kan Wai Wah has not been included in the Code Independent Board Committee.

Challenge Capital Management Limited has been appointed as the Independent Financial Adviser to advise the LR Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, and to advise the Code Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

A circular containing (i) details of the Subscription Agreement and the Whitewash Waiver; (ii) the recommendation from the LR Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder; (iii) the recommendation from the Code Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver; (iv) the letter of advice from Challenge Capital Management Limited to the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver; and (v) notice of the EGM is expected to be despatched to the Shareholders on or before 21 May 2018.

DEFINITIONS

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

“acting in concert”	has the same meaning ascribed thereto under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding a Saturday) on which banks generally are open for business in Hong Kong
“Code Independent Board Committee”	the independent committee of the Board which comprises Mr. Qu Jinping, being a non-executive Director, and Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, all being independent non-executive Directors, established to advise the Independent Shareholders in respect of the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver
“Company”	Cosmos Machinery Enterprises Limited, a company incorporated under the laws of 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 Subscription
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules

“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting to be held and convened for the Independent Shareholders to consider, and if thought fit, to approve the ordinary resolution(s) in respect of the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver
“Executive”	the executive director of the Corporate Finance Division of the SFC or any delegate of the executive director
“First Subscriber”	Cosmos Machinery (Holdings) Limited, a company incorporated under the laws of Hong Kong with limited liability and a controlling shareholder of the Company
“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
“Independent Financial Adviser”	Challenge Capital Management Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver
“Independent Shareholder(s)”	shareholder(s) other than (i) the Subscribers and their associates; (ii) any parties acting in concert with the Subscribers; and (iii) those who are involved or interested in the Subscription Agreement, the transactions contemplated thereunder and/or the Whitewash Waiver
“Independent Third Party(ies)”	independent third party who is not connected person (as defined in the Listing Rules) of the Company and is independent of and not connected with the connected persons of the Company

“Last Trading Day”	30 April 2018, being the last trading day of the Shares immediately prior to the entering into of the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 August 2018
“LR Independent Board Committee”	the independent committee of the Board which comprises all the independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei, established to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder
“SFC”	The Securities and Futures Commission of Hong Kong
“Second Subscriber”	Saniwell Holding Inc., a company incorporated under the laws of Cook Islands
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM to grant the authority to the Board for the allotment and issue of the Subscription Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	the First Subscriber and the Second Subscriber
“Subscription(s)”	the conditional Subscription of the Subscription Share by the Subscribers pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the Subscription agreement dated 30 April 2018 entered into between the Company and the Subscribers in relation to the Subscription

“Subscription Price”	the Subscription price of HK\$0.55 per Subscription Share
“Subscription Share(s)”	a total of 145,000,000 new Shares to be allotted and issued by the Company to the Subscribers pursuant to the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscribers to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by the Subscribers and any parties acting in concert with them under Rule 26 of the Takeovers Code which would, if the Subscription proceed, otherwise arise as a result of the Subscription
“%”	per cent

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

Hong Kong, 30 April 2018

As at the date hereof, the board of directors of the Company is comprised of nine directors, of which three are executive directors, namely Mr. Tang To, Mr. Wong Yiu Ming and Mr. Tang Yu, Freeman, and two are non-executive directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping and four are independent non-executive directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei.

The Directors jointly and severally accept full responsibility for the accuracy of information (other than those relating to the Subscribers and the parties acting in concert with it) contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Subscribers) in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

The directors of the First Subscriber, namely Mr. Tang To, Mr. Tang Siu Fai, Mr. Tang Yu, Freeman, Mr. Tang Chi Tung, Mr. Chui Kwok Lau and Mr. Kan Wai Wah, jointly and severally accept full responsibility for the accuracy of the information relating to the First Subscriber and the parties acting in concert with it contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the First Subscriber in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

The directors of the Second Subscriber, namely Mr. Tang To and Mr. Tang Yu, Freeman, jointly and severally accept full responsibility for the accuracy of the information relating to the Second Subscriber and the parties acting in concert with it contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the Second Subscriber in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.