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 2022

RESULTS SUMMARY	**2022**	2021	
	HK$'000	*HK$'000*	**Change**
Revenue	**2,339,898**	3,075,305	-23.9%
Gross profit	**372,304**	544,491	-31.6%
Operating profit	**29,758**	119,813	-75.2%
Profit for the year	**18,837**	84,205	-77.6%

The Board did not recommend the payment of a final dividend for the year ended 31 December 2022 (31 December 2021: 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 2022, together with the comparative figures for the year ended 31 December 2021. These final results have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	3	**2,339,898**	3,075,305
Cost of sales		**(1,967,594)**	(2,530,814)
Gross profit		**372,304**	544,491
Other income, gain and loss, net		**23,161**	6,646
Selling and distribution costs		**(170,462)**	(197,414)
Administrative expenses		**(195,245)**	(213,423)
Impairment loss on goodwill		**–**	(20,487)
Operating profit		**29,758**	119,813
Investment income		**11,404**	6,255
Share of results of associates		**5,324**	5,140
Loss on deregistration of a subsidiary		**–**	(348)
Finance costs		**(13,415)**	(17,741)
Profit before tax	4	**33,071**	113,119
Income tax expense	5	**(14,234)**	(28,914)
Profit for the year		**18,837**	84,205
Profit attributable to:			
– Equity shareholders of the Company		**24,414**	89,732
– Non-controlling interests		**(5,577)**	(5,527)
		18,837	84,205
Earnings per share – Basic	6	**2.83HK cents**	10.41HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	2021
	HK$'000	*HK$'000*
Profit for the year	**18,837**	84,205
Other comprehensive (expense)/income for the year, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
– Exchange differences arising from translation of financial statements of foreign operations	**(126,849)**	37,306
– Share of reserves of associates	**(3,142)**	934
Reclassification adjustments:		
– Release of translation reserve upon deregistration of a subsidiary	**–**	348
	(129,991)	38,588
Items that will not be reclassified to profit or loss:		
– Surplus on revaluation of properties held for own use	**7,452**	16,787
	(122,539)	55,375
Total comprehensive (expense)/income for the year	**(103,702)**	139,580
Total comprehensive (expense)/income attributable to:		
– Equity shareholders of the Company	**(85,747)**	139,892
– Non-controlling interests	**(17,955)**	(312)
Total comprehensive (expense)/income for the year	**(103,702)**	139,580

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	2022	2021
	Note	***HK$'000***	*HK$'000*
Non-current Assets			
Property, plant and equipment		**548,919**	610,196
Right-of-use assets		**72,171**	85,578
Goodwill		**32,996**	32,996
Intangible assets		**922**	2,305
Interests in associates		**39,483**	41,524
Finance lease receivables		**15,011**	76,205
Deferred tax assets		**22,998**	28,722
Bank time deposit with maturity over one year		**1,120**	–
		733,620	877,526
Current Assets			
Inventories		**450,811**	542,429
Finance lease receivables		**100,939**	200,143
Trade and other receivables	*7*	**769,278**	887,400
Other financial assets		**10,367**	53,571
Current tax recoverable		**642**	759
Cash and bank balances		**559,793**	406,057
		1,891,830	2,090,359

	Note	2022	2021
		HK$'000	*HK$'000*
Current Liabilities			
Trade and other payables	*8*	**691,938**	853,744
Contract liabilities		**94,147**	77,064
Bank borrowings		**225,127**	289,469
Lease liabilities		**15,701**	15,283
Current tax payable		**4,276**	10,683
		1,031,189	1,246,243
Net Current Assets		**860,641**	844,116
Total Assets less Current Liabilities		**1,594,261**	1,721,642
Non-current Liabilities			
Bank borrowings		**2,468**	11,698
Lease liabilities		**25,003**	36,186
Deferred tax liabilities		**28,394**	33,234
		55,865	81,118
Net Assets		**1,538,396**	1,640,524
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital		**609,027**	609,027
Reserves		**713,095**	801,782
		1,322,122	1,410,809
Non-controlling Interests		**216,274**	229,715
Total Equity		**1,538,396**	1,640,524

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2022 and 2021 included in this preliminary announcement of final results for the year ended 31 December 2022 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 2021 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 2022 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 reports; and did not contain a statement under Sections 406(2), 407(2) or (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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). 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 accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

There have been a number of amendments to standards effective in 2022. Amendments which are applicable to the Group include:

- Amendments to HKFRS 3, Reference to the Conceptual Framework;
- Annual Improvements to HKFRSs 2018-2020, Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41;
- Amendments to HKAS 16, Property, Plant and Equipment – Proceeds before Intended Use; and
- Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract.

