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

DISCLOSEABLE TRANSACTION

THE ACQUISITION

On 14th August, 2013, the Purchaser and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Vendor agreed to sell to the Purchaser, and the Purchaser agreed to purchase from the Vendor the entire issued share capital of the Target Company, at a total consideration of USD2,400,000 (equivalent to approximately HK$18,720,000), which will be satisfied in cash.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the Acquisition exceeds 5% but does not exceed 25%, the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules and is therefore subject to reporting and announcement requirements under the Listing Rules.

THE ACQUISITION

On 14th August, 2013, the Purchaser, a 52% owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser agreed to purchase from the Vendor, and the Vendor agreed to sell to the Purchaser, the Sale Shares, representing the entire issued share capital of the Target Company, at a consideration of USD2,400,000 (equivalent to approximately HK$18,720,000), which will be satisfied in cash.

The Sale and Purchase Agreement

Date: 14th August, 2013

Parties

Purchaser: Gainbase Industrial (Holding) Limited, a 52% owned subsidiary of the Company

Vendor: MA International Co., Limited, a company incorporated under the laws of Japan

The Vendor is engaged in investment holding activity. To the best knowledge, information and belief of the Directors having made all reasonable enquiry and so far as the Directors are aware, the Vendor and its ultimate beneficial owner(s) are Independent Third Parties.

Assets acquired

The Sale Shares represent the entire issued share capital of the Target Company.

Consideration

The consideration for the sale and purchase of the Sale Shares is in aggregate USD2,400,000 (equivalent to approximately HK$18,720,000). The Consideration will be satisfied by the Purchaser in the following manner:

(a) as to USD300,000 (equivalent to approximately HK$2,340,000) as refundable cash deposit to be payable upon execution of the Sale and Purchase Agreement. Such deposit shall be refunded to the Purchaser if the Completion has not taken place within 30 days of the date of the Sale and Purchase Agreement which shall then terminate;

(b) as to USD300,000 (equivalent to approximately HK$2,340,000) in cash payable to the Vendor on or before Completion Date; and

(c) as to USD1,800,000 (equivalent to approximately HK$14,040,000) (the "Instalment Sum") in cash payable to the Vendor upon Completion by 36 monthly equal instalments of USD50,000 (equivalent to approximately HK$390,000) each.

The Consideration was arrived at after arm's length negotiation between the Purchaser and the Vendor, with reference to:

(i) the turnover and customers portfolio (including certain world class electronic companies in Japan) of the Target Group;

(ii) the synergy effect of the business of the Target Group with that of the Purchaser;

(iii) the payment schedule of the Consideration; and

(iv) the absolute amount of the Consideration is relatively small as compared to the asset and market capitalization of the Group.

The Consideration to be settled in cash will be satisfied internally. The Directors consider the Consideration of the Acquisition is fair and reasonable, and the terms of settlement of the Consideration are in the interests of the Company and the Shareholders as a whole.

Waiver of outstanding current account with KFE Japan Co., Ltd

Pursuant to the Sale and Purchase Agreement, the net receivable of the Target Group (after setting off any current accounts between the Target Group and KFE Japan Co., Ltd) of approximately USD4.4 million (equivalent to approximately HK$34.3 million) due from KFE Japan Co., Ltd accrued on or before 31st May, 2013 shall be waived upon Completion. Any goods delivered by the Target Group to KFE Japan Co., Ltd after 31st May, 2013 can be settled by deduction from the monthly instalment payment of the Instalment Sum. As advised by the Vendor, the Vendor is a substantial shareholder of KFE Japan Co., Ltd. The Directors confirm that KFE Japan Co., Ltd is an Independent Third Party.

Completion

Completion of the Acquisition is scheduled to take place on the date to be agreed by the Vendor and the Purchaser which is expected to be within two weeks from the date of the Sale and Purchase Agreement.

INFORMATION OF THE GROUP AND THE PURCHASER

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

The Purchaser, a 52% owned subsidiary of the Company, is principally engaged in the printed circuit board business.

INFORMATION OF THE TARGET GROUP

The Target Group is principally engaged in trading of laminates and printed circuit boards. The Target Company has two wholly-owned subsidiaries established in the PRC, namely KFE (Shenzhen) Co., Limited and KFE (Suzhou) Co., Limited.

