*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

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 2021

| RESULTS SUMMARY | 2021 | 2020 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **Change** |
| Revenue | **3,075,305** | 2,432,021 | 26.5% |
| Gross profit | **544,491** | 407,978 | 33.5% |
| Operating profit | **119,813** | 49,929 | 140.0% |
| Profit for the year | **84,205** | 25,878 | 225.4% |

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (31 December 2020: 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 2021, together with the comparative figures for the year ended 31 December 2020. These final results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

## CONSOLIDATED INCOME STATEMENT

*FOR THE YEAR ENDED 31 DECEMBER 2021*

| | Notes | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Revenue** | 3 | **3,075,305** | 2,432,021 |
| Cost of sales | | **(2,530,814)** | (2,024,043) |
| **Gross profit** | | **544,491** | 407,978 |
| Other income, gain and loss, net | | **6,646** | 15,829 |
| Selling and distribution costs | | **(197,414)** | (151,200) |
| Administrative expenses | | **(213,423)** | (222,678) |
| Impairment loss on goodwill | 7 | **(20,487)** | – |
| **Operating profit** | | **119,813** | 49,929 |
| Investment income | | **6,255** | 4,578 |
| Share of results of associates | | **5,140** | 2,617 |
| Loss on disposal of an associate | | **–** | (49) |
| Loss on disposal of subsidiaries | | **–** | (1,231) |
| Loss on deregistration of a subsidiary | | **(348)** | (106) |
| Finance costs | | **(17,741)** | (20,315) |
| **Profit before tax** | 4 | **113,119** | 35,423 |
| Income tax expense | 5 | **(28,914)** | (9,545) |
| **Profit for the year** | | **84,205** | 25,878 |
| **Profit attributable to:** | | | |
| – Equity shareholders of the Company | | **89,732** | 19,578 |
| – Non-controlling interests | | **(5,527)** | 6,300 |
| | | **84,205** | 25,878 |
| Earnings per share – Basic | 6 | **10.41HK cents** | 2.27HK cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2021*

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **84,205** | 25,878 |
| 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 | **37,306** | 74,494 |
| Share of reserves of associates | **934** | 1,904 |
| 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 | **348** | 106 |
| | **38,588** | 74,932 |
| Items that will not be reclassified to profit or loss: | | |
| Surplus on revaluation of properties held for own use | **16,787** | 11,049 |
| | **55,375** | 85,981 |
| **Total comprehensive income for the year** | **139,580** | 111,859 |
| **Total comprehensive income attributable to:** | | |
| – Equity shareholders of the Company | **139,892** | 96,957 |
| – Non-controlling interests | **(312)** | 14,902 |
| **Total comprehensive income for the year** | **139,580** | 111,859 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2021*

| | Notes | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **610,196** | 595,173 |
| Right-of-use assets | | **85,578** | 93,638 |
| Goodwill | *7* | **32,996** | 53,483 |
| Intangible assets | | **2,305** | 3,688 |
| Interests in associates | | **41,524** | 38,510 |
| Finance lease receivables | | **76,205** | 28,434 |
| Deferred tax assets | | **28,722** | 34,470 |
| | | **877,526** | 847,396 |
| **Current Assets** | | | |
| Inventories | | **542,429** | 450,208 |
| Finance lease receivables | | **200,143** | 171,526 |
| Trade and other receivables | *8* | **887,400** | 865,814 |
| Other financial assets | | **53,571** | 4,998 |
| Current tax recoverable | | **759** | 67 |
| Cash and bank balances | | **406,057** | 494,669 |
| | | **2,090,359** | 1,987,282 |

| | Note | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Current Liabilities** | | | |
| Trade and other payables | *9* | **853,744** | 809,969 |
| Contract liabilities | | **77,064** | 107,687 |
| Bank borrowings | | **289,469** | 284,469 |
| Lease liabilities | | **15,283** | 15,020 |
| Current tax payable | | **10,683** | 10,464 |
| | | **1,246,243** | 1,227,609 |
| **Net Current Assets** | | **844,116** | 759,673 |
| **Total Assets less Current Liabilities** | | **1,721,642** | 1,607,069 |
| **Non-current Liabilities** | | | |
| Bank borrowings | | **11,698** | 37,875 |
| Lease liabilities | | **36,186** | 40,819 |
| Deferred tax liabilities | | **33,234** | 28,392 |
| | | **81,118** | 107,086 |
| **Net Assets** | | **1,640,524** | 1,499,983 |
| **Equity** | | | |
| Capital and reserves attributable to equity shareholders of the Company: | | | |
| Share capital | | **609,027** | 609,027 |
| Reserves | | **801,782** | 659,599 |
| | | **1,410,809** | 1,268,626 |
| **Non-controlling Interests** | | **229,715** | 231,357 |
| **Total Equity** | | **1,640,524** | 1,499,983 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 31 DECEMBER 2021*