The application of the above amendments 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 2022 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	**431,729**	**445,895**	**867,701**	**577,960**	**16,613**	**–**	**2,339,898**
Inter-segment sales *(Note)*	**23,998**	**116**	**3,081**	**–**	**8**	**(27,203)**	**–**
Total revenue	**455,727**	**446,011**	**870,782**	**577,960**	**16,621**	**(27,203)**	**2,339,898**
Segment results	**32,687**	**29,211**	**799**	**(14,759)**	**4,943**	**–**	**52,881**
Unallocated corporate expenses							**(23,123)**
Operating profit							**29,758**
Investment income							**11,404**
Share of results of associates							**5,324**
Finance costs							**(13,415)**
Profit before tax							**33,071**
Income tax expense							**(14,234)**
Profit for the year							**18,837**

Note: Inter-segment sales are determined at prevailing market rates.

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.

Geographical information

An analysis of the Group's revenue by geographical market is as follows:

	2022	2021
	HK$'000	*HK$'000*
Hong Kong	**313,799**	356,623
Mainland China	**1,644,553**	2,164,007
Other Asia-Pacific countries	**294,037**	434,691
North America	**4,625**	30,154
Europe	**82,884**	89,830
	2,339,898	3,075,305

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, by the geographical area in which the assets are located is as follows:

	Specified non-current assets		**Additions to specified non-current assets**	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**162,529**	176,114	**1,010**	473
Mainland China	**492,479**	554,961	**40,869**	50,672
	655,008	731,075	**41,879**	51,145

4. PROFIT BEFORE TAX

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

	2022	2021
	HK$'000	*HK$'000*
Reversal of allowance for impairment of bad and doubtful debts, net	**(12,134)**	(16,616)
Depreciation and amortisation on:		
– Property, plant and equipment		
– Ownership interest in leasehold land and buildings held for own use	**16,275**	15,990
– Other owned assets	**43,423**	43,945
– Intangible assets	**1,383**	1,383
– Right-of-use assets	**16,041**	16,086

5. INCOME TAX EXPENSE

Hong Kong profits tax

The provision for Hong Kong profits tax for 2022 is calculated at 16.5% (2021: 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 Rates 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 Regulation on the Implementation of the EIT Law, the rate of the PRC companies is 25%. The Group's subsidiaries in the PRC are subject to the 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 the PRC income tax at 15% for 2022.

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.

	2022	2021
	HK$'000	*HK$'000*
Tax charge comprises:		
Current tax		
Hong Kong profits tax		
Current year	**1,918**	2,388
Over-provision in prior years	**(12)**	(124)
	1,906	2,264
The PRC enterprise income tax		
Current year	**15,169**	18,677
Over-provision in prior years	**(1,659)**	(2,294)
	13,510	16,383
Deferred tax		
Deferred taxation relating to the (reversal) and origination of temporary differences	**(1,182)**	7,373
Impact of change in tax rates	**–**	2,894
	(1,182)	10,267
Income tax expense for the year	**14,234**	28,914

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 ended 31 December 2022 attributable to equity shareholders of the Company approximately HK$24,414,000 (2021: approximately HK$89,732,000) and the weighted average number of 861,930,692 (2021: 861,930,692) ordinary shares in issue during the year ended 31 December 2022.

No diluted earnings per share is presented as there were no potential ordinary shares in issue for the years ended 31 December 2022 and 2021.

