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**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2012**

**INTERIM RESULTS**

The board of directors (the “Board”) of Cosmos Machinery Enterprises Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2012 with comparative figures for the corresponding period in 2011 are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2012	2011
		(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000
	3	<b>1,000,606</b>	1,268,555
Turnover			
Cost of sales		<b>(830,347)</b>	(1,047,454)
		<hr/>	<hr/>
Gross profit		<b>170,259</b>	221,101
Other income and gains, net		<b>17,655</b>	17,411
Distribution costs		<b>(65,293)</b>	(75,594)
Administrative expenses		<b>(112,760)</b>	(118,810)
Allowance for impairment of bad and doubtful debts		<b>(317)</b>	(309)
		<hr/>	<hr/>
Profit from operations		<b>9,544</b>	43,799
Finance costs		<b>(10,508)</b>	(9,152)
Investment income, net		<b>2,425</b>	2,288
Share of results of associates		<b>1,742</b>	2,052
		<hr/>	<hr/>
Profit before taxation	4	<b>3,203</b>	38,987
Taxation	5	<b>(5,693)</b>	(9,803)
		<hr/>	<hr/>
(Loss) profit for the period		<b>(2,490)</b>	29,184
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
– Equity holders of the Company		<b>(3,918)</b>	23,745
– Non-controlling interests		<b>1,428</b>	5,439
		<hr/>	<hr/>
		<b>(2,490)</b>	29,184
		<hr/> <hr/>	<hr/> <hr/>
(Loss) earnings per share for (loss) profit attributable to the equity holders of the Company during the period	6		
– Basic		<b>(HK0.55 cents)</b>	HK3.33 cents
– Diluted		<b>–</b>	HK3.32 cents
		<hr/> <hr/>	<hr/> <hr/>
Proposed interim dividend: Nil (2011: Nil)		<b>–</b>	–
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**Six months ended**

**30th June,**

	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
(Loss) profit for the period	<u><b>(2,490)</b></u>	<u>29,184</u>
Other comprehensive (expense) income for the period:		
Change in fair value of available-for-sale financial assets	<b>(92)</b>	459
Share of other comprehensive (expense) income of associates	<b>(2,228)</b>	11,633
Exchange differences:		
Net movement in translation reserve	<u><b>(5,824)</b></u>	<u>26,504</u>
	<u><b>(8,144)</b></u>	<u>38,596</u>
Total comprehensive income for the period, net of tax	<u><b>(10,634)</b></u>	<u>67,780</u>
Attributable to:		
– Equity holders of the Company	<b>(11,565)</b>	59,760
– Non-controlling interests	<u><b>931</b></u>	<u>8,020</u>
Total comprehensive income for the period	<u><b>(10,634)</b></u>	<u>67,780</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2012 (Unaudited) <i>HK\$'000</i>	31st December, 2011 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current Assets</b>			
Property, plant and equipment	7	<b>709,637</b>	709,341
Leasehold land and land use rights		<b>55,474</b>	56,642
Interests in associates		<b>416,036</b>	414,581
Available-for-sale financial assets		<b>7,182</b>	7,273
Deferred tax assets		<b>4,747</b>	4,516
		<b>1,193,076</b>	1,192,353
<b>Current Assets</b>			
Inventories		<b>677,879</b>	641,080
Leasehold land and land use rights		<b>1,434</b>	882
Trade and other receivables	8	<b>761,757</b>	700,330
Pledged bank deposits		<b>49,198</b>	67,015
Cash and cash equivalents		<b>139,775</b>	227,254
		<b>1,630,043</b>	1,636,561
<b>Current Liabilities</b>			
Trade and other payables	9	<b>841,760</b>	844,908
Amounts due to associates		<b>1,317</b>	1,317
Bank and other borrowings			
– due within one year		<b>358,852</b>	341,207
Obligations under finance leases			
– due within one year		<b>13,872</b>	14,545
Current tax payable		<b>6,213</b>	5,248
		<b>1,222,014</b>	1,207,225
<b>Net Current Assets</b>		<b>408,029</b>	429,336
<b>Total Assets less Current Liabilities</b>		<b>1,601,105</b>	1,621,689

