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ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

RESULT SUMMARY

- Revenue dropped by 8.5% to HK\$2,192,287,000 (2015: HK\$2,395,166,000)
- Gross profit margin decreased slightly to 14.3% (2015: 15.8%)
- Loss for the Year was HK\$333,885,000, including payment and provision for restructuring costs of HK\$135,157,000 (2015: Loss of HK\$38,818,000)
- Net debt to equity ratio was at 2.3%, compared to net cash of HK\$35,767,000 as at 31 December 2015
- Net assets per share was HK\$1.61, compared to HK\$2.18 per share as at 31 December 2015

FINAL RESULTS

The Board of Directors (the “Board”) of Cosmos Machinery Enterprises Limited (the “Company”) announces that the consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2016 (the “Year”) together with the comparative figures for the prior year. These consolidated financial results for the Year have been reviewed by the audit committee of the Company (the “Audit Committee”).

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	3	2,192,287	2,395,166
Cost of sales		<u>(1,878,696)</u>	<u>(2,016,147)</u>
Gross profit		313,591	379,019
Other income and gains, net		21,352	37,477
Selling and distribution costs		(147,904)	(145,462)
Administrative expenses		(322,145)	(295,715)
Restructuring costs	4	<u>(135,157)</u>	–
Operating loss		(270,263)	(24,681)
Finance costs		(16,559)	(20,808)
Investment income		4,360	15,570
Share of results of associates		568	680
Gain on disposal of associates		–	2,577
Gain on disposal of a subsidiary		122	–
Gain on deregistration of a subsidiary		<u>2,512</u>	–
Loss before tax	5	(279,260)	(26,662)
Taxation	6	<u>(54,625)</u>	<u>(12,156)</u>
Loss for the year		<u>(333,885)</u>	<u>(38,818)</u>
(Loss)/profit attributable to:			
– Equity shareholders of the Company		(303,160)	(49,601)
– Non-controlling interests		<u>(30,725)</u>	<u>10,783</u>
		<u>(333,885)</u>	<u>(38,818)</u>
Loss per share for loss attributable to the equity shareholders of the Company during the year	7		
– Basic		<u>(42.29 HK cents)</u>	<u>(6.92 HK cents)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	HK\$'000	HK\$'000
Loss for the year	<u>(333,885)</u>	<u>(38,818)</u>
Other comprehensive income/(expense) for the year, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of financial statements of foreign operations	(75,096)	(78,732)
Changes in fair value of available-for-sale financial assets	655	127
Share of other comprehensive expense of associates	(2,191)	(1,757)
Release of translation reserve upon disposal of associates	–	1,143
Release of translation reserve upon disposal of a subsidiary	(55)	–
Release of translation reserve upon deregistration of a subsidiary	<u>(1,966)</u>	<u>–</u>
	(78,653)	(79,219)
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of properties held for own use	<u>4,281</u>	<u>14,392</u>
	<u>(74,372)</u>	<u>(64,827)</u>
Total comprehensive expense for the year	<u><u>(408,257)</u></u>	<u><u>(103,645)</u></u>
(Loss)/profit attributable to:		
– Equity shareholders of the Company	(370,207)	(107,487)
– Non-controlling interests	<u>(38,050)</u>	<u>3,842</u>
Total comprehensive expense for the year	<u><u>(408,257)</u></u>	<u><u>(103,645)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current Assets			
Property, plant and equipment		618,372	691,750
Leasehold land and land use rights		43,796	47,667
Goodwill		53,483	53,483
Intangible assets		9,221	10,604
Interests in associates		29,179	36,693
Available-for-sale financial assets		1,389	734
Finance lease receivables		54,220	46,923
Deferred tax assets		25,670	41,413
		<u>835,330</u>	<u>929,267</u>
Current Assets			
Inventories		401,738	562,523
Finance lease receivables		57,935	61,934
Trade and other receivables	8	788,101	774,467
Other financial assets		2,875	9,012
Current tax recoverable		1,101	1,451
Cash and bank balances		332,723	607,567
		<u>1,584,473</u>	<u>2,016,954</u>
Current Liabilities			
Trade and other payables	9	740,372	749,829
Provision for restructuring	10	91,727	–
Amount due to an associate		565	–
Bank borrowings		320,149	526,575
Obligations under finance leases		5,441	8,286
Deferred consideration payable		8,148	8,123
Current tax payable		15,255	6,307
		<u>1,181,657</u>	<u>1,299,120</u>
Net Current Assets		<u>402,816</u>	<u>717,834</u>
Total Assets less Current Liabilities		<u>1,238,146</u>	<u>1,647,101</u>

	2016	2015
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current Liabilities		
Bank borrowings	35,175	45,225
Obligations under finance leases	2,694	8,134
Deferred tax liabilities	43,365	25,922
	<u>81,234</u>	<u>79,281</u>
Net Assets	<u>1,156,912</u>	<u>1,567,820</u>
Equity		
Capital and reserves attributable to equity shareholders of the Company:		
Share capital	532,903	532,903
Reserves	433,691	802,410
	<u>966,594</u>	<u>1,335,313</u>
Non-controlling Interests	<u>190,318</u>	<u>232,507</u>
Total Equity	<u>1,156,912</u>	<u>1,567,820</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which also include Hong Kong Accounting Standards (“HKAS”) and Interpretations (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties held for own use and certain financial assets, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. ACCOUNTING POLICIES

The following new and amended Hong Kong Financial Reporting Standards are mandatory for the first time for the financial year beginning 1 January 2016, but had no material effect on the Group’s reported results and financial position for the current and prior accounting periods.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

The Group has not early adopted any amendments and new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period.

3. SEGMENT REPORTING

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

- (1) trading of industrial consumables;
- (2) manufacturing of plastic processing products;
- (3) manufacturing of machinery; and
- (4) manufacturing and trading of printed circuit boards.

The segment results for the year ended 31 December 2016 are as follows:

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit boards <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External sales	340,539	393,403	713,477	721,005	23,863	-	2,192,287
Inter-segment sales	14,989	668	4,977	-	-	(20,634)	-
Total revenue	<u>355,528</u>	<u>394,071</u>	<u>718,454</u>	<u>721,005</u>	<u>23,863</u>	<u>(20,634)</u>	<u>2,192,287</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS

Segment results	<u>8,210</u>	<u>(44,296)</u>	<u>(236,354)</u>	<u>22,960</u>	<u>(296)</u>	<u>491</u>	(249,285)
Unallocated corporate expenses							<u>(20,978)</u>
Operating loss							(270,263)
Finance costs							(16,559)
Investment income							4,360
Share of results of associates							568
Gain on disposal of a subsidiary							122
Gain on deregistration of a subsidiary							<u>2,512</u>
Loss before tax							<u>(279,260)</u>

The segment results for the year ended 31 December 2015 are as follows:

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit boards <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External sales	356,085	449,469	720,835	845,766	23,011	-	2,395,166
Inter-segment sales	<u>16,801</u>	<u>195</u>	<u>8,486</u>	<u>-</u>	<u>4,878</u>	<u>(30,360)</u>	<u>-</u>
Total revenue	<u><u>372,886</u></u>	<u><u>449,664</u></u>	<u><u>729,321</u></u>	<u><u>845,766</u></u>	<u><u>27,889</u></u>	<u><u>(30,360)</u></u>	<u><u>2,395,166</u></u>

Inter-segment sales are charged at prevailing market rates.

RESULTS

Segment results	<u>12,201</u>	<u>(15,269)</u>	<u>(30,503)</u>	<u>35,815</u>	<u>21,199</u>	<u>140</u>	23,583
Unallocated corporate expenses							<u>(48,264)</u>
Operating loss							(24,681)
Finance costs							(20,808)
Investment income							15,570
Share of results of associates							680
Gain on disposal of associates							<u>2,577</u>
Loss before tax							<u><u>(26,662)</u></u>

Geographical information

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

	Sales revenue by geographical market	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong	572,916	653,492
Mainland China	1,376,572	1,467,064
Other Asia-Pacific countries	181,383	201,419
North America	27,962	9,259
Europe	33,454	63,932
	<u>2,192,287</u>	<u>2,395,166</u>

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

	Specified non-current assets		Additions to property, plant and equipment	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Hong Kong	182,799	191,788	2,048	117
Mainland China	542,073	611,716	38,981	44,059
	<u>724,872</u>	<u>803,504</u>	<u>41,029</u>	<u>44,176</u>

4. RESTRUCTURING COSTS

During the year, the Group announced a series of restructuring actions to reduce costs and enhance operational efficiency. Details of restructuring costs is as follows:

	2016 HK\$'000	2015 HK\$'000
Employees compensation	104,716	–
Write-down of inventories	20,357	–
Impairment loss of plant and machinery	3,073	–
Relocation expenses	7,011	–
	<u>135,157</u>	<u>–</u>

5. LOSS BEFORE TAX

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

	2016 HK\$'000	2015 HK\$'000
Allowances for impairment of bad and doubtful debts	51,789	2,040
Depreciation and amortisation on:		
– Owned assets	65,688	77,921
– Assets held under finance leases	2,379	1,828
– Leasehold land held for own use under finance leases	2,335	2,627
– Leasehold land and land use rights	1,390	1,597
– Intangible assets	1,383	1,383
	<u>73,875</u>	<u>85,356</u>

6. TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax		
Hong Kong profits tax		
Current year	1,582	1,051
Under-provision/(over-provision) in prior years	<u>1,730</u>	<u>(40)</u>
	----- 3,312	----- 1,011
Overseas tax		
Current year	10,772	13,070
Under-provision/(over-provision) in prior years	<u>8,544</u>	<u>(568)</u>
	----- 19,316	----- 12,502
Deferred tax		
Deferred taxation relating to the origination and reversal of temporary differences	----- 31,997	----- (1,357)
	<u>54,625</u>	<u>12,156</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the Year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. LOSS PER SHARE

The calculation of basic loss per ordinary share is based on the Group's loss attributable to equity shareholders of the Company divided by the weighted average number of ordinary shares in issue during the year.

	2016	2015
Weighted average number of ordinary shares in issue during the year	716,930,692	716,930,692
Loss attributable to the equity shareholders of the Company	HK\$303,160,000	HK\$49,601,000
Basic loss per share	42.29 HK cents	6.92 HK cents

No diluted loss per share is presented as the Company did not have any potential ordinary shares outstanding.

8. TRADE AND OTHER RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade and bills receivables	795,427	753,064
Less: allowance for impairment of bad and doubtful debts	<u>(108,588)</u>	<u>(87,597)</u>
	<u>686,839</u>	<u>665,467</u>
Other receivables	90,370	84,465
Less: allowance for impairment of bad and doubtful debts	<u>(19,963)</u>	<u>(13,343)</u>
	<u>70,407</u>	<u>71,122</u>
Prepayments	<u>30,818</u>	<u>37,832</u>
Amounts due from related parties	<u>37</u>	<u>46</u>
	<u>788,101</u>	<u>774,467</u>

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 for customers.

An aging analysis of the trade and bills receivables at the end of the reporting period based on the invoice date and net of allowance for impairment of bad and doubtful debts, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 3 months	525,350	458,964
4 to 6 months	96,091	95,771
7 to 9 months	24,266	26,946
Over 9 months	<u>41,132</u>	<u>83,786</u>
	<u>686,839</u>	<u>665,467</u>

9. TRADE AND OTHER PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade and bills payables	472,330	489,310
Accruals and other payables	263,242	250,919
Amounts due to related parties	4,800	9,600
	<u>740,372</u>	<u>749,829</u>

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

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 3 months	365,339	347,317
4 to 6 months	56,846	80,181
7 to 9 months	26,607	41,500
Over 9 months	23,538	20,312
	<u>472,330</u>	<u>489,310</u>

10. PROVISION FOR RESTRUCTURING

The Group records its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

Restructuring costs provision mainly comprises provision for employees compensation and relocation expenses, arising from a series of restructuring actions to reduce costs and enhance operational efficiency.

The following is restructuring provision of the Group and movements thereon during the current year:

	<i>HK\$'000</i>
At 1 January 2016	–
Provision made for the year	<u>91,727</u>
At 31 December 2016	<u>91,727</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The sales revenue of the Group dropped to HK\$2,192,287,000 (2015: HK\$2,395,166,000), representing a decrease of 8.5% as compared with that of last year. It was mainly attributable to the slowdown of economy in Mainland China with a slump in the manufacturing sector and the restructuring of certain business operations in the Plastic Products and Processing segment and Machinery Manufacturing segment during the Year.

The gross profit for the Year amounted to HK\$313,591,000, with gross profit margin of 14.3% as compared to 15.8% in 2015. The gross profit margin only recorded a comparatively mild drop of 1.5 percentage points after continuous adjustment of sales strategy by focusing on higher-margin products and associated customers, and strengthening control over production costs during the Year.

As stated in the announcements of the Company dated 8 July 2016 and 23 December 2016 respectively, the Group planned to restructure its plastic products and processing segment and machinery manufacturing segment during the Year, including the cessation of operation of Dongguan MS Plastic Products Co. Limited and Dongguan Cosmos CNC Machinery Limited. Moreover, as part of the strategic plan of restructuring, the Group planned to optimize production capacities in its Dongguan manufacturing plant by focusing on the development and manufacturing of industry-specific plastic injection moulding machines and increase utilization of idle production capacities in its Wuxi manufacturing plant by enhancing the production of medium-to-large size plastic injection moulding machines. Accordingly, an amount of approximately HK\$135,157,000 including provision and payment for employee compensation, impairment of certain fixed assets, potential obsolete stocks and relocation expenses was incurred in the financial year ended 31 December 2016 with respect to the restructuring exercise.

Loss for the Year amounted to HK\$333,885,000 (2015: Loss of HK\$38,818,000). The Board had resolved not to recommend a final dividend for the Year (2015: nil).

The net debt to equity ratio was 2.3%. The overall cash flow of the Group maintained at a healthy level.

BUSINESS REVIEW

The business environment of the manufacturing industries in Mainland China continued to be challenging in 2016. The economic growth in PRC experienced a notable slowdown and small-to-medium enterprises still experienced difficulties in financing their working capital. On the other end of the spectrum, the large-scale industrial manufacturers were also facing key challenges including currency fluctuation and increasing production costs, especially the labor costs during the Year. In addition to the high fixed overhead resulted from overcapacities of the existing production plants, the overall performance of the Group was not satisfactory in 2016.

Machinery Manufacturing Business

During the Year, the machinery manufacturing segment continues to streamline its organization structure and strengthen cost control over the supply chain. The segment has been focusing on monitoring fixed overhead, improving production efficiency and optimizing production capacities of its Dongguan and Wuxi manufacturing plants in the past year. As previously stated, this segment incurred expenses for the execution of the strategic plan of restructuring, which were mainly consists of compensations paid to employees, provision for obsolete inventories, production capacities optimization and certain assets impairment during the Year. Accordingly, the operating loss of this segment increased significantly as compared to that of last year.

However, we observe improvement in sales momentum in the PRC market, especially in the Eastern regions where most of the customers from the industries of automotive components, infrastructure construction and daily necessities are located. Much positive responses have been received from the customers for ordering the medium-to-large size plastic injection moulding machines. The business segment will continue to focus on the development and manufacturing of industry-specific solution-based products and optimize the utilization of idle production capacities in different locations.

Moreover, this segment has successfully obtained orders from the specialized niche market after a relatively long period of optimization of industry tailor-made machines with professional solutions. Sales orders increased in the last quarter of 2016 as certain customers resumed their procurement of machinery equipment postponed in the past years. This business unit will continue to enhance its R&D capabilities, and intends to invest additional resources in developing innovative value-added products with higher profit margin. New solutions for “Smart” Industry 4.0 were successfully incorporated onto newer machine series. Our development on digitalized solutions will continue in coming years. In particular, the extrusion machines and rubber injection moulding machines business has developed and applied the new technology – Multilayer Composite Nylon Tube High Speed Extrusion Technology in producing the composite tube for automotive industry. The new extrusion system is more compact, highly automated, has lower energy consumption with good stability and can save more production space. This will enhance the overall profitability of this particular business segment in the near future.

Plastic Products and Processing Business

During the Year, this business segment has been taking proactive actions to reduce productions costs, e.g. the enhancement of the production automation, consolidation of production processes, streamlining of work force etc. In particular, the Hefei production plant have already implemented digitalized warehouse management system in order to increase its logistics efficiency and shorten the production cycle. This enables the segment to have a more efficient operation and maintains production costs at a competitive level.

Moreover, the overall performance of in-mould labelling products of the specialized food packaging business was satisfactory in 2016. To further address the rising hygiene standard of food packaging sector, the Zhuhai production plant has established a microbiology laboratory to collect all the hygienic information in a more timely manner with aim to meet strict international hygienic standards. The segment also focus on the R&D of new products including new products design and total-solution alignment with major customers.

As stated previously, critical business restructuring was executed for this business segment, including the cessation of Dongguan MS during the Year. The overall results of this segment in 2016 was adversely affected due to the additional expenses incurred for this purpose. However, the performance of this business segment was turnaround in the second half of 2016 and preliminarily achieved the original target of profitability enhancement in the coming years.

Printed Circuit Board (“PCB”) Processing and Trading Business

The PCB Processing Business recorded a drop in sales revenue and profits due to intense market competition and overall stagnant global economy during the Year. The segment will focus on product diversification and developing the automotive markets, especially the electric automobile sector. Through taking initiatives in providing professional technical knowledge to end customers at the initial stage of product development, it enables the segment to develop long-term collaboration relationship with respective customers. On the other hand, the segment will continue to adjust, automate and optimize production lines and improve the overall production efficiency in order to enhance the competitiveness with excellent product quality.

For the PCB Trading Business, the segment has been focusing on the development of high-end products in the past year, with keen adjustment of sales teams across all regions and strengthening of the professional technical support and customer services. This helps to enhance the overall better returns from the existing wide-ranged product portfolio in the near future.

Industrial Consumables Trading Business

The results of this business segment was greatly affected by the overall unsatisfactory global economy recoveries and fluctuation of currencies, in particular the Japanese Yen during the Year. As most of the customers are small and medium-sized manufacturers in the PRC, the management team has been closely monitoring the recoveries of the accounts receivables in the past years, even terminating some non-performed customers and low margin products.

In view of no clear evidence of economy recovery is observed in the coming years, this business segment has been expanding the product portfolio with increasing penetration into the existing extensive sales network. Encouraging and positive response was received from the ‘package sales’ promoting program with synergic leverage of the strong customer base. Following the implementation of “Made in China 2025”, the segment will focus on developing high-potential industrial customers engaging in manufacturing of LED bonding machines, telecommunication facilities, robotic arms, medical equipment and auto-parts.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group’s total outstanding bank borrowings amounted to HK\$355,324,000 (31 December 2015: HK\$571,800,000) 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 HK\$320,149,000 and HK\$35,175,000 respectively (31 December 2015: HK\$526,575,000 and HK\$45,225,000 respectively).

After deducting cash and bank balances of HK\$332,723,000 (31 December 2015: HK\$607,567,000), the Group’s net borrowings amounted to HK\$22,601,000 (31 December 2015: net cash of HK\$35,767,000). Shareholders’ equity as at 31 December 2016 was HK\$966,594,000 (31 December 2015: HK\$1,335,313,000). Accordingly, the Group’s net gearing ratio was 2.3%.

During the Year, the Group’s net cash inflow from operating activities amounted to HK\$8,984,000. This represented loss before tax of HK\$279,260,000 after adjustments for non-cash items, including adding back provision for restructuring of HK\$91,727,000, allowance for impairment of bad and doubtful debts of HK\$51,789,000, write-down of inventories of HK\$69,465,000, depreciation and amortisation of HK\$73,175,000, deducting the share of results of associates of HK\$568,000, adding the net changes in working capital of HK\$3,779,000 and adding other adjustments of HK\$1,123,000. The Group’s net cash inflow from investing activities for the Year amounted to HK\$182,154,000, which included purchases for property, plant and equipment of HK\$41,029,000, disposal of other financial assets of HK\$6,248,000, decrease in pledged bank deposits of HK\$205,450,000 and other cash inflow of HK\$11,485,000.

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 continued to monitor its foreign exchange exposure in Japanese Yen and Renminbi and entered into forward contracts when necessary. The Group’s long-term bank loan facilities were denominated mainly in Hong Kong dollars and carried interest at floating rates. Credit risk was hedged mainly through credit insurance.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2016, the Group has approximately 3,460 employees (31 December 2015: approximately 4,420), inclusive of all its staff in Hong Kong, the PRC and overseas offices. The remuneration policy of the Group is formulated in accordance with the market trends and the performance of the employees. Employees' benefits include insurance and retirement benefit.

The remunerations of the Directors are determined by the Remuneration Committee, with reference to the Company's operating results and comparable market information. The remuneration policy of the Company for the non-executive directors is to ensure that they are sufficiently compensated for their efforts and time dedicated to the Company. For the employees (including the executive directors and senior management), it ensures that the remuneration packages offered are optimal with respect to their duties assigned and in line with the market practice. The remuneration policy is set out to ensure that the salary levels are competitive and effective in attracting, retaining and motivating employees. Directors, or any associates of the directors as well as any executives, do not involve in determining their respective remuneration.

OUTLOOK AND PROSPECTS

The global economic environment continues to be conservative in the coming years. The impact of Brexit to the global economy is still uncertain. The economic relationship between the United States and the PRC has been getting more dynamic with uncertainty, since the new US president took office in January 2017. Moreover, many manufacturing plants moved from the PRC to other South East Asian countries as a result of the deteriorating business environment in the PRC. The Group expects several key challenges ahead including the continuous increasing of manufacturing costs (especially the raw material costs), volatile capital market and currency fluctuations, particularly the Renminbi and Japanese Yen. The visibility of sales orders to be received is comparatively low which resulted in difficulties in resources planning in different business segments. Nevertheless, the Group will continue to streamline the organization structure, strengthen cost control over the supply chain, optimize the overall cost structure and improve the efficiency of production management. Moreover, all business segments commit to enhance its competitiveness and cost efficiency through automation of production lines and consolidation of production processes.

The PRC government continues its commitment to developing new energy, energy saving, environmental protection and new materials-related industries in the next couple of years, with solid support of various ongoing strategic policies. e.g. the government is taking initiative of 'Substituting Coal with Electricity' in remote areas to reduce air pollution, which in turn will pull the demand for large-scale injection moulding machines. Amid uncertainties in overall macro-economic conditions, the Group observes opportunities for further growth for our subsidiary companies. On various industry specific levels, enterprises that continue to maintain competitiveness will grow at a relative healthy pace. The Group continues to focus on opportunities arising from the following industries: automotive (including new-energy vehicles), innovative consumer electronics, communications, food and medical packaging, medical equipment, new industrial materials and components, etc.

Given the existing well-established, unique and diversified product platform and extensive sales network, the Group is well-positioned to capture any new market opportunities and turnaround to enhance the overall profitability in the years to come.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2016 except for the deviation from code provision A.6.7 as mentioned below:

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend the issuer's general meetings and develop a balanced understanding of the views of shareholders. Some Independent Non-Executive Directors and Non-Executive Directors were unable to attend the 2016 annual general meeting of the Company. However, the Board believes that the presence of independent non-executive director at the general meeting allowed the Board to develop a balanced understanding of the views of shareholders.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31 December 2016, the Company has adopted the Model Code for Securities Transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules and all Directors of the Company have confirmed that they have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-Executive Directors, namely, Ms. Yeung Shuk Fan (Chairman of the Audit Committee), Mr. Cheng Tak Yin and Mr. Ho Wei Sem. None of them is employed by or otherwise affiliated with the former or current auditor of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group together with the management of the Company and discussed auditing, internal control and financial reporting matters.

SCOPE OF WORK PERFORMED BY AUDITOR

The figures in respect of the preliminary announcement of the Group's result for the year ended 31 December 2016 have been agreed by the Group's auditor, Messrs. Ting Ho Kwan & Chan, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Messrs. 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 Messrs. Ting Ho Kwan & Chan on the preliminary announcement.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Friday, 12 May 2017 to Thursday, 18 May 2017 (both days inclusive). In order to determine the shareholders who are entitled to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by not later than 4:00 p.m. on Thursday, 11 May 2017.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.cosmel.com) and The Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2016 annual report containing all the information required by the Listing Rules will be published on the above websites and dispatched to shareholders of the Company on or before Friday, 31 March 2017.

On behalf of the Board
TANG To
Chairman

Hong Kong, 16 March 2017

As at the date hereof, the board of directors of the Company is comprised of nine directors, of which three are executive directors, namely Mr. Tang To, Mr. Wong Yiu Ming and Mr. Tang Yu, Freeman, and two are non-executive directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping and four are independent non-executive directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei.