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 2023

RESULTS SUMMARY

	2023	2022	
	HK$'000	*HK$'000*	**Change**
Revenue	**2,176,900**	2,339,898	-7.0%
Gross profit	**369,665**	372,304	-0.7%
Operating profit	**4,743**	29,758	-84.1%
(Loss)/profit for the year	**(59,515)**	18,837	N/A

The Board did not recommend the payment of a final dividend for the year ended 31 December 2023 (31 December 2022: 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 2023, together with the comparative figures for the year ended 31 December 2022. 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 2023

	Notes	**2023** **HK$'000**	2022 *HK$'000*
Revenue	*3*	**2,176,900**	2,339,898
Cost of sales		**(1,807,235)**	(1,967,594)
Gross profit		**369,665**	372,304
Other income, gain and loss, net		**18,017**	23,161
Selling and distribution costs		**(162,771)**	(170,462)
Administrative expenses		**(191,068)**	(195,245)
Impairment loss on goodwill		**(29,100)**	–
Operating profit		**4,743**	29,758
Investment income		**11,452**	11,404
Share of results of associates		**3,635**	5,324
Gain on disposal of an associate		**412**	–
Loss on disposal of subsidiaries	*10*	**(46,151)**	–
Finance costs		**(16,549)**	(13,415)
(Loss)/profit before tax	*4*	**(42,458)**	33,071
Income tax expense	*5*	**(17,057)**	(14,234)
(Loss)/profit for the year		**(59,515)**	18,837
(Loss)/profit attributable to:			
Equity shareholders of the Company		**(43,801)**	24,414
Non-controlling interests		**(15,714)**	(5,577)
		(59,515)	18,837
(Loss)/earnings per share – Basic	*6*	**(5.08)HK cents**	2.83HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	**2023** **HK$'000**	2022 HK$'000
(Loss)/profit for the year		**(59,515)**	18,837
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		**(17,848)**	(126,849)
Share of reserves of associates		**(996)**	(3,142)
Reclassification adjustments:			
Release of translation reserve upon disposal of an associate		**166**	–
Release of translation reserve upon disposal of subsidiaries	*10*	**8,568**	–
		(10,110)	(129,991)
Item that will not be reclassified to profit or loss:			
(Deficit)/surplus on revaluation of properties held for own use		**(4,464)**	7,452
		(14,574)	(122,539)
Total comprehensive expense for the year		**(74,089)**	(103,702)
Total comprehensive expense attributable to:			
Equity shareholders of the Company		**(50,400)**	(85,747)
Non-controlling interests		**(23,689)**	(17,955)
Total comprehensive expense for the year		**(74,089)**	(103,702)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Non-current Assets			
Property, plant and equipment		**523,103**	548,919
Right-of-use assets		**41,286**	72,171
Goodwill		**3,896**	32,996
Intangible assets		**–**	922
Interests in associates		**36,549**	39,483
Finance lease receivables		**13,625**	15,011
Deferred tax assets		**22,048**	22,998
Bank time deposit with maturity over one year		**–**	1,120
		640,507	733,620
Current Assets			
Inventories		**418,825**	450,811
Finance lease receivables		**84,802**	100,939
Trade and other receivables	*7*	**651,584**	769,278
Other financial assets		**5,630**	10,367
Current tax recoverable		**264**	642
Cash and bank balances		**660,468**	559,793
		1,821,573	1,891,830
Current Liabilities			
Trade and other payables	*8*	**681,902**	691,938
Contract liabilities		**72,446**	94,147
Bank borrowings		**234,598**	225,127
Lease liabilities		**4,182**	15,701
Current tax payable		**4,836**	4,276
		997,964	1,031,189
Net Current Assets		**823,609**	860,641
Total Assets less Current Liabilities		**1,464,116**	1,594,261

	2023	2022
	HK$'000	*HK$'000*
Non-current Liabilities		
Bank borrowings	**–**	2,468
Lease liabilities	**4,741**	25,003
Deferred tax liabilities	**30,511**	28,394
	35,252	55,865
Net Assets	**1,428,864**	1,538,396
Equity		
Capital and reserves attributable to equity shareholders of the Company:		
Share capital	**609,027**	609,027
Reserves	**662,695**	713,095
	1,271,722	1,322,122
Non-controlling Interests	**157,142**	216,274
Total Equity	**1,428,864**	1,538,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2023 and 2022 included in this preliminary announcement of final results for the year ended 31 December 2023 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 2022 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 2023 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 ("**HKAS**") and Interpretations ("**Int**"), issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the 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 judgments, 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

