大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2012

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	3	**2,121,595**	2,416,690
Cost of sales		**(1,757,903)**	(2,016,014)
Gross profit		**363,692**	400,676
Other income and gains, net		**23,620**	31,849
Distribution costs		**(138,863)**	(140,354)
Administrative expenses		**(241,614)**	(222,805)
Allowance for impairment of bad and doubtful debts		**(4,718)**	(9,609)
Profit from operations		**2,117**	59,757
Finance costs		**(19,399)**	(23,148)
Investment income, net		**4,139**	3,575
Share of results of associates		**10,127**	9,481
Gain on dilution of shareholding in an associate		**155**	–
(Loss) Profit before taxation	4	**(2,861)**	49,665
Taxation	5	**(10,277)**	(15,152)
(Loss) Profit for the year		**(13,138)**	34,513

	Notes	**2012** *HK$'000*	2011 *HK$'000*
Attributable to:			
– Equity shareholders of the Company		**(24,175)**	26,579
– Non-controlling interests		**11,037**	7,934
		(13,138)	34,513
(Loss) Earnings per share for (loss) profit attributable to the equity shareholders of the Company during the year	*6*		
– Basic		**(HK3.37 cents)**	HK3.72 cents
– Diluted		**(HK3.37 cents)**	HK3.70 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012	2011
	HK$'000	*HK$'000*
(Loss) Profit for the year	**(13,138)**	34,513
Other comprehensive income for the year, net of tax:		
Cash flow hedges	**–**	6
Change in fair value of available-for-sale financial assets	**(569)**	357
Share of other comprehensive income of associates	**(719)**	21,366
Surplus on revaluation of properties held for own use	**7,405**	5,383
Exchange differences arising from translation of financial statements of foreign operations	**(315)**	49,787
	5,802	76,899
Total comprehensive (expense) income for the year	**(7,336)**	111,412
Attributable to:		
– Equity shareholders of the Company	**(18,928)**	98,067
– Non-controlling interests	**11,592**	13,345
Total comprehensive (expense) income for the year	**(7,336)**	111,412

CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current Assets			
Property, plant and equipment		**708,834**	709,341
Leasehold land and land use rights		**56,392**	57,524
Interests in associates		**421,823**	414,581
Available-for-sale financial assets		**6,704**	7,273
Deferred tax assets		**5,643**	4,516
		1,199,396	1,193,235
Current Assets			
Inventories		**649,602**	641,080
Trade and other receivables	*8*	**713,699**	700,330
Current tax recoverable		**673**	–
Pledged bank deposits		**53,562**	67,015
Cash and cash equivalents		**209,206**	227,254
		1,626,742	1,635,679
Current Liabilities			
Trade and other payables	*9*	**846,189**	844,908
Amounts due to associates		**1,317**	1,317
Bank borrowings		**355,772**	341,207
Obligations under finance leases		**15,903**	14,545
Current tax payable		**5,601**	5,248
		1,224,782	1,207,225
Net Current Assets		**401,960**	428,454
Total Assets less Current Liabilities		**1,601,356**	1,621,689

	Notes	**2012** **HK$'000**	2011 HK$'000
Non-current Liabilities			
Other borrowings		**–**	160
Obligations under finance leases		**15,277**	24,609
Deferred tax liabilities		**8,177**	6,460
Total Non-current Liabilities		**23,454**	31,229
Net Assets		**1,577,902**	1,590,460
Equity			
Capital and reserves attributable to the Company's equity shareholders:			
Share capital		**286,772**	286,772
Reserves		**1,092,165**	1,111,098
Proposed final dividend	*7*	**–**	3,585
		1,378,937	1,401,455
Non-controlling Interests		**198,965**	189,005
Total Equity		**1,577,902**	1,590,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2012

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 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 the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. IMPACT ON NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS)

The HKICPA has issued certain new and revised HKFRS that are first effective for the current accounting period of the Company and the Group. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to HKFRS 7, Financial instruments: Disclosures

– Amendments to HKAS 12, Income taxes

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 7, Financial instruments: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transactions occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group did not have any investment properties stated at fair value and hence the adoption of the amendments has had no financial impact on the results and financial position of the Group for the current or prior accounting periods.

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.

Segment results, assets and liabilities

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 on the following basis:

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

The segment results for the year ended 31st December, 2012 are as follows:

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External sales	**374,806**	**332,364**	**843,924**	**565,986**	**4,515**	**–**	**2,121,595**
Inter-segment sales	**17,984**	**279**	**3,905**	**–**	**6,410**	**(28,578)**	**–**
Total revenue	**392,790**	**332,643**	**847,829**	**565,986**	**10,925**	**(28,578)**	**2,121,595**

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Consolidated
RESULTS							
Segment results	**23,553**	**(20,215)**	**1,530**	**22,933**	**1,248**	**(103)**	**28,946**
Unallocated corporate expenses							**(26,829)**
Profit from operations							**2,117**
Finance costs							**(19,399)**
Investment income, net							**4,139**
Share of results of associates							**10,127**
Gain on dilution of shareholding in an associate							**155**
Loss before taxation							**(2,861)**
Taxation							**(10,277)**
Loss before non-controlling interests							**(13,138)**

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	**232,845**	**380,301**	**1,244,421**	**445,758**	**34,661**	**2,337,986**
Interests in associates						**421,823**
Available-for-sale financial assets						**6,704**
Unallocated corporate assets						**59,625**
Consolidated total assets						**2,826,138**
LIABILITIES						
Segment liabilities	**53,735**	**81,414**	**484,317**	**216,279**	**8,460**	**844,205**
Current tax payable						**5,601**
Borrowings						**386,952**
Unallocated corporate liabilities						**11,478**
Consolidated total liabilities						**1,248,236**
OTHER INFORMATION						
Capital additions	**197**	**30,875**	**25,911**	**19,773**	**221**	**76,977**
Depreciation and amortisation	**1,515**	**15,108**	**34,030**	**25,424**	**1,570**	**77,647**
Other non-cash expenses	**1,978**	**1,499**	**2,053**	**1,600**	**217**	**7,347**
Share of results of associates	**–**	**(782)**	**2,794**	**–**	**8,115**	**10,127**

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

The segment results for the year ended 31st December, 2011 are as follows:

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
TURNOVER							
External sales	417,945	466,494	1,092,911	435,723	3,617	–	2,416,690
Inter-segment sales	22,874	386	9,979	–	7,449	(40,688)	–
Total revenue	440,819	466,880	1,102,890	435,723	11,066	(40,688)	2,416,690

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
RESULTS							
Segment results	30,963	1,640	48,319	7,416	266	(671)	87,933
Unallocated corporate expenses							(28,176)
Profit from operations							59,757
Finance costs							(23,148)
Investment income, net							3,575
Share of results of associates							9,481
Profit before taxation							49,665
Taxation							(15,152)
Profit before non-controlling interests							34,513

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
ASSETS						
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
Consolidated total assets						2,828,914
LIABILITIES						
Segment liabilities	67,883	69,285	554,819	145,278	5,689	842,954
Current tax payable						5,248
Borrowings						380,521
Unallocated corporate liabilities						9,731
Consolidated total liabilities						1,238,454
OTHER INFORMATION						
Capital additions	12,596	39,696	181,187	17,875	1,886	253,240
Depreciation and amortisation	1,707	15,778	24,409	25,168	1,421	68,483
Other non-cash expenses (income)	423	1,916	14,048	(1,000)	–	15,387
Share of results of associates	–	(786)	2,567	–	7,700	9,481

Geographical information

The Group's operations are located in Hong Kong, other regions in the PRC, other Asia-Pacific countries, North America and Europe. The Group's trading of industrial consumables division is located in Hong Kong and the PRC. The manufacturing of plastic processing products, machinery and printed circuit boards divisions are located in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2012 *HK$'000*	2011 *HK$'000*
Hong Kong	**642,725**	528,646
PRC	**1,231,902**	1,554,322
Other Asia-Pacific countries	**203,219**	277,695
North America	**10,405**	13,415
Europe	**33,344**	42,612
	2,121,595	2,416,690

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**689,206**	685,266	**947**	2,917
PRC	**2,100,678**	2,120,275	**76,030**	250,323
Other Asia-Pacific countries	**30,007**	19,818	**–**	–
North America	**2,691**	3,206	**–**	–
Europe	**3,556**	349	**–**	–
	2,826,138	2,828,914	**76,977**	253,240

4. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation has been arrived at after charging and crediting the following:

	2012	2011
	HK$'000	*HK$'000*
Charging:		
Directors' remuneration	**14,460**	14,936
Salaries and other benefits	**337,472**	320,962
Retirement benefits scheme contributions	**18,469**	12,895
	370,401	348,793
Depreciation and amortisation on:		
– Owned assets	**73,662**	64,043
– Assets held under finance leases	**1,981**	3,143
– Leasehold land held for own use under finance leases	**535**	415
– Leasehold land and land use rights	**1,469**	882
Loss on disposal of property, plant and equipment	**1,700**	239
Deficit on revaluation of properties held for own use	**91**	–
Exchange loss, net	**302**	–
Auditors' remuneration		
– Current year	**2,726**	2,252
– Underprovision in prior years	**57**	9
Operating lease payments – Land and buildings	**22,030**	23,653
and crediting:		
Rental income net of direct outgoings	**534**	2,432

5. TAXATION

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2011: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
Hong Kong profits tax		
Current year	**2,089**	1,905
Overprovision in prior years	**(59)**	(86)
	2,030	1,819
Overseas tax		
Current year	**6,736**	13,737
Underprovision in prior years	**2,303**	–
	9,039	13,737
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	**(792)**	(269)
Overprovision in prior years	**–**	(135)
	(792)	(404)
Taxation charge	**10,277**	15,152

6. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share

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

	2012	2011
Weighted average number of ordinary shares in issue during the year	**716,930,692**	715,174,472
(Loss) Profit attributable to the equity shareholders of the Company	**(HK$24,174,761)**	HK$26,578,969
Basic (loss) earnings per share	**(HK3.37 cents)**	HK3.72 cents

(b) Diluted (loss) earnings per share

No adjustment has been made to the basic loss per ordinary share amount presented for the year ended 31st December, 2012 in respect of a dilution as the share options granted under the share option scheme outstanding had an anti-dilutive effect on the basic loss per share amount presented.

For the year ended 31st December, 2011, the calculation of diluted earnings per share is based on the profit of HK$26,578,969. The weighted average number of ordinary shares used in the calculation is 715,174,472 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 3,155,942 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

7. DIVIDEND

(1) Dividend payable to equity shareholders of the Company attributable to the year

	2012	2011
	HK$'000	*HK$'000*
Dividend proposed after the balance sheet date of HK$Nil (2011: HK$0.005) per share	**–**	3,585

(2) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2012	2011
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.005 (2011: HK$0.015) per share	**3,585**	10,706

8. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2012	2011
	HK$'000	*HK$'000*
Trade and bills receivables	**670,794**	632,555
Less: allowance for impairment of bad and doubtful debts	**71,915**	80,134
Trade and bills receivables, net	**598,879**	552,421
Other receivables	**92,149**	145,277
Less: allowance for impairment of bad and doubtful debts	**18,122**	18,870
Other receivables, net	**74,027**	126,407
Prepayments	**40,129**	20,851
Amounts due from related parties	**664**	651
	713,699	700,330

At 31st December, 2012, none of the Group's trade receivables were pledged to secure certain bank borrowings granted to the Group (2011: approximately HK$13,396,000) (note 11).

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

The Group allows an average credit period of 90 days to 120 days for customers. The ageing analysis of the Group's trade and bills receivables, based on the invoice date and net of allowances, at the balance sheet date is as follows:

	THE GROUP	
	2012	2011
	HK$'000	*HK$'000*
0 to 3 months	**440,521**	367,299
4 to 6 months	**63,359**	73,341
7 to 9 months	**35,203**	42,999
Over 9 months	**59,796**	68,782
	598,879	552,421

9. TRADE AND OTHER PAYABLES

	THE GROUP	
	2012	2011
	HK$'000	*HK$'000*
Trade and bills payables	**555,170**	542,635
Accruals and other payables	**290,636**	301,890
Amounts due to related parties	**383**	383
	846,189	844,908

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

The ageing analysis of the Group's trade and bills payables at the balance sheet date is as follows:

	THE GROUP	
	2012	2011
	HK$'000	*HK$'000*
0 to 3 months	**422,901**	404,385
4 to 6 months	**106,679**	113,728
7 to 9 months	**17,572**	15,232
Over 9 months	**8,018**	9,290
	555,170	542,635

10. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to financial institutions in respect of credit facilities utilised by				
– subsidiaries	**–**	–	**1,184,537**	1,200,260
– third party	**–**	2,407	**–**	–

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2012 and 31st December, 2011.

11. PLEDGE OF ASSETS

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

	2012	2011
	HK$'000	*HK$'000*
Leasehold buildings	**58,590**	27,500
Leasehold land and land use rights	**20,467**	5,243
Plant and machinery	**60,045**	62,138
Bank deposits	**53,562**	67,015
Trade receivables	**–**	13,396
	192,664	175,292

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31st December, 2012 (2011: HK0.5 cent).

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Thursday, 23rd May, 2013 to Tuesday, 28th May, 2013 (both days inclusive). In order to determine the shareholders who are entitled to attend and vote at the 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. on Wednesday, 22nd May, 2013.

RESULTS

The Group's consolidated turnover for the year was approximately HK$2,121,595,000, representing a decrease of about 12% compared to approximately HK$2,416,690,000 for 2011. Our loss after taxation was approximately HK$13,138,000, while the profit for the same period of last year was about HK$34,513,000. For the year ended 31st December, 2012, the loss attributable to shareholders was about HK$24,175,000, and in the previous year, the profit attributable to shareholders was approximately HK$26,579,000.

CHAIRMAN'S STATEMENT

The year 2012 was a year full of confidence crisis, and the overseas and domestic markets remained in their doldrums. Facing such a market adversity, all member companies within the Group demonstrated to be proactive, prudent and strenuous in coping with the situation. Still, I would like to apologize to all shareholders that our results were at a loss, which I would strictly review to find out what had not been done enough.

During the period under review, the Group's machinery business was affected by the lingering global financial and deepening sovereign debt crises occurring in European countries. Inheriting the slowdown reversal and the continuing adversity that occurred in the second half of 2011, the oversea market was shrinking in its orders. What was more was that in order to suppress the overheated property market and to guard against inflation, the Chinese government had since the third quarter of 2011 until the full financial year of 2012 widely tightened its liquidity, but without easing its tightening financial policy in favour of the commercial and industrial field. This dealt a blow to the industrial entrepreneurs who originally intended to replace their equipment and facilities, as a response to the State's call for technology upgrades, energy saving and wastage reduction. Instead, the entrepreneurs had to either delay or change their plans due to difficulties in raising fund. The domestic market remained quiet and did not show any sign of recovery, and market competition was therefore getting more stringent. In spite of the fact that labour cost was escalating in the industry, contenders in the industry cut down their prices without self discipline, and provided longer credit terms as their means for a Red Sea style competition. And it brought about severe challenges to the operating environment.

During this sustaining adverse situation, the Group followed the principle of responding to shareholders so that operating arrangement could be prepared for longer term market slowdown, focus could be placed to protect the Group's financial health and steadiness, and steady, healthy and proactive operating and sales strategies could be maintained, and so that the pursuit of higher sales performance that may result in taking up higher credit risk could also be abandoned. Although the sales turnover of the Group's machinery and trading businesses declined 23% and 10% respectively, the Group's steady and healthy financial foundation supports its various businesses that could therefore maintain their healthy and normal operations.

In the quiet market, although a lot of customers reduced or even cancelled their orders it provided a good opportunity for the Group to cultivate new market and seek for customers that required high-end quality. During the year under review, the Group's plastic material processing production base located in Dongguan and Hefei actively cultivated customers that required high quality. A test-run was smoothly gone through and new business was developed, thus eliminating the risk of an over concentrated clientele occurring in the past. Also, during the previous year the printed circuit board business further cultivated its new customers and new markets actively. Now, its customer base is healthier and its business results in the previous year returned to growth.

Coping with the operating environment of the year 2012, reducing operating expenses was imperative. Still, the Group's various businesses continued to promote the research and development of new technologies and new products, hence investment in related products was not reduced. Rather, with the strenuous effort of the research and development team of the Group's machinery business, it secured applications for four inventions and nine patents for utility models last year. The performance of the Group's hydraulic press series was successfully upgraded to the precision press forming grade of products. The Se series of plastic injection moulding machines, which features energy saving and wastage reduction, has finished a further engineering optimization. Inheriting the effort made in the past few years, the Ge series of all-electric plastic injection moulding machines was successfully developed in the second half of last year. And that is poised to inject new momentum in the Group's plastic injection moulding business.

During the past one year, the Group continued to provide training to its staff. And, we firmly believe that only with steady and healthy financial foundation, a good team, and excellent products can we be really competitive.

FUTURE PROSPECTS

With the central banks of the US, Europe and Japan continuing their monetary easing policies, the overseas market has recently shown a mild sign of recovery. Hence, it is believed that the market may turn active in a mild tone. Nevertheless, the issue of the core problem of the advanced countries has not been truly resolved, sovereign debts have not been effectively controlled, and mishaps of the financial crisis may emerge again anytime. Thus, it is unlikely that we can anticipate any steady recovery in the consumer market. The liquidity that flooded the market is poised to affect the fluctuation of currency exchange rates and commodity prices. The real economy will therefore remain difficult. In view of the domestic market having been in the doldrums for quite a while, the new leadership shall maintain steady and healthy monetary and proactive fiscal policies. Although fund raising has recently been loosened for small and medium enterprises, the Chinese government's concern about the property market bubble has remained unchanged. And they may go further to strictly guard against the resurgence of price inflation. It is therefore foreseen that the government's financial policy may remain to be tight. The country will promote its policy to reform national income distribution. Under this circumstance, labour cost will continue to rise, and the coming year's operating environment will not be easy.

Nevertheless, our nation has clearly been persistent in optimizing the industrial structure. It has actively promoted independent innovation of science and technology, technological upgrade, and has supported enterprises to expedite the deployment of new technology, new material, new techniques and new facilities – in order to enhance market competition. Last year, businesses within the Group spent strenuous effort to research and develop new products, cultivate new customers that require high-end quality, thus fortifying an excellent foundation that has created an opportunity for the Group's various businesses to thrive for good results.

The year 2013 will remain to be a year full of changes. The Group will therefore continue with its prudency to proactively cope with the situation, to implement steady and healthy financial strategies, to maintain scientific and technological research and development, to increase injection of resources for automated facilities and human resource training, and to seek for opportunity that allow us to concentrate our resources towards the development of various core businesses. I believe that through the concerted effort of all my colleagues and our continuing learning to elevate our capability to master changes, the Group will, in the new year, turn around to become profitable in its business results.

The past one year was filled with difficulties. The senior management and our staff force worked very hard and persisted in a realistic manner to maintain a healthy financial position and steady foundation for the Group during the time of adversity. For this, I would like to extend my heartfelt appreciation. Also, I would like to convey my profound appreciation for what our directors had contributed, and the supports and cooperation of all our shareholders, customers and partners.

BUSINESS REVIEW

During the year under review, an unstable global economic climate, coupled with the credit crunch that occurred in Europe and America, reverberated throughout the world economy, and confidence crisis rippled over the market. Customers from various industries had to suspend their development of new products or defer their investment plans, which significantly and negatively impacted the Group's overall businesses.

In China, due to the tightening of credit by domestic banks it was difficult for enterprises to raise funds. That combined with high inflation rate, rising operating cost and intense competition within the industry, the Group's consolidated performance was not encouraging, and some individual member companies even recorded losses. Consolidated net loss for the year was approximately HK$24,175,000. Nevertheless, other performance indicators of the Group, such as turnover days, repayment capability, and debt ratio remained healthy and stable. Under the strategic planning of the management and with the hard work of all our staff, we strongly believe that the loss occurred is only temporary. It is anticipated that 2013 should be the year to turnaround and bring profits for the Group.

Manufacturing Business

Machinery

Machinery business recorded an overall sales for the full year of approximately HK$843,924,000, a decrease of approximately 23% compared with last year, which accounted for approximately 40% of the consolidated turnover of the Group. The profit in the period was approximately HK$1,530,000.

Since the third quarter of the year under review, the slowdown in external economic growth, the rise in domestic labor cost, the appreciation of the RMB and other adverse factors have negatively impacted the manufacturing industry. Most Chinese manufacturers have been running below capacity. With such an uncertain future, customers remained conservative on capital investment and suspended or deferred plans for acquiring new equipment or replacing old equipment. On the export side, a weak recovery in the major markets and different degrees of depreciation of those currencies against RMB led to a significant fall in sales. Besides, the decline in sales caused an increase in the marginal cost of production, and with supply exceeding demand and some disorderly price competition, the business experienced an overall decline in gross profit margin.

In line with the trend of national energy saving and emission reduction, and industrial restructuring, our machinery business will continue to use "energy-saving, accuracy and efficiency, enhancing automation and networking capabilities" as the overall strategic line for its products. And after several years of development, our hydraulic machines have been successfully upgraded