## 1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2021 and 2020 included in this announcement of final results for the year ended 31 December 2021 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 2020 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 2021 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 reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; 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 current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual reporting periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

In addition, the Group has early adopted the amendment to HKFRS 16, Covid 19-Related Rent Concessions beyond 30 June 2021, which is effective for the annual reporting periods beginning on or after 1 April 2021.

The application of 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 these consolidated financial statements.

## 3. REVENUE AND 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 segment results for the year ended 31 December 2021 are as follows:

| | Industrial consumables *HK$'000* | Plastic products *HK$'000* | Machinery *HK$'000* | Printed circuit boards *HK$'000* | Other operations *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | |
| External sales | 501,130 | 554,370 | 1,183,181 | 793,910 | 42,714 | – | 3,075,305 |
| Inter-segment sales *(Note)* | 27,857 | 260 | 3,433 | – | 4 | (31,554) | – |
| Total revenue | 528,987 | 554,630 | 1,186,614 | 793,910 | 42,718 | (31,554) | 3,075,305 |
| **Segment results** | 44,763 | 31,285 | 50,432 | (19,670) | 39,957 | – | 146,767 |
| Unallocated corporate expenses | | | | | | | (26,954) |
| Operating profit | | | | | | | 119,813 |
| Investment income | | | | | | | 6,255 |
| Share of results of associates | | | | | | | 5,140 |
| Loss on deregistration of a subsidiary | | | | | | | (348) |
| Finance costs | | | | | | | (17,741) |
| Profit before tax | | | | | | | 113,119 |
| Income tax expense | | | | | | | (28,914) |
| Profit for the year | | | | | | | 84,205 |

*Note:*

Inter-segment sales are determined at prevailing market rates.

The segment results for the year ended 31 December 2020 are as follows:

| | Industrial consumables *HK$'000* | Plastic products *HK$'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.

**Geographical information**

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

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **356,623** | 305,626 |
| Mainland China | **2,164,007** | 1,731,421 |
| Other Asia-Pacific countries | **434,691** | 317,556 |
| North America | **30,154** | 19,563 |
| Europe | **89,830** | 57,855 |
| | **3,075,305** | 2,432,021 |

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** | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **176,114** | 197,645 | **473** | 867 |
| Mainland China | **554,961** | 548,337 | **50,672** | 28,958 |
| | **731,075** | 745,982 | **51,145** | 29,825 |

## 4. PROFIT BEFORE TAX

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

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Reversal of allowance)/allowance for impairment of bad and doubtful debts | **(16,616)** | 11,053 |
| Depreciation and amortisation on: | | |
| – Property, plant and equipment | | |
| – Ownership interest in leasehold land and buildings held for own use | **15,990** | 15,171 |
| – Other owned assets | **43,945** | 45,937 |
| – Intangible assets | **1,383** | 1,383 |
| – Right-of-use assets | **16,086** | 15,239 |

## 5. INCOME TAX EXPENSE

**Hong Kong profits tax**

The provision for Hong Kong profits tax for 2021 is calculated at 16.5% (2020: 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$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

**The People's Republic of China (the "PRC") enterprise income tax**

***(i)*** Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and implementation of the EIT Law, the rate of the PRC subsidiaries is 25%. The Group's subsidiaries in the PRC are subject to PRC income tax at 25% unless otherwise specified.

***(ii) High and New Technology Enterprise ("HNTE")***

According to the EIT Law and its relevant regulations, entities that qualified as HNTE are entitled to a preferential income tax rate of 15%. Certain of the Group's subsidiaries are qualified as HNTE and are subject to income tax at 15% for 2021.

The 15% preferential tax rate applicable to HNTE is subject to renewal approval jointly by the relevant authorities, upon expiry of the three-year grant period, according to the prevailing income tax regulations.

| | 2021 | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Tax charge comprises:** | | |
| **Current tax** | | |
| **Hong Kong profits tax** | | |
| Current year | **2,388** | 1,429 |
| Over-provision in prior years | **(124)** | (191) |
| | **2,264** | 1,238 |
| **The PRC enterprise income tax** | | |
| Current year | **18,677** | 16,059 |
| (Over-provision)/under-provision in prior years | **(2,294)** | 164 |
| | **16,383** | 16,223 |
| **Deferred tax** | | |
| Deferred taxation relating to the origination and (reversal) of temporary differences | **7,373** | (7,916) |
| Impact of change in tax rate | **2,894** | – |
| | **10,267** | (7,916) |
| Income tax expense for the year | **28,914** | 9,545 |

## 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 equity shareholders of the Company approximately HK$89,732,000 (2020: approximately HK$19,578,000) and the weighted average number of 861,930,692 (2020: 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 2021 and 2020.

## 7. GOODWILL

| | *HK$'000* |
|---|---|
| **COST** | |
| At 1 January 2020, 31 December 2020 and 31 December 2021 | 53,483 |
| **ACCUMULATED IMPAIRMENT** | |
| At 1 January 2020 and 31 December 2020 | – |
| Impairment loss recognised for the year | 20,487 |
| At 31 December 2021 | 20,487 |
| **CARRYING AMOUNT** | |
| At 31 December 2021 | 32,996 |
| At 31 December 2020 | 53,483 |

The amount represents goodwill arising from the acquisition of 100% equity interest in KFE Hong Kong Co., Limited ("**KFE**") in 2013. For the purpose of impairment testing, goodwill has been allocated to an individual cash-generating unit, representing KFE, a subsidiary in the processing and trading of printed circuit boards segment.

The Directors reviewed the carrying value of the goodwill, taking into account an independent valuation report prepared by a professional valuer, Cushman & Wakefield Limited. Based on the assessment and the valuation report, as a result of facing more operational challenges due to a squeeze in supply chains resulting from shortages in labour, raw materials and components, as well as tight logistics capacity, all putting upward pressure on costs which led to decrease in gross margin of KFE's products, an impairment loss of HK$20,487,000 was recognised in the consolidated income statement during the year ended 31 December 2021.

## 8. TRADE AND OTHER RECEIVABLES

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade and bills receivables | **907,240** | 853,447 |
| *Less:* allowance for impairment of bad and doubtful debts | **(106,000)** | (112,031) |
| | **801,240** | 741,416 |
| Other receivables | **65,685** | 113,267 |
| *Less:* allowance for impairment of bad and doubtful debts | **(16,705)** | (17,544) |
| | **48,980** | 95,723 |
| Prepayments | **37,153** | 28,623 |
| Amounts due from related parties | **27** | 52 |
| | **887,400** | 865,814 |

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 debts is as follows:

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 3 months | **550,778** | 586,318 |
| 4 to 6 months | **156,189** | 74,156 |
| 7 to 9 months | **52,790** | 41,456 |
| Over 9 months | **41,483** | 39,486 |
| | **801,240** | 741,416 |

## 9. TRADE AND OTHER PAYABLES

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade and bills payables | **697,510** | 650,120 |
| Accruals and other payables | **156,234** | 159,849 |
| | **853,744** | 809,969 |

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:

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 3 months | **480,862** | 485,431 |
| 4 to 6 months | **147,803** | 128,812 |
| 7 to 9 months | **21,583** | 14,262 |
| Over 9 months | **47,262** | 21,615 |
| | **697,510** | 650,120 |

## 10. DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (31 December 2020: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL RESULTS

### Revenue

Revenue of the Group for the year was approximately HK$3,075,305,000 (2020: approximately HK$2,432,021,000), an increase of 26.5% over the same period last year, which was mainly due to the increase of revenue of plastic products processing and manufacturing business and industrial consumables trading business.

### Gross profit

Gross profit of the Group increased by 33.5% over last year's to approximately HK$544,491,000 (2020: approximately HK$407,978,000), which was mainly due to the increase of gross profit of plastic products processing and manufacturing business. Gross profit margin of the Group also increased by 0.9 percentage points to 17.7% for the year as compared to that of last year.

### Profit for the year

The net profit of the Group greatly increased from approximately HK$25,878,000 to approximately HK$84,205,000. This increase was primarily due to gross profit margin of the Group has been significantly improved and for better cost control in this year.

### Administrative expenses

The administrative expenses of the Group was approximately HK$213,423,000 for the year, decreased by 4.2% as compared to approximately HK$222,678,000 for last year, mainly due to the implementation of effective cost measures by the Group.

