大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

RESULT SUMMARY

- Revenue increased by 11.6% to approximately HK$2,446,848,000 (2016: HK$2,192,287,000)
- Gross profit margin improved by 2.4 percentage points to 16.7% (2016: 14.3%)
- Operating profit was approximately HK$63,349,000 (2016: operating loss of HK$270,263,000)
- Profit for the year was approximately HK$43,850,000 (2016: loss of HK$333,885,000) including reversal of restructuring provision amounting to approximately HK$31,101,000 as other income
- Net debt to equity ratio was 7.1% as at 31 December 2017 (31 December 2016: 2.3%)
- Net assets per share was HK$1.8 as at 31 December 2017 (31 December 2016: HK$1.6)

FINAL RESULTS

The Board of Directors (the "Board") of Cosmos Machinery Enterprises Limited (the "Company") is pleased to announce its consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 (the "Year") together with the comparative figures for the prior year. These consolidated financial results for the Year have been reviewed by the audit committee of the Company (the "Audit Committee").

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	3	**2,446,848**	2,192,287
Cost of sales		**(2,037,409)**	(1,878,696)
Gross profit		**409,439**	313,591
Other income and gains, net		**43,840**	21,352
Selling and distribution costs		**(145,043)**	(147,904)
Administrative expenses		**(244,887)**	(322,145)
Restructuring costs	4	**–**	(135,157)
Operating profit/(loss)		**63,349**	(270,263)
Finance costs		**(20,483)**	(16,559)
Investment income		**3,736**	4,360
Share of results of associates		**3,324**	568
Gain on disposal of a subsidiary		**–**	122
Gain on deregistration of a subsidiary		**–**	2,512
Profit/(loss) before tax	5	**49,926**	(279,260)
Taxation	6	**(6,076)**	(54,625)
Profit/(loss) for the year		**43,850**	(333,885)
Profit/(loss) attributable to:			
– Equity shareholders of the Company		**27,284**	(303,160)
– Non-controlling interests		**16,566**	(30,725)
		43,850	(333,885)
Earnings/(loss) per share for profit/(loss) attributable to the equity shareholders of the Company during the year	7		
– Basic		**3.80 HK cents**	(42.29 HK cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
Profit/(loss) for the year	**43,850**	(333,885)
Other comprehensive income/(expense) for the year, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of financial statements of foreign operations	**74,040**	(75,096)
Changes in fair value of available-for-sale financial asset	**(129)**	655
Share of reserves of associates	**1,956**	(2,191)
Reclassification adjustments:		
Release of translation reserve upon disposal of a subsidiary	**–**	(55)
Release of translation reserve upon deregistration of a subsidiary	**–**	(1,966)
Release of fair value reserve upon disposal of available-for-sale financial asset	**(930)**	–
	74,937	(78,653)
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of properties held for own use	**21,240**	4,281
	96,177	(74,372)
Total comprehensive income/(expense) for the year	**140,027**	(408,257)
Profit/(loss) attributable to:		
– Equity shareholders of the Company	**113,900**	(370,207)
– Non-controlling interests	**26,127**	(38,050)
Total comprehensive income/(expense) for the year	**140,027**	(408,257)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Non-current Assets			
Property, plant and equipment		**644,876**	618,372
Leasehold land and land use rights		**43,320**	43,796
Goodwill		**53,483**	53,483
Intangible assets		**7,838**	9,221
Interests in associates		**32,369**	29,179
Available-for-sale financial assets		**–**	1,389
Finance lease receivables		**16,472**	54,220
Deferred tax assets		**29,518**	25,670
		827,876	835,330
Current Assets			
Inventories		**524,571**	401,738
Finance lease receivables		**100,965**	57,935
Trade and other receivables	*8*	**923,611**	788,101
Other financial assets		**20,277**	2,875
Current tax recoverable		**1,473**	1,101
Cash and bank balances		**348,746**	332,723
		1,919,643	1,584,473
Assets of disposal group classified as held for sale		**23,140**	–
		1,942,783	1,584,473
Current Liabilities			
Trade and other payables	*9*	**928,635**	740,372
Provision for restructuring	*10*	**52,956**	91,727
Amount due to an associate		**865**	565
Bank borrowings		**380,598**	320,149
Obligations under finance leases		**2,696**	5,441
Deferred consideration payable		**8,148**	8,148
Current tax payable		**7,622**	15,255
		1,381,520	1,181,657
Liabilities directly associated with the assets classified as held for sale		**26,723**	–
		1,408,243	1,181,657
Net Current Assets		**534,540**	402,816
Total Assets less Current Liabilities		**1,362,416**	1,238,146

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Non-current Liabilities			
Bank borrowings		**45,125**	35,175
Obligations under finance leases		**–**	2,694
Deferred tax liabilities		**25,152**	43,365
		70,277	81,234
Net Assets		**1,292,139**	1,156,912
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital		**532,903**	532,903
Reserves		**547,591**	433,691
		1,080,494	966,594
Non-controlling Interests		**211,645**	190,318
Total Equity		**1,292,139**	1,156,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION

The consolidated financial statements of the Company and its subsidiaries (collectively the "Group") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Chapter 622 of laws of Hong Kong) (the "Companies Ordinance"). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties held for own use and certain financial assets, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. ACCOUNTING POLICIES

The HKICPA has issued a number of revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2017. The Group has adopted the following amendments to HKFRSs for the first time for the current year's consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for unrealised Losses and amortisation
Amendments to HKFRS 12	Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods.

Amendments to HKAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained profits (or in another component of equity, as appropriate), without allocating the change between opening retained profits and other components of equity. Entities applying this relief must disclose that fact. The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

The Group has not early adopted any amendments and new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period.

3. SEGMENT REPORTING

The Group manages its business by a mixture of both business lines and geographical location. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified, on a product basis, the following four reportable segments:

(1) trading of industrial consumables;
(2) manufacturing of plastic processing products;
(3) manufacturing of machinery; and
(4) processing and trading of printed circuit boards.

The segment results for the year ended 31 December 2017 are as follows:

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	**346,582**	**388,857**	**896,153**	**788,612**	**26,644**	**–**	**2,446,848**
Inter-segment sales	**22,310**	**934**	**6,724**	**–**	**–**	**(29,968)**	**–**
Total revenue	**368,892**	**389,791**	**902,877**	**788,612**	**26,644**	**(29,968)**	**2,446,848**

Inter-segment sales are determined at prevailing market rates.

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
RESULTS							
Segment results	**16,154**	**(14,495)**	**52,423**	**17,866**	**7,776**	**–**	**79,724**
Unallocated corporate expenses							**(16,375)**
Operating profit							**63,349**
Finance costs							**(20,483)**
Investment income							**3,736**
Share of results of associates							**3,324**
Profit before tax							**49,926**

The segment results for the year ended 31 December 2016 are as follows:

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	340,539	393,403	713,477	721,005	23,863	–	2,192,287
Inter-segment sales	14,989	668	4,977	–	–	(20,634)	–
Total revenue	355,528	394,071	718,454	721,005	23,863	(20,634)	2,192,287

Inter-segment sales are determined at prevailing market rates.

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
RESULTS							
Segment results	8,210	(44,296)	(236,354)	22,960	(296)	491	(249,285)
Unallocated corporate expenses							(20,978)
Operating loss							(270,263)
Finance costs							(16,559)
Investment income							4,360
Share of results of associates							568
Gain on disposal of a subsidiary							122
Gain on deregistration of a subsidiary							2,512
Loss before tax							(279,260)

Geographical information

The following table provides an analysis of the Group's sales by geographical market:

	Sales revenue by geographical market	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**586,964**	572,916
Mainland	**1,639,852**	1,376,572
Other Asia-Pacific countries	**155,700**	181,383
North America	**14,526**	27,962
Europe	**49,806**	33,454
	2,446,848	2,192,287

The following is an analysis of the Group's fixed assets, goodwill and intangible assets ("specified non-current assets") and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Specified non-current assets		Additions to property, plant and equipment	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**200,873**	182,799	**494**	2,048
Mainland	**548,644**	542,073	**57,878**	38,981
	749,517	724,872	**58,372**	41,029