KFE (Shenzhen) Co., Limited is a back office providing quality checking and assurance services to customers. KFE (Suzhou) Co., Limited is a sale office to serve customers in Northern China.

Financial information on the Target Group

The key audited financial figures of the Target Group for each of the two years ended 31st March 2012 and 2013 are set out below:

	Year ended 31st March,	
	2013	2012
Total assets (including the receivables from KFE Japan Co., Ltd to be waived)	**USD16.7 million (equiv. to HK$130.3 million)**	USD14.1 million (equiv. to HK$110.0 million)
Total liabilities	**USD16.2 million (equiv. to HK$126.4 million)**	USD14.1 million (equiv. to HK$110.0 million)
Net assets/(liabilities)	**USD487,736 (equiv. to HK$3.8 million)**	USD(10,043) (equiv. to HK$(78,335))
Turnover	**USD43.1 million (equiv. to HK$336.2 million)**	USD60.5 million (equiv. to HK$471.9 million)
Gross profit	**USD6.9 million (equiv. to HK$53.8 million)**	USD7.9 million (equiv. to HK$61.6 million)
Net profit before taxation and extraordinary items	**USD760,288 (equiv. to HK$5.9 million)**	USD1.9 million (equiv. to HK$14.8 million)
Net profit after taxation and extraordinary items	**USD593,815 (equiv. to HK$4.6 million)**	USD1.7 million (equiv. to HK$13.3 million)

The Target Group will become wholly-owned subsidiaries of the Purchaser (which is a 52% owned subsidiaries of the Company) and the financial information of the Target Group will be consolidated into the accounts of the Group upon Completion.

Qualified Opinion by the auditor of the Target Group

In respect of the financial year ended 31st March, 2013, the auditor of the Target Group has issued the following qualified opinion:

(a) Opening balances and comparative figures – The auditor raised that they are not providing with all necessary books and records for verifying the opening balances and comparative figures, however, they concluded that the comparative figures do not contain misstatements which might materially affect the current year's financial statements;

(b) Available-for-sale financial assets – The auditor are not provided with adequate information to verify the carrying value of USD284,278 (equivalent to approximately HK$2.2 million) and the impairment of USD284,278 (equivalent to approximately HK$2.2 million) of an investment in a unlisted Singapore company; and

(c) Consolidated financial statement – As the two subsidiaries in the PRC of the Target Company had not been audited by the auditor, the auditor cannot express an opinion on whether or not the consolidated accounts has been properly prepared and the consolidated results for the year is fairly stated.

The Directors consider that (i) the opening balance and comparative figures would not material affect the Purchaser's due diligence review on the financial performance of the Target Group; (ii) the amount of available-for-sale financial assets is immaterial; and (iii) the Company will conduct legal and financial due diligence on the two subsidiaries in the PRC before Completion.

In respect of the financial year ended 31st March, 2012, the auditor of the Target Group disclaimed its opinion on almost every items of the financial statement due to missing of substantial books and records. The Directors are of the opinion that the financial statement for the financial year ended 31st March, 2013 forms the material basis of due diligence review of the operation of the Target Group and thus consider that the disclaimer opinion on the financial year ended 31st March, 2012 would not be of much relevancy in assessing the Acquisition.

Indemnity by the Vendor

The Vendor shall take responsibility so as to indemnify the Purchaser or any Group Company against any damages that it may suffer or may possibly suffer from the following matters:

(a) any damages in relation to any disputes with any tax authorities, including but not limited to the Inland Revenue Department of Hong Kong;

(b) any damages in relation to any actual or contingent significant liabilities of the Target Group which was not shown in its management accounts as at 31st March, 2013 or had not been disclosed to the Purchaser prior to the Completion Date; and

(c) any non-existing or any other kinds of significant recoverability problems in the account receivables (save for certain receivables from specified customers) or any significant shortage or significant discrepancy between the actual account receivable of the Target Group as at 31st May, 2013 and the amounts as shown in the account receivables as at 31st May, 2013 save for any recoverability problem due to natural disaster occurred to the concerned customer of the Target Group.