### Selling and distribution costs

The selling and distribution cost of the Group for 2021 amounted to approximately HK$197,414,000, increased by 30.6% as compared to approximately HK$151,200,000 for last year. This increase was mainly due to significant increase in sales commission.

### Finance costs

The Group's finance costs amounted to approximately HK$17,741,000 for the year, representing a decrease by 12.7% as compared to approximately HK$20,315,000 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 favorable conditions for bank credits, so as to reduce the overall finance charges.

### Other income

The net of other gains and income of the Group decreased by 58.0% from approximately HK$15,829,000 for 2020 to approximately HK$6,646,000 for 2021, which was mainly due to decrease in government grants.

## BUSINESS REVIEW

### Machinery Manufacturing Business

The Group's injection moulding machine ("**IMM**") manufacturing business achieved sustained growth for 2021. Strong order intake for IMM was notable especially in the first half of the year, in line with other machinery manufacturers in Mainland China. Throughout the year, sales of our small and medium-sized machines continue to dominate. Robust sales were recorded in customer industry segments such as daily consumer products, packaging, PVC (Polyvinyl Chloride), and household appliances. A highlight of our sales growth was growing customer adoption of customized industry specific machine series catered for PET (Polyethylene Terephthalate) packaging and IT electronics, as our customized features and solutions fit customers' sophisticated needs. Furthermore, sales to the automotive and consumer electronics industries rebounded from depressed levels experienced last year. Our export business also achieved notable year on year growth. In all, net profits for this business recorded notable growth compared to last year.

However, despite strong order intake in the first half of 2021 which pushed our production capacity to peak levels, the expected pullback in demand was visible since the third quarter. Demand for IMM was notably weaker in the second half of the year as customers in multi-segments experienced soaring raw materials costs, abrupt electricity shortages, unprecedented surges of freight costs for shipment and limited supply of containers, which hindered customers' sales and investment sentiments. Despite pullback in order intake, orders for large-sized two-platen machines rebounded slightly in the second half of the year. Our latest version of full electric machines was successfully launched this year with satisfactory customer feedback on machine features and quality. We are confident our full electric series will suit the changing customer requirements in reduced energy consumption, injection moulding precision and stability, and digital transformation.

Amid strong growth in orders and sales, the business confronted key challenges in supply chain management and agile production management. Delivery of key components were disrupted and reduced our production efficiency in the first half of 2021, as our industry peers scrambled to secure timely supplies. Costs for raw materials namely cast iron, motion and drive components surged past record levels. In response, selling prices were adjusted slightly upwards but impact of increased raw materials costs was not fully passed onto customers and as a result, affected our profit margins. With high praise to our production teams, the two production plants responded in an agile fashion to ramp up production capacities and efficiencies to deliver the orders focused on small and medium-sized machines.

New machining centres and production equipment were successfully installed and on line in the latter half of 2021. In addition, water-based spray painting lines were further expanded to align with strict air pollutants emissions reduction goals. These new investments will further enhance our production capabilities and capacities to meet future growth targets.

Customer adoption of our self-developed smart digital industrial platform "iSee 4.0" are encouraging, while our production bases have further integrated our highly customized version of "iSee 4.0" to enhance digitalization of our production and management processes.

While the Group is confident in the IMM business's progress in product development and its abilities to achieve growth in an expanding market in the longer term, we are cautious on our business outlook for 2022. Rising and volatile costs in terms of raw materials, parts and components, labour, and shipment are likely to affect our business and customers in the coming year. Forecast for domestic and global demands for plastic goods and machines are difficult to sustain previous high growth rate. Therefore, any change will have a material impact on the performance of this business. Furthermore, the IMM business will focus on further penetrating key industries such as renewable energy, electric vehicles, infrastructures, medicals, and consumer electronics to adapt with the changing economic environment. In order to further solidify our competitive strength and achieve sustainable business growth in the long run, the Group supports further investments in research and development, capital expenditures, talent recruitment and training development.

For the extrusion and rubber injection moulding machines and hydraulic presses manufacturing business, it achieved steady growth in financial performance compared to last year. Sales of our customized and highly automated rubber injection moulding machine series catered to the transportation and automotive industries recorded satisfactory growth in Mainland China and export markets. Our five-layer co-extrusion machines specialized for the automotive market continues to attract support from key customers. Additionally, our highly automated hydraulic presses systems specially designed for automotive braking parts achieved breakthrough in orders from key customers. Further expansion on innovative applications will continue to strengthen our areas of competitive differentiation.

