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(Incorporated in Hong Kong with limited liability)



JOINT ANNOUNCEMENT

REVISED SCHEME CONSIDERATION IN CONNECTION WITH THE (1) PROPOSED PRIVATISATION OF COSMOS MACHINERY ENTERPRISES LIMITED BY COSMOS MACHINERY (HOLDINGS) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND (2) PROPOSED WITHDRAWAL OF LISTING OF COSMOS MACHINERY ENTERPRISES LIMITED

Financial Adviser to the Offeror



China Tonghai Capital Limited

Independent Financial Adviser to the Company



Yue Xiu Capital Limited

INCREASE IN THE SCHEME CONSIDERATION

Subsequent to the publication of the Joint Announcement dated 10 December 2020, the board of directors of the Offeror and the Board jointly announce that on 23 December 2020, the Offeror requested the Board to put forward to the Scheme Shareholders a revised Proposal under which the Offeror proposed to increase the Scheme Consideration from HK\$0.500 in cash to HK\$0.550 in cash for each Scheme Share cancelled.

Save as aforesaid, no other changes to the terms of the Proposal are being made. The Scheme Consideration will not be further increased and the Offeror does not reserve the right to do so.

Total consideration and financial resources

As at the date of this announcement, the Company has 861,930,692 Shares in issue. The 411,117,229 Scheme Shares represents approximately 47.70% of the total number of Shares in issue.

On the assumption that there is no other change in the shareholding structure of the Company before the completion of the Proposal, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK\$226,114,475.95 on the basis of the revised Scheme Consideration of HK\$0.550 per Scheme Share and 411,117,229 Scheme Shares in issue as at the date of this announcement.

FURTHER REASONS FOR AND BENEFITS OF THE PROPOSAL

Following the Joint Announcement, the Company and the Offeror have been receiving enquiries from the Shareholders regarding additional information of the Proposal, particularly in relation to the reasons for and benefits of the Proposal. Further information relating to the reasons for and benefits of the Proposal are set out in this announcement.

RESUMPTION OF TRADING IN SHARES

At the request of the Company, trading in the Shares on the Stock Exchange was halted from 9:00 a.m. on Thursday, 24 December 2020 pending the release of this announcement. An application will be made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on Monday, 28 December 2020.

WARNINGS

Shareholders and potential investors of the Company should be aware that the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

This announcement is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Proposal or otherwise, nor shall there be any sale, issuance or transfer of securities of the Company in any jurisdiction in contravention of applicable law. The Proposal will be made solely through the Scheme Document, which will contain the full terms and conditions of the Proposal, including details of how to vote on the Proposal. Any approval or other response to the Proposal should be made only on the basis of information in the Scheme Document.

The availability of the Proposal to persons who are not resident in Hong Kong may be affected by the laws of the relevant jurisdictions in which they are located or of which they are citizens. Persons who are not so resident in Hong Kong should inform themselves about, and observe, any applicable legal or regulatory requirements of their jurisdictions. Further details in relation to overseas shareholders will be contained in the Scheme Document.

INTRODUCTION

Reference is made to the announcement (the “**Joint Announcement**”) jointly issued by Cosmos Machinery Enterprises Limited (the “**Company**”) and Cosmos Machinery (Holdings) Limited (the “**Offeror**”) dated 10 December 2020 in relation to the Proposal. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the Joint Announcement.

On 3 December 2020, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under section 673 of the Companies Ordinance involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Scheme Consideration in cash for each Scheme Share. Under the Scheme, the Scheme Shares will be cancelled and, in consideration therefor, each Scheme Shareholder will be entitled to receive the Scheme Consideration of HK\$0.500 in cash for each Scheme Share cancelled.

INCREASE IN THE SCHEME CONSIDERATION

The board of directors of the Offeror and the Board jointly announce that on 23 December 2020, the Offeror requested the Board to put forward to the Scheme Shareholders a revised Proposal under which the Offeror proposed to increase the Scheme Consideration from HK\$0.500 in cash to HK\$0.550 in cash for each Scheme Share cancelled.

The Scheme Consideration will not be further increased and the Offeror does not reserve the right to do so.

