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 2020

RESULTS SUMMARY	2020	2019	
	HK$'000	*HK$'000*	**Change**
Revenue	**2,432,021**	2,344,923	3.7%
Gross profit	**407,978**	377,540	8.1%
Operating profit	**49,929**	53,894	-7.4%
Profit for the year	**25,878**	24,884	4.0%

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (31 December 2019: Nil).

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") 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 2020, together with the comparative figures for the year ended 31 December 2019 and that final results were reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	3	**2,432,021**	2,344,923
Cost of sales		**(2,024,043)**	(1,967,383)
Gross profit		**407,978**	377,540
Other income and (loss)/gains, net		**15,829**	66,516
Selling and distribution costs		**(151,200)**	(168,808)
Administrative expenses		**(222,678)**	(221,354)
Operating profit		**49,929**	53,894
Investment income		**4,578**	4,486
Share of results of associates		**2,617**	2,991
Loss on disposal of an associate		**(49)**	–
Loss on disposal of subsidiaries		**(1,231)**	–
(Loss)/gain on deregistration of a subsidiary		**(106)**	2,662
Finance costs		**(20,315)**	(24,958)
Profit before tax	4	**35,423**	39,075
Income tax expense	5	**(9,545)**	(14,191)
Profit for the year		**25,878**	24,884
Profit attributable to:			
– Equity shareholders of the Company		**19,578**	15,755
– Non-controlling interests		**6,300**	9,129
		25,878	24,884
Earnings per share – Basic	6	**2.27 HK cents**	1.83 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	HK$'000	*HK$'000*
Profit for the year	**25,878**	24,884
Other comprehensive income/(expense) for the year, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of financial statements of foreign operations	**74,494**	(24,150)
Share of reserves of associates	**1,904**	(650)
Reclassification adjustments:		
Release of translation reserve upon disposal of an associate	**49**	–
Release of translation reserve upon disposal of subsidiaries	**(1,621)**	–
Release of translation reserve upon deregistration of a subsidiary	**106**	(2,662)
	74,932	(27,462)
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of properties held for own use	**11,049**	16,158
	85,981	(11,304)
Total comprehensive income for the year	**111,859**	13,580
Total comprehensive income attributable to:		
– Equity shareholders of the Company	**96,957**	5,339
– Non-controlling interests	**14,902**	8,241
Total comprehensive income for the year	**111,859**	13,580

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	Note	2020 HK$'000	2019 HK$'000
Non-current Assets			
Property, plant and equipment		**595,173**	597,417
Right-of-use assets		**93,638**	99,973
Goodwill		**53,483**	53,483
Intangible assets		**3,688**	5,071
Interests in associates		**38,510**	32,809
Finance lease receivables		**28,434**	40,175
Deferred tax assets		**34,470**	29,577
		847,396	858,505
Current Assets			
Inventories		**450,208**	434,640
Finance lease receivables		**171,526**	102,432
Trade and other receivables	*7*	**865,814**	890,987
Other financial assets		**4,998**	4,687
Current tax recoverable		**67**	5
Cash and bank balances		**494,669**	312,633
		1,987,282	1,745,384

	Note	2020 HK$'000	2019 HK$'000
Current Liabilities			
Trade and other payables	*8*	**809,969**	699,646
Contract liabilities		**107,687**	66,202
Amount due to an associate		**–**	149
Bank borrowings		**284,469**	299,843
Lease liabilities		**15,020**	14,052
Current tax payable		**10,464**	5,297
		1,227,609	1,085,189
Net Current Assets		**759,673**	660,195
Total Assets less Current Liabilities		**1,607,069**	1,518,700
Non-current Liabilities			
Bank borrowings		**37,875**	53,376
Lease liabilities		**40,819**	49,250
Deferred tax liabilities		**28,392**	29,633
		107,086	132,259
Net Assets		**1,499,983**	1,386,441
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital		**609,027**	609,027
Reserves		**659,599**	562,642
		1,268,626	1,171,669
Non-controlling Interests		**231,357**	214,772
Total Equity		**1,499,983**	1,386,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2020 and 2019 included in this announcement of final results for the year ended 31 December 2020 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 (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2020 to the Registrar of Companies in due course.

The Company's auditor has reported on the consolidated financial statements of the Group for both years. 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.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). 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 HKFRSs 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. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest Rate Benchmark Reform

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

Impacts on application of Amendments to HKAS 1 and HKAS 8, Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no material impact on the Group's consolidated financial statements.