		<b>30th June, 2012</b>	31st December, 2011
		<b>(Unaudited)</b>	(Audited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current Liabilities</b>			
Bank and other borrowings			
– due after one year		<b>159</b>	160
Obligations under finance leases			
– due after one year		<b>19,028</b>	24,609
Deferred tax liabilities		<b>6,729</b>	6,460
		<hr/>	<hr/>
Total Non-current Liabilities		<b>25,916</b>	31,229
		<hr/>	<hr/>
Net Assets		<b>1,575,189</b>	1,590,460
		<hr/> <hr/>	<hr/> <hr/>
<b>Equity</b>			
Capital and reserves attributable to the Company's equity holders:			
Share capital	10	<b>286,772</b>	286,772
Reserves		<b>1,099,533</b>	1,111,098
Proposed final dividend		<b>–</b>	3,585
		<hr/>	<hr/>
		<b>1,386,305</b>	1,401,455
Non-controlling interests		<b>188,884</b>	189,005
		<hr/>	<hr/>
Total Equity		<b>1,575,189</b>	1,590,460
		<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share options reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Hedging reserve HK\$'000	Others HK\$'000	Proposed final dividend HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1st January 2011	284,412	244,429	37	511	29,084	111,644	(5)	(518)	10,689	630,032	1,310,315	183,445	1,493,760
Profit for the period	-	-	-	-	-	-	-	-	-	23,745	23,745	5,439	29,184
Other comprehensive income for the period:													
Cash flow hedges	-	-	-	-	-	-	5	-	-	(5)	-	-	-
Fair value gains:													
- Available-for-sale financial assets	-	-	-	-	-	-	-	459	-	-	459	-	459
Share of reserves of associates	-	-	-	-	-	11,634	-	(1)	-	-	11,633	-	11,633
Realised on disposal of properties held for own use	-	-	-	-	(1,444)	-	-	-	-	1,444	-	-	-
Exchange differences:													
Net movement in translation reserve	-	-	-	-	-	23,923	-	-	-	-	23,923	2,581	26,504
Total other comprehensive income for the period	-	-	-	-	(1,444)	35,557	5	458	-	1,439	36,015	2,581	38,596
Total comprehensive income for the period	-	-	-	-	(1,444)	35,557	5	458	-	25,184	59,760	8,020	67,780
Transactions with owners:													
Shares issued upon exercise of share options	2,120	1,496	-	(118)	-	-	-	-	-	-	3,498	-	3,498
Changes in the ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	(30)	-	(85)	-	-	(115)	375	260
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(3,118)	(3,118)
2010 final dividend paid	-	-	-	-	-	-	-	-	(10,689)	(17)	(10,706)	-	(10,706)
Balance at 30th June, 2011 and 1st July, 2011	286,532	245,925	37	393	27,640	147,171	-	(145)	-	655,199	1,362,752	188,722	1,551,474
Profit for the period	-	-	-	-	-	-	-	-	-	2,834	2,834	2,495	5,329
Other comprehensive income for the period:													
Cash flow hedges	-	-	-	-	-	-	-	-	-	5	5	-	5
Fair value loss:													
- Available-for-sale financial assets	-	-	-	-	-	-	-	(102)	-	-	(102)	-	(102)
Share of reserves of associates	-	-	-	-	-	9,732	-	1	-	-	9,733	-	9,733
Surplus on revaluation of properties held for own use	-	-	-	-	5,135	-	-	-	-	-	5,135	705	5,840
Deferred taxation adjustment	-	-	-	-	(345)	-	-	-	-	-	(345)	(111)	(456)
Realised on disposal of properties held for own use	-	-	-	-	(445)	-	-	-	-	445	-	-	-
Exchange differences:													
Net movement in translation reserve	-	-	-	-	-	21,047	-	-	-	-	21,047	2,236	23,283
Total other comprehensive income for the period	-	-	-	-	4,345	30,779	-	(101)	-	450	35,473	2,830	38,303
Total comprehensive income for the period	-	-	-	-	4,345	30,779	-	(101)	-	3,284	38,307	5,325	43,632
Transactions with owners:													
Capital injection from the non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	450	450
Shares issued upon exercise of share options	240	169	-	(13)	-	-	-	-	-	-	396	-	396
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(5,492)	(5,492)
Proposed final dividend	-	-	-	-	-	-	-	-	3,585	(3,585)	-	-	-
Balance at 31st December, 2011 and 1st January, 2012	286,772	246,094	37	380	31,985	177,950	-	(246)	3,585	654,898	1,401,455	189,005	1,590,460
(Loss) profit for the period	-	-	-	-	-	-	-	-	-	(3,918)	(3,918)	1,428	(2,490)
Other comprehensive income for the period:													
Fair value loss:													
- Available-for-sale financial assets	-	-	-	-	-	-	-	(92)	-	-	(92)	-	(92)
Share of reserves of associates	-	-	-	-	-	(2,228)	-	-	-	-	(2,228)	-	(2,228)
Exchange differences:													
Net movement in translation reserve	-	-	-	-	-	(5,327)	-	-	-	-	(5,327)	(497)	(5,824)
Total other comprehensive income for the period	-	-	-	-	-	(7,555)	-	(92)	-	-	(7,647)	(497)	(8,144)
Total comprehensive income for the period	-	-	-	-	-	(7,555)	-	(92)	-	(3,918)	(11,565)	931	(10,634)
Transactions with owners:													
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,052)	(1,052)
2011 final dividend paid	-	-	-	-	-	-	-	-	(3,585)	-	(3,585)	-	(3,585)
Balance at 30th June, 2012	286,772	246,094	37	380	31,985	170,395	-	(338)	-	650,980	1,386,305	188,884	1,575,189

