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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

RESULTS SUMMARY	For the year ended 31 December		
	2018	2017	
	HK$'000	*HK$'000*	**Change**
Revenue	**2,682,452**	2,446,848	9.6%
Gross profit	**437,158**	409,439	6.8%
Operating profit	**76,987**	63,349	21.5%
Profit for the year	**88,752**	43,850	102.4%
Net debt to equity ratio	**3.8%**	7.4%	

The Board has resolved to recommend the payment of a final dividend of HK$0.02 per share for the year ended 31 December 2018 (2017: Nil).

FINAL RESULTS

The board of directors (the "**Board**") of Cosmos Machinery Enterprises Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017. The final results have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	3	**2,682,452**	2,446,848
Cost of sales		**(2,245,294)**	(2,037,409)
Gross profit		**437,158**	409,439
Other income and gains, net		**45,202**	43,840
Selling and distribution costs		**(153,780)**	(145,043)
Administrative expenses		**(251,593)**	(244,887)
Operating profit		**76,987**	63,349
Finance costs		**(21,856)**	(20,483)
Investment income		**4,938**	3,736
Share of results of associates		**1,658**	3,324
Gain on disposal of a subsidiary		**44,588**	–
Gain on deregistration of a subsidiary		**1,904**	–
Profit before tax	4	**108,219**	49,926
Taxation	5	**(19,467)**	(6,076)
Profit for the year		**88,752**	43,850
Profit attributable to:			
– Equity shareholders of the Company		**74,052**	27,284
– Non-controlling interests		**14,700**	16,566
		88,752	43,850
Earnings per share for profit attributable to the equity shareholders of the Company during the year	6		
– Basic		**9.36 HK cents**	3.80 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 *HK$'000*	2017 *HK$'000*
Profit for the year	**88,752**	43,850
Other comprehensive (expense)/income 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	**(56,348)**	74,040
Changes in fair value of available-for-sale financial asset	**–**	(129)
Share of reserves of associates	**(1,031)**	1,956
Reclassification adjustments:		
Release of translation reserve upon disposal of a subsidiary	**547**	–
Release of translation reserve upon deregistration of a subsidiary	**(1,904)**	–
Release of fair value reserve upon disposal of available-for-sale financial asset	**–**	(930)
	(58,736)	74,937
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of properties held for own use	**11,485**	21,240
	(47,251)	96,177
Total comprehensive income for the year	**41,501**	140,027
Total comprehensive income attributable to:		
– Equity shareholders of the Company	**32,900**	113,900
– Non-controlling interests	**8,601**	26,127
Total comprehensive income for the year	**41,501**	140,027

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current Assets			
Property, plant and equipment		**618,271**	644,876
Leasehold land and land use rights		**40,271**	43,320
Goodwill		**53,483**	53,483
Intangible assets		**6,454**	7,838
Interests in associates		**31,139**	32,369
Available-for-sale financial assets	*2(a)*	**–**	–
Financial assets at fair value through other comprehensive income	*2(a)*	**–**	–
Finance lease receivables		**44,451**	16,472
Deferred tax assets		**26,419**	29,518
		820,488	827,876
Current Assets			
Inventories		**491,937**	524,571
Finance lease receivables		**109,249**	100,965
Trade and other receivables	*7*	**934,171**	923,611
Other financial assets		**33,930**	20,277
Current tax recoverable		**2,216**	1,473
Cash and bank balances		**339,702**	348,746
		1,911,205	1,919,643
Assets of disposal group classified as held for sale		**–**	23,140
		1,911,205	1,942,783