Despite achieving satisfactory growth momentum, the management team devoted significant effort to confront major challenges. Raw materials prices, namely cast iron, machining of parts, motion and drive components surged to new heights, while the management team worked closely with suppliers to ensure timely delivery of raw materials and components. The business alleviated the negative impact of high raw material costs by promoting higher-end customized models, revise selling price, and closely cooperate with suppliers. Moreover, overseas freight and shipment costs surged to record levels which affected our order intake, sales, and timely delivery to export markets.

The business also achieved notable awards and recognitions in terms of research and development and innovation. Our rubber track automatic production machines（全段橡膠履帶成型機）and multi-layer nylon automotive tubes and bellows extrusion line（多層尼龍複合管擠出生產線）obtained the awards of "The First (Set) Key Technical Equipment Project in Dongguan City（東莞市首台（套）重點技術裝備）" and "Famous Quality High-tech Products of Guangdong Province（廣東省名優高新技術產品）", respectively. In addition, our continuous efforts in research and development was recognized by the Department of Industry and Information Technology of Guangdong Province, being awarded as one of the "Specialized, Refined, Unique and Innovated Small and Medium-sized Enterprises in Guangdong Province in 2021（2021年廣東省專精特新中小企業）".

For the upcoming year, the Group is cautiously optimistic of achieving steady growth. The automotive, heavy transportation and electric vehicle industries are the key markets for this business, and we expect these industries to remain vibrant and be in search of reliable and customized plastic processing solutions. However, key risks and challenges will be the uneven pace of domestic and global economic recovery, raw materials price volatility, fluctuating foreign currency rates and overseas shipment costs. In response to these risks and challenges, the business will devote resources for continuous research and development for customized solutions, cultivating talents and training development.

**Plastic Products Processing and Manufacturing Business**

The plastic food packaging processing plant in Zhuhai maintained moderate growth for 2021. Our efforts to ensure fine quality and timely delivery despite the ongoing pandemic earned increased orders from long-term major customers in the baby formula industry and health supplements industry. A number of key new projects were successfully obtained after months of design and engineering development. However, export business mainly serving customers in the confectionary industries achieved only slight growth, as overseas freight costs rose to record levels and scarce supply of shipping containers hindered growth on our export business.

Management team continued their focus on design and development of biodegradable plastics packaging solutions for our customers to cater for direction of future eco-friendly packaging that fit carbon reduction policies domestically and globally. Deployment of customized automation equipment were ongoing, and achieved the planned targets of direct labour reduction, quality improvements, and increased production efficiencies. Furthermore, our digital smart manufacturing systems were further enhanced, with wider applications in the pipeline, in order to strive for real-time production monitoring, quality control traceability, and data analytics for further improvements.

During the year, the major headwinds for this business were the consistent rise of prices for plastic resins due to rise of crude oil prices, limited supplies, and rising costs of shipment. Although a portion of raw materials price increase was passed onto end customers, following pre-determined pricing adjustment mechanisms, but a portion had to be borne by our business. Additionally, profitability of this business was also adversely affected by increasing direct labour costs and higher frontline worker turnover.

As a result of our consistent and continuous dedication to food-grade workshop sanitary control, design and engineering, customized automated production lines, and business development milestones, the business was awarded the "High-Tech Enterprises in Guangdong Province (廣東省高新技術企業)" honour. This achievement will help future business development as well as potential income tax savings.

The Group will support further investments in design capabilities, research and development, capital expenditures, production automation, talent recruitment, and training development. The Group is cautiously optimistic to maintain steady growth after successfully bidding new project partnerships with key customers. Moreover, new customer development in the dairy industry and other sophisticated food packaging industry will continue.

The plastic components processing plant for household appliances in Hefei achieved growth amid challenging conditions. During the year, sales growth of household appliances in Mainland China became saturated while rising costs affected profits for key players in the industry. The business faced intense pressure to discount selling prices throughout the course of the year. In view of this, our management team responded proactively by mobilizing all departments to refine 5S practices, improved management techniques including the use of customized automation and digital systems to achieve unit cost savings and lower wastages. Special attention was paid to enhance staff training and effective management culture to strengthen employees' technical skillsets and competencies in combating challenges which may arise from the dynamic marketplace.

Sales orders gradually ramped up in the latter part of 2021, as our main customer's appliance export business recovered. In addition to intense price negotiations with customers and confronting rising raw materials and labour costs, the management team not only focused on prudent financial control to ensure a healthy operating cash flow for business operations, but also successful bidding of key new projects so as to provide a foundation for steady growth for the upcoming year.

The business obtained the honour of "High-Tech Enterprises in Anhui Province (安徽省高新技術企業)" as our long-term dedication to refined production technologies were recognized by Anhui provincial bureaus. This achievement will help with future customer development and potential income tax savings.

Outlook for the upcoming year is forecasted to be challenging. The market for household appliances is not forecasted to grow at significant pace as consumer spending is steady at best, and new home sales are weak in recent quarters, which affects household appliance demand. Meanwhile, raw materials costs are likely to remain high. Competition within the plastic processing industry for home appliances will continue to be intense. We will nevertheless continue to focus on lean manufacturing practices to ensure quality standards and unit cost savings and minimize the negative impact on the business.

The blow moulded plastic mannequin production plant in Dongguan recorded satisfactory growth despite a challenging year. As the pandemic outbreaks caused lockdowns and disruptions to our European retail based customers, sales and deliveries were weaker than expected in earlier parts of the year. Fortunately our major customer, a global sporting goods retailer, implemented their aggressive new shop expansion in Europe and in the PRC, ramped up our sales throughout the year. Our prior development efforts in terms of designs, rapid prototyping, quality assurance and reliable production capabilities are clearly paying off in earning the trust of this customer. Management team is confident the business grow further with close partnership with this customer and to leverage our reputation in fine quality blow moulded mannequins to expand our customer portfolio.

Our production and engineering team performed well to confront various challenges. Plastic resins prices reached new heights during the year which raised our materials costs. Severe shortage in shipping containers and unprecedented rise in overseas freight costs affected our deliveries and costs. Market conditions for retailers have long been challenging as online retail continues eat into offline channels' market shares. Retailers also are paying close attention to recyclability and environmental concerns for their display items. Traditional mannequin manufacturers, especially those who produce fibreglass mannequins, are facing extreme difficulties as the PRC government and governments elsewhere continue to clamp down on pollution caused by fibreglass production and spray painting. Unit labour costs for traditional mannequin manufacturers are reaching historically high levels. We believe despite the overall slowdown of new retail store expansion, our eco-friendly and high quality blow moulded products will continue to attract more global brands in the future.

In view of the above, we will deploy resources in product designs and engineering, quality assurance processes, production capacity expansion, and market development. The Group is cautiously optimistic this business can sustain their growth trajectory if our fashion and sporting goods retail customers are able to execute their expansion plans as forecasted.

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

The PCB processing business endured another difficult year in 2021. The price of copper soared to record highs and greatly affected our raw materials costs. Price of PCB base boards and other materials also consistently adjusted upwards to unprecedented levels. Our profits suffered even though sales volume increased. Our selling prices adjusted upwards in stages at varying times throughout the year, but could not dampen the large adverse impact of rising raw materials costs. Although orders from customers in automotive, consumer electronics, and gaming industries rebounded from low levels in the previous year, order inflows were uneven during the year.

Global shortages of integrated circuits and semi-conductors affected downstream customers' production and deliveries. This scenario did not subside and will continue to affect industries relying on integrated circuits and semi-conductors as key components of their products. In addition to rising raw material costs, the business faced labour shortages and rising labour costs. It affected our optimal production processes and efficiencies, while it was significantly increasing subcontracting of various production processes, which raised our production costs further. To alleviate rising materials costs pressure, the business had to increase inventory levels and made earlier cash payments to suppliers to secure a stable supply of raw materials.

The outlook is not promising for the upcoming year, as raw materials costs will likely remain at high levels, while orders forecast from key customers remain cautious in the coming quarters. Our management team will focus on reengineering production processes and structures to suit our order patterns and target to decrease subcontracting needs. However, a quick turnaround may prove difficult. Nevertheless, cash flows remain healthy at the moment and our long-term prudent financial management focus will not be deviated.

The PCB trading business achieved slight growth in sales and profits. Previous years' business development efforts paid off in earning new projects from Japanese automotive and consumer electronics customers. Sourcing costs increased as manufacturers adjusted selling prices reflecting rising raw materials costs, however such increases did not materially impact our profits due to effective management. Trading of new products namely import PCB base boards, are progressing to plan, and new sales teams in various locations are delivering new business leads which will support future growth of the business. Additionally, we will continue to expand our service scope for PCB laboratory testing and quality control services.

The Group is cautious on this business's outlook for the upcoming year as challenging conditions for the overall PCB industry persist. As PCB raw materials prices adjust downwards from peak levels, pressure to accordingly adjust selling prices may increase, thus potentially affecting our profit margins. New customer development investments and activities will ramp up in the upcoming year, however immediate significant success is unlikely to materialize as recoveries in the automotive and electronics industries are relatively weak. The business will continue to maintain optimal cost structures and focus on healthy operating cash flow.

**Industrial Consumables Trading Business**

The industrial consumables trading business achieved significant growth in sales and profits during 2021. As Mainland China maintained superb control of the pandemic, it created favourable conditions for its vibrant supply chain to stand out, compared to other countries and regions, thus the PRC manufacturers obtained robust sales orders for products domestically and globally, in particular during the first half of the year. Customer groups that contributed strong growth for this business include semi-conductors, consumer electronics, machineries, medical equipment, renewable clean energy, and lithium batteries. Customers from the automotive and household appliance industries rebounded from previous year's relatively low sales levels, and increased their purchases throughout the year. In addition, the elevator industry benefited from regional policies to install new elevation devices, and replace old ones, therefore our stronghold in Southern China for elevator component solutions continued to grow despite the wider scope slump in the housing market. Our motion and drive components and solutions achieved better than expected growth, while steel and fasteners products grew slightly ahead of plan as market conditions improved, as well as introducing new products and packaged solutions to customers.

While this business benefited from a better-than-expected market outlook alongside a broad customer base across many industries, it faced severe challenges on the supply side. With most industrial commodities surging in price, almost all our product sourcing costs increased significantly. Meanwhile, producers especially those located overseas, could not ramp up their production to meet sudden increase in demands, caused severe shipment delays while facing surging shipment costs. By proactive response and working together with customers, the business managed to minimize adverse impact to profitability. Management teams performed well by not only being focused on sales and bottom line growth, but maintained lean inventory levels and improved its receivables turnover.

Our cautious outlook for the second half of the year anticipating a pullback in orders did not materialize, as customer groups displayed sustained order placements. However, certain key challenges lay ahead in the upcoming year. Strong growth of orders will likely not continue, as the overall manufacturing sectors in the PRC are slowing down after rampant growth evident in the past two years. The pandemic is far from over and under control globally, a prolonged spread can affect consumer demands and disrupt global supply chains. Geopolitical tensions, especially between the United States and the PRC, display no signs of easing. The impact to global economic recoveries, supply chain disruptions, and global trade are highly unpredictable. However, the Group is optimistic in the longer term, the PRC began to implement a visionary and pragmatic "Fourteenth Five-Year Plan" and shift its policies and resources to support high quality manufacturing industries in the PRC. This provides ample opportunities to businesses adapting to upgrade its technical breakthrough abilities in materials, production process, and digital solutions. Regardless of market conditions for the upcoming year, we will invest in and develop our sales and technical teams, recruit talents, staff training, and enhance our internal digital systems.

**Subsequent Events**

There is no material event after the end of the reporting period.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group's total outstanding bank borrowings amounted to approximately HK$301,167,000 (31 December 2020: approximately HK$322,344,000) 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$289,469,000 and HK$11,698,000 respectively (31 December 2020: approximately HK$284,469,000 and HK$37,875,000 respectively).

After including lease liabilities of approximately HK$51,469,000 (31 December 2020: approximately HK$55,839,000) and deducting cash and bank balances of approximately HK$406,057,000 (31 December 2020: approximately HK$494,669,000), the Group's net cash amounted to approximately HK$53,421,000 (31 December 2020: net cash was approximately HK$116,486,000). Total equity attributable to equity shareholders of the Company as at 31 December 2021 was approximately HK$1,410,809,000 (31 December 2020: approximately HK$1,268,626,000).

The gearing ratio of the Group is measured as total of bank indebtedness and lease liabilities less cash and bank balance, pledged deposit and short-term bank deposits with maturity over three months divided by net assets. The Group had a net cash position as at 31 December 2021. As a result, no gearing ratio was presented.

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 dollar 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 2021, the Group had no material contingent liabilities (31 December 2020: Nil).