7. TRADE AND OTHER RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade and bills receivables	**748,215**	907,240
Less: allowance for impairment of bad and doubtful debts	**(82,850)**	(106,000)
	665,365	801,240
Other receivables	**82,842**	65,685
Less: allowance for impairment of bad and doubtful debts	**(15,289)**	(16,705)
	67,553	48,980
Prepayments	**36,267**	37,153
Amounts due from related parties	**93**	27
	769,278	887,400

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:

	2022	2021
	HK$'000	*HK$'000*
0 to 3 months	**434,595**	550,778
4 to 6 months	**127,088**	156,189
7 to 9 months	**54,012**	52,790
Over 9 months	**49,670**	41,483
	665,365	801,240

8. TRADE AND OTHER PAYABLES

	2022	2021
	HK$'000	*HK$'000*
Trade and bills payables	**551,446**	697,510
Accruals and other payables	**140,492**	156,234
	691,938	853,744

The Directors consider that the carrying amounts 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:

	2022	2021
	HK$'000	*HK$'000*
0 to 3 months	**419,145**	480,862
4 to 6 months	**100,104**	147,803
7 to 9 months	**16,206**	21,583
Over 9 months	**15,991**	47,262
	551,446	697,510

9. DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2022 (31 December 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue

The revenue of the Group for the year ended 31 December 2022 was approximately HK$2,339,898,000 (2021: approximately HK$3,075,305,000), a decrease of 23.9% as compared to last year, which was mainly due to the weak manufacturing demands in China and globally, supply chain disruptions caused by lockdowns in some China cities, and the Russia-Ukraine conflict worsened market conditions.

Gross profit

For the years ended 31 December 2022 and 2021, the gross profit of the Group amounted to approximately HK$372,304,000 and HK$544,491,000 with gross profit margin of 15.9% and 17.7%, respectively. Raw material prices remained at high level and insufficient capacity utilization caused the Group's gross profit and gross profit margin to drop as compared with last year.

Profit for the year

The net profit of the Group greatly decreased from approximately HK$84,205,000 for 2021 to approximately HK$18,837,000 for 2022. This decrease was primarily due to a drop in gross profit.

Administrative expenses

The administrative expenses of the Group for the year ended 31 December 2022 was approximately HK$195,245,000, decreased by 8.5% as compared to approximately HK$213,423,000 for last year, which was mainly due to the implementation of effective cost measures by the Group.

Selling and distribution costs

The selling and distribution costs of the Group for the year ended 31 December 2022 amounted to approximately HK$170,462,000, decreased by 13.7% as compared to approximately HK$197,414,000 for last year, which was mainly due to a decrease in sales commission.

Finance costs

The finance costs of the Group for the year ended 31 December 2022 amounted to approximately HK$13,415,000, representing a decrease of 24.4% as compared to approximately HK$17,741,000 for last year, which was mainly due to the Group's gradual repayment of bank borrowings. The Group will continue to improve the efficiency of capital utilisation and strive for the most favourable conditions of bank credits, so as to reduce the overall finance charges.

Other income

The net of other income, gain and loss of the Group significantly increased from approximately HK$6,646,000 for 2021 to approximately HK$23,161,000 for 2022, which was mainly due to an increase in rental income, government grants and exchange gain incurred for 2022.

BUSINESS REVIEW

Machinery Manufacturing Business

The injection molding machine ("**IMM**") manufacturing business endured a difficult market environment throughout the year. It was a stark contrast compared to a vibrant growth market during the previous fiscal year. Weak overall market demands for machinery were exasperated by high raw material prices, weak manufacturing demands in China and globally, and occasional supply chain disruptions. Numerous lockdowns in Shanghai and nearby cities early in the year, caused severe supply disruptions of machinery components and production disruptions in our Wuxi factory as large portions of staff had to stay at home for numerous time periods. The Russia-Ukraine conflict caused greater supply chain challenges globally and raised market uncertainties which further hindered machinery users' investment plans. The massive COVID-19 infection in China toward the end of year basically suspended most marketing activities and production for a brief period of time. Thankfully, our staff recovered relatively quickly and returned to work once their health conditions allowed, to minimize the effect on production disruptions and delivery of machines. In line with industry peers, this business experienced a marked drop in sales caused by lower than expected order intake. As a result, this business recorded an operating loss for the year.

Orders from customer segments, such as infrastructures, electronics and telecommunications, displayed the most significant drops compared to the previous year. While our industry-specific customized solutions in the fields of medical supplies and daily necessities continued to demonstrate relative strength in demands. Thin-walled food packaging and Polyethylene Terephthalate (PET) preform applications also displayed growth amid pandemic controls in China. Orders from automotive and household appliance customers continued to rebound from relatively low levels from last year. Our export business remained steady despite challenges including high freight costs, delayed shipment schedules, and much weakened currencies relative to the US dollar. The export business was able to obtain sizeable orders and growth from the Latin America and East Asia regions.

On the production side, along with a drop in production volume, the elevated prices of raw materials, namely metal castings, motion and drive components and electrical components, increased pressure on our profit margins. Due to various lockdowns in Shanghai and surrounding areas and later massive outbreaks throughout China, our production teams responded in an agile manner to minimize the impact of severe supply chain disruptions and occasional understaff situations.

Despite the above-mentioned challenges, the Group is committed to long-term investments in the IMM business in order to sustain growth and to strengthen its competitiveness. In addition to the world-class Computer Numerical Control (CNC) machining centers commissioned last year, we took delivery of the new Double Column Type machining center. The fully automated welding lines are now fully online, and will significantly boost productivity and raise the quality of our machine chassis. New water-based spray painting workshops are in the assembling and fine-tuning phase, and will come online in around the first quarter of 2023. Investments in digital smart factory technologies also ramped up and upgraded to further improve digital production management efficiencies. Green energy solutions were deployed in our Wuxi factory, which installed solar panels on the roof producing approximately 1,600,000 Kwh of electricity per year. Such investments will not only significantly reduce our carbon footprint, but also reduce our overall electricity costs and reduce the risk of future electricity supply interruptions. Talent recruitment, especially in engineering and technical departments and frontline sales teams, continued as planned. The number of internal and external trainings increased significantly throughout the year, as talent development was one of our key priorities.

Our D series all-electric injection molding machines with greater clamping forces were successfully launched and are well received by our key customers ranging from medical, electronics and automotive industries. Orders for PET industry tailored machine series, multi-component machine series, higher end "SEIII" series, and large-sized two-platen series were relatively robust.

For the extrusion and rubber injection molding machines and hydraulic presses manufacturing business, it achieved only a slight drop in operating results compared to last year, amid challenging market conditions. In addition to the similar difficulties confronted by the IMM business, this business was highly affected by global economic uncertainties and especially global supply chain disruptions caused by the Russia-Ukraine conflict. Notable volume of critical components imported from Europe experienced shipment delays, which prolonged machine delivery to customers. Weak global growth and much weakened currencies relative to the US dollar, caused our export customers to prolong their order placements. Equipment investment sentiments in China were also depressed, as customers postponed key project investments, especially in the automotive industry.

Encouragingly, sales ramped up in the second half year as specialty machines such as corner joint rubber injection molding machines, five-layer oil pipe co-extrusion lines, telecommunications extrusion lines, as well as automated hydraulic presses for automotive braking systems achieved strong growth. It is reassuring to see customers recognize our competitive advantages in industry tailored machines amid such uncertain economic conditions.

A number of investments and initiatives were launched despite less than ideal market conditions. Development of customized automation and unique technical applications for niche market customers was ongoing. This business successfully launched innovative online marketing and knowledge-based content creation on social media platforms, as well as corporate value rebranding campaigns. Talent recruitment, especially young engineering talents, ramped up compared to previous years. Resources deployed for internal and external trainings for management teams and employees increased according to a refined talent development plan.

Plastic Products Processing and Manufacturing Business

The plastic processing plant for food packaging industry in Zhuhai achieved satisfactory steady results, with only a slight drop in sales, despite lockdown impacts and logistic disruption. Business volumes from key customers in China dairy industry increased due to successful commencement of new projects, as well as stock piling measures in order to mitigate supply disruption risk in response to the lockdowns in China. However, the export business suffered as a result of prolonged elevated freight costs and shipment delays.

Elevated and fluctuating plastic resins prices caused a slight decrease in profit margins, as well as increased depreciation costs associated with ramped up capital expenditures in previous years.

Our management team focused on enhancing the engineering team, and achieved breakthrough in innovative product design services for our customers. New project developments, especially multi-colour and multi-component products should boost sales from existing customers in the upcoming year. Customized automation equipment and optical quality control systems were further deployed. A successful upgrade in features and functionality of our Group-developed Manufacturing Execution System (MES) further improved management efficiencies and traceability capabilities.

This business will ramp up design services and innovative marketing initiatives in the upcoming year for China and overseas markets. Expansion plans to better serve our Northern China customers are being considered at the moment. The Group expects steady performance from this business as demands for dairy and health supplements should remain stable, and customers remain satisfied with our products' top quality and delivery.

The plastic components processing plant for household appliances in Hefei endured unprecedented challenges arising from lockdowns and strict personnel controls due to outbreaks, which severely affected its sales and operations. In mid-April 2022, our production plant was ordered to lockdown for 15 days by the Hefei authorities due to suspected cases of COVID-19 within our vicinity. The city of Hefei was under strict personnel control during October and November, which affected a portion of staff attendance and delivery of products. The massive outbreak in December temporarily reduced our normal production volume.

Overall demands for household appliances in China continued its steady drop from previous years' peak demands. The weak real-estate market in most of China cities throughout 2022 provided no stimulus for new appliance purchases. Key market leaders in household appliance experienced stagnated demands and profitability. As a result, this business experienced further pricing pressure from customers and intense competition from industry peers. Meanwhile, relatively stronger export demands did provide some relief.

In lieu of the challenges, the management team was able to successfully bid for new project orders, especially those with export specifications. Improvements in production efficiency and cost control measures were materialized by full team effort. This business was able to achieve slight profitability and a healthy cash flow despite dire circumstances.

The blow molded mannequins production plant in Dongguan achieved better than expected results despite non-favourable market conditions. Overall global retail operations, especially in Europe, has yet to recover substantially after the pandemic. Online retail sales continue to affect in-store sales, which implies less overall demands for display mannequins. However, a favourable trend for this business is the on-going requirement by European retailers to phase out non-environmentally friendly and non-recyclable materials in display items such as mannequins. As such, demands will continue to shift away from traditional glass fibre mannequins to recyclable plastic mannequins that our business specializes in.

Our major customer, a global leading sporting goods retailer, continued to place high volume orders as it is satisfied with our products' top quality and timely delivery. This retail chain continued its aggressive expansion plans globally and within China, and should continue to do so in coming years. Another achievement of our management team, is entering into a strategic partnership with a world-class sports brand's display item supplier. This should be a source of further growth in this business going forward.

Efforts to implement digitalization solutions for production process achieved preliminary desired results, which increased our production efficiency and reduced wastages. Our production team also lowered production lead times and reduced minimum order quantity (MOQ) requirements, that appeal to new and existing customers. This business will keep investing in 3D printing equipment and capabilities to serve lower volume orders, as well as refining production techniques for 100% recycled plastic resins catering to customers' requirement.

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

The PCB processing plant in Shenzhen's performance suffered massively throughout the year, and recorded a notable operating loss. Demands from our European automotive customers were extremely weak, orders from this important customer segment thus dropped over 50% compared to normal levels. The combination of unfavourable scenarios includes a notable shift by European automotive parts manufacturer to conduct sourcing outside of China, unfavourable currency movements, a supply crisis of silicon chips made worse by the Russia-Ukraine conflict, and depressed consumer confidence. In addition, our customer in the Japanese gaming industry significantly cut orders as sales of their gaming consoles stagnated, and orders migrated to a number of our competitors. On the contrary, sales to China automotive customers remained stable, and this business look forward to ramp up sales with a newly developed key automotive parts manufacturer in China. However, pricing competition is intense with this customer segment.

The management team focused on production cost reductions by realigning outsource orders, reducing frontline headcounts to control direct labour costs, scaling down production capacities, and shifting production schedules aiming to save electricity and equipment running costs. As sales and profitability suffered this year, this business managed to safeguard its cash flow mainly by reducing its inventory levels and operating costs, and managing external debts.

Sales development efforts, especially with the target customers in China, will ramp up in the upcoming year. However, the Group is not anticipating a quick turnaround for this business as major customers' order forecasts remain far from optimal level.

The PCB trading business achieved relatively stable results in terms of sales volume and profitability. Orders from one of our major customer who specializes in office automation equipment remained stable despite challenging economic conditions as well as supply chain disruptions caused by lockdowns in China. Sales efforts bidding for new projects with a number of renowned Japanese automotive parts manufacturers achieved satisfactory preliminary results, which serve as a foundation to project steady growth for this business going forward. At the same time, pricing pressure from suppliers and customers will continue.

The volatile fluctuation and a massive depreciating trend for the Japanese Yen in the year provided a backdrop for some high-end low volume PCB manufacturing orders to shift back to Japan. Our Japan operation was able to and should further capitalize on this "on-shoring" shift of orders. Trading of high quality PCB base boards should resume to normalized levels in the coming year as it was temporarily disrupted in the second half year due to a fire incident suffered at our supplier's factory in Suzhou.

Industrial Consumables Trading Business

The industrial consumables trading business recorded a notable drop in sales compared to peak levels achieved the previous year. Various unfavourable macro-economic factors such as high raw materials prices, weak demands in most manufacturing industries, a troubled real-estate market, and a severe drop in exports, caused the majority of our customers to decrease investments and demands for industrial components. The two-month lockdown measures in Shanghai massively affected our operations and created supply chain crisis in the surrounding areas affecting industrial enterprises across the nation. Customers anchored in industries, such as electronics, household appliances, machineries, gasoline automotive, elevators and infrastructures, displayed notable weakness in demands and investment sentiments throughout the year.

Our operation in Shanghai was virtually shut down for over two months due to the lockdown. Deliveries to and from our warehouse were halted and staff were forced to work from home. Fortunately, the Shanghai operation resumed in June and business volume rebounded shortly. Our cash flow quickly returned to normalized levels thereafter.

The standout bright spot for strong sales volume of this business is the lithium battery industry. With favourable government directives to stimulate electric vehicles growth in China, alongside the mega trend of lower emissions for clean energy, our lithium battery customers continued to place more orders for our motion and drive components and solutions. Our medical industry customers also placed steady orders for specialized imported metal wires as growth prospects for medical applications continue to climb, although price hikes and foreign currency fluctuation have an impact on our margins. Nonetheless, this business achieved a reasonable operating profit despite challenging circumstances within most manufacturing sectors in China.

Business prospects for this segment for the upcoming year are cautiously optimistic. Our customers from industries, ranging from lithium battery, renewable energy and medical applications, should maintain steady growth. In addition, project development efforts for our automation and robotics customers specializing in welding robotics, should provide growth for our new partnership with an up and coming manufacturer for motion and servo drive components. This business would also further explore export opportunities particularly in South East Asia markets for our metals and fasteners product lines.

Subsequent Events

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group's total outstanding bank borrowings amounted to approximately HK$227,595,000 (31 December 2021: approximately HK$301,167,000) 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$225,127,000 and HK$2,468,000, respectively (31 December 2021: approximately HK$289,469,000 and HK$11,698,000, respectively).

After including lease liabilities of approximately HK$40,704,000 (31 December 2021: approximately HK$51,469,000) and deducting cash and bank balances and bank time deposit of approximately HK$560,913,000 (31 December 2021: approximately HK$406,057,000), the Group's net cash amounted to approximately HK$292,614,000 (31 December 2021: approximately HK$53,421,000). Total equity attributable to equity Shareholders as at 31 December 2022 was approximately HK$1,322,122,000 (31 December 2021: approximately HK$1,410,809,000).

The gearing ratio of the Group is measured as total of bank indebtedness and lease liabilities less cash and bank balances and bank time deposit divided by net assets. The Group had a net cash position as at 31 December 2022 and 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 foreign exchange risk in this respect. The Group continues to monitor its foreign exchange exposure in Japanese Yen and Renminbi, and enters 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 2022, the Group had no material contingent liabilities (31 December 2021: Nil).

CAPITAL STRUCTURE

There was no change in the total number of issued shares of the Company for the year ended 31 December 2022. The total number of issued shares of the Company remained at 861,930,692 shares at 31 December 2022.

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisitions and disposals by the Group during the year ended 31 December 2022.

EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 31 December 2022, the Group had a total of 2,381 employees (31 December 2021: 2,523 employees) located in Hong Kong and Mainland China. The Group has formulated the remuneration policy. The remuneration of employees is based on their qualifications, competence and performance as well as market trends. Employees' benefits include retirement benefits and medical insurance coverage.