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30th June,	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH USED IN OPERATING ACTIVITIES	(56,950)	(30,049)
NET CASH USED IN INVESTING ACTIVITIES	(25,185)	(116,705)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(34,245)	35,727
	<hr/>	<hr/>
DECREASE IN CASH AND CASH EQUIVALENTS	(116,380)	(111,027)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	220,470	310,733
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(958)	5,717
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>103,132</b>	<b>205,423</b>
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	139,775	205,423
Bank overdrafts	(36,643)	–
	<hr/>	<hr/>
	<b>103,132</b>	<b>205,423</b>
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standards (“HKASs”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The accounting policies and basis of preparation adopted are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31st December, 2011 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards, HKASs and Interpretations (“HKFRS”) which are effective for accounting periods commencing on or after 1st January, 2012. The effect of adopting these new and revised HKFRS are set out in note 2 below.

### 2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In 2012, the Group adopted the standard, amendment and interpretations of HKFRS below, which are relevant to its operations.

Amendments to HKAS 12, *Income taxes-Deferred tax: Recovery of underlying assets*  
Amendments to HKFRS 7, *Financial instruments: Disclosures-Transfers of financial assets*

The Group has assessed the impact of the adoption of these standard, amendment and interpretations and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies.

The following new standard, amendment and interpretations have been issued but are not effective for 2012 and have not been early adopted:

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*  
Revised HKAS 19, *Employee benefits*  
HKAS 27, *Separate financial statements (2011)*  
HKAS 28, *Investments in associates and joint ventures*  
Amendments to HKAS 32, *Financial Instruments: Disclosures-Offsetting financial assets and financial liabilities*  
Amendments to HKFRS 7, *Financial instruments: Disclosures-Offsetting financial assets and financial liabilities*  
HKFRS 9, *Financial instruments*  
HKFRS 10, *Consolidated financial statements*  
HKFRS 11, *Joint arrangements*  
HKFRS 12, *Disclosure of interests in other entities*  
HKFRS 13, *Fair value measurement*

The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group’s accounting policies and presentation of the financial statements will be resulted.



### 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 of printed circuit boards.

For the purposes of assessing segment performance and allocating resources between segments, the Group's top executive management monitors the results, assets and liabilities attributable to each reportable segment:

The segment results for the period ended 30th June, 2012 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>
<b>TURNOVER</b>							
External sales	186,269	152,161	450,742	208,857	2,577	-	1,000,606
Inter-segment sales	10,655	109	2,083	-	2,824	(15,671)	-
Total revenue	<u>196,924</u>	<u>152,270</u>	<u>452,825</u>	<u>208,857</u>	<u>5,401</u>	<u>(15,671)</u>	<u>1,000,606</u>
Inter-segment sales are charged at prevailing market rates							
<b>RESULT</b>							
Segment result	<u>11,268</u>	<u>(3,929)</u>	<u>10,544</u>	<u>(1,001)</u>	<u>361</u>	<u>544</u>	17,787
Unallocated corporate expenses							<u>(8,243)</u>
Profit from operations							9,544
Finance costs							(10,508)
Investment income, net							2,425
Share of results of associates		(402)	858		1,286		1,742
Profit before taxation							<u>3,203</u>

	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>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>						
At 30th June, 2012						
Segment assets	254,268	380,942	1,313,043	353,201	44,755	2,346,209
Interests in associates						416,036
Available-for-sale financial assets						7,182
Unallocated corporate assets						53,692
Consolidated total assets						<u>2,823,119</u>

The segment results for the period ended 30th June, 2011 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>
<b>TURNOVER</b>							
External sales	238,797	258,655	574,854	194,828	1,421	–	1,268,555
Inter-segment sales	14,281	210	3,332	–	3,394	(21,217)	–
Total revenue	<u>253,078</u>	<u>258,865</u>	<u>578,186</u>	<u>194,828</u>	<u>4,815</u>	<u>(21,217)</u>	<u>1,268,555</u>
Inter-segment sales are charged at prevailing market rates							
<b>RESULT</b>							
Segment result	<u>20,775</u>	<u>1,627</u>	<u>32,322</u>	<u>6,925</u>	<u>448</u>	<u>159</u>	62,256
Unallocated corporate expenses							(18,457)
Profit from operations							43,799
Finance costs							(9,152)
Investment income, net							2,288
Share of results of associates		(278)	829		1,501		2,052
Profit before taxation							<u>38,987</u>