	Notes	2018 HK$'000	2017 HK$'000
Current Liabilities			
Trade and other payables	*8*	**792,545**	928,635
Contract liabilities		**66,323**	–
Provision for restructuring	*9*	**30,238**	52,956
Provision for indemnity		**25,780**	–
Amount due to an associate		**704**	865
Bank borrowings		**357,052**	380,598
Obligations under finance leases		**2,547**	2,696
Deferred consideration payable		**–**	8,148
Current tax payable		**5,732**	7,622
		1,280,921	1,381,520
Liabilities directly associated with the assets classified as held for sale		**–**	26,723
		1,280,921	1,408,243
Net Current Assets		**630,284**	534,540
Total Assets less Current Liabilities		**1,450,772**	1,362,416
Non-current Liabilities			
Bank borrowings		**20,111**	45,125
Obligations under finance leases		**4,528**	–
Deferred tax liabilities		**25,848**	25,152
		50,487	70,277
Net Assets		**1,400,285**	1,292,139
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital		**609,027**	532,903
Reserves		**557,303**	547,591
Proposed final dividend	*10*	**17,239**	–
		1,183,569	1,080,494
Non-controlling Interests		**216,716**	211,645
Total Equity		**1,400,285**	1,292,139

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. BASIS OF PREPARATION

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as "**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. 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**"). A summary of the significant accounting policies adopted by the Group is set out below. 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and amended HKFRS that are first effective for the current accounting period of the Group and the Company. Information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

The new accounting policies have been applied from 1 January 2018, where they are different to those applied in prior years, and also explain the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements. The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15.

The Group used modified retrospective approach while adopting HKFRS 9. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening balances on 1 January 2018.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained profits as of 1 January 2018 and that comparatives will not be restated.

The following table illustrates the impact to each line items affected in current year by the adoption of HKFRS 9 and HKFRS 15.

	31 December 2017 as previously reported	**Effect of adoption of HKFRS 9**	**Effect of adoption of HKFRS 15**	**1 January 2018 as restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated statement of financial position (extract)				
Assets				
Trade and other receivables	923,611	(4,192)	(808)	918,611
Deferred tax assets	29,518	745	–	30,263
Finance lease receivables	117,437	(2,257)	–	115,180
Equity				
Retained profits	(394,223)	5,189	760	(388,274)
Non-controlling interests	(211,645)	515	48	(211,082)
Liabilities				
Trade and other payables	(928,635)	–	68,840	(859,795)
Contract liabilities	–	–	(68,840)	(68,840)

(a) HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces the provisions of HKAS 39 Financial Instruments: Recognition and Measurement, that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated as the Group does not have any hedge instrument.

The adjustments arising from the new impairment rules are not reflected in the financial statement as at 31 December 2017, but are recognised in the opening balances as at 1 January 2018.

Classification and measurement

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value either through other comprehensive income, or through profit or loss, and

- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

	31 December 2017 as previously reported *HK$'000*	**Reclassification** *(Note)* *HK$'000*	**1 January 2018 as restated** *HK$'000*
Available-for-sale financial assets			
– Unlisted equity investment*	–	–	–
Financial assets at fair value through other comprehensive income			
– Unlisted equity investment#	–	–	–

* *Fully impaired as at 31 December 2017*

Fair value of the unlisted equity investment approximates to its carrying value which is a nil balance as at 1 January 2018

Note:

Reclassification of available-for-sale financial assets to financial assets at fair value through other comprehensive income – unlisted equity investment.

The Group elected to present change in the fair value of its equity investment (previously classified as available-for-sale financial assets) in other comprehensive income as it is long-term and strategic investment that is not expected to be sold in the short to medium term.

(b) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 from 1 January 2018, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 15, the Group has adopted the modified retrospective approach for transition to the new standard. Under this approach, (i) comparative information for prior years is not restated; (ii) the date of the initial application of HKFRS 15 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 15, i.e. 1 January 2018; (iii) the Group recognizes the cumulative effect of initial application of HKFRS 15 as an adjustment to the opening balance of retained profits in the year of adoption, i.e. as at 1 January 2018; and (iv) the Group elects to apply for the new standard only to sales contracts that are not completed as at 1 January 2018.

Following adjustments were recognised in the consolidated statement of financial position at the date of initial application:

	HKAS 18 carrying amount 31 December 2017	**Reclassification**	**HKFRS 15 carrying amount 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payables	928,635	(68,840)	859,795
Contract liabilities	–	68,840	68,840

Contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier), if customers pay consideration, or have a right to an amount of consideration that is unconditional, before the Group transfers goods or service to the customer.