Impacts on early application of Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The Amendment to HKFRS 16: COVID-19-Related Rent Concessions was issued in June 2020 and is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including interim or annual financial statements not yet authorised for issue as at 4 June 2020, the date the amendment was issued.

The amendment introduces a new practical expedient for lessees to elect not to assess whether COVID-19-related rent concessions is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of COVID-19 pandemic that meets all of the following conditions:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- There is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes were not lease modifications. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

During the year, certain monthly lease payments for the leases of the Group's buildings have been waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the year. Accordingly, a reduction in the lease payments arising from the rent concessions of approximately HK$405,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

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 four reportable segments.

The segment results for the year ended 31 December 2020 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	339,105	435,523	940,175	690,443	26,775	–	2,432,021
Inter-segment sales *(Note)*	27,839	325	4,312	–	40	(32,516)	–
Total revenue	366,944	435,848	944,487	690,443	26,815	(32,516)	2,432,021
Segment results	20,522	9,361	25,777	14,086	6,768	–	76,514
Unallocated corporate expenses							(26,585)
Operating profit							49,929
Investment income							4,578
Share of results of associates							2,617
Loss on disposal of an associate							(49)
Loss on disposal of subsidiaries							(1,231)
Loss on deregistration of a subsidiary							(106)
Finance costs							(20,315)
Profit before tax							35,423
Income tax expense							(9,545)
Profit for the year							25,878

Note:

Inter-segment sales are determined at prevailing market rates.

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
Investment income							4,486
Share of results of associates							2,991
Gain on deregistration of a subsidiary							2,662
Finance costs							(24,958)
Profit before tax							39,075
Income tax expense							(14,191)
Profit for the year							24,884

Note:

Inter-segment sales are determined at prevailing market rates.

Geographical information

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

	Sales revenue by geographical market	
	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**305,626**	392,962
Mainland China	**1,731,421**	1,586,997
Other Asia-Pacific countries	**317,556**	288,570
North America	**19,563**	20,207
Europe	**57,855**	56,187
	2,432,021	2,344,923

The following is an analysis of the Group's property, plant and equipment, 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	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**197,645**	201,807	**867**	3,835
Mainland China	**548,337**	554,137	**28,958**	53,255
	745,982	755,944	**29,825**	57,090

4. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging the following:

	2020	2019
	HK$'000	*HK$'000*
Allowance for impairment of bad and doubtful debts	**11,053**	11,703
Depreciation and amortisation on:		
– Property, plant and equipment		
– Ownership interest in leasehold land and buildings held for own use	**15,171**	14,292
– Other owned assets	**45,937**	55,225
– Intangible assets	**1,383**	1,383
– Right-of-use assets	**15,239**	14,967

5. INCOME TAX EXPENSE

The provision for Hong Kong profits tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rate regime. For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Under the Law of the People's Republic of China (the "**PRC**") on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

	2020	2019
	HK$'000	*HK$'000*
Tax charge comprises:		
Current tax		
Hong Kong profits tax		
Current year	**1,429**	1,633
Over-provision in prior years	**(191)**	(157)
	1,238	1,476
PRC Enterprise income tax		
Current year	**16,059**	16,573
Under-provision/(over-provision) in prior years	**164**	(708)
	16,223	15,865
Deferred tax		
Deferred taxation relating to the reversal of temporary differences	**(7,916)**	(3,150)
Income tax expense for the year	**9,545**	14,191

6. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per ordinary share attributable to equity shareholders of the Company is based on the Group's profit for the year attributable to the owners of the Company of approximately HK$19,578,000 (2019: HK$15,755,000) and the weighted average number of 861,930,692 (2019: 861,930,692) ordinary shares in issue during the year.

No diluted earnings per share is presented as there were no potential ordinary shares in issue for the years ended 31 December 2020 and 2019.