2. CHANGES IN ACCOUNTING POLICIES

(i) There have been a number of amendments to standards effective in 2023. Amendments which are applicable to the Group include:

- Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies;
- Amendments to HKAS 8, Definition of Accounting Estimates;
- Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- Amendments to HKAS 12, International Tax Reform – Pillar Two Model Rules.

The Group has applied the above amendments for the first time in 2023. The adoption of these amendments has had no significant impact on the results and financial position of the Group. The Group has not changed its material accounting policies or make retrospective adjustments as a result of adopting these amendments.

(ii) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Hong Kong Special Administrative Region Government gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**"), which will come into effect from 1 May 2025 (the "**Transition Date**"). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund ("**MPF**") scheme to reduce the long service payment ("**LSP**") in respect of an employee's service from the Transition Date (the abolition of the "**offsetting mechanism**"). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides accounting guidance relating to the offsetting mechanism and the abolition of the offsetting mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit.

The adoption of this new guidance does not have a material impact on the Group.

3. REVENUE AND SEGMENT REPORTING

The Group manages its business by a mixture of both business lines and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified, on a product basis, the following five reportable segments.

(1) trading of industrial consumables;

(2) processing and manufacturing of plastic products;

(3) manufacturing of machinery;

(4) processing and trading of printed circuit boards; and

(5) machinery leasing.

During the year ended 31 December 2023, a new reportable segment named "machinery leasing" has been separated from "other operations". This new reportable segment is used by management to analyse its business performance, and corresponding figures for the prior year have been restated on the same basis.

The segment results for the year ended 31 December 2023 are as follows:

	Industrial consumables *HK$'000*	Plastic products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Machinery leasing *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE								
External sales	388,339	525,873	799,335	453,153	10,200	–	–	2,176,900
Inter-segment sales *(Note)*	28,623	61	1,573	–	6	–	(30,263)	–
Total revenue	416,962	525,934	800,908	453,153	10,206	–	(30,263)	2,176,900
Segment results	18,210	33,331	1,007	(31,310)	1,412	3,264	–	25,914
Unallocated corporate expenses								(21,171)
Operating profit								4,743
Investment income								11,452
Share of results of associates								3,635
Gain on disposal of an associate								412
Loss on disposal of subsidiaries								(46,151)
Finance costs								(16,549)
Loss before tax								(42,458)
Income tax expense								(17,057)
Loss for the year								(59,515)

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

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*	Machinery leasing *HK$'000* *(Restated)*	Other operations *HK$'000* *(Restated)*	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)	2,806	2,137	–	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.

Geographical information

An analysis of revenue by geographical market is as follows:

	2023 **HK$'000**	2022 *HK$'000*
Hong Kong	**211,280**	313,799
Mainland China	**1,582,118**	1,644,553
Other Asia-Pacific countries	**307,311**	294,037
North America	**7,256**	4,625
Europe	**68,935**	82,884
	2,176,900	2,339,898

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	
	2023	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**127,694**	162,529	**109**	1,010
Mainland China	**440,591**	492,479	**73,819**	40,869
	568,285	655,008	**73,928**	41,879

4. (LOSS)/PROFIT BEFORE TAX

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

	2023	2022
	HK$'000	*HK$'000*
Allowance/(reversal of allowance) for impairment of bad and doubtful debts, net	**13,656**	(12,134)
Depreciation and amortisation on:		
– Property, plant and equipment		
– Ownership interest in leasehold land and buildings held for own use	**16,296**	16,275
– Other owned assets	**36,406**	43,423
– Intangible assets	**922**	1,383
– Right-of-use assets	**13,557**	16,041

5. INCOME TAX EXPENSE

Hong Kong profits tax

The provision for Hong Kong profits tax for 2023 is calculated at 16.5% (2022: 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" or "China") 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 2023.

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.

	2023	2022
	HK$'000	*HK$'000*
Tax charge comprises:		
Current tax		
Hong Kong profits tax		
Current year	**1,655**	1,918
Under-provision/(over-provision) in prior years	**115**	(12)
	1,770	1,906
The PRC enterprise income tax		
Current year	**12,906**	15,169
Over-provision in prior years	**(714)**	(1,659)
	12,192	13,510
The PRC withholding tax on dividends	**600**	–
Deferred tax		
Deferred taxation relating to the origination and (reversal) of temporary differences	**2,495**	(1,182)
Income tax expense for the year	**17,057**	14,234

6. (LOSS)/EARNINGS PER SHARE – BASIC

The calculation of basic (loss)/earnings per ordinary share attributable to equity shareholders of the Company is based on the Group's loss for the year ended 31 December 2023 attributable to equity shareholders of the Company approximately HK$43,801,000 (2022: profit of approximately HK$24,414,000) and on 861,930,692 (2022: 861,930,692) ordinary shares in issue during the year ended 31 December 2023.

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

7. TRADE AND OTHER RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Trade receivables	**539,287**	677,708
Less: allowance for impairment of bad and doubtful debts	**(79,075)**	(82,850)
Trade receivables, net	**460,212**	594,858
Bill receivables	**73,496**	70,507
Total trade and bill receivables	**533,708**	665,365
Other receivables	**108,096**	82,842
Less: allowance for impairment of bad and doubtful debts	**(21,009)**	(15,289)
	87,087	67,553
Prepayments	**30,707**	36,267
Amounts due from related parties	**82**	93
	651,584	769,278

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair values. All trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group grants an average credit period of 90 days to 120 days to customers. An aging analysis of the trade and bills receivables at the end of the reporting period based on the invoice date and net of allowance for impairment of bad and doubtful debt is as follows:

	2023	2022
	HK$'000	*HK$'000*
0 to 3 months	**305,964**	434,595
4 to 6 months	**129,111**	127,088
7 to 9 months	**54,782**	54,012
Over 9 months	**43,851**	49,670
	533,708	665,365

8. TRADE AND OTHER PAYABLES

	2023	2022
	HK$'000	*HK$'000*
Trade and bills payables	**536,550**	551,446
Accruals and other payables	**145,352**	140,492
	681,902	691,938

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

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

	2023	2022
	HK$'000	*HK$'000*
0 to 3 months	**410,179**	419,145
4 to 6 months	**103,661**	100,104
7 to 9 months	**13,154**	16,206
Over 9 months	**9,556**	15,991
	536,550	551,446

9. DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2023 (31 December 2022: Nil).

10. DISPOSAL OF SUBSIDIARIES

On 16 October 2023, Gainbase Industrial (Holding) Limited, an indirect non-wholly-owned subsidiary of the Company, entered into the memorandum of undertaking and two sale and purchase agreements to dispose of the entire share capital of Gainbase Industrial Limited and the entire equity interests in Shenzhen Gainbase Printed Circuit Board Co., Ltd*（深圳邦基綫路板有限公司）at the respective considerations of HK$1 and approximately RMB137,000,000 in an aggregate amount of consideration being approximately HK$145,083,001 (subject to Price Adjustment). Details were set out in the circular of the Company dated 24 November 2023 (the "**Circular**"). Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the Circular. Net assets of GB Subsidiaries at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	32,689
Right-of-use assets	13,938
Deferred tax assets	572
Inventories	37,028
Trade and other receivables	162,036
Cash and bank balances	62,172
Trade and other payables	(74,368)
Lease liabilities	(17,605)
	216,462
Release of translation reserve upon disposal	8,568
Non-controlling interest	(35,009)
Expenses related to the disposal	1,213
Loss on disposal of GB Subsidiaries	(46,151)
Total consideration	145,083
Consideration:	
Cash received	76,940
Consideration receivable (included in other receivables)	68,143
	145,083
An analysis of net inflow of cash and bank balances in respect of disposal of GB Subsidiaries is as follows:	
Cash received	76,940
Expenses related to the disposal	(1,213)
Cash and bank balances disposed of	(62,172)
Net proceeds from disposal of GB Subsidiaries	13,555

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue

The revenue of the Group for the year ended 31 December 2023 was approximately HK$2,176,900,000 (2022: approximately HK$2,339,898,000), a decrease of 7.0% as compared with last year, which was mainly due to the stagnant manufacturing demands in China and globally and subdued consumer confidence caused by weak global economic recovery. This led to a decrease in sales in most of the business segments of the Group.

Gross profit

For the years ended 31 December 2023 and 2022, the gross profit of the Group amounted to approximately HK$369,665,000 and HK$372,304,000 with gross profit margin of 17.0% and 15.9%, respectively. The gross profit margin of the Group increased as compared with last year, which was caused by reducing labour costs and exploring lower-cost raw materials.

Loss for the year

The net loss of the Group for the year ended 31 December 2023 was approximately HK$59,515,000 (2022: net profit of approximately HK$18,837,000). The turnaround from profit to loss was primarily due to a non-recurring loss recorded on the disposals of two indirectly non-wholly-owned subsidiaries of the Company and the recognition of an impairment loss of goodwill.

Other income, gain and loss

The net of other income, gain and loss of the Group for the year ended 31 December 2023 was approximately HK$18,017,000 (2022: approximately HK$23,161,000), a decrease of 22.2% as compared with last year. This was mainly due to the decrease in exchange gain, government grants and rental income.

Selling and distribution costs

The selling and distribution costs of the Group for the year ended 31 December 2023 was approximately HK$162,771,000 (2022: approximately HK$170,462,000), and the selling and distribution costs to revenue was approximately 7.5%, which was similar to last year.

Administrative expenses

The administrative expenses of the Group for the year ended 31 December 2023 was approximately HK$191,068,000 (2022: approximately HK$195,245,000), which was similar to last year due to the implementation of effective cost measures by the Group.

Finance costs

The finance costs of the Group for the year ended 31 December 2023 was approximately HK$16,549,000 (2022: approximately HK$13,415,000), an increase of 23.4% as compared with last year. The Group beared higher effective interest rate due to the latest rate hike cycle, which led to an increase in finance costs.

BUSINESS REVIEW

Machinery Manufacturing Business

The injection molding machine ("**IMM**") manufacturing business recorded a slight drop in sales for the year while competing in challenging conditions within the IMM industry. In contrast to popular beliefs at the time of reopening of pandemic restrictions in China, overall economic consumptions and manufacturing production did not significantly rebound from suppressed levels during the pandemic. A portion of export orders and related investments across a wide spectrum of industries exited China due to geopolitical pressures. The ongoing weakness in China's real estate sector dampened demands for infrastructures, furnishings, household appliances, and other consumer products. Generally, there is consensus within China's industrial sectors that the "excess-capacity" phenomenon will continue to pressure pricings and investment sentiments. Competition within the IMM industry continued to intensify, with market players big and small, chasing new machinery orders, mostly competing on low pricings and fast deliveries. Consequently, our sales of small and medium-sized standard machines dropped from previous levels in China. However, our export sales fared better as a slight growth was achieved, amid weak global demands hampered by low global economic growth, high energy costs, and fluctuating foreign currencies.

Despite the drop in sales of our standard machines due to unfavourable market sentiments and intense competition, sales of our industry-specific customized solutions for consumer packaging continued to grow, especially our Polyethylene Terephthalate (PET) preform applications machine series. The D-series all-electric machine solution achieved our sales targets. Customers, especially those in the medical applications industry, are satisfied with its precision, stability, and much reduced energy usage. Ramping up sales of our all-electric machine series will be one of our major strategic focuses in the coming years. Furthermore, orders from household appliance and automotive customers rebounded from previous depressed levels, resulting in increased sales of large-sized two-platen machines.

Upcoming product developments will cover two main themes – reduced energy consumption and further specialized industries tailored applications. The new and upcoming standard machine series, with clamping force up to 3,000 tons, will be equipped with cost-competitive and highly energy-efficient injection units. Building on top of our stronghold of industry-specific solutions, such as PVC, PET, Sec (high-speed), D and HD series, our research and development teams will develop enhanced machine features tailored for specific industries' sophisticated needs, as well as turnkey solutions to help customers achieve specified product quality, production efficiencies, automation, and packaging solutions. These solutions will be integrated and set up by us, to speed up customers' time to market, and they can fully rely on our professional injection molding know-how.

This business will continue to leverage our self-developed smart digital platform "iSee 4.0" to help customers monitor and manage their factory workshops with reliable digital solutions. With over ten years of development, our "iSee 4.0" continues to attract and retain active users, and it provides value to our customers by offering a customized Manufacturing Execution System (MES) if they desire to engage our top-end fully customized option.

The Capex from the previous years was fully online, such as Computer Numerical Control (CNC) machining centers, fully automated welding production lines and solar panels. Investments in this business for the upcoming year will focus on "soft assets", such as talent recruitment, staff training, research and development, marketing resources, strengthening our sales network domestically and overseas, and integrating additional digital system modules, such as Customer Relationship Management (CRM), Advanced Planning and Scheduling (APS), Warehouse Management System (WMS) and Product Lifecycle Management (PLM).

For the extrusion and rubber injection molding machines and hydraulic presses manufacturing business, it achieved a slight growth in sales turnover and an improved profitability compared to the previous year. Despite operating in similar challenging market conditions as mentioned above, this business managed to obtain and deliver sizable orders in the second half of the year. With our continuous efforts to solve customers' pain points and achieve technical breakthroughs, sales of our unique specialty machine solutions, such as rubber track belt machines, and automotive multi-layer nylon pipes extrusion lines, recorded strong growth and profitability. After experiencing numerous delayed deliveries requested by customers due to economic uncertainties in the earlier part of the year, this business successfully completed a large portion of such orders during the second half of the year.

Export sales grew to the desired targeted level as this business invested heavily in resources and efforts in our overseas sales network, innovative marketing campaigns, and most importantly, upgrading our product quality and attention to details that differentiate us from other China-manufactured machines. This business continued to ramp up efforts to innovate, striving to enhance customer value in the areas of customized automation, reliability, and precision closer to high-end European industry peers, and user experience. The management team believes that in addition to customers being satisfied with our machines' superb technical performance, our dedication to fast response in terms of technical consultations and after-sales support can further highlight our edge compared to industry peers.

Upcoming highlights of product research and development include ultra-large-sized rubber track belt machines, high-speed rubber track belt machines, automated and highly efficient telecommunication fiber optic conduit production lines, multi-layer composite automotive corrugated pipe production lines, and others.

The Group supports this business's continuous investments in research and development, internal management excellence improvements, as well as talent development. This business will further devote resources and efforts on brand building as well as corporate culture refinement, to help drive sustainable high growth in the coming years.

Machinery Leasing Business

The machinery leasing business has been developed for several years in our machinery manufacturing business, in order to liaise and provide financing to our own customers. As the demand of finance leasing in China increased rapidly in the past few years, the Group has also expanded into the machinery finance leasing business for third-party machinery. The Group has implemented strict and comprehensive internal controls for this business. The size of this business is being carefully monitored based on management decisions. The prospects of this business in the upcoming years are cautiously optimistic.

Plastic Products Processing and Manufacturing Business

The plastic processing plant for food packaging in Zhuhai recorded a slight drop in sales compared to the previous year. Sales of our dairy packaging products to our core customer remained stable with a sizable volume. Another key customer in the health supplement industry ramped up marketing efforts and drove up sales of their products, boosted our sales in this niche market segment. However, export sales dropped slightly given that high inflation and reduced demands for confectionary affected our overseas customers' orders.

As this business focuses on packaging solutions for Chinese infant and baby formula dairy products, the demographic trend of negative population growth in China is potentially challenging. Our management team will closely cooperate with key customers to diversify into other niche market segments, such as dairy and health supplements products for adults and the elderly.

Our engineering, design, and marketing teams continued their efforts to provide innovative designs and product development services to customers. Close partnership with customers on future product development with attractive and functional designs is crucial as value-added competence that differentiates us from competitors. Innovative and multi-channels marketing initiatives are gradually bearing fruit as numerous new customers, both domestic and overseas, have placed orders with us.

For the upcoming year, in addition to launching new features on the Group developed "iSee" MES, this business would collaborate with our IMM team to launch tailor-made features on the "iSee" MES to provide a more advanced and convenient service to the users, as well as integrate a new enterprise system to further raise productivity and management effectiveness, creating greater value for our customers.

Expansion plan in Northern China is shifting into the crucial preparation stage. Much work has already begun, such as detailed factory layout planning, automated production systems planning, administration and relevant licence applications.

The plastic component processing plant for household appliances in Hefei managed to capture growth in sales despite operating in a challenging market for household appliances. The housing market in China has yet to substantially recover, thus reducing demands for household appliances. However, due to this business's long-term efforts to raise quality, reduce marginal production costs, and overall superb lean manufacturing improvements, it successfully obtained high volume orders in the second half of the year in an otherwise cutthroat competitive environment.

Our management team worked tirelessly to obtain new projects, especially those with export specifications and higher-end models. They achieved further improvements in quality and production efficiency as customers enforced strict quality assurance measures and penalties on defective items. A number of in-house designed customized automation processes reduced manual labour requirements and defect rates simultaneously.

While sales volume for the household appliance industry is forecasted to remain under pressure, higher-end export models with strict quality requirements have the potential to grow. The management team will further focus on lean manufacturing innovations to increase production efficiencies and to raise quality standards. The Group supports investments in automation equipment to further reduce direct labour costs, and additional digital systems to aid agile management responses. Meanwhile, this business will continue to focus on maintaining a healthy operating cash flow for the ongoing stable development.

The blow molded mannequins production plant in Dongguan continued to achieve steady growth in sales and profitability despite weak retail sales performance in European markets and elsewhere globally. Strict environment protection regulations on limiting spray-painted surface finishing and mandating recyclable materials be used in display mannequins, helped drive our customers to strengthening cooperation with this business. Additionally, our key customers in the sporting goods retail and fashion retail industries are highly satisfied with our top-class quality, fast "concept to production" response time, and reasonable price.

This business has successfully developed new projects with a renowned global sporting goods brand, and these projects should further propel our growth in the coming years. Other engagements with potential new customers are on-going, and this business is optimistic that such efforts can further diversify our customer base.

For the upcoming year, this business will focus on reducing the carbon footprints of its production to meet customers' requirements, such as the use of recycled resins and lowering energy consumption. Moreover, ongoing continuous improvements on mold and product designs aim to further reduce mold set-up costs and minimum order quantity (MOQ) requirements, in order to help drive up sales orders.

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

The PCB processing business recorded a significant decrease in revenue and a notable operating loss in last two years due to a combination of unfavourable scenarios. Its financial performance has not improved since 2022 and the business remained sceptical of a quick turnaround. During 2023, the Group has decided against any restructuring action for the going concern issue in this business. On 16 October 2023, the Group agreed to sell the entire share capital of GB HK and the entire equity interest in GB Shenzhen to Purchaser I and Purchaser II respectively, at the respective consideration of HK$1 and approximately RMB137,000,000, subject to the Price Adjustment. The Disposals represented an opportunity for the Group to exit this business in view of difficult and challenging circumstances, and would allow the Group to focus its resources on other business segments with more potential for positive cash flow, thereby enhancing the Group's financial position. For details of the Disposals, please refer to the Circular.

The PCB trading business recorded a stable sales turnover compared to last year, but profitability decreased as a result of an overall weak markets for office automation equipment, consumer electronics and automotive industries, as well as intense competition that impacted our pricing power. Orders from one of our major customers in the office automation equipment industry are seen to shift production to South East Asian regions, which will likely impact our sales next year. Other end customers, namely Japanese automotive and electronics brands, are likely to keep reducing sourcing from us in the coming years.

In response, this business will continue to develop new customers and projects striving to maintain sales volume. Supplier management and development will be key actions next year in order to uphold high-quality standards while seeking competitive prices. Traditional market development channels, such as exhibitions, will be under review to gauge their cost and benefits to optimize resources allocation and enhance market development efficiency.

Overall, the market landscape next year for this business is expected to be challenging. The trend among large global corporations, which previously sourced components from China, are engaging in "China + N" sourcing strategy, and developing new suppliers outside China. Weak global economic growth and recovery are keeping demands for PCB low, while intensifying pricing competition with industry peers.

Industrial Consumables Trading Business

The industrial consumables trading business recorded a slight drop in sales turnover and a reduction in profitability compared to the previous year. Customers across numerous industry segments placed fewer orders as the anticipated recovery in the overall manufacturing sectors did not materialize after the lifting of pandemic restrictions. Customers anchored in industries, such as machinery, electronics and appliances, semi-conductors, elevators and infrastructure, displayed visible weakness and a less optimistic outlook for short-term recovery. Lower-than-expected economic growth in most of manufacturing sectors in China was explained by the stagnant real estate market, which in turn impacted the related industries and hampered overall consumer confidence. Export orders across most industries experienced a sharp decline caused mostly by geopolitical tensions, which shifted a large portion of global sourcing away from China to its neighbouring countries. In addition, a weak global economic recovery also served as a hindrance to growth.

Sales of our imported components, namely servo systems and specialized steel material products, suffered as customers continued to source domestically for alternatives for cost reasons and to shorten delivery lead times. The year-long depreciation of the RMB severely affected customers' sourcing costs for imported products.

Despite the overall challenging operating conditions, projects with customers in certain industries, such as lithium batteries, renewable energy, electric vehicles, robotics and medical devices, achieved relatively robust sales turnover and experienced growth in some specific cases. These orders for motion and drive solutions, specialized steel material products and specialized fastener assemblies, offset declines in other customer groups. Customers in the automotive and household appliance industries displayed a sales rebound from previous low levels, but it is uncertain whether this trend will sustain in the longer term. The presence of over-capacity in most of manufacturing sectors in China is a major cause for concern moving forward. Moreover, it is alarming to note that over-capacity in vibrant industries, such as lithium batteries and renewable energy, may also signal low growth, pricing competition, and longer payment terms. This business will be highly sensitive to control risks within these customer groups and adjust our strategy to respond to potential risks in a timely manner.

To counter the negative operating environment, this business segment will focus on deploying resources and efforts in the following areas. It will continue to foster closer cooperation with existing suppliers to co-develop customized solutions, as well as create new partnerships with domestic suppliers across our major product lines. The new sales office and warehouse in Vietnam are being set up and expected to become operational in the coming year, serving our customers' supply chain needs, who partially migrated their productions to South East Asia in recent years. Talent recruitment and development will continue in order to strengthen our sales network and enhance our technical integration capabilities.

Subsequent Events

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the Group's total outstanding bank borrowings amounted to approximately HK$234,598,000 (31 December 2022: approximately HK$227,595,000), which comprised mainly bank loans and trade finance facilities. The bank borrowings repayable within one year, in the first to second year and in the second to the fifth year amounted to approximately HK$229,358,000, HK$1,600,000 and HK$3,640,000, respectively (31 December 2022: approximately HK$225,127,000, HK$2,468,000 and HK$0, respectively).

After including lease liabilities of approximately HK$8,923,000 (31 December 2022: approximately HK$40,704,000) and deducting cash and bank balances and bank time deposit of approximately HK$660,468,000 (31 December 2022: approximately HK$560,913,000), the Group's net cash amounted to approximately HK$416,947,000 (31 December 2022: approximately HK$292,614,000). Total equity attributable to equity shareholders of the Company as at 31 December 2023 was approximately HK$1,271,722,000 (31 December 2022: approximately HK$1,322,122,000).

The gearing ratio of the Group is measured as a 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 2023 and 2022. 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 dollars and Japanese Yen. As the Hong Kong dollar remained pegged to the United States dollar, there was no material exchange risk in this respect. The Group continues monitoring 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 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

MATERIAL ACQUISITION AND DISPOSAL

Save as the Disposals disclosed in note 10 to the consolidated financial statements and the above heading of "Business Review", there were no other material acquisitions and disposals by the Group during the year ended 31 December 2023.

CAPITAL STRUCTURE

There was no change in the total number of issued shares of the Company for the year ended 31 December 2023. The total number of issued shares of the Company remained at 861,930,692 shares as at 31 December 2023.

EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 31 December 2023, the Group had a total of 1,717 employees (31 December 2022: 2,381) located in Hong Kong and Mainland China, the ratio of women to men in the workforce was 31:69. Notwithstanding the foregoing, gender diversity for industrial business segment in which the Group operates may be less relevant due to the nature of work.

The Group has formulated the remuneration policy of employees. The remuneration of employees is based on their qualifications, competence and performance as well as market trends. Employees' benefits include retirement benefits, medical insurance coverage, and various leave entitlements. The Group reviews the overall remuneration packages, including an element of discretionary bonuses, annually.

The emoluments of the Directors are determined by the Board based on the recommendation of the Remuneration Committee with reference to individual performance, qualifications and experience of the Directors, the duties and responsibilities of the Directors in the Company, the Group'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 PROSPECTS

The Group anticipates continued challenges and uncertainties in our main markets in China. Traditional manufacturing sectors, such as automotive, household appliances, electronics, infrastructures and consumer products, are likely to remain weak, given that cautious consumer spending would hinder their recovery. Over-capacity in numerous manufacturing sectors in China will continue to dampen new equipment investment sentiments, as well as intensify pricing competition among industry peers. The ongoing stagnant housing market in China not only hurts consumer confidence, but more importantly, negatively impacts demands for its related industries such as raw materials, elevators, furnishings, household appliances, and others. In addition, geopolitical tension between the US and China is the new normal for years to come. It stems from the US desperately trying to maintain its global hegemony and limiting China's economic and political rise. The key impact on enterprises is the ongoing pressure from Western governments on their companies to reduce sourcing from China, and gradually shift production to other regions. This trend directly affects our customers and potential customers who previously directly exported to the US and Western Europe regions.

However, the Group believes that, despite a lower economic growth rate compared to its previous stellar growth, China remains as a dynamic market with vibrant industries providing opportunities. Industries, such as electric vehicles, renewable energy and storage, medical devices and applications, would likely maintain their relatively higher growth rates. Products and services provided by our machinery manufacturing and industrial consumables trading businesses have the potential to further penetrate these markets. Our customized industry specialty machine solutions, injection molding machines, rubber track belt injection molding machines, multi-layer extrusion lines, fully automated brake-plate hydraulic presses and other products will be our focus to attract sophisticated customers in the coming year. Integrated solutions for servo drives, motors and controls will be the focus of our industrial consumables trading business, to provide cost-effective integrated technical solutions. Our machinery manufacturing business will also deploy more resources to grow our export businesses, as the Group sees ample opportunities globally. As certain companies shift production and final assembly away from China, demands for technically advanced machinery produced in China are still high. Regions such as South East Asia, South America, Middle East, and North Africa, have been developing their manufacturing capabilities in recent years, and have increased demands for Chinese equipment.

For our plastic products processing business, the Group expects stable growth going forward. These businesses have strong long-term customers with a steady demand forecast. Our key tasks are to optimize production efficiencies and quality, through upgrading our digital management platforms as well as automation equipment. The plastic processing plant for food packaging in Zhuhai will focus resources and efforts on setting up new production facilities in Northern China.

In order to develop and maintain the Group's overall competitiveness, we will continue to invest in research and development, attract new and young talents, and make capital expenditures related to the new factory set up in Northern China. Group-wide strict financial prudence will be our ongoing focus in order to maintain a healthy cash flow. Quality of accounts receivables is our priority, as well as maintaining conservative yet practical banking facilities with our banking partners.

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 2023.

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, and reviews corporate governance practices and procedures of the Group from time to time. 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 C1 to the Listing Rules ("**CG Code**") during the year ended 31 December 2023, except for the following deviation:

Deviation from Code Provision C.1.6 of the CG Code

Code provision C.1.6 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. Mr. Qu Jinping, the then non-executive Director, due to other business engagements, was unable to attend the annual general meeting of the Company held on 21 June 2023. 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 Directors at the said meeting, which were sufficient for addressing the queries from the attending Shareholders.

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 C3 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 2023.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2023 (31 December 2022: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Wednesday, 29 May 2024. 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, 22 May 2024 to Wednesday, 29 May 2024, 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, 21 May 2024 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 2023 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 2023 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 2023 annual report of the Company will be published on the above websites and despatched to the Shareholders in due course.

* *for identification purposes only*

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

Hong Kong, 27 March 2024

As at the date of this announcement, the Board comprises six Directors, of which two are executive Directors, namely Mr. Tang To and Mr. Tang Yu, Freeman, one is non-executive Director, namely Mr. Kan Wai Wah, and three are independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Lam Kwok Ming and Mr. Lee Wai Yip, Alvin.