At the date of initial application, installation service component not yet provided in the contracts of sale of machinery has been recognised with corresponding adjustment of approximately HK$760,000 and HK$48,000 on opening retained profits and non-controlling interests respectively.

As a result, other than certain reclassifications of contract liabilities, the adoption of HKFRS 15 did not result in any material impact to the consolidated financial statements as the timing of revenue recognition on sales of products is not changed.

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 segment results for the year ended 31 December 2018 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	380,108	509,479	901,891	858,826	32,148	–	2,682,452
Inter-segment sales *(Note)*	19,174	214	3,257	–	–	(22,645)	–
Total revenue	399,282	509,693	905,148	858,826	32,148	(22,645)	2,682,452
Segment results	2,988	33,173	30,142	28,493	20,307	–	115,103
Unallocated corporate expenses							(38,116)
Operating profit							76,987
Finance costs							(21,856)
Investment income							4,938
Share of results of associates							1,658
Gain on disposal of a subsidiary							44,588
Gain on deregistration of a subsidiary							1,904
Profit before tax							108,219
Taxation							(19,467)
Profit for the year							88,752

Note:

Inter-segment sales are determined at prevailing market rates.

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 *(Note)*	22,310	934	6,724	–	–	(29,968)	–
Total revenue	368,892	389,791	902,877	788,612	26,644	(29,968)	2,446,848
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
Taxation							(6,076)
Profit for the year							43,850

Note:

Inter-segment sales are determined at prevailing market rates.

Geographical information

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

	Sales revenue by geographical market	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**605,023**	586,964
Mainland	**1,795,177**	1,639,852
Other Asia-Pacific countries	**201,449**	155,700
North America	**10,066**	14,526
Europe	**70,737**	49,806
	2,682,452	2,446,848

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	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**196,967**	200,873	**2,508**	494
Mainland	**521,512**	548,644	**49,718**	57,878
	718,479	749,517	**52,226**	58,372

4. PROFIT BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
(Reversal of allowances)/allowances for impairment of bad and doubtful debts	**(9,638)**	6,075
Depreciation and amortisation on:		
– Owned assets	**65,440**	60,878
– Assets held under finance leases	**976**	410
– Leasehold land held for own use under finance leases	**2,980**	2,414
– Leasehold land and land use rights	**1,350**	1,379
– Intangible assets	**1,384**	1,383

5. TAXATION

	2018	2017
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
Current year	**1,601**	1,381
Over-provision in prior years	**(105)**	(59)
	1,496	1,322
Overseas tax		
Current year	**20,203**	10,996
(Over-provision)/under-provision in prior years	**(3,442)**	1,390
	16,761	12,386
Deferred tax		
Deferred taxation relating to the origination and (reversal) of temporary differences	**1,210**	(7,632)
	19,467	6,076

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No.3) Ordinance 2018 (the "**Ordinance**"). Under the two-tiered profits tax rate regime, the first HK$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%. The Ordinance is effective from the year of assessment 2018-2019.

Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax regime (2017: a single tax rate of 16.5% was applied). 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.

6. EARNINGS PER SHARE

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

	2018	2017
Weighted average number of ordinary shares in issue during the year	**791,218,363**	716,930,692
	HK$'000	*HK$'000*
Profit attributable to the equity shareholders of the Company	**74,052**	27,284
	HK cents	*HK cents*
Basic earnings per share	**9.36**	3.80

No diluted earnings per share is presented as there were no potential ordinary shares in issue for both years.

7. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade and bills receivables	**876,879**	924,630
Less: allowance for impairment of bad and doubtful debts	**(106,864)**	(111,959)
	770,015	812,671
Other receivables	**150,333**	106,878
Less: allowance for impairment of bad and doubtful debts	**(22,160)**	(24,802)
	128,173	82,076
Prepayments	**35,398**	28,814
Amounts due from related parties	**585**	50
	934,171	923,611

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:

	2018	2017
	HK$'000	*HK$'000*
0 to 3 months	**525,742**	559,202
4 to 6 months	**120,390**	155,047
7 to 9 months	**55,787**	51,402
Over 9 months	**68,096**	47,020
	770,015	812,671

8. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade and bills payables	**611,433**	590,258
Accruals and other payables	**171,512**	328,032
Amounts due to related parties	**9,600**	10,345
	792,545	928,635

The directors consider that the carrying amounts of trade and other payables approximate 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:

	2018	2017
	HK$'000	*HK$'000*
0 to 3 months	**449,779**	437,757
4 to 6 months	**99,822**	108,352
7 to 9 months	**38,042**	25,920
Over 9 months	**23,790**	18,229
	611,433	590,258

9. 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. Most of the restructuring cost was paid up for employee compensation in January 2019 and the restructuring is expected to be completed by or before the end of 2019.

The followings are restructuring provision of the Group and movements thereon during the current and prior year:

	2018	2017
	HK$'000	*HK$'000*
As at 1 January	**52,956**	91,727
Exchange realignment	**(1,474)**	936
Restructuring costs paid	**(1,632)**	(8,606)
Unused provision for restructuring reversed	**(19,612)**	(31,101)
As at 31 December	**30,238**	52,956

10. DIVIDEND

	2018	2017
	HK$'000	*HK$'000*
Proposed final dividend of HK$0.02 per share (2017: Nil)	**17,239**	–

The proposed final dividend for the year ended 31 December 2018 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

11. OTHER INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2018 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 be sent to shareholders.

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results for the year ended 31 December 2018 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 2017 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 2018 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 these financial statements of the Group for the year ended 31 December 2017. 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 approximately 9.6% to HK$2,682,452,000. It was mainly attributable to the improvement of performance in the machinery manufacturing business, plastic products and processing business and the trading business during the year.

Gross profit for the year amounted to approximately HK$437,158,000, with gross profit margin of 16.3% as compared to 16.7% in 2017. The Group strives to improve the gross profit margin by increasing in production capacities in certain manufacturing plants and strengthening control over the production costs including the labor cost. The Group also continues the sales strategy by focusing on high-margin products and also associated customer sectors in various businesses.

During the year, the Group recorded a non-recurring gain on disposal of entire issued share capital of MS Plasticorp, an indirect wholly-owned subsidiary of the Company prior to the completion of the disposal and incorporated in Cook Islands with limited liability, of approximately HK$44,588,000, after deducting related statutory cost and expenses. For more details of the disposal, please refer to the heading "Material Acquisition and Disposal" below.

As stated in the announcement of the Company dated 23 December 2016, the Group planned to restructure its plastic products and processing business and machinery manufacturing business, including the cessation of operation of certain manufacturing businesses and optimization of the production capacities in plants located at Dongguan and Wuxi. The restructuring projects including assets relocation, organizational restructuring and production efficiency enhancement was progressing and on-going.

The Group reported a net profit of approximately HK$88,752,000 for the year, including a non-recurring gain of approximately HK$44,588,000 from the disposal of subsidiary mentioned above. This was mainly resulted from the increase in sales revenue and gross profit, and tight control over the operating overheads during the year.

The net debt to equity ratio decreased to 3.8% as at 31 December 2018. The overall cash flow position and debt maturity profile of the Group maintained at a healthy level.

The Board has resolved to recommend the payment of a final dividend of HK$0.02 per share for the year ended 31 December 2018 (2017: Nil).

BUSINESS REVIEW

Machinery Manufacturing Business

The machinery manufacturing business recorded sales growth in the Mainland market during the year, mainly arised from sales orders received from the industries of automotive components, household appliances and infrastructure construction in the second half of 2017. Starting from the second half of 2018, the market and investment sentiment in Mainland showed signs of uncertainties and expected to continue in the future. A slowdown of sales orders of injection moulding machines was also starting from third quarter during the year. Accordingly, the operating result of the business in the coming year may be slightly decreased, as compared to that of this year. The Group is prudently cautious to the business performance in 2019 and continues to deploy strict cost control and measures, in particular by credit control, inventory and cashflow management to mitigate overall operating risks.

In addition, the restructuring plan of this business (mainly streamline the organization structure and elevate the existing production capacities) started at the end of 2016 was processing and on-going. This business was re-allocated its existing resources, realigned its business direction, particularly re-alignment of the export sales team, and adjusted products in the two main production plants of injection moulding machines. The production capacities and efficiency were then enhanced during the year.

The launch of the latest 3rd generation of servo-driven injection moulding machines and optimization of design of two-platen series of injection moulding machines' functions were well received by customers. These mechanical series aligned with our industry-specific mechanical solutions with on-going sales and development efforts, will help drive growth in our target markets in the future. On the other hand, after years of development and implementation for the "iSee 4.0" system which is a digital platform applying the "Industry 4.0" technologies, gained a substantial rise in customers connected with the platform. This platform enables users to monitor their machineries and accessory equipment in real time and to utilize a wide range of manufacturing management functions leveraging on the use of smart data and traceability functionality to help manufacturers raise work efficiencies and make agile decisions. The Group considers this system and platform as a key strategic area for machinery manufacturing business for the future.

For the extrusion machines and rubber plastic machinery manufacturing business, it continues to develop and improve its functionalities and designs. This business put in substantial efforts in supply chain management, quality improvements, internal procedures and management optimizations. In addition, to meet the requirements of higher vehicle emission standards and new energy vehicles in Mainland, the development of multi-layer nylon composite fuel pipes particularly made for those vehicles will be the main focus of this business in the coming years.

Plastic Products and Processing Business

In 2018, performance of the plastic products and processing business was satisfactory, mainly attributable to our production plant located in Zhuhai as it reported a turnaround result for the year. This plant repaired promptly from the serious damage caused by the typhoon in the second half of 2017 and quickly resumed its production after few months with upgraded manufacturing workshops and factory infrastructures, further improvement in the hygiene condition and production environment. The overall production efficiency and output are enhanced after purchasing of new machines and equipment with high specifications. In the coming years, it will continue to develop and diversify its high-margin customer portfolio, in particular for the folding cap seals with scoop for dairy products. This plant will also increase the applications of advanced digital smart factory management technology, and deploy a wider range of automation solutions to further improve efficiencies and product quality.

Our plastic processing plant located in Hefei is facing various challenges, including squeeze of operating margin by major customers, increasing costs of manufacturing overheads, additional overheads in installation of environmental machines and equipment to comply with the stringent environmental regulations in the Mainland. All these factors had posed high pressure to the operating results to this plant in the coming years. In response, it exerts additional resources to automate production processes and enhance its production capacities to maintain competitiveness in the market.

The Group continues to closely monitor non-profit-making businesses and may execute the need of restructuring, in addition to its investments in the production of plastic products with advanced technologies. The multi-color injection moulding business is expected to scale up its order intakes after business developments initiated in past couple years. The mannequin blow-molding business, although its profit contribution is limited for the meantime, their products and quality are well received by global fashion brands. On-going business development and manufacturing process refinement, will hopefully develop into a growing business, once global brands embrace eco-friendly blow moulded products versus traditional fibre-glass products. The overall performance of this business is expected to improve gradually through crystallization of these pioneering investments.

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

The operating results of the PCB processing and trading business improved, which was mainly resulted from the enhancement of gross profit margin during the year. Sales revenue also increased in 2018 as additional sales derived from various major customers. The business continues facing the several risks, including fluctuation in the price of raw materials, additional investment in new products and intense competition within the industry. Nevertheless, this PCB processing business responded by shifting its product mix to higher-margin products while maintaining stringent control on development costs in order to maintain its market competitiveness. On business development, more major customers in the People's Republic of China were developed in this year, thus reducing its reliance on export markets and customers. Moreover, it continues its direction to automate production processes and enhance production capacities, in order to enhance the product quality with lower scrap rate arising from development of the new products.

Regarding the PCB trading business, its contribution was stabilized through execution of adjustment of sales strategy to expand sales network in Thailand and Japan, and shift their marketing strategy on trade fair promotions. It will continue to strengthen its professional technical support and after-sales services through the collaboration between sales teams across different geographical locations and the PCB processing business team. In addition, it also invested in circuit board quality inspection equipment to enhance its sales revenue by providing a wide range professional testing and value-added services to associated customers.

Industrial Consumables Trading Business

The overall performance of the trading business improved slightly in 2018 as a result of increased sales from some target market sectors. The sales performance of new products for the electric vehicle industry, robot arm application and controller systems were improved in the past year. The business had critically strengthen its inventory management and internal control mechanism during the year, with aim to achieve its inventory control at a healthy operating level. The team has also realigned its sales strategy to focus on the development of "Industry 4.0" system-integration business in order to capture potential business opportunities arising from factory automation and production processes enhancement in Greater China. In addition, it continues the development of high-margin fast-growing industrial customers such as auto components and robotic automation.

This trading business expects the operating environment to be challenging in coming years. However, the business works to expand market share in major industries of telecommunication equipment, electric vehicle, escalators, plastic injection moulding machines, robotics, electronics, and system integration projects. It strives to maintain profitability and monitor different risks amid economic uncertainties.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's total outstanding bank borrowings amounted to approximately HK$377,163,000 (31 December 2017: HK$425,723,000) 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$357,052,000 and approximately HK$20,111,000 respectively (31 December 2017: HK$380,598,000 and HK$45,125,000 respectively).

After including obligations under finance leases of approximately HK$7,075,000 (31 December 2017: HK$2,696,000) and deducting cash and bank balances of approximately HK$339,702,000 (31 December 2017: HK$348,746,000), the Group's net borrowings amounted to approximately HK$44,536,000 (31 December 2017: HK$79,673,000). Shareholders' equity as at 31 December 2018 was HK$1,183,569,000 (31 December 2017: HK$1,080,494,000). Accordingly, the Group's net gearing ratio was 3.8% (31 December 2017: 7.4%). During the year, the Group's net cash outflow from operating activities amounted to approximately HK$15,201,000. Net cash outflow from investing activities amounted to approximately HK$14,569,000.

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 dollars remained pegged to the United States dollars, there was no material exchange risk in this respect. The Group continues 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.

CAPITAL STRUCTURE

The Company had allotted and issued 145,000,000 new shares of the Company during the year.

The total number of issued shares of the Company is 861,930,692 shares.

MATERIAL ACQUISITION AND DISPOSAL

Disposal of Entire Issued Share Capital of a Subsidiary

On 1 September 2017, Sunford Enterprises Limited, an indirect wholly-owned subsidiary of the Company, as vendor entered into a sale and purchase agreement with Giant Express Investment Limited, as purchaser, to sell entire issued share capital of MS Plasticorp, an indirect wholly-owned subsidiary of the Company prior to the completion of disposal and a company incorporated in Cook Islands, at an aggregate consideration of RMB82,000,000. The disposal was completed on 20 March 2018. Following the completion of the disposal, MS Plasticorp ceased to be a subsidiary of the Company.

For details, please refer to the Company's announcements dated 1 September 2017, 11 October 2017, 22 December 2017 and 20 March 2018, and the Company's circular dated 20 September 2017.

Save as disclosed above, there was no material acquisition and disposal by the Group during the year.

EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 31 December 2018, the Group had approximately 3,320 employees (31 December 2017: approximately 3,460), located in Hong Kong and Mainland. The remuneration policy regarding the employees of the Group is based on qualifications, competence and the performance of the employees as well as the prevailing market condition of the industry. Employees' benefits include retirement benefits and medical insurance coverage.

The Group had also provided training programmes or courses for the mainland staff at all levels from different departments, and also for Directors and employees of the Company so as to further enhance their technical skills in production operation and management, professional skills and knowledge, respectively.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

OUTLOOK AND PROSPECTS

The macro economic environment is expected to become more challenging in the coming years. The recent China-United States trade dispute and conflicts, the "Brexit" by the United Kingdom from the European Union and political uncertainties in Europe pose increasing instability to the global business environment and hence the volatility of capital market and currency fluctuations. The Group is keen on closely monitoring respective severe challenges ahead, including increase in production costs, fluctuation of raw materials costs, low visibility of sales orders from customers, abrupt shifts of governmental policies etc. At the same time, our management teams of each business will take agile actions in reaction to such unstable and complex market demands. The Group's performance has improved from the implementation of restructuring measures of the machinery manufacturing business and the plastic product and processing business since 2017. Confronting a new round of downward pressure on the economy in Mainland, the market and manufacturing industry in Mainland are still in view of uncertainties in the coming years. However, the Group is confident that certain member companies have the capabilities to strive forward and capture growth in various industries for further growth.

Last but not least, the Group continues to align its strategy of providing innovative, high-technology and best quality products and services to our customers through our management team works, our bolstering research and development capabilities, our close collaboration across different businesses and also our prudent financial risk management capabilities. It is the Group's long-term goal to enhance shareholders' value by leveraging the existing resources, well-organized business platform and effective use of capital.

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

On 30 April 2018, the Company entered into a subscription agreement with Cosmos Machinery (Holdings) Limited ("**Cosmos Holdings**") and Saniwell Holding Inc. ("**Saniwell**"). Cosmos Holdings and Saniwell subscribed for 108,750,000 shares and 36,250,000 shares respectively at the subscription price of HK$0.55 per subscription share (the "**Subscription**"). The Subscription was completed on 27 June 2018 and an aggregate of 145,000,000 new Shares were allotted and issued on 27 June 2018.

For details, please refer to the Company's announcements dated 30 April 2018, 19 May 2018, 1 June 2018, 7 June 2018, 20 June 2018 and 27 June 2018, the Company's circular dated 19 May 2018 and the Company's supplemental circular dated 2 June 2018.

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2018.

CORPORATE GOVERNANCE

During the year ended 31 December 2018, the Company has complied with all the principles and code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except for the following deviation from code provision A.6.7 of the CG Code:

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. During the year under review, Mr. Qu Jinping, non-executive Director and Mr. Ho Wei Sem and Mr. Huang Zhi Wei, both independent non-executive Directors were unable to attend the annual general meeting and extraordinary general meeting of the Company held on 7 June 2018, and adjourned extraordinary general meeting of the Company held on 20 June 2018 due to other business engagements. The Company considered that the presence of the chairman of each of nomination committee, remuneration committee and audit committee, and other non-executive Director and independence non-executive Directors at the said meetings were sufficient for addressing the queries from shareholders of the Company (the "**Shareholders**").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Board has adopted a Code for Securities Transactions by Directors and Relevant Employees of Cosmos Machinery Enterprises Limited (the "**CMEL Code**") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the Company's code of conduct and rules governing dealing by all Directors and relevant employees in the securities of the Company. All Directors have confirmed, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code and CMEL Code for the year ended 31 December 2018.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK0.02 per share for the year ended 31 December 2018 (2017: Nil). The final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on 13 June 2019 (the "**AGM**") and the final dividend will be payable on or before 31 July 2019 to the Shareholders whose names appear on the register of members of the Company on 21 June 2019.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 13 June 2019. Notice of the AGM will be dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

(a) 2019 Annual General Meeting

The register of members of the Company will be closed from Thursday, 6 June 2019 to Thursday, 13 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 5 June 2019 for registration.

(b) Proposed distribution of final dividend

The register of members of the Company will be closed from Wednesday, 19 June 2019 to Friday, 21 June 2019, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 18 June 2019 for registration.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, Ting Ho Kwan & Chan, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ting Ho Kwan & Chan in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ting Ho Kwan & Chan on this preliminary announcement.

PUBLICATION OF THE FINAL RESULTS ANNOUNCEMENT AND 2018 ANNUAL REPORT

This final results announcement is published on the websites of the Company (www.cosmel.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2018 annual report of the Company will be published on the above websites and dispatched to the Shareholders in due course.

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

Hong Kong, 28 March 2019

As at the date of this announcement, the Board is comprised of ten directors, of which four are executive directors, namely Mr. Tang To, Mr. Wong Yiu Ming, Mr. Tang Yu, Freeman and Mr. Mei Zheqi, 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.