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 2019

RESULTS SUMMARY	**For the year ended 31 December**		
	2019	2018	
	HK$'000	*HK$'000*	**Change**
Revenue	**2,344,923**	2,682,452	-12.6%
Gross profit	**377,540**	437,158	-13.6%
Operating profit	**53,894**	76,987	-30.0%
Profit for the year	**24,884**	88,752	-72.0%
Net debt to equity ratio	**8.9%**	3.8%	N/A

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (31 December 2018: HK$0.02 per share).

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 2019, together with the comparative figures for the year ended 31 December 2018 and that final results were reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	3	**2,344,923**	2,682,452
Cost of sales		**(1,967,383)**	(2,245,294)
Gross profit		**377,540**	437,158
Other income and gains, net		**66,516**	45,202
Selling and distribution costs		**(168,808)**	(153,780)
Administrative expenses		**(221,354)**	(251,593)
Operating profit		**53,894**	76,987
Finance costs		**(24,958)**	(21,856)
Investment income		**4,486**	4,938
Share of results of associates		**2,991**	1,658
Gain on disposal of a subsidiary		**–**	44,588
Gain on deregistration of a subsidiary		**2,662**	1,904
Profit before tax	4	**39,075**	108,219
Taxation	5	**(14,191)**	(19,467)
Profit for the year		**24,884**	88,752
Profit attributable to:			
– Equity shareholders of the Company		**15,755**	74,052
– Non-controlling interests		**9,129**	14,700
		24,884	88,752
Earnings per share for profit attributable to the equity shareholders of the Company during the year	6		
– Basic		**1.83 HK cents**	9.36 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 *HK$'000*	2018 *HK$'000*
Profit for the year	**24,884**	88,752
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	**(24,150)**	(56,348)
Share of reserves of associates	**(650)**	(1,031)
Reclassification adjustments:		
Release of translation reserve upon disposal of a subsidiary	**–**	547
Release of translation reserve upon deregistration of a subsidiary	**(2,662)**	(1,904)
	(27,462)	(58,736)
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of properties held for own use	**16,158**	11,485
	(11,304)	(47,251)
Total comprehensive income for the year	**13,580**	41,501
Total comprehensive income attributable to:		
– Equity shareholders of the Company	**5,339**	32,900
– Non-controlling interests	**8,241**	8,601
Total comprehensive income for the year	**13,580**	41,501

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current Assets			
Property, plant and equipment		**597,417**	618,271
Leasehold land and land use rights		**–**	40,271
Right-of-use assets	*2(b)*	**99,973**	–
Goodwill		**53,483**	53,483
Intangible assets		**5,071**	6,454
Interests in associates		**32,809**	31,139
Financial assets at fair value through other comprehensive income		–	–
Finance lease receivables		**40,175**	44,451
Deferred tax assets		**29,577**	26,419
		858,505	820,488
Current Assets			
Inventories		**434,640**	491,937
Finance lease receivables		**102,432**	109,249
Trade and other receivables	*7*	**890,987**	934,171
Other financial assets		**4,687**	33,930
Current tax recoverable		**5**	2,216
Cash and bank balances		**312,633**	339,702
		1,745,384	1,911,205

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Current Liabilities			
Trade and other payables	*8*	**699,646**	792,545
Contract liabilities		**66,202**	66,323
Provision for restructuring	*9*	**–**	30,238
Provision for indemnity		**–**	25,780
Amount due to an associate		**149**	704
Bank borrowings		**299,843**	357,052
Lease liabilities		**14,052**	–
Obligations under finance leases		**–**	2,547
Current tax payable		**5,297**	5,732
		1,085,189	1,280,921
Net Current Assets		**660,195**	630,284
Total Assets less Current Liabilities		**1,518,700**	1,450,772
Non-current Liabilities			
Bank borrowings		**53,376**	20,111
Lease liabilities		**49,250**	–
Obligations under finance leases		**–**	4,528
Deferred tax liabilities		**29,633**	25,848
		132,259	50,487
Net Assets		**1,386,441**	1,400,285
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital		**609,027**	609,027
Reserves		**562,642**	557,303
Proposed final dividend	*10*	**–**	17,239
		1,171,669	1,183,569
Non-controlling Interests		**214,772**	216,716
Total Equity		**1,386,441**	1,400,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 ("**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 interest in leasehold land and buildings where the Group is the registered owner of the property interest 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 a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC)-Int 4, Determining whether an arrangement contains a lease, HK(SIC)-Int 15, Operating leases – incentives, and HK(SIC)-Int 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 which remain substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach to recognise the right-of-use assets at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. As a result there was no impact to the opening balance of retained profits. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use. The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates as at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 8%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