UPDATE TO THE INFORMATION SET OUT IN THE JOINT ANNOUNCEMENT

Comparison of value

The revised Scheme Consideration of HK\$0.550 per Scheme Share represents:

- (a) an increase of approximately 10.0% as compared to the previous Scheme Consideration of HK\$0.500 per Share;
- (b) a premium of approximately 42.9% over the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Last Trading Date, which is the last closing price of the Shares on 3 December 2020 prior to the trading halt in the Shares pending the release of the Joint Announcement;
- (c) a premium of approximately 46.7% over the closing price of HK\$0.375 per Share on 2 December 2020, which is the closing price on the last full trading day of the Shares prior to the Last Trading Date;
- (d) a premium of approximately 49.1% over the average closing price of approximately HK\$0.369 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 45.9% over the average closing price of approximately HK\$0.377 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 39.6% over the average closing price of approximately HK\$0.394 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;

- (g) a premium of approximately 41.0% over the average closing price of approximately HK\$0.390 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (h) a premium of approximately 59.9% over the average closing price of approximately HK\$0.344 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (i) a premium of approximately 161.9% over the lowest closing price of HK\$0.210 per Share and a premium of approximately 18.3% over the highest closing price of HK\$0.465 per Share as quoted on the Stock Exchange for the one year up to and including the Last Trading Date;
- (j) a discount of approximately 65.0% to the unaudited consolidated net asset value per Share of approximately HK\$1.572 as at 30 June 2020;
- (k) a discount of approximately 63.5% to the unaudited consolidated net tangible asset value per Share of approximately HK\$1.505 as at 30 June 2020;
- (l) a discount of approximately 65.8% to the audited consolidated net asset value per Share of approximately HK\$1.609 as at 31 December 2019;
- (m) a discount of approximately 64.3% to the audited consolidated net tangible asset value per Share of approximately HK\$1.541 as at 31 December 2019; and
- (n) an implied price-earnings multiple of approximately 30.1 times based on the audited basic earnings per Share of approximately HK\$0.0183 for profit attributable to the equity shareholders of the Company for the year ended 31 December 2019.

Save as aforesaid, no other changes to the terms of the Proposal are being made. The Scheme Document will contain, amongst other things, details of the revised Proposal.

Total consideration and financial resources

As at the date of this announcement, the Company has 861,930,692 Shares in issue. The 411,117,229 Scheme Shares represents approximately 47.70% of the total number of Shares in issue.

On the assumption that there is no other change in the shareholding structure of the Company before the completion of the Proposal, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK\$226,114,475.95 on the basis of the revised Scheme Consideration of HK\$0.550 per Scheme Share and 411,117,229 Scheme Shares in issue as at the date of this announcement.

The Offeror intends to finance the additional cash required for the revised Proposal through its internal financial resources and the Loan Facility made available to the Offeror by Tonghai Finance under the Facility Agreement, which is secured by a charge over the Shares that are owned and will be owned by the Offeror under the Proposal.

Tonghai Capital is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal.

FURTHER REASONS FOR AND BENEFITS OF THE PROPOSAL

Following the Joint Announcement, the Company and the Offeror have been receiving enquiries from the Shareholders regarding additional information of the Proposal, particularly in relation to the reasons for and benefits of the Proposal. In order to provide additional information to all Shareholders on an equal basis and timely manner, this announcement further elaborates on the reasons for and benefits of the Proposal in addition to those set out in the Joint Announcement.

The Offeror remains fully committed to the long-term development of the Group, despite the increasing challenges in the operating environment. After the implementation of the Proposal, the Offeror will be able to consolidate and integrate the Group's operations, enabling greater flexibility and efficiency to cope with market volatility and intensifying competition, and continues to provide all necessary support for the Group's long-term development. The Offeror believes that the Group's businesses will be able to operate more effectively without the additional complexity and cost of the Company being a listed company. After completion of the Proposal, it is expected that the Group will be able to make more strategic operational and investment decisions dedicated to the long-term development of the Group, free from the pressure of market expectations and fluctuation in its share prices. As a result, the Group will enjoy a significantly higher degree of autonomy and flexibility when making such decisions without having the need to confer with minority shareholders.

As the Group is engaged in a capital intensive business, significant financial resources are required for its business operation and development, including but not limited to (a) the maintenance of a sufficient working capital and financial liquidity to support its ongoing operating cashflow, (b) capital expenditure in relation to the investment in maintenance and replacement of its existing production facilities and operating assets, which form the majority of the fixed assets held by the Group, and (c) investment in research and development in order to enhance its competitiveness and provide its customers with innovative solutions and applications in view of the fast changing market environment requiring continuous technological advancement, particularly given the market conditions are presently and expected to remain challenging for the manufacturing industry.

As disclosed in the interim report of the Company for the six months ended 30 June 2020, the Group had bank borrowings of approximately HK\$325.4 million and cash and bank balances of approximately HK\$345.9 million. The Board considers that the financial position of the Group remains healthy and solid. However, the Board also considers the importance of maintaining a prudent approach towards financial management, particularly in view of the uncertainties in the market and operating environment caused by the pandemic and uncertain Sino-US trade relations. As stated in the Joint Announcement, save for the new share issuance by the Company to the Offeror and Saniwell Holding Inc. in June 2018 which raised approximately HK\$79.8 million (the “**2018 New Share Issue**”), and demonstrated the Company’s controlling shareholder’s support towards the Group’s capital needs, there had been no other material equity fund raising by the Company for over 10 years. Accordingly, bank borrowings have been the key source of capital to support the business operation and development of the Group, in addition to the operating cashflow generated from its business operation. The Group has been maintaining good business relationships with its lenders and believes that its principal lenders will continue to provide their support to the Group. However, the Board will continue to adopt a prudent financial management approach and considers that it may not be appropriate to solely rely on bank borrowings as its primary source of capital to fund its business operation and development, particularly in the case where substantial financial resources may be required due to the uncertain market and operating environment as mentioned above.

In regard to future capital raising options, the Group may not be able to benefit from a similar degree of support from its controlling shareholder as in the case of the 2018 New Share Issue, as any issuance of new Shares to the Offeror or other connected persons of the Group may frustrate the public float requirement under Rule 8.08(1)(a) of the Listing Rules, and may also worsen the already low trading liquidity of the Shares. Furthermore, any issuance of debts or convertible securities to the controlling shareholder of the Company may be perceived as reliance on borrowings or other financial assistance from connected persons (as defined under the Listing Rules) of the Company, which, similar to issuance of new Shares to connected person, will also be subject to the applicable requirements under the Listing Rules as well as the time and costs associated with the compliance of such requirements, and may cast doubt on the Group’s ability to obtain external debt financing from independent lenders. Under such circumstances, alternative capital raising options may be required, for example, new issuance of Shares by way of a rights issue.

Due to the outbreak and ongoing spread of COVID-19 which has brought about uncertainties for the global economy and is expected to sustain for a prolonged period, the Directors expect that no dividend will be declared or paid in respect of the year ending 31 December 2020 and the year ending 31 December 2021. As at the date of this announcement, neither the Offeror nor the Board has plans of restructuring the Group, and presently has no intention, and consider that there is no real prospects, to seek a listing of the Shares or spin-off listing of any of the Group's businesses on any stock exchange in the next three years ending 31 December 2023.

As such, the Proposal presents an immediate opportunity for the Scheme Shareholders to realise their investments in the Scheme Shares for cash and redeploy the cash into other investment opportunities.

RESUMPTION OF TRADING IN SHARES

At the request of the Company, trading in the Shares on the Stock Exchange was halted from 9:00 a.m. on Thursday, 24 December 2020 pending the release of this announcement. An application will be made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on Monday, 28 December 2020.

By order of the board of directors of
Cosmos Machinery (Holdings) Limited
CHUI Kwok Lau
Director

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

Hong Kong, 24 December 2020

As at the date of this announcement, the directors of the Offeror are Mr. Tang To, Mr. Tang Siu Fai, Mr. Tang Yu, Freeman, Mr. Tang Chi Tung, Mr. Chui Kwok Lau and Mr. Kan Wai Wah.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than any information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the Directors) 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 statements in this announcement misleading.

As at the date of this announcement, the Board comprises nine Directors, of which three are executive Directors, namely Mr. Tang To, Mr. Wong Yiu Ming and Mr. Tang Yu, Freeman, 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 the information contained in this announcement (other than that relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the directors of the Offeror) 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.