## CAPITAL STRUCTURE

There was no change in the total number of issued shares of the Company for the year ended 31 December 2021. The total number of issued shares of the Company remained at 861,930,692 shares at 31 December 2021.

## MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisitions and disposals by the Group during the year ended 31 December 2021.

## EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 31 December 2021, the Group had a total of 2,523 employees located in Hong Kong and Mainland China (31 December 2020: 2,779). The remuneration policy regarding the employees of the Group is based on qualifications, competence and performance of the employees as well as market trends. Employees' benefits include retirement benefits and medical insurance coverage.

The emoluments of the Directors are decided by the remuneration committee of the Company ("**Remuneration Committee**"), 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 Mainland China 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 FORECAST

Looking ahead of the upcoming year, the Group does not anticipate a repeat of the broad-based strength in the manufacturing sectors in the PRC as experienced in the first half of 2021. A more likely scenario is the continuation of pullback in demand which was evident in the second half of the year. Headwinds and challenges such as, high raw materials costs, shipment disruptions and sustained high shipping costs, and high labour costs are likely to persist, that will inevitably shape a highly uncertain business outlook and uneven growth across various manufacturing industries.

On the macro level, geopolitical tensions between the United States and PRC shows no signs of abating. Adverse effects on global trade and supply chains are on-going and highly unpredictable. Tightening monetary policies in the United States and other Western countries has come into effect with primary objective to combat inflation. Without discussing effectiveness of such policies, it is safe to assume tightening and pullback of cash injections will dent consumer confidence and demand. The global pandemic still affects everyday lives of everyone, even though most Western countries are experimenting "co-existing with virus" policies to reopen their economies. The strength and source of recovery is uncertain.

Domestically the PRC's positioning is favourable in the long term. The PRC government is implementing visionary and pragmatic policies to drive long-term growth of high quality manufacturing sectors, as laid out in the "Fourteenth Five-Year Plan", to achieve sustainable growth in the areas of new materials, manufacturing of critical components, research and development of products and production processes, artificial intelligence, and digitalization of the whole value chain.

The Group will continue to commit to development of key industry markets such as renewable energy, electric vehicles, medical equipment, packaging, automotive, consumer electronics, and lithium batteries. We foresee the long-term growth potential in these strategic sectors. In addition, we will shift resources and focus for export businesses as we anticipate gradual economic recoveries in our export markets, previously dampened by the pandemic. Growth potential in different regions will vary, as it depends on our overseas partners and resources. Especially, we see potential in neighbouring "Belt and Road Initiative" countries.

Regardless of an anticipated pullback in growth for the upcoming year amid the previously stated challenges and uncertainties, the Group will commit to invest in research and development of technical innovations, especially our machinery manufacturing business. In addition, we will implement plans to gradually upgrade our production capacities and technologies, recruit talents, enhance training development and increase investment in sales and marketing, in order to capture future growth opportunities. Moreover, prudent financial management practices will continue as usual, with focus on maintaining a healthy cash flow for all our businesses.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving and maintaining a high standard of corporate governance for the enhancement of value and safeguarding interests of shareholders of the Company (the "**Shareholders**") and other stakeholders.

In the opinion of the Board, the Company has complied with all the principles and applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2021, except for the following deviation from code provision A.6.7 of the CG Code:

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. During the year, Messrs. Kan Wai Wah and Qu Jinping, both non-executive Directors, and Mr. Ho Wei Sem, the then independent non-executive Director and Mr. Huang Zhi Wei, an independent non-executive Director, had other business engagements. They were unable to attend the court meeting and extraordinary general meeting of the Company held on 18 June 2021, and annual general meeting of the Company held on 24 June 2021. However, the Company considered that the presence of the chairman of each of the nomination committee of the Company, Remuneration Committee and Audit Committee, and other executive Directors at the said meetings were sufficient for addressing the queries from the attending Shareholders.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a Code for Securities Transactions by Directors and Relevant Employees of Cosmos Machinery Enterprises Limited ("**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 2021.

## FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (31 December 2020: Nil).

## ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Friday, 24 June 2022. Notice of the AGM will be despatched to the Shareholders in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 17 June 2022 to Friday, 24 June 2022, 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, 16 June 2022 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 2021 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 2021 ANNUAL REPORT

The final results announcement of the Company is published on the websites of the Company at www.cosmel.com and The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. The 2021 annual report of the Company will be published on the above websites and despatched 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 2022

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