(ii) applied the recognition exemption for leases which the lease term ends within 12 months of the date of initial application;

(iii) applied the recognition exemption for leases of low value assets;

(iv) excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

(v) used hindsight, in determining the lease term if the contract contains options to extend or terminate the lease.

The following table reconciles the operating lease commitments disclosed as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	84,441
Less: adjustments as a result of different treatment of termination option	(814)
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases with remaining lease term ending on or before 31 December 2019	(4,752)
	78,875
Less: total future interest expenses	(18,130)
Present value of remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019	60,745
Add: obligations under finance leases recognised as at 31 December 2018	7,075
Total lease liabilities recognised as at 1 January 2019	67,820
Of which are:	
Current lease liabilities	10,852
Non-current lease liabilities	56,968
	67,820

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019	1 January 2019
	HK$'000	*HK$'000*
Land use rights *(note a)*	**37,930**	40,271
Plant and machinery *(note b)*	**6,459**	7,364
Land and buildings *(note c)*	**55,037**	60,745
Motor vehicle	**547**	–
	99,973	108,380

Notes:

a. Prepaid lease payments in respect of the land use right held for own use in the PRC were reclassified as right-of-use assets at the date of initial application of HKFRS 16.

b. The Group reclassified plant and machinery previously held under finance lease in accordance with HKAS 17 as right-of-use assets at the date of initial application of HKFRS 16.

c. The Group has leased several land and buildings for offices and factories. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Tenures of the leases range from 1 to 10 years.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustment at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *HK$'000*	**Reclassification** *HK$'000*	**Capitalisation of operating lease contracts** *HK$'000*	**Carrying amount at 1 January 2019** *HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:				
Non-current assets				
Property, plant and equipment	618,271	(7,364)	–	610,907
Leasehold land and land use rights	40,271	(40,271)	–	–
Right-of-use assets	–	47,635	60,745	108,380
Current liabilities				
Obligations under finance leases	2,547	(2,547)	–	–
Lease liabilities	–	2,547	8,305	10,852
Non-current liabilities				
Obligations under finance leases	4,528	(4,528)	–	–
Lease liabilities	–	4,528	52,440	56,968

(c) Impact on the financial results and segment results of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported operating profit in the Group's consolidated income statement, as compared to the results if HKAS 17 had been applied during the year.

The following tables may give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial results and segment results for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16	Add back: HKFRS 16 depreciation and interest expense	Deduct: Estimated amounts related to operating leases as if under HKAS 17 *(note)*	Hypothetical amounts for 2019 as if under HKAS 17	Compared to amounts reported for 2018 under HKAS 17
	(A)	(B)	(C)	(D=A+B-C)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial results for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Operating profit	53,894	12,962	14,149	52,707	76,987
Finance costs	(24,958)	4,774	–	(20,184)	(21,856)
Profit before tax	39,075	17,736	14,149	42,662	108,219
Profit for the year	24,884	17,736	14,149	28,471	88,752
Reportable segment results for year ended 31 December 2019 (note 3) impacted by the adoption of HKFRS 16:					
– Industrial consumables	4,601	3,699	3,307	4,993	2,988
– Plastic processing products	48,608	559	584	48,583	33,173
– Machinery	(4,184)	557	634	(4,261)	30,142
– Printed circuit boards	17,986	7,718	9,159	16,545	28,493
– Other operations	10,827	429	465	10,791	20,307
– Total	77,838	12,962	14,149	76,651	115,103

Note: The "estimated amounts related to operating leases" is an estimate of the amounts that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

(d) Lessor accounting

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

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, four reportable segments. The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. Details of the impact on adoption of HKFRS 16 can be found in note 2 to the consolidated financial statement.

The segment results for the year ended 31 December 2019 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	326,956	462,976	751,519	764,158	39,314	–	2,344,923
Inter-segment sales *(Note)*	11,463	155	1,613	–	120	(13,351)	–
Total revenue	338,419	463,131	753,132	764,158	39,434	(13,351)	2,344,923
Segment results	4,601	48,608	(4,184)	17,986	10,827	–	77,838
Unallocated corporate expenses							(23,944)
Operating profit							53,894
Finance costs							(24,958)
Investment income							4,486
Share of results of associates							2,991
Gain on deregistration of a subsidiary							2,662
Profit before tax							39,075
Taxation							(14,191)
Profit for the year							24,884

Note:

Inter-segment sales are determined at prevailing market rates.

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.

Geographical information

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

	Sales revenue by geographical market	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**392,962**	605,023
Mainland China	**1,586,997**	1,795,177
Other Asia-Pacific countries	**288,570**	201,449
North America	**20,207**	10,066
Europe	**56,187**	70,737
	2,344,923	2,682,452

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

	Specified Non-current assets		**Additions to specified non-current assets**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**201,807**	196,967	**3,835**	2,508
Mainland China	**554,137**	521,512	**53,255**	49,718
	755,944	718,479	**57,090**	52,226

4. PROFIT BEFORE TAX

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

	2019	2018
	HK$'000	*HK$'000*
Allowances/(reversal of allowances) for impairment of bad and doubtful debts	**11,703**	(9,638)
Depreciation and amortisation on:		
– Property, plant and equipment		
– Ownership interest in leasehold land and buildings held for own use	**14,292**	14,559
– Other owned assets	**55,225**	53,861
– Assets held under finance lease	**–**	976
– Leasehold land and land use rights	**–**	1,350
– Intangible assets	**1,383**	1,384
– Right-of-use assets	**14,967**	–

5. TAXATION

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million (2018: same).

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

	2019	2018
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax		
Current year	**1,633**	1,601
Over-provision in prior years	**(157)**	(105)
	1,476	1,496
Overseas tax		
Current year	**16,573**	20,203
Over-provision in prior years	**(708)**	(3,442)
	15,865	16,761
Deferred tax		
Deferred taxation relating to the (reversal) and origination of temporary differences	**(3,150)**	1,210
	14,191	19,467

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.

	2019	2018
Weighted average number of ordinary shares in issue during the year	**861,930,692**	791,218,363
	HK$'000	*HK$'000*
Profit attributable to the equity shareholders of the Company	**15,755**	74,052
	HK cents	*HK cents*
Basic earnings per share	**1.83**	9.36

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

7. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade and bills receivables	**867,976**	876,879
Less: allowance for impairment of bad and doubtful debts	**(103,553)**	(106,864)
	764,423	770,015
Other receivables	**115,053**	150,333
Less: allowance for impairment of bad and doubtful debts	**(16,486)**	(22,160)
	98,567	128,173
Prepayments	**27,646**	35,398
Amounts due from related parties	**351**	585
	890,987	934,171

The directors of the Company 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:

	2019	2018
	HK$'000	*HK$'000*
0 to 3 months	**534,352**	525,742
4 to 6 months	**115,156**	120,390
7 to 9 months	**50,413**	55,787
Over 9 months	**64,502**	68,096
	764,423	770,015

8. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade and bills payables	**553,041**	611,433
Accruals and other payables	**137,005**	171,512
Amounts due to non-controlling interests	**9,600**	9,600
	699,646	792,545

The directors of the Company 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 based on the date of invoice is as follows:

	2019	2018
	HK$'000	*HK$'000*
0 to 3 months	**376,909**	449,779
4 to 6 months	**108,968**	99,822
7 to 9 months	**34,792**	38,042
Over 9 months	**32,372**	23,790
	553,041	611,433

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 comprised provision for employees compensation and relocation expenses, arising from a series of restructuring actions to reduce costs and enhance operational efficiency. The restructuring was completed during the current year.

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

	2019	2018
	HK$'000	*HK$'000*
As at 1 January	**30,238**	52,956
Exchange realignment	**(662)**	(1,474)
Restructuring costs paid	**(9,286)**	(1,632)
Unused provision for restructuring reversed	**(20,290)**	(19,612)
As at 31 December	**–**	30,238

10. DIVIDEND

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2019	2018
	HK$'000	HK$'000
Final dividend proposed after the end of the reporting period: Nil (2018: HK$0.02 per share)	**–**	17,239

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019	2018
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.02 per share (2018: Nil)	**17,239**	–

11. OTHER INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2019 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 2019 and 2018 included in this preliminary announcement of annual results for the year ended 31 December 2019 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 2018 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 2019 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 2018. 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

Sales revenue of the Group decreased by 12.6% to approximately HK$2,344,923,000 (31 December 2018: approximately HK$2,682,452,000). It was mainly attributable to drop of sales turnover in manufacturing of injection moulding machines business, plastic products manufacturing and processing business, trading of industrial consumables business and printed circuit board ("**PCB**") processing and trading businesses during the year of 2019 amidst global economic uncertainties and deteriorating market sentiments caused by the ongoing the United States and the PRC trade friction.

Gross profit for the year amounted to approximately HK$377,540,000, with gross profit margin of decreased from 16.3% for the corresponding year of 2018 to 16.1% for the year. The slightly drop in gross profit margin was resulted from intensive market competition.

As stated in the 2018 annual report of the Company, the Group had provided a provision for indemnity pursuant to the terms of sale and purchase agreement in relation to the disposal of entire issued share capital of an indirect wholly-owned subsidiary MS Plasticorp on 20 March 2018. As the indemnity period had expired during 2019 without any claims, a gain on reversal of unused provision for indemnity amounted to approximately HK$25,780,000 was recorded in current year.

As stated in the announcement of the Company dated 23 December 2016, the Group restructured 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 had been completed by the end of the 2019. The remaining amount of unused provision for restructuring amounted to approximately HK$20,290,000 had been reversed in current year.

The Group reported a net profit of approximately HK$24,884,000 for the year, including two non-recurring gain items of approximately HK$46,070,000 from the reversal of unused provisions for indemnity and restructuring aforementioned.

The net debt to equity ratio increased to 8.9% as at 31 December 2019. The overall cash flow position and debt maturity profile of the Group maintained at a healthy level.

BUSINESS REVIEW

Machinery Manufacturing Business

During the year under review, the machinery manufacturing business recorded mixed results across various product lines. Macro-economic forces were challenging and unfavourable, as the trade war between the US and China negatively impacted capital expenditure sentiments broadly across manufacturing industries in the Mainland China for the year. Injection molding machine manufacturing business was vastly affected under this challenging backdrop. The automotive industry in the Mainland China was a key growth driver for this business in recent years. However, this industry in experienced prolonged weak overall demands, thus machinery orders from this business were low compared to same period last year. As such, deliveries for our J-series two-platen injection molding machines experienced a noticeable drop this year. We also experienced weak demands in other industries such as household appliances, infrastructures and electronics industries. However, our focus and commitment to the automotive industry remain strong. New innovative solutions and applications, namely J series chemical micro-foaming special injection molding machines（化學微發泡專用注塑機）, continue to attract customer interests in future development projects. In addition, new industry specific machine models were successfully launched in the market, such as large sized electric/hydraulic hybrid machines. For our self-developed "iSee" smart industry 4.0 platform, active users adoption rate continues to grow significantly. User satisfaction was desirable, and we will continue to deploy resources on smart digital platforms in this business to enhance human machine interface experience and production transparency and efficiency.

During the year, the production bases situated in Dongguan and Wuxi implemented various streamlining of organization structure and production processes in order to achieve lower unit production costs and overhead costs. Looking ahead to the upcoming fiscal year, while we believe our product quality and innovative applications are competitive, however the market conditions are certain to be extremely challenging. Stakeholders in certain industries such as automotive, consumer electronics, household appliances, were hopeful to see a rebound in market demands for the upcoming year. We will continue to perform stringent cash flow and cost controls as prudent measures.

For the extrusion machines and rubber injection machines business, growth rate in sales turnover and profitability were encouraging during the year. Amid challenging overall market conditions, this business recorded strong growth in niche market applications especially five-layer co-extrusion machines for automotive fuel pipes and rubber injection machines for automotive door seals connection. After years of significant efforts to refine management structure, diverting resources into niche market applications, and overall effort to raise quality and reliability of our machines, customer support in key markets were encouraging. Export sales also recorded strong growth compared to same time last year, such as the Middle East, South Korea, Europe, and India markets. Equipped with our competitive offerings in unique machine features and reliability, we are cautiously optimistic for this business to sustain organic growth in the future.

Plastic Products Manufacturing and Processing Business

During this past year, the plastic food packaging production plant in Zhuhai province recorded a slight drop in sales revenue mainly attributed by customers' product launch cycles in first half of the year. Sales growth and profit drivers continued to be in-mold labelled folding cap seals and scoops for dairy products. On the production front, we continued dedicated improvements in hygiene, quality control, customized automation and production processes. Deployment of smart digital platform with real-time data exchange connected with our machineries, helped reduce scrap rates and production downtime. Our focus to invest in smart and customized automation equipment will continue in coming years, to further enhance quality, production efficiency and cost savings. Furthermore, we directed efforts to develop new customers and new innovative products, such as multi-colour seal caps and newer sleek designs for existing products. Demands from customers in dairy and consumer packaged foods industries are forecast to be stable despite challenging macro-economic conditions. For the upcoming year, efforts and resources will continue to deploy in digital systems and smart automation, as well as new customer and product development. Our existing high standards of practice of hygienic production will serve our customers well and fit into new market trends of high quality, sanitary, innovative health supplements and foods packaging products.

The production plant in Hefei that specializes in plastic component manufacturing for home appliances recorded comparable sales as compared to same period last year, as we executed the plan to focus on quality of sales orders rather than continuous ramp up on sales volume. At the same time, we continued to streamline management structure and production processes to achieve lower direct labour unit cost. While striving for improved production efficiencies, we also focused on cash flow management and balance sheet items to strengthen overall financial health of the business.

Investments in specialized innovative plastic injection technologies and applications, namely blow molded plastic mannequins and multi-colour injection molding provided mixed results for the year. The blow molded plastic mannequins business achieved preliminary success on adoption from key customers to replace traditional glass fibre retail display items. After years of development, we are optimistic sales volume should ramp up in the coming year. For the multi-colour injection molding business that specializes in high volume gift and premium plastic components, sales volume increased compared to same period last year. We expect this business to deliver sales growth while investments in production automation should deliver improved results in the upcoming year.

PCB Processing and Trading Business

During the year sales turnover for the PCB processing business decreased slightly compared to same period last year due to a number of factors. Overall adverse effects of the US-China trade disputes caused a number of project delays for our customers. Market sentiments and demands from Electronics Manufacturing Services "EMS" factories in the PRC were weak. In addition, reduced overall demands caused fierce competition within the PCB processing industry. PCB deliveries to European automotive customers were also lower than expected. Orders from the gaming industry rebounded in the second half of year after a relatively weak sales volume in the first half. Production equipment customized for higher end high density interconnect (HDI) PCBs were online in the third quarter. Orders for HDI PCBs were obtained as forecasted. Meanwhile, we focused on raising productivity rate for HDI production and achieved satisfactory fixed cost controls. For the upcoming year, while competition within the PCB processing industry is expected to remain fierce, we expect its major customers' orders to at least remain stable. We will strive to provide additional PCB design services, increase in-depth marketing development, and to apply for certification for medical device standards, and will also take financial prudence and strict cost control measures.

Regarding the PCB trading business, sales turnover and gross profit dropped slightly compared to last year. Due to adverse market sentiments in the electronics industries, we observed delayed order placement and a portion of orders shifted outside of the PRC. We were proactive to broaden customer and product portfolio, as well as refining management structure and costs control. Efforts in new business development broadened our product portfolio such as trading of PCB raw materials and electronics components. Our PCB testing centre was successfully launched in second half of the year, and began providing PCB testing services to several major customers. We shall focus on global business development, serving customers in high end telecommunications markets, and grow the scale of PCB raw materials trading business for the coming year.

Industrial Consumables Trading Business

Operating results for the industrial consumables trading business experienced a significant drop mainly attributed to the adverse impacts of the US-China trade disputes. A number of industry sectors where we serve our key customers displayed weakness in demands, such as automotive, machinery, electronics, semi-conductors, elevators, etc. Although overall performance was improved in the second half, it was not adequate to cover the lagging results earlier in the year. We are deepening key customer relationships, reshuffling product portfolio, costs control, and inventory management. Amid a bleak operating environment, the business saw encouraging opportunities in providing special metals for the medical industry, servo solutions for lithium batteries, and automation solutions for various manufacturing sectors. For the upcoming year, while we are confident business performance should improve after certain restructuring and management reorganization, this business is sensitive to overall market sentiments in the broad manufacturing sectors in the PRC which are likely to inflict negative financial impact to this business.

Subsequent Events

In early 2020, due to the outbreak of the novel coronavirus (COVID-19) epidemic across the PRC, implications created unprecedented stress in manufacturing sectors and will continue to disrupt supply chains, logistics, and consumer demands that are likely to inflict negative financial impact to each business of the Group. We will take appropriate measures as necessary on each business and continue to assess the impact of the epidemic on the Group's business operations and financial performance. Given the serious and rapidly changing nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results as at the date of this results announcement. Other than disclosed above, there is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group's total outstanding bank borrowings amounted to approximately HK$353,219,000 (31 December 2018: approximately HK$377,163,000) 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$299,843,000 and HK$53,376,000 respectively (31 December 2018: approximately HK$357,052,000 and HK$20,111,000 respectively).

After including lease liabilities and obligations under finance leases of approximately HK$63,302,000 (31 December 2018: approximately HK$7,075,000) and deducting cash and bank balances of approximately HK$312,633,000 (31 December 2018: approximately HK$339,702,000), the Group's net borrowings amounted to approximately HK$103,888,000 (31 December 2018: approximately HK$44,536,000). Shareholders' equity as at 31 December 2019 was approximately HK$1,171,669,000 (31 December 2018: approximately HK$1,183,569,000).

The net debt to equity ratio (calculated as net borrowings divided by shareholders' equity) increased to 8.9% as at 31 December 2019, attributable by an increase of lease liabilities to approximately HK$63,302,000 when the Group had first adopted Hong Kong Financial Reporting Standard 16 Leases during the year. The overall cash flow position and debt maturity profile of the Group maintained at a healthy level.

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 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 loans were denominated mainly in Hong Kong dollars and carried interest at floating rates. Credit risk was hedged mainly through credit insurance.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

CAPITAL STRUCTURE

There was no change in the total number of issued shares of the Company for the year ended 31 December 2019. The total number of issued shares of the Company remained at 861,930,692 shares at 31 December 2019.

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisitions and disposals by the Group during this year.

EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 31 December 2019, the Group had 2,993 employees located in Hong Kong and Mainland China (31 December 2018: approximately 3,320). 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

Looking ahead to upcoming fiscal year, the macro economic outlook is certain to be extremely challenging. Although the US-China trade disputes temporarily paused tensions and concerns after the two countries reached a phase one trade deal in January 2020, we forecast more economic risks and uncertainties ahead, as the leading global powers clash on a number of fronts other than trade tensions. Trade tariffs are still in place, while new ones and counter tariffs can be swiftly implemented with short notice. Market sentiments especially in the manufacturing sectors in Mainland China, where the Group mainly conducts its business, are expected to remain weak and uncertain. Prospects for key markets such as automotive, machinery, electric appliances, consumer electronics, and infrastructures are not optimistic for sizable rebounds. Performance in these markets segments, and others, highly impact our Group's business in machinery manufacturing, plastic processing, industrial consumables trading and PCB businesses. As the PRC manufacturing capabilities and supply chain is highly integrated to global economic activities, low forecasted economic growth in the US, Europe, Japan, South Korea, and dozens of emerging economies, will further impede China's manufacturing sectors.

Further to the aforementioned highlighting the impact of the novel coronavirus (COVID-19) epidemic, we believe disruptions to supply chains, loss or delay of customer orders and logistics, can be short term and limited, if the epidemic subsides quickly. However, at the time of writing, the spread of the Epidemic is far from being limited to the PRC. The risk of a global near-pandemic is real and concerning. Economic, social, and political impact on such a grim scenario is devastating and far reaching. In order to stimulate growth and assist companies' path back to normal activities, the Chinese government will implement a broad spectrum of stimulus measures. We are hopeful such measures can partially alleviate the sudden and severe impact on our business, and to all Chinese people.

Amid the challenges we are certain to confront, we will rise to the occasion. We are aware of and have been positioning our business to expand our reach in high potential market segments such as 5G telecommunications, new energy vehicles, semi-conductors, food and health products packaging, medical devices and smart automation solutions. Our machinery manufacturing business will continue to invest and develop innovative machinery solutions for specialized application and smart digital platforms. The plastic processing business will further deploy smart digital software and tools to drive production efficiencies while expanding and deepening customer relationships. As for industrial and consumables trading business will strive to safeguard our existing market share while focusing on providing new products and solutions to high potential markets. The PCB processing and trading businesses will proceed to serve sophisticated customers' needs, invest in new technologies, and expand our high-end customer portfolio.

The top priority of the Group for the coming year is to manage financial resources and risks. Cash flow management and deployment within the Group are crucial during these trying times. Capital expenditures and operating expenditures will be scrutinized for their value. In addition, the Group will devote increased efforts on internal audit and overall corporate governance.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the principles and code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**") throughout the year ended 31 December 2019, except for the following deviations from code provisions A.2.7, A.6.7 and C.2.5 of the CG Code:

Code provision A.2.7 of the CG Code stipulates that the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the year, Mr. Tang To, the Chairman of the Board held a meeting with Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin and Mr. Huang Zhi Wei, the independent non-executive Directors, without the presence of other Directors. However, Mr. Ho Wei Sem, the independent non-executive Director, was absent from the said meeting due to health reason. The independent non-executive Directors may communicate and discuss with the Chairman directly at any time to share their view on the Company's affairs. The Company considers that there are sufficient channels and communication for discussion of the Company's affair between the Chairman and independent non-executive Directors in the absent of other Directors.

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. Kan Wai Wah and Mr. Qu Jinping, both non-executive Directors, and Mr. Ho Wei Sem and Mr. Huang Zhi Wei, both independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 13 June 2019 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 executive Directors at the said meeting was sufficient for addressing the queries from shareholders of the Company (the "**Shareholders**").

Code provision C.2.5 of the CG Code stipulates that the issuer should have an internal audit function and issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the corporate governance report. During the year under review, the Board is aware of the importance of internal auditor function and has reviewed the need to set up an internal audit function. The head of internal audit department of the Company was on board on 4 November 2019. As such, the Company had complied with the code provision C.2.5 of the CG Code from the same date.

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 2019.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (31 December 2018: HK$0.02 per share).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Friday, 12 June 2020. Notice of the AGM will be dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 5 June 2020 to Friday, 12 June 2020, 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 transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 4 June 2020 for registration.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 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 HKICPA and consequently no assurance has been expressed by Ting Ho Kwan & Chan on this preliminary announcement.

PUBLICATION OF THE FINAL RESULTS ANNOUNCEMENT AND 2019 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 2019 annual report of the Company will be published on the above websites and dispatched to the Shareholders in due course.

FORWARD LOOKING STATEMENTS

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

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

Hong Kong, 30 March 2020

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.