4. RESTRUCTURING COSTS

During the year ended 31 December 2016, the Group announced a series of restructuring actions to reduce costs and enhance operational efficiency. Details of restructuring costs were as follows:

	2017	2016
	HK$'000	*HK$'000*
Employees compensation	**–**	104,716
Write-down of inventories	**–**	20,357
Impairment loss of plant and machinery	**–**	3,073
Relocation expenses	**–**	7,011
	–	135,157

5. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging the following:

	2017	2016
	HK$'000	*HK$'000*
Allowances for impairment of bad and doubtful debts	**6,075**	51,789
Depreciation and amortisation on:		
– Owned assets	**60,878**	65,688
– Assets held under finance leases	**410**	2,379
– Leasehold land held for own use under finance leases	**2,414**	2,335
– Leasehold land and land use rights	**1,379**	1,390
– Intangible assets	**1,383**	1,383

6. TAXATION

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
Current year	**1,381**	1,582
(Over-provision)/under-provision in prior years	**(59)**	1,730
	1,322	3,312
Overseas tax		
Current year	**10,996**	10,772
Under-provision in prior years	**1,390**	8,544
	12,386	19,316
Deferred tax		
Deferred taxation relating to the (reversal) and origination of temporary differences	**(7,632)**	31,997
	6,076	54,625

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the Year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per ordinary share is based on the Group's profit/(loss) attributable to equity shareholders of the Company divided by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Weighted average number of ordinary shares in issue during the year	**716,930,692**	716,930,692
Profit/(loss) attributable to the equity shareholders of the Company	**HK$27,284,000**	(HK$303,160,000)
Basic earnings/(loss) per share	**3.80 HK cents**	(42.29 HK cents)

No diluted earnings/(loss) per share is presented as the Company did not have any potential ordinary shares outstanding.

8. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade and bills receivables	**924,630**	795,427
Less: allowance for impairment of bad and doubtful debts	**(111,959)**	(108,588)
	812,671	686,839
Other receivables	**106,878**	90,370
Less: allowance for impairment of bad and doubtful debts	**(24,802)**	(19,963)
	82,076	70,407
Prepayments	**28,814**	30,818
Amounts due from related parties	**50**	37
	923,611	788,101

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values. All trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group grants an average credit period of 90 days to 120 days for customers.

An aging analysis of the trade and bills receivables at the end of the reporting period based on the invoice date and net of allowance for impairment of bad and doubtful debts, is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 3 months	**559,202**	525,350
4 to 6 months	**155,047**	96,091
7 to 9 months	**51,402**	24,266
Over 9 months	**47,020**	41,132
	812,671	686,839

9. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade and bills payables	**590,258**	472,330
Accruals and other payables	**328,032**	263,242
Amounts due to related parties	**10,345**	4,800
	928,635	740,372

The directors consider that the carrying amount of trade and other payables approximates to their fair values. All trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The aging analysis of the Group's trade and bills payables at the end of the reporting period is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 3 months	**437,757**	365,339
4 to 6 months	**108,352**	56,846
7 to 9 months	**25,920**	26,607
Over 9 months	**18,229**	23,538
	590,258	472,330

10. PROVISION FOR RESTRUCTURING

The Group recorded its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

Restructuring costs provision mainly comprises provision for employees compensation and relocation expenses, arising from a series of restructuring actions to reduce costs and enhance operational efficiency.

The following are restructuring provision of the Group and movements thereon during the current and prior years:

	HK$'000
At 1 January 2016	–
Provision made for the year	91,727
At 31 December 2016 and 1 January 2017	91,727
Exchange realignment	936
Restructuring costs paid	(8,606)
Unused provision for restructuring reversed	(31,101)
At 31 December 2017	**52,956**

11. OTHER INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, Ting Ho Kwan & Chan. An unqualified auditor's report will be included in the Annual Report to shareholders.

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results for the year ended 31 December 2017 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The financial statements for the year ended 31 December 2017 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Group for the year ended 31 December 2016. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The sales revenue of the Group increased by 11.6% to approximately HK$2,446,848,000 (2016: HK$2,192,287,000). It was mainly attributable to the improvement of performance in the machinery manufacturing segment and the printed circuit board processing and trading segment during the year.

The gross profit for the year amounted to approximately HK$409,439,000, with gross profit margin of 16.7% which represented an increase of 2.4 percentage points as compared to that of 2016. The improvement in gross profit margin was resulted from the increasing utilization of production capacities in certain manufacturing plants and strengthening control over production costs and operating overheads during the year. The Group continues the adjustment of sales strategy by focusing on higher-margin products and associated customers in various business segments.

As stated in the announcements of the Company in 2016, the Group planned to restructure its plastic products and processing segment and machinery manufacturing segment, including the cessation of operation of certain manufacturing businesses and optimization of the production capacities in its Dongguan and Wuxi machinery manufacturing plants. The restructuring projects including assets relocation and optimization, organizational restructuring and production efficiency enhancement are on track under the closely-monitoring of a designated task force. A non-recurring item with amount of approximately HK$31 million was reversed as income for the year ended 31 December 2017, after considering the progress of the respective restructuring exercise. The Group will continue to update the progress of the restructuring in due course.

The Group reported a turnaround with profit of approximately HK$43,850,000 for the year (2016: Loss of HK$ 333,885,000). This was mainly resulted from the improvement in sales revenue, gross profit and also tight control over the operating overheads during the year.

The net debt to equity ratio was 7.1% as at 31 December 2017. The overall cash flow position and debt maturity profile of the Group maintained at a healthy level.

The Board did not recommend the payment of a final dividend for the year (2016: nil).

BUSINESS REVIEW

Machinery Manufacturing Business

As a result of the economic recovery in the Mainland in 2017, the machinery manufacturing segment was able to achieve relatively good results. The machinery manufacturing business re-allocated its resources and re-aligned its business direction last year. Through the re-alignment and adjustments of products in the two main production plants of injection moulding machines, the existing resources could be utilised more effectively and the overall production capacities were increased. During the year, sales revenue of plastic injection moulding machine business recorded an impressive growth as compared to that of last year. Moreover, the results of plastic injection moulding machine business made a turnaround to profit through the joint effort of the sales and production teams.

In 2017, the plastic injection moulding machine business strengthened its product development and optimisation. In particular, through the capability optimisation of two-platen injection moulding machines product series, its efficiency, speed and reliability have been significantly enhanced. This meets the demand of two major industries – auto parts and household electrical appliances and this business became the sales growth driver in the past year. In addition, sales of injection molding machines tailor-made for specific industries also recorded significant growth during the year, despite the fact that further enhancement needed to be made in areas such as the quality and cost of the machines, which is also the main focus for product development in the coming year. The successful implementation of the "Smart Industry 4.0 Solution" also provided a platform for the development of smart products. In the future, the Group will continue to strengthen product research and development to meet the market demands of various industries, so as to develop our products in series towards a professional and smart direction.

Moreover, the Group also had certain achievements in other machinery manufacturing businesses. Rubber plastic machinery obtained recognition from customers in niche markets such as the manufacturers of pedrails for truck vehicles and insulators for power supply networks. Multi-layer extrusion machines particularly made for the manufacturing of oil pipes in auto industry also maintained stable sales volume and orders and the Group is well-known in the industrial sector in this regard.

Plastic Products and Processing Business

During the year under review, the plastic products and processing business did not meet the budget, mainly attributable to the serious damage caused by the typhoon "Hato" to the Zhuhai production plant, which incurred non-recurring operating loss. Nevertheless, the Zhuhai production plant took this opportunity to upgrade its manufacturing workshops in accordance to higher-level of hygienic standard and further improved the hygiene condition of the production environment. It also purchased new machineries and equipment with higher efficiency and enhanced specifications to increase the overall production efficiency and output. The manufacturing plant resumed production three months after suspension and obtained high recognition from all major customers. In addition, the application of new integrated technology in folding cap seals with scoop for milk powder product, not only shortens the production cycle, but also provides a user-friendly experience to the consumers.

In 2017, the performance of Hefei plastic processing plant improved significantly and recorded a relatively remarkable increase in sales revenue. Improvements were observed mainly in areas such as centralised raw material supply system, automation of production process and application of raw materials. The per capita efficiency and hourly output increased by approximately 15%, particularly in the assembling and plastic injection departments. Apart from the business results, these improvements also received recognition and award from major customers. In addition, the Hefei plant has obtained the certification of Hefei digital production workshop and was awarded the honorary title of "New and Special Enterprise with Professional Expertise in Anhui (安徽省專新特精企業)" and passed the inspection set for Second Class Production Safety Standard of Enterprise.

During the year, the Group also invested in the production of plastic products with a higher level of technology, including environmentally-friendly plastic mannequins and multi-color mini-statues. Although the products are still under small batches production, they have already received recognitions from industry representatives, and achieved breakthroughs for similar products.

Industrial Consumables Trading Business

As the overall business operating environment has improved significantly from the past year, the manufacturing sector in the Mainland recorded obvious growth during the year. While the Group's trading business has been focusing on relating industries like automobiles, household appliances, semiconductors, communication equipment, injection moulding machines and spring machines, the business recorded satisfactory growth with approximately 10% increase in turnover as compared to that of last year. Unfortunately, due to the simultaneous recovery of manufacturing industries in Europe, the United States and Japan, there was shortage of supply of precision components exported to China, which in turn affected the delivery schedule. On the other hand, while the use of bundle-sales strategy has successfully increased the sales in the Mainland, the trading business has also successfully stepped into the auto component market for new energy vehicles, which open up the path for a new market in the future. In addition, the trading business has drastically reduced the slow-moving inventory and tightened the control over the accounts receivables at a reasonable level, with an objective to maintain solid financial strength.

Looking ahead, the global economy will maintain the pace of recovery and China's economy will continue to grow. The key is to align the policy direction of the "13th Five-Year Plan" and "Made in China 2025". The Group's trading business will continue to focus on the needs of environmental protection and energy saving, industrial upgrading and transformation and factory automation, and to design and implement relevant business development plans. While maintaining the growth of existing businesses, the Group will further develop new business sectors such as new energy vehicles, medical equipment and robotic arms, and at the same time, secure orders for the "Industrial 4.0" system integration projects. Breakthroughs in system integration business is expected in the coming year.

Printed Circuit Board ("PCB") Processing and Trading Business

While the sales revenue of the PCB processing business has achieved a growth as compared with that of last year, the operating profit recorded a relatively remarkable drop, mainly attributable to the highly-competitive market condition and the continuous price increase of deposition boards during the year. This segment continues to strive for the transformation and upgrade of its product portfolio, that is, a shift in business from the manufacture of double-sided circuit boards to multi-layer circuit board and high density interconnect ("HDI") circuit boards with higher profit margins. Although there are rooms for improvement in the production of HDI circuit boards and the respective scrap rate is relatively high, it is expected that HDI boards will be a key product of this segment for the domestic and overseas car manufacturing industry through the optimization of production techniques and accumulation of production experience.

Moreover, while entering into new markets and expanding customer base, the PCB trading business still maintains a satisfying growth momentum. The segment continues to expand its high-tech circuit boards product portfolio and train up professional sales and service teams. This segment has also invested in circuit board quality inspection equipment to provide a wide range of professional testing and value-added services to the customers. The Group has great expectation and confidence in expanding its circuit board trading business into different markets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's total outstanding bank borrowings amounted to approximately HK$425,723,000 (31 December 2016: HK$355,324,000) which comprised mainly bank loans and trade finance facilities. The bank borrowings repayable within one year and in the second to the fifth year amounted to approximately HK$380,598,000 and approximately HK$45,125,000 respectively (31 December 2016: HK$320,149,000 and HK$35,175,000 respectively).

After deducting cash and bank balances of approximately HK$348,746,000 (31 December 2016: HK$332,723,000), the Group's net borrowings amounted to approximately HK$76,977,000 (31 December 2016: HK$22,601,000). Shareholders' equity as at 31 December 2017 was approximately HK$1,080,494,000 (31 December 2016: HK$966,594,000). Accordingly, the Group's net gearing ratio was 7.1%. During the year, the Group's net cash inflow from operating activities amounted to approximately HK$35 million and net cash outflow from investing activities amounted to approximately HK$54 million.

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars and Japanese Yen. As the Hong Kong dollar remained pegged to the United States dollar, there was no material exchange risk in this respect. The Group will continue to monitor its foreign exchange exposure in Japanese Yen and Renminbi and enter into forward contracts when necessary. The Group's long-term bank loan facilities were denominated mainly in Hong Kong dollars and carried interest at floating rates. Credit risk was hedged mainly through credit insurance.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2017, the Group has approximately 3,640 employees (31 December 2016: approximately 3,460), inclusive of all its staff in Hong Kong, Mainland and overseas offices. The remuneration policy of the Group is formulated in accordance with the market trends and the performance of the employees. Employees' benefits include insurance and retirement benefit.

The remunerations of the Directors are determined by the Remuneration Committee, with reference to the Company's operating results and comparable market information. The remuneration policy of the Company for the non-executive directors is to ensure that they are sufficiently compensated for their efforts and time dedicated to the Company. For the employees (including the executive directors and senior management), it ensures that the remuneration packages offered are optimal with respect to their duties assigned and in line with the market practice. The remuneration policy is set out to ensure that the salary levels are competitive and effective in attracting, retaining and motivating employees. Directors, or any associates of the directors as well as any executives, do not involve in determining their respective remuneration.

OUTLOOK AND PROSPECTS

The global economy is still recovering with encouraging sentiment prevailing in manufacturing sector. The economic and trading relationship between the United States and the PRC is getting more dynamic with uncertainty. The Group expects several key challenges ahead including the continuous increasing of manufacturing costs (in particular the raw materials cost), shorter life cycle of consumer products, volatile capital market and currency fluctuations. The visibility of sales orders to be received is low and poses much difficulties in resources planning. Nevertheless, with the existing multi-business product platforms and the strong research and development capabilities, the Group will continue to widen the spectrum of applications for the existing manufacturing segments and develop new products with innovative material science technology. By leveraging on the existing well-established, unique and diversified product platform and extensive sales network across different industries, the Group will continue to adjust the sales strategies of different segments to niche markets and high-margin customers.

The Mainland government shows its commitment to developing new energy, energy saving, environmental protection and new materials-related industries in the near future. Besides complying with the relevant laws and regulations (especially the newly-imposed environmental-related rules), the Group will also continue aligning such strategy and direction by focusing on business opportunities arising from certain industries, in particular sectors such as automotive, innovative consumer electronics, communications, food and medical packaging, medical equipment, new industrial materials and components. Given the progressive crystallization of the improvement from the production processes automation, capacities optimization and production management digitization, it is the Group's ultimate target to enhance the overall profitability in the next couple of years.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the Year.

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the Corporate Governance Code as set out in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Year except for the deviation from code provision A.6.7 as mentioned below:

CG Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend the issuer's general meetings and develop a balanced understanding of the views of shareholders. Some Independent Non-Executive Directors and Non-Executive Directors were unable to attend the 2017 annual general meeting of the Company and extraordinary general meeting held on 11 October 2017 due to their business engagements. However, the Board believes that the presence of independent non-executive director at the general meeting developed a balanced understanding of the views of shareholders.

COMPLIANCE WITH MODEL CODE

Throughout the Year, the Company has adopted the Model Code for Securities Transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules and all Directors of the Company have confirmed that they have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-Executive Directors, namely, Ms. Yeung Shuk Fan (Chairman of the Audit Committee), Mr. Cheng Tak Yin and Mr. Ho Wei Sem. None of them is employed by or otherwise affiliated with the former or current auditor of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group together with the management of the Company and discussed auditing, internal control and financial reporting matters.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.cosmel.com) and The Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2017 annual report containing all the information required by the Listing Rules will be published on the above websites and dispatched to shareholders of the Company in due course.

On behalf of the Board
TANG To
Chairman

Hong Kong, 8 March 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.