The emoluments of the Directors are determined by the Board based on the recommendation of the remuneration committee of the Company with reference to individual performance, qualifications and experience of the Directors, the duties and responsibilities of the Directors in the Company, the Company's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

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

OUTLOOK AND FORECAST

The Group anticipates improving operating conditions for 2023, as China lifted its COVID-19 pandemic related restrictions for the past three years. A normalized flow of people will allow resumption of business development activities and stimulate consumption. The flow of goods and logistics will also revert to normalized levels, so that supply chain and delivery of goods should not face sudden disruptions due to pandemic related uncertainties. The lifting of border control restrictions will hopefully re-attract overseas business partners, capital and consumption. All enterprises in China will pay special attention to government policies and stimulus towards economic growth and recovery. In summary, we believe as China closed the chapter on pandemic restrictions, it will help boost domestic consumption and overseas business cooperation, and help drive demand recovery for industrial goods and equipment.

The world, however, must confront a series of complicated challenges. Global economic recovery is likely to remain weak across Western developed countries and most developing nations. The fight to combat high inflation with tightening monetary policies affects businesses worldwide as we are experiencing interest rate hikes and weakened currencies relative to the US dollar. Western developed economies have a realistic chance to face recession or stagflation in the near term. The most concerning situation is the escalating Sino-US confrontations, and the world is increasingly divided. Such geopolitical tensions between the world's top two countries are definitely not conducive to business cooperation among China and Western countries. On top of that, the Russia-Ukraine conflict seems likely to escalate. Business wise, it harms the trading and supply of commodities, dampens consumer demands, and wrecks havoc to a global supply chain. Top management within the Group must be highly alert and adapt in an agile manner if and when global major incidents occur to protect our and customers' interests.

Nevertheless, we believe ample opportunities exist within China and overseas for those who are well positioned. The Group believes those industries riding on megatrends, such as renewable energy, lithium battery, electric vehicles, automation equipment and eco-friendly materials, will continue to stand out. Strong sustainable demands should keep driving industries such as medical applications, food packaging and necessities. Industries that were under pressure in the last several years, such as automotive parts, infrastructures and household appliances, should rebound from their lows. Our machinery manufacturing business is positioned to capture opportunities in the above-mentioned industries by dedicating our efforts and resources to provide industry-specific customized solutions for our customers. Our plastic products processing and manufacturing business is positioned to compete for sustained demands from the food packaging industry and eco-friendly materials application of our blow molded mannequins, and reap benefits if and when the household appliance industry rebounds from its bottom. Our industrial consumables trading business will continue to focus on providing packaged solutions to serve vibrant industries such as lithium battery, renewable energy, medical applications and automation robotics.

The Group will keep investing in key capabilities in order to sustain long-term competitiveness. Additional capital expenditures of renewed machineries and equipment for our machinery manufacturing business can further improve our automation, machining capabilities and overall product quality. Our ongoing research and development investments will focus on novel technical differentiators to enhance our industry-specific customized solutions, as well as energy efficient solutions. Additional investment in solar panels will continue after successful deployment in 2022. Talent recruitment and development will continue with a focus on technical engineers and frontline business development talents. Lastly, most of our subsidiaries will invest in varying degrees of digitalization systems that suit their needs. Launches and upgrades of MES, Customer Relationship Management (CRM), Enterprise Resource Planning (ERP), Product Life Cycle Management (PLM), and other office automation systems are planned for the upcoming year. At the same time, the Group will focus on overall financial health by maintaining a healthy balance sheet and sound cash flow. Bank financings will also be optimized and be kept at a conservative level.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 2022.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to practicing and maintaining a high standard of corporate governance for the enhancement of value of shareholders of the Company (the "**Shareholders**") and safeguarding interests of Shareholders and other stakeholders. In the opinion of the Board, the Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the 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 2022.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2022 (31 December 2021: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Wednesday, 21 June 2023. 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 Wednesday, 14 June 2023 to Wednesday, 21 June 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Tuesday, 13 June 2023 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 2022 as set out in this preliminary announcement have been agreed by the Group's auditor, Ting Ho Kwan & Chan, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ting Ho Kwan & Chan in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ting Ho Kwan & Chan on this preliminary announcement.

PUBLICATION OF THE FINAL RESULTS ANNOUNCEMENT AND 2022 ANNUAL REPORT

The final results announcement of the Company is published on the websites of the Company at http://www.cosmel.com and the Stock Exchange at https://www.hkexnews.hk. The 2022 annual report of the Company will be published on the above websites and despatched to the Shareholders in due course.

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

Hong Kong, 30 March 2023

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, 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. Huang Zhi Wei, Mr. Lam Kwok Ming and Mr. Lee Wai Yip, Alvin.