For the purpose of items (b) and (c), the expression “significant liabilities/recoverability problems/shortage/discrepancy” means that such liabilities or recoverability problems or shortage or discrepancy exceed US$50,000 (equivalent to approximately HK$390,000) in the aggregate.

If the Purchaser intends to make any claim against the Vendor for the purposes of the above indemnities, the Purchaser shall make such claim within 36 months after Completion Date.

REASONS FOR THE ACQUISITION

The Target Company was founded by KFE Japan Co., Ltd, a Japanese company, in 1997. Leverage on its Japanese background, the Target Company is a renowned trading firm of laminates and printed circuit boards with Japanese customers based on the Purchaser’s knowledge and understandings of its market. The Purchaser has maintained a trading relationship with the Target Company for over 10 years.

As advised by the Vendor, the Target Group was improperly managed by its previous management to the extent that certain important books and records were missing, which resulted in the qualified audit opinion as revealed above.

After a careful evaluation of the situation and carrying preliminary due diligence on the Target Group, the Directors decide to proceed with the Acquisition based on the following principal reasons:

(a) the business of the Target Group is complementary to that of the Purchaser;

(b) the Purchaser could access immediately to the existing customers portfolio (including certain world class electronic companies in Japan) of the Target Group with significant trading volume;

(c) the synergy effect between the Purchaser and the Target Group could be achieved reasonably if the Purchaser could properly managed the Target Group after Completion;

(d) although there is no guarantee on the profitability in the short run, the Directors consider it worth trying since the initial investment is not significant as compared to the current financial statement of the Group;

(e) significant portion of the Consideration will be paid by instalments as set out in the paragraph headed “Consideration” above; and

(f) sufficient indemnities in respect of certain risk area have been provided by the Vendor to the Purchaser.

The Directors are of the view that the Acquisition represents a good opportunity for the Group to pursue its long-term business development in the printed circuit board business and that the terms of the Sale and Purchase Agreement are in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the Acquisition exceeds 5% but does not exceed 25%, the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules and is therefore subject to reporting and announcement requirements under the Listing Rules.

DEFINITIONS

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

"Acquisition"	the acquisition of the Sale Shares in accordance with the Sale and Purchase Agreement
"Company"	Cosmos Machinery Enterprises Limited, a company incorporated in Hong Kong with limited liability, whose securities are listed on the Stock Exchange
"Completion"	completion of the Sale and Purchase Agreement
"Completion Date"	the date which shall be the date agreed by the Vendor and the Purchaser for the Completion to take place and is expected to be within 2 weeks from the date of the Sale and Purchase Agreement and may be extended to 4 weeks from the date of the Sale and Purchase Agreement or a longer period agreed between the Vendor and the Purchaser
"Directors"	directors of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Parties"	a party and, if applicable, the ultimate beneficial owner of the party who is not fallen into the definition of connected persons of the Company under Chapter 14A of the Listing Rules and independent of the connected persons of the Company and their associates (as defined in the Listing Rules)
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Purchaser"	Gainbase Industrial (Holding) Limited, the 52% owned subsidiary of the Company

"Sale and Purchase Agreement"	the sale and purchase agreement dated 14th August, 2013 entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Shares
"Sale Shares"	5,200,000 ordinary shares of USD1 each in the share capital of the Target Company, representing its entire issued share capital
"Shareholders"	holders of Shares
"Shares"	ordinary shares of HK$0.4 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	KFE Hong Kong Co., Limited, a company incorporated in Hong Kong with limited liability
"Target Group"	the Target Company and its subsidiaries, namely, KFE (Shenzhen) Co., Limited and KFE (Suzhou) Co., Limited
"Vendor"	MA International Co., Ltd, a company incorporated in Japan with limited liability
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"USD"	United Stated dollars, the lawful currency of the United Stated of America
"%"	per cent.

For the purpose of this announcement, conversion of USD into HK$ is based on the exchange rate of USD1.00 to HK$7.8. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

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

Hong Kong, 14th August, 2013

As at the date hereof, the Board comprises of eleven directors, of which four are executive directors, namely Mr. Tang To, Mr. Wong Yiu Ming, Mr. Jiang Wei and Mr. Tang Yu, Freeman, and three are non-executive directors, namely Mr. Wu Ding, 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.