7. TRADE AND OTHER RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade and bills receivables	**853,447**	867,976
Less: allowance for impairment of bad and doubtful debts	**(112,031)**	(103,553)
	741,416	764,423
Other receivables	**113,267**	115,053
Less: allowance for impairment of bad and doubtful debts	**(17,544)**	(16,486)
	95,723	98,567
Prepayments	**28,623**	27,646
Amounts due from related parties	**52**	351
	865,814	890,987

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 to 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 debt is as follows:

	2020	2019
	HK$'000	*HK$'000*
0 to 3 months	**586,318**	534,352
4 to 6 months	**74,156**	115,156
7 to 9 months	**41,456**	50,413
Over 9 months	**39,486**	64,502
	741,416	764,423

8. TRADE AND OTHER PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Trade and bills payables	**650,120**	553,041
Accruals and other payables	**159,849**	137,005
Amounts due to non-controlling interests	**–**	9,600
	809,969	699,646

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

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

	2020	2019
	HK$'000	*HK$'000*
0 to 3 months	**485,431**	376,909
4 to 6 months	**128,812**	108,968
7 to 9 months	**14,262**	34,792
Over 9 months	**21,615**	32,372
	650,120	553,041

9. DIVIDEND

(a) The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (31 December 2019: Nil).

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

	2020	2019
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year: Nil (2019: HK$0.02) per share	**–**	17,239

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue

Revenue of the Group for the year was approximately HK$2,432,021,000 (2019: HK$2,344,923,000), an increase of 3.7% over the same period last year, which was mainly due to the increase of revenue of machinery manufacturing business and industrial consumables trading business.

Gross profit

Gross profit of the Group increased by 8.1% to approximately HK$407,978,000 (2019: HK$377,540,000), which was mainly due to the increase of gross profit of machinery manufacturing business. Gross profit margin of the Group also increased by 0.7 percentage points to 16.8% for the year as compared to that of last year.

Profit for the year

The Group recorded net profit of approximately HK$25,878,000 for the year (2019: HK$24,884,000), an increase of 4.0% over the same period last year. This increase was primarily due to government grants for supporting the enterprises due to temporary shutdown of the Group's factories during the year.

Administrative expenses

The administrative expenses of the Group were approximately HK$222,678,000 for the year (2019: HK$221,354,000), a slightly increase of 0.6% over the same period last year.

Selling and distribution costs

The selling and distribution costs of the Group for 2020 amounted to approximately HK$151,200,000, decreased by 10.4% as compared to approximately HK$168,808,000 for last year. This decrease was mainly due to much effective cost control measure during the year.

Finance costs

The Group's finance costs amounted to approximately HK$20,315,000 for the year, representing a decrease of 18.6% as compared to approximately HK$24,958,000 last year which was mainly due to gradual repayment on bank borrowings. The Group will continue to improve the efficiency of capital utilisation and strive for the most favourable conditions for bank credits, so as to reduce the overall finance charges.

Other income

The net of other income and gains of the Group decreased by 76.2% from approximately HK$66,516,000 for 2019 to approximately HK$15,829,000 for 2020, which was mainly due to the Group's non-recurring gains of reversal of provision for restructuring and indemnity of approximately HK$20,290,000 and HK$25,780,000 respectively for the year 2019.

BUSINESS REVIEW

Crucial impact of Coronavirus Disease 2019 (COVID-19) (the "COVID-19") pandemic against the Group

Similar to most companies in the People's Republic of China (the "**PRC**") and elsewhere, all of our business segments were massively challenged by the COVID-19 pandemic and its implications.

At the early stage of the pandemic, essentially all of our manufacturing businesses were confronted with unprecedented social lockdown measures in the PRC. It affected most people movements, heavily disrupted supply chains, caused factory shutdowns, delayed sales and marketing activities, and the Group was highly concerned about employee health and safety to ensure a fast and smooth resumption of work and production.

Although our trading businesses were spared from the challenges of managing the reopening of manufacturing operation, they had to promptly adapt to home office arrangements and online communications with customers and suppliers, resolve complex logistics issues, and navigate a heavily disrupted supply chain.

Fortunately, in addition to achieving total safety of our staff, the PRC and Hong Kong Special Administrative Region Governments enacted a series of direct and indirect cash subsidies and payroll savings to help alleviate financial burden of companies affected by the pandemic. The Company and certain subsidiaries of the Group received direct and indirect subsidies in various amounts in the past year. These subsidies improved the financial performance of the Group in 2020.

Machinery Manufacturing Business

The Group's injection molding machine ("**IMM**") manufacturing business, similar to most PRC machinery manufacturers, experienced a volatile operating environment due to the pandemic. During the first half of 2020, our teams dealt with challenges arising from health and safety measures for factory reopening, disrupted supply chains, and an uncertain market environment. Sales were low and profit margins were under high pressure due to the effect of economic shocks which caused fluctuating prices of various materials and components. In the second half of 2020, the PRC market rebounded significantly due to pent-up demand which resulted in an improvement in sales and order intake.

The automotive and household appliance sectors, which are key growth drivers for this segment, were relatively weak especially during the first half of 2020 and depressed the sales of our large size two-platen machine series. Conversely, strong demands were observed from customers especially in food and beverage packaging and infrastructure sectors. Sales for our small and medium sized machines were hence strong, especially our thin-walled high speed machines, PET (Polyethylene terephthalate) preform series and PVC (Polyvinyl Chloride) industry customised solutions, which helped achieve a high level of manufacturing capacity utilisation at our two production plants.

Our self-developed "iSee" smart industry 4.0 platform continues to attract new customers' adoption and acceptance. Additional innovative and practical new features were launched in our continuous drive to provide value and convenience to our customers. We believe this digital platform will continue to be one of the key differentiating features for our machinery solutions.

Due to the broad IMM market rebound in the second half of 2020, the business achieved robust growth for the year. However, a number of challenges and uncertainties lie ahead. Prices of key raw materials, especially cast iron, increased sharply and supplies were tight. High raw materials cost is forecasted to continue in 2021, and resulted in a raise in the selling price of our machineries to partially offset the increased costs. The export markets remain uncertain due to global impact of the pandemic and uneven economic recovery, as well as global travel restrictions that affected our sales and marketing development and service calls to our key customers. Moreover, sudden surges in cargo freight costs and foreign exchange volatility also adversely impact our deliveries and profitability.

In view of the challenges mentioned above, the Group will invest more resources in the IMM business to sustain competitiveness. Various capital expenditures in manufacturing capacity are planned for the upcoming year. Our research and development efforts will also ramp up to upgrade our industry specific offerings such as large sized multi-material IMM, and full electric machine series. Furthermore, the IMM business improved its cash flow by increasing cooperation with leasing companies and implemented tight control of trade receivables. Order intake remains relatively robust at the end of 2020 and at the turn of 2021, however it is difficult to forecast how long this trend will last for the upcoming year.

For the extrusion and rubber injection molding machines manufacturing business, it also faced a volatile market and confronted the challenges caused by the pandemic. As this business was positioned to grow in export markets in recent years, a large portion of export orders were affected due to customers' delay of orders and delayed deliveries of products due to supply chain disruptions, especially during the first half of 2020.

For the PRC market, supply chain disruptions caused similar delays in machine deliveries due to the pandemic in the first half of 2020. The automotive industry, which is a major customer segment for this business, displayed weak and uneven demand which impacted our growth. Fortunately, major customers in the electric vehicle industry ramped up repeat orders of our rubber injection molding machines, which improved the profit of this business. Robust growth in sales and order intake were achieved in the second half of 2020 as manufacturing sectors in the Mainland China and export markets improved.

As a proactive response to market opportunities during the spread of the pandemic, the extrusion machinery business rushed in to capture opportunities in the melt-blown fabric manufacturing solutions for medical grade surgical face mask applications. Demands were unprecedented as market players scrambled to secure supplies. This ad-hoc fast responding initiative offset the stagnant growth of our extrusion machines and improved profitability of this business. Further significant growth of melt-blown fabric machines is not expected to repeat in the coming year as supplies become saturated, and may even shrink.

While this business achieved satisfactory organic growth through investment and dedication of management and engineering teams to execute high-end product positioning, a series of challenges lie ahead in the upcoming year. The pace of recovery of our export customers remain uncertain, and currency fluctuations of RMB would induce pricing pressure. Raw materials costs and potential supply chain bottlenecks must be managed prudently. The Group will invest additional resources to gradually expand manufacturing and machining capacities, as well as crucial research and development to upgrade product features in order to enhance the financial performance of this business.

Plastic Products Manufacturing and Processing Business

The plastic food packaging plant in Zhuhai was moderately affected by the pandemic. At the early stage of the pandemic, the management team responded admirably to challenges posed by disrupted supplies, logistics, and production bottlenecks, in order to ensure smooth deliveries to our customers.

Key customer orders in the dairy and health supplement sectors displayed uneven growth throughout the year. While existing product volumes were somewhat consistent with forecasted demands, a number of key new projects were delayed or put on hold due to market uncertainties. The longer term prospects of dairy and health supplement in the PRC are intact as consumer demands are likely to grow at a steady pace. However, innovative designs to reduce overall plastics use and suitable applications of eco-friendly plastic resin replacements must ramp up in order to meet stringent new environmental regulations in the PRC. Export orders mainly attributed to confectionary products were steady, but currency fluctuations and overseas cargo fees skyrocketed in the second half of 2020, slightly affecting profit and deliveries. Overall performance of this business was more or less stable. In the upcoming year, our teams will strive to achieve meaningful growth by developing new projects with key customers.

Internally, this business will devote resources to innovative product designs, enhance expertise on eco-friendly plastics, upgrade our current stringent clean room production quality, and invest in automation equipment. Externally, this business must deal with upcoming challenges such as new product offerings to combat stringent environmental regulations to reduce the use of disposable plastics, sudden surges of plastic resins prices, currency fluctuations, and ramp up investments in new product tooling and manufacturing capacities to suit key customers growth plans.

The plastic components processing plant for household appliances situated in Hefei faced similar challenges caused by the pandemic. In early 2020, the household appliances market, which our plant focused on serving, saw at first a large drop in sales in the PRC and delay of sales in export markets. Orders rebounded in the second half of 2020 as consumer demands recovered in the Mainland China and globally. However, profit margins were under pressure from our key customers. The landscape for plastic processing for household appliances in the PRC market remains challenging with intense competition and limited growth in profit. The management team performed well to execute guidelines to improve overall liquidity and cash positions to safeguard against the difficult operating environment during the year.

In addition to successfully responding to health and safety of factory workers and dealing with production bottlenecks arising from the pandemic, the management team implemented a series of initiatives to revamp production efficiencies and fine tune quality control measures to suit our customers' stringent demands on price and quality.

The blow molded mannequin production plant in Dongguan obtained a healthy amount of order on hand from reputable global fashion and sporting goods brand customers, as a result of business development efforts over the past couple of years. However, as the vast majority of customers are based in Europe, the pandemic wreaked havoc to our customers' retail businesses in Europe and globally especially in the first half of 2020. Deliveries were postponed, our production scaled down to a minimum, and our operation costs were trimmed down significantly reacting to this challenging business environment.

While orders began to resume in the second half of 2020 for selected customers, delivery patterns were uneven due to varying degrees of the pandemic outbreaks across Europe and elsewhere. Operating results were unavoidably affected in the past year. However the longer term outlook for blow molded mannequin display items remain intact, as major customers continue to shift away from traditional fibre glass mannequins. Sales volume should recover if and when the pandemic is under control in Europe. However, factors such as plastic resins price, volatile cargo freight costs and currency fluctuations will affect the financial performance of the business in the upcoming year.

The Group's investment in multi-colour injection molded gift and premium items business experienced a total evaporation in sales once the pandemic hit hard in Europe. Our existing end customers were solely based in Europe. The pandemic and the ensuing lockdowns in Europe shifted our customers' marketing strategies and consumers' behaviour, which deemed gift & premiums as non-essential consumption in the near term. As a result, the Group decided to be further against investment of resources into this business and to divest this business. Financial impact of this divestment to the Group is deemed minimal.

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

Sales for the PCB processing business suffered significantly during this year as the pandemic caused major disruptions to sales and product development plans to our key customers in the automotive and electronics industries situated in Europe and Japan.

Although we successfully coordinated staff health and safety measures for factory reopening in the early phase of the pandemic, the absence of a full staff roster in the first half of 2020, in addition to fluctuating orders on hand, inevitably impacted the operation's normally high production efficiencies.

Throughout the year, sales order visibility was low among our European automotive customers and Japanese electronics customers. In turn, it resulted in significant fluctuations in production planning and thus adversely affected production capacity utilisation and profit margins. Sales rebounded in the second half of 2020, as customers replenished depleted stocks, although raw materials costs surged significantly in the meantime. Prices of copper, PCB base boards, and chemicals rose to recent highs.

Amid challenging operating environment, the management team maintained firm commitment to prudent financial management, thus cash flow remains relatively healthy. Sales and marketing efforts were compromised as a result of the pandemic. For the upcoming year, this business segment will ramp up pace to develop new projects with new and existing customers. The outlook for this business segment remains challenging as currency and raw materials price fluctuations are unlikely to move in our favour and the business is dependent on a relatively high production utilisation to realise meaningful profits.

The PCB trading business faced similar impact and challenges from the global economic weakness and uncertainties caused by the pandemic. Its key customers are reputable Japanese brands in the automotive, consumer electronics and office electronics industries. Throughout the year, sales and development activities reduced due to travel restrictions and shifted to other means. Our customers' product launches and sales were weaker than expected, which in turn caused our sales to reduce slightly. Cost control measures to reduce fixed administration costs taking place last year and this year helped produce expected results.

In line with the strategy to increase offerings and values to customers, this business segment steadily ramped up its PCB laboratory testing and quality control services to customers as a new revenue stream. In addition to the PCB trading, the PCB processing business achieved early results to offer high-end PCB base board materials and electric components to customers.

Our lean and agile sales and management teams located in various regions strived hard to develop new projects especially in the automotive industry, which should benefit operating performance in the upcoming year. However, the risks we face are pace of global economic recovery as well as currency fluctuations.

Industrial Consumables Trading Business

The industrial consumables trading business experienced a volatile operating environment with market and supply chain disruptions caused by the pandemic. Broad demands were weak in the first quarter as customers and ourselves dealt with disrupted supply chains and logistics issues. Lockdown measures in the PRC and subsequent slow and gradual factory reopening caused weak demands in the elevator, machinery, automotive, and electronics industries.

Fortunately, once effective pandemic control measures in the PRC stabilised the economy in the second quarter, this business segment recorded strong and robust growth from customers in key industries such as medical equipment, machinery, semi-conductors, laser cutting equipment, consumer electronics and automotive. Disrupted manufacturing capabilities in Western countries benefitted a number of our customers who possess readily available production facilities. In addition, the ever increasing momentum for new investments and products in renewable clean energy and electric vehicle industries in the PRC boosted our sales to these key customers. Products and solutions that helped capture growth in the above mentioned industries include servo motor and drive systems, customised automation control systems, high grade steel wires and customised fasteners solutions.

Restructuring and cost control measures which took place in the previous fiscal year are generating the expected benefits during the year of 2020 to turn around overall profitability of this business segment. While management teams are positioned to achieve growth during the market rebound in the second half of 2020, trade receivables control, inventory management, and cash management were prudent and effective to adequately control financial risks.

Looking ahead, this business segment is positioned to grow in focal industries such as renewable energy, electric vehicle, and medical equipment sectors. As supply chains and product quality in the PRC improved at a high rate in recent year, this business consistently increased its locally sourced PRC produced components, and reduced imported sourcing. We believe opportunities can be found in exporting PRC-made industrial consumables in the future. However new sales channels and market development require investment, risk taking, and time. The health of overall manufacturing sectors in the PRC in upcoming year seems presently robust on the surface, but sustainability of high growth rate in customers' stock replenishment may not persist. The management teams are cautious to brace themselves for sudden reduction of orders by lean inventory control, stringent trade receivables control, and foreign currency risk management.

Subsequent Events

The following material event took place during and after the reporting period:

Proposed Privatisation of the Company by Cosmos Machinery (Holdings) Limited by Way of a Scheme of Arrangement under Section 673 of Companies Ordinance and Proposed Withdrawal of Listing of the Company

References are made to (i) the announcement jointly issued by the Company and Cosmos Machinery (Holdings) Limited (the "**Offeror**") dated 10 December 2020 (the "**Joint Announcement**") in relation to, amongst others, the proposed privatisation of the Company by the Offeror by way of a scheme of arrangement under section 673 of the Companies Ordinance; (ii) the announcement of the Company dated 15 December 2020 in relation to the appointment of Yue Xiu Capital Limited as the independent financial adviser to the Independent Board Committee; (iii) the announcement jointly issued by the Company and the Offeror dated 24 December 2020 in relation to the revised Scheme Consideration; (iv) the announcement jointly issued by the Company and the Offeror dated 31 December 2020 in relation to the delay in despatch of Scheme Document; (v) the announcement jointly issued by the Company and the Offeror dated 29 January 2021 in relation to a monthly update on the status and progress in connection with the Proposal and the Scheme; (vi) the announcement jointly issued by the Company and the Offeror dated 11 February 2021 in relation to the further delay in despatch of the Scheme Document; and (vii) the announcement jointly issued by the Company and the Offeror dated 11 March 2021 in relation to a monthly update on the status and progress in connection with the Proposal and the Scheme. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the Joint Announcement.

On 3 December 2020, the Offeror requested the Board to put forward the Proposal to the scheme shareholders for the privatisation of the Company by way of a scheme of arrangement under section 673 of the Companies Ordinance involving the cancellation of the scheme shares and, in consideration therefor, the payment to the scheme shareholders of the Scheme Consideration of HK$0.500 in cash for each scheme share cancelled.