	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>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>						
At 31st December, 2011						
Segment assets	254,838	374,195	1,307,301	358,642	41,263	2,336,239
Interests in associates						414,581
Available-for-sale financial assets						7,273
Unallocated corporate assets						70,821
						2,828,914
Consolidated total assets						2,828,914

	<b>Sales revenue by geographical market</b>	
	<b>Six months ended 30th June,</b>	
	<b>2012</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	<b>257,569</b>	240,295
PRC	<b>625,967</b>	857,620
Other Asia-Pacific countries	<b>91,445</b>	145,753
North America	<b>7,945</b>	6,599
Europe	<b>17,680</b>	18,288
	<b>1,000,606</b>	1,268,555
	<b>1,000,606</b>	1,268,555

#### 4. PROFIT BEFORE TAXATION

	<b>Six months ended 30th June,</b>	
	<b>2012</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging and crediting the following:		
Charging:		
Depreciation and amortisation on:		
– Owned assets	<b>35,639</b>	29,426
– Assets held under finance leases	<b>1,981</b>	3,029
– Leasehold land held for own use under finance leases	<b>180</b>	132
– Leasehold land and land use rights	<b>717</b>	327
Loss on disposal of property, plant and equipment	<b>3,474</b>	–
	<b>42,931</b>	33,914
and crediting:		
Gain on disposal of property, plant and equipment	–	4,270
	–	4,270

## 5. TAXATION

**Six months ended**  
**30th June,**  
**2012**                      2011  
*HK\$'000*                      *HK\$'000*

The charge comprises:

Hong Kong Profits Tax	<b>385</b>	904
Overseas taxation	<b>5,308</b>	8,899
	<hr/> <b>5,693</b> <hr/>	<hr/> 9,803 <hr/>

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 6. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per ordinary share is based on the Group's (loss) profit attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2012</b>	2011
Weighted average number of shares in issue during the period	<b>716,930,692</b>	713,437,210
(Loss) profit attributable to the equity holders of the Company	<b>(HK\$3,918,000)</b>	HK\$23,745,000
Basic (loss) earnings per share	<b><u>(HK0.55 cents)</u></b>	<b><u>HK3.33 cents</u></b>

The computation of diluted loss per share for period ended 30th June, 2012 does not assume the exercise of options because the exercise price of the Company's options was higher than the average market price of shares for the period. Accordingly no diluted loss per share has been calculated for period ended 30th June, 2012.

Six months ended  
30th June, 2011

Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	713,437,210
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all share options outstanding during the period	<u>2,799,021</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	716,236,231
Profit attributable to the equity holders of the Company	HK\$23,745,000
Diluted earnings per share	<u><u>HK3.32 cents</u></u>

**7. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group has acquired property, plant and equipment amounting to approximately HK\$46,144,000.

**8. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of 90 days to 120 days to its customers.

Included in trade and other receivables are trade and bills receivables of approximately HK\$599,219,000 (31st December, 2011: approximately HK\$552,421,000) and their ageing analysis is as follows:

	<b>30th June, 2012</b>	31st December, 2011
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
0 to 3 months	<b>423,682</b>	367,299
4 to 6 months	<b>56,627</b>	73,341
7 to 9 months	<b>40,119</b>	42,999
Over 9 months	<b>78,791</b>	68,782
	<u><b>599,219</b></u>	<u>552,421</u>

## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately HK\$543,453,000 (31st December, 2011: approximately HK\$542,635,000) and their ageing analysis is as follows:

	<b>30th June, 2012 HK\$'000</b>	31st December, 2011 HK\$'000
0 to 3 months	428,380	404,385
4 to 6 months	84,502	113,728
7 to 9 months	17,081	15,232
Over 9 months	13,490	9,290
	<u>543,453</u>	<u>542,635</u>

## 10. SHARE CAPITAL

	<b>Number of ordinary shares</b>	<b>Value HK\$'000</b>
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2012 and 30th June, 2012	1,000,000,000	400,000
Issued and fully paid:		
At 1st January, 2012 and 30th June, 2012	716,930,692	286,772

## 11. OPERATING LEASE COMMITMENTS

### The Group as lessee

	<b>Six months ended 30th June,</b>	
	<b>2012 HK\$'000</b>	2011 HK\$'000
Minimum lease payments made during the period under operating leases in respect of:		
Land and buildings	7,580	10,301
Plant and machinery	49	–
	<u>7,629</u>	<u>10,301</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30th June, 2012</b>	31st December, 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	<b>18,678</b>	18,661
Between 2 to 5 years	<b>32,307</b>	40,988
Over 5 years	<b>16,646</b>	15,158
	<hr/> <b>67,631</b> <hr/>	<hr/> 74,807 <hr/>

Operating lease payments represent rentals payable by the Group for certain of its office properties and factories and plant and machinery. Leases are negotiated for an average term of 2-10 years and rentals are fixed for an average of 2-10 years.

#### **The Group as lessor**

Property rental income earned during the period net of direct outgoings of HK\$0 (2011: approximately HK\$8,000) was approximately HK\$220,000 (2011: approximately HK\$156,000).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts under non-cancellable operating leases:

	<b>30th June, 2012</b>	31st December, 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	<b>344</b>	385
Between 2 to 5 years	<b>763</b>	643
	<hr/> <b>1,107</b> <hr/>	<hr/> 1,028 <hr/>

## **12. CAPITAL COMMITMENTS**

	<b>30th June, 2012</b>	31st December, 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure:		
Authorised but not contracted for	–	–
Contracted but not provided for	<b>12,087</b>	40,732
	<hr/> <b>12,087</b> <hr/>	<hr/> 40,732 <hr/>

**13. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES**

	<b>30th June, 2012 HK\$'000</b>	31st December, 2011 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	–	2,407

**14. PLEDGE OF ASSETS**

At the balance sheet date, assets with the following carrying amounts were pledged by the Group to secure general banking facilities:

	<b>Net Book Value</b>	
	<b>30th June, 2012 HK\$'000</b>	31st December, 2011 HK\$'000
Leasehold buildings	<b>26,883</b>	27,500
Leasehold land and land use rights	<b>5,186</b>	5,243
Plant and machinery	<b>61,606</b>	62,138
Bank deposits	<b>49,198</b>	67,015
Trade receivables	–	13,396
	<b>142,873</b>	175,292

*Note:* The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The pledged deposits are denominated in Renminbi (“RMB”).



## 15. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the period, the Group had significant transactions with the following related parties:

	Six months ended	
	30th June,	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Substantial shareholder and its subsidiaries:		
EDP charges received ( <i>note i</i> )	92	92
Management fee paid ( <i>note i</i> )	–	801
Companies controlled by certain directors and its relatives:		
Management fee paid ( <i>note i</i> )	498	498
EDP charges received ( <i>note i</i> )	26	26
Associates:		
EDP charges received ( <i>note i</i> )	–	93

At the balance sheet date, the Group has balances with the following related parties:

	30th June,	31st December,
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Substantial shareholder and its subsidiaries:		
Balances due to the Group ( <i>note ii</i> )	48	1
Companies controlled by certain directors and its relatives:		
Balances due to the Group ( <i>note ii</i> )	1	1
Non-controlling shareholders:		
Balances due from the Group ( <i>note ii</i> )	383	383
Balances due to the Group ( <i>note ii</i> )	647	650
Associates:		
Balance due from the Group ( <i>note ii</i> )	1,317	1,317
Balances due to the Group ( <i>note ii</i> )	23,517	21,574

*Notes:*

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) The balances are unsecured, interest free and have no fixed repayment term.

## **BUSINESS REVIEW AND PROSPECTS**

### **BUSINESS REVIEW**

During the reporting period, the worse-than-expected on-going global downturn resulted in the exceptionally tough manufacturing business environment generally. As most of the Group's main business segments recorded a year-on-year decline in turnover due to weaker market demand or the delay of fulfilling orders by customers, and gross profit was decreased as a result of rising labour cost and price fluctuations of raw materials, the Group's consolidated results were unsatisfactory. During the period under review, the Group's consolidated turnover amounted to approximately HK\$1,000,606,000, representing a decrease of approximately 21% from the same period last year. Operating profit attributable to shareholders and net loss amounted to approximately HK\$9,544,000 and HK\$3,918,000, respectively.

#### **Manufacturing Business**

##### *Machinery*

Since the second half of 2011, both domestic and international economy has experienced a sharp slowdown and the weak market demand continued this year. The machinery business recorded an overall sales amount of approximately HK\$450,742,000 for the period with a decrease of about 22% as compared with the same period last year, which accounted for approximately 45% of the consolidated turnover of the Group. Operating profit for the period was approximately HK\$10,544,000.

The debt crisis in the Europe and the uncertainty of domestic market future resulted in depressed investment sentiment in equipments. In addition, some customers downsized their investment and postponed the execution of orders placed due to financing difficulties, leading to a decline in the overall sales for the period. Furthermore, the export sales also decreased by approximately 27% year-on-year for this business segment. The oversupply of general injection moulding machines in the market exacerbated the vicious competition, which also extended to servo-drive energy-saving injection moulding machines, resulting in a year-on-year drop of approximately 1% in the overall gross profit margin.

Regarding the development of product technology, with our in-house engineering research and development team, we succeeded in launching U(J)Se Series ultra-large shot volume plastic injection moulding machine (clamping force ranging from 450T to 4000T) which is capable of moulding plastic products up to 300 kilograms at a time. The model is the special equipment developed for large-scale municipal drainage pipe fittings and manhole plastic products. The Group believes that the industry will continue to grow rapidly in the following years. In addition, this segment independently developed and obtained the design patent for the servo-driven hybrid kinetic-pressurized clamping GREENLINE 98 Electric hybrid electric injection moulding machine – Ge-series, the first of its kind domestically, which has been manufactured and sold in less bulk since the second half of the year, and is estimated to gradually become one of the new growth points in this business segment. Ge-series was appraised as conforming to

the highest grade energy-saving rating of National Quality Supervision and Inspection Center of Plastic Machinery in this April and was the first model of electric injection moulding machines that passed the test of mandatory safety standard GB22530-2008.

As for other product lines, extruders and CNC sheet metal processing machineries were upgraded to further improve cost performance during the period. In particular, the new generation DKM-63S (for those ranging from 20mm to 60mm diameter) double-pipe extruder has productivity up to 360kg per hour. Despite the weak market environment, we received relatively satisfactory number of orders.

#### *Plastic Products and Processing*

During the period under review, the consolidated sales of this business segment was approximately HK\$152,161,000 representing a decrease of about 41% as compared with the same period last year, and accounted for approximately 15% of the Group's consolidated turnover. Operating loss was approximately HK\$3,929,000.

For the household electrical appliance and A/V product processing business, at the beginning of the year, the Group decided to discontinue the operation of the plastic products factory located in Wuxi and to focus the resources on the new plant in Hefei. Despite the business of Hefei factory was affected by the weak household electrical appliance market in China and some adjustments arising from the relocation of new plant, the business in the second half of the year is expected to be greatly improved with favourable conditions of the new production base adjusted and the gradual improvement in the market. At the production base located in Dongguan, the traditional A/V product processing business was significantly decreased as a result of export economy downturn and the end of product life cycle. The management, however, has explored a number of new customers of A/V equipment, the majority of whom have confirmed that mass production would be started in the second half of the year.

During the reporting period, the food packaging and cutlery business recorded a sales amount similar to that for the same period last year, though profit was increased by more than 40%. In particular, the candy stick business recorded a significant growth, both domestically and internationally, and gross profit increased materially due to little changes in the price of plastics so as to manage to control the cost. The higher percentage of plastic container business to in-mold labeling business led to improved gross profit, which offset the impact of the decline of instant noodles container business due to use of paper products other than plastic products by customers. Profit of disposable plastic cutlery business was driven by the increase in export orders to Japan.

BioChef, the Group's self-designed environment-friendly brand kitchen ware, has extended sales from the market in Hong Kong to Southeast Asia, the United Kingdom, the United States and Mainland China. However, it is necessary for this business segment to invest more in respect of brand promotion and market share in order to achieve desired results. During the period under review, a series of new products was designed and developed, which was expected to be launched in the market in the second half of the year.

During the period under review, sales of optical products business were similar to that for the same period last year. Due to downward revision of gross profit as a result of increased operating expenses, the business performed unsatisfactorily with a slight loss during the period.

#### *Printed Circuit Board*

The printed circuit board business recorded sales of approximately HK\$208,857,000 during the period under review, representing an increase of about 7% as compared with the same period last year, and accounted for approximately 21% of the Group's consolidated turnover, while operating loss was approximately HK\$1,001,000. During the first quarter of the period, since the effect of transfer of domestic orders in Thailand into China due to the floods in the country was lingering, the overall turnover was better than expected, while in the second quarter, the sales of this business fell caused by slow-moving products.

Despite the impact of debt crisis in the Europe, orders from the major customers in Germany (engaged in the provision of multi-layer circuit boards for auto parts and components) remained stable in the first half of the year, accounting for approximately 30% of the overall sales of the business. However, the sales amount and profit of this business were hit seriously by much less orders received from the major customers in Japan. Although we have sought for a number of orders from small customers, the gross profit margin has not yet been improved due to small quantities but many batches, which led to a slight loss for this business during the period.

#### **Trading Business**

The trading business during the period under review recorded a turnover of approximately HK\$186,269,000, representing a decrease of about 22% as compared with the same period last year and accounted for approximately 19% of the Group's consolidated turnover. The operating profit was approximately HK\$11,268,000.

The domestic economy has not yet been improved since the slowdown in the second half of last year; labor cost was increased due to higher minimum wage; and financing difficulties continued as a result of tightened monetary policy. All these unfavorable factors hit the large-to-small customers for this business segment, which had a direct impact on the Group's trading business. Accordingly, the results for the first quarter this year decreased sharply, while in the second quarter, due to the improved operation of several industries and customers, the results recovered significantly, though sales and operating profit both dropped as compared with the first half of last year, and the performance was not satisfied. Fortunately, as the management team of the business has persisted in prudent operation principle of the Company, and kept a reasonable balance in such respects as credit, inventory and cash flow, the business continued to be healthy.

## **Other Businesses**

### *Electronic Watt-Hour Meters and Related Businesses*

Shenzhen Haoningda Meters Co., Ltd. (“Haoningda”), an associate of the Group in Shenzhen, recorded a growth in the revenue from its principal businesses during the period under review. However, due to increased operating expenses and lower-than-expected return from new investment projects, net profit decreased by about 17% over the same period last year. During the period under review, we committed to developing new products for this business segment, and at the conferences and exhibitions in the Sixth METERING China Trade Show (第六屆中國國際錶計大會研討會暨展示會) organized in Hangzhou this March, several new models were introduced, including, among others, single- and three-phase smart meters, power cable accessories, line fault indicators, energy-saving and emission reduction products and low-voltage centralized meter system solutions, and were highly praised by customers. Furthermore, Haoningda won the bid for watt-hour meters held by the State Grid Corporation of China in 2012 for the first batch in May this year. The bid-winning products include Grade 2 single-phase remote tariff control smart watt-hour meters, Grade 1 three-phase tariff control smart watt-hour meters, concentrators and collectors. Haoningda has been regarded as a potential investment project of the Group, and has brought a reasonable return for the Group since the listing of its shares on the Shenzhen Stock Exchange in February 2010.

## **PROSPECTS**

In respect of the machinery business, it is anticipated that domestic and international macro-economic situation in the second half of 2012 will continue to be complicated and market demand will remain uncertain. There are more possibilities of economy decline and there have been certain room for maneuver for central macro-control policies to stabilize economy growth. In view of this, we expect the market demand to gradually improve in the second half of the year under relatively weak environment. For the machinery business, the Group will continue focusing on energy-saving and precision type machinery, enhancing functions of high added-values like automation and networking, refining markets and improving products and internal efficiency as well as strengthening cost controlling measures. Although the Group is confident that the machinery manufacturing business will be able to improve performance by properly adjusting the product mix, the Group is relatively prudent about its future results performance due to more uncertainties for the surrounding economies.

The plastic product and processing business will continue to be adversely affected by the global and domestic economy in the second half of the year. It is anticipated that the plastics processing business in Dongguan is likely to slightly improve in the second half of the year with the engagement in the businesses of new customers; the household electrical appliance parts processing business in Hefei will also become stable as customer orders are reaching a normal level and the favorable factors of new plant are taking effect; food packaging business is likely to maintain a normal level of profit. The overall situation is expected to be better than the first half of the year. Meanwhile, the

Group will continue to invest in new product research and development and in exploring new markets and new customers. It will also actively take various measures to improve cost control and increase production efficiency, as well as to enhance quality control and training of human resources.

For the trading business, despite of the slow economy growth in China, quantitative easing policy is expected to relieve the financing difficulties of small to mid cap enterprises due to the decreasing inflation. In addition, after nearly one-year recession, the actual demand has been accumulated in the market to some extent, thus market conditions are expected to be slightly improved in the second half of the year. Meanwhile, since the nation is strongly initiating energy conservation and emission reduction and industry transformation and upgrading, by taking this opportunity, we have made efforts in exploring applicable industries to add special materials, automation and environment-friendly and energy-saving products and businesses, which has taken effect. With a variety of favorable factors, it is believed to achieve the annual profit target.

For the printed circuit board business, it is expected that the business will be improved in the second half of the year. A certain number of sample products for the first half of the year will be put into production successively in the second half year. In addition, since new models for electronic game player products have been confirmed to put into production in the second half of this year, it is expected the annual results of this business will likely to have a turnaround. In the future, we will take a series of measures for this business segment, including optimization of order structure to improve production efficiency, and provision of more flexible and competitive cooperation conditions to the end customers with great potential, so as to be well positioned for the sustainable development of the business.

Looking forward to the second half of 2012, Chinese government will change its macro control policies to vigorously stabilize economy growth. It is expected that loose monetary policy will lead to the recovery of some industries, but the business environment at home and abroad is still changing. The Group will continue to adhere to stable operation principle, ensuring the healthy operation of debtors, inventories and cash flows to enable the Group to maintain ample cash and strong capital structure. In addition, the management team of each business segment has taken prudent steps to make appropriate deployments in such respects as development strategy, resource allocation, operation optimization, cost control and product mix, which will take effect in the second half of the year. Therefore, the board of directors is confident that all businesses of the Group will recover from the adversity soon, making more contributions to the results and profit of the Group for the second half of the year.

## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2012 (2011: Nil).

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 30th June, 2012, the Group's shareholders' funds were approximately HK\$1,386,305,000, compared with approximately HK\$1,401,455,000 as at 31st December, 2011.

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. The Group's debt ratio as at 30th June, 2012 was approximately 0.44 (31st December, 2011: 0.44), and the liquidity ratio was approximately 1.33 (31st December, 2011: 1.40), both were maintained at a healthy level. As at 30th June, 2012, cash, bank balances and time deposits amounted to approximately HK\$139,775,000 and available banking facilities amounted to approximately HK\$571,000,000. All these reflect that the Group is in sound financial position.

### Contingent Liabilities

	<b>30th June, 2012 HK\$'000</b>	31st December, 2011 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	<u>          —</u>	<u>          —</u>

### Pledge of Assets

At the balance sheet date, assets with the following carried amounts were pledged by the Group to secure general banking facilities:

	<b>Net book value</b>	
	<b>30th June, 2012 HK\$'000</b>	31st December, 2011 HK\$'000
Leasehold buildings	<b>26,883</b>	27,500
Leasehold land and land use rights	<b>5,186</b>	5,243
Plant and machinery	<b>61,606</b>	62,138
Bank deposits	<b>49,198</b>	67,015
Trade receivables	<b>—</b>	13,396
	<u><b>142,873</b></u>	<u>175,292</u>

*Note:* The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The pledged deposits are denominated in Renminbi ("RMB").

## **Foreign Currencies and Treasury Policy**

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the period, the Group had no fixed interest rate borrowings. Foreign exchange risks arising from fluctuation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

## **AUDIT COMMITTEE**

The audit committee of the Company comprises the three Independent Non-Executive Directors. The unaudited financial statements of the Company for the six months ended 30th June, 2012 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

## **REMUNERATION COMMITTEE**

The remuneration committee of the Company comprises three Independent Non-Executive Directors and the Chairman of the Board of the Company. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of Executive Directors and senior management and making recommendations to the Board in respect of the remuneration packages from time to time.

## **NOMINATION COMMITTEE**

The nomination committee of the Company was established on 29th March, 2012 with written terms of reference in compliance with the Corporate Governance Code in Appendix 14 of the Listing Rules. The main functions of the nomination committee are to make recommendations to the Board on the appointment or re-appointment of directors based on their skill, knowledge and experiences. Furthermore, the nomination committee will review the structure, size and composition of the Board at least annually to complement the Company's corporate strategy.

## **COMMITTEE OF EXECUTIVE DIRECTORS**

The Company has established the Committee of Executive Directors which includes all the four Executive Directors which meets frequently as when necessary and is responsible for the management and day-to-day operations of the Group.



## **EMPLOYEES AND REMUNERATION POLICY**

As at 30th June, 2012, the Group has approximately 6,000 employees (2011: approximately 6,300). The remuneration policy of the Group was formulated in accordance with market trends and performance of employees. Benefits plans have included schemes of insurance, retirement, share option and so on.

The remunerations of the Directors are decided by the Remuneration Committee, having regard to the Company's operating result and comparable market statistics.

The remuneration policy of the Company for non-executive directors is to ensure that they are sufficiently compensated for their efforts and time dedicated to the Company and that for the employees, including the executive directors and senior management is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. No director, or any of his associates and executive, is involved in deciding his own remuneration.

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

During the six months ended 30th June, 2012, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

## **CORPORATE GOVERNANCE**

The directors consider that the Company has adopted and complied with the code provisions of the Code on Corporate Governance Practices during the period from 1st January 2012 to 31st March 2012 and the Corporate Governance Code during the period from 1st April 2012 to 30th June 2012 as contained in Appendix 14 of the Listing Rules.

## **COMPLIANCE WITH MODEL CODE**

Throughout the six months ended 30th June, 2012, 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 have confirmed that they have been fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is published on the Company's website at [www.cosmel.com](http://www.cosmel.com) and the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk). The interim report will be available at the Company's website and the website of The Stock Exchange of Hong Kong Limited and despatched to shareholders of the Company in September 2012.

On behalf of the Board

**TANG To**

*Chairman*

Hong Kong, 28th August, 2012

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