On 23 December 2020, the Offeror proposed to increase the Scheme Consideration from HK$0.500 in cash to HK$0.550 in cash for each scheme share cancelled.

The implementations of the Proposal and the Scheme are subject to fulfillment and/or wavier (as applicable) of certain conditions as set out in the Joint Announcement.

For further details of the Scheme and the Proposal, please refer to the announcements of the Company and/or the Offeror stated above.

Other than disclosed above, there is no material event after the reporting period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group's total outstanding bank borrowings amounted to approximately HK$322,344,000 (31 December 2019: approximately HK$353,219,000) 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$284,469,000 and HK$37,875,000 respectively (31 December 2019: approximately HK$299,843,000 and HK$53,376,000 respectively).

After including lease liabilities of approximately HK$55,839,000 (31 December 2019: approximately HK$63,302,000) and deducting cash and bank balances of approximately HK$494,669,000 (31 December 2019: approximately HK$312,633,000), the Group's net cash amounted to approximately HK$116,486,000 (31 December 2019: net debt was approximately HK$103,888,000). Total equity attributable to equity shareholders as at 31 December 2020 was approximately HK$1,268,626,000 (31 December 2019: approximately HK$1,171,669,000).

Net debt to equity ratio *(Note)* improved from 8.9% as at 31 December 2019 to net cash as at 31 December 2020 as a result of strong net cashflow generated from operating activities.

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.

Note:

Net debt to equity ratio is calculated by dividing total bank indebtedness and lease liabilities less cash and bank balances, pledged deposits and short-term bank deposits with maturity over three months by net assets.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

CAPITAL STRUCTURE

There was no change in the total number of issued shares of the Company for the year ended 31 December 2020. The total number of issued shares of the Company remained at 861,930,692 shares at 31 December 2020.

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 2020, the Group had 2,779 employees located in Hong Kong and Mainland China (31 December 2019: approximately 2,993). 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 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.

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.

OUTLOOK AND PROSPECTS

As stated above, the Group was highly affected by the pandemic and its repercussions. The series of unprecedented challenges tested our will to adapt and persevere to ensure staff safety, manage complex factory closure and reopening, navigate through heavily disrupted supply chains, and cope with distorted market demands. Once again, we thank all our staff members in all business units, who performed superbly under such challenging circumstances. Despite the daunting threat of the pandemic, the PRC and Hong Kong Special Administrative Region governments implemented unparalleled outbreak control measures and provided necessary economic stimulus policy and subsidies to companies, to allow economic activities to resume and grow as a nation in the second half of 2020.

Although fortunately China was the notable lone bright spot in 2020 in terms of economic recovery and growth, the pace of global recovery will dictate the health of manufacturing sectors in the PRC and also business performance of the Group. At the time of writing, countries around the globe are ramping up vaccination inoculation programs, and resumption of normal lives and economic activities will depend on its success. However, having witnessed anaemic responses of various developed countries to the pandemic, it is not guaranteed effective vaccination programs will succeed in short order. Political tensions especially between China and the US continue to evolve, we must stay alert as sudden flare ups are possible in short notice to entice new sanctions. Meanwhile, China creates and presents unique opportunities to expand its markets reach, having finalised the Regional Comprehensive Economic Partnership (RCEP) and China – EU Comprehensive Agreement on Investment. More open and transparent markets will definitely benefit the broader manufacturing sectors in Mainland China, despite increased competition and evolving regulations. Mainland China's much-heralded visions and investments in key industries such as 5G communications, electric vehicles, renewable clean energy, artificial intelligence, and digital transformations provide ample opportunities for well-positioned companies.

The Group's machinery manufacturing segment will strive to deepen our reach in automotive, food packaging, infrastructure, and electronics industries with our customised IMM, rubber injection machine, and extrusion machine solutions. The plastic processing business will focus to divert resources to develop new product designs and innovate new production processes to grow our business with new and existing customers in food packaging, retail display and household appliance industries. Our PCB processing and trading segment will similarly strive to develop new projects with key customers, whom delayed its product development projects due to the pandemic, and are hopeful to grow their businesses particularly in the automotive and electronics industries. Our industrial consumables trading segment will supply motor drivers and control systems, steel wire products and customised fasteners to further penetrate key industries such as automotive, electric vehicles, 5G communications, medical applications, and energy sectors.

Given the opportunities for potential growth cited above, we observe and foresee a series of critical challenges and obstacles that may impede sales growth and profitability for the upcoming year. Raw materials price surged significantly recently and are likely to be volatile. Price fluctuations in raw materials such as cast iron, plastic resins, copper, electrical components, and packaging will affect our profit. Foreign exchange risks are overall manageable in the Group. However the previous appreciation and potential high volatility of exchange rate of Renminbi to United States dollars not only affects our export business, but will also dampen overall competitiveness of our customers' export related ventures. The PRC markets are highly responsive to government policies. Stimulus directives to telecommunications, renewable energy, automotive, for example, will ignite growth in demand and supply. Any changes to such policies can bring swift and significant changes to market sentiments. New regulations on environmental protection, especially reduction in plastic pollution, will have far-reaching impact on plastics industries' survival and the Group must innovate to adapt. Labour costs are certain to increase steadily in the near future. The Group must adapt to increased labour costs while continuing development and retention of our talents. Liquidity and availability of funds are critical to manufacturing industries for ongoing capital investments and working capital. It is worthwhile to closely monitor the trends and flows of overall bank lending to observe change in size of liquidity and flowing to which particular industries.

The Group will focus on the following key actions in response to the challenging market sentiments. Selective capital expenditure investments to enhance our production and processing capabilities will be deployed to sustain our competitiveness. Research and development especially in our machinery manufacturing and plastic processing businesses are ongoing in order to further innovate and enhance our product value. All members of the Group will commit to firm financial prudence practices to manage costs, external debts, and improve overall cash flow. Effective deployment of working capital within the Group is essential as all our businesses are working capital intensive in nature, and is one of the critical criteria to balance growth, opportunity costs, and risks. Lastly, while we strive to steadily grow our businesses, members of senior management simultaneously have a cautious mindset to brace themselves for sudden pullback in demands and other potential negative market conditions.

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 2020.

CORPORATE GOVERNANCE

The Board is committed to practising and maintaining a high standard of corporate governance for the enhancement of shareholders' value and safeguarding interests of shareholders of the Company and other stakeholders.

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 2020, except for the following deviations from code provisions A1.1, A.2.7 and A.6.7 of the CG Code:

Code provision A.1.1 of the CG Code stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. It is expected regular board meetings will normally involve the active participation, either in person or through electronic means of communication, of a majority of directors entitled to be present. During the year under review, the Company held three regular board meetings, instead of holding at least four regular board meetings a year under the code provision A1.1 of the CG Code. However, three board meetings had maintained a high attendance rate and active participation had been achieved by the Directors throughout the year. Moreover, the Directors consider that it would be more efficient to hold the board meeting when necessary to deal with the matters occurred at the time or specific matters, and sufficient measures have been taken to ensure effective communication between the Directors.

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 under review, Mr. Tang To, the chairman of the Board (the "**Chairman**") 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. After Mr. Ho Wei Sem got better, Mr. Tang To thereafter held a meeting with him by telephone conference and report the summary of the said meeting held with the other three independent non-executive Directors. The Company considers that 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 and there are sufficient channels and communication for discussion of the Group's affair between the Chairman and independent non-executive Directors in the absence 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. Qu Jinping, non-executive Director, and Mr. Ho Wei Sem and Mr. Huang Zhi Wei, both independent non-executive Directors, had other business engagements, while Mr. Kan Wai Wah, non-executive Director, stayed overseas due to the implementation of the entry restriction and quarantine requirements among overseas and Hong Kong resulted from the outbreak of COVID-19 pandemic. They were unable to attend the annual general meeting of the Company held on 12 June 2020. However, the Company considered that the presence of the chairman of each of nomination committee, remuneration committee and audit committee of the Company, and other executive Directors at the said meeting was sufficient for addressing the queries from shareholders of the Company.

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 2020.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (31 December 2019: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Thursday, 24 June 2021. Notice of the AGM will be despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 17 June 2021 to Thursday, 24 June 2021, 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 Wednesday, 16 June 2021 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 2020 as set out in this 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 announcement.

PUBLICATION OF THE FINAL RESULTS ANNOUNCEMENT AND 2020 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 2020 annual report of the Company will be published on the above websites and despatched to the shareholders of the Company 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 2021

As at the date of this announcement, the Board is comprised of eight Directors, of which two are executive Directors, namely Mr. Tang To and Mr. Tang Yu, Freeman, and two are non-executive Directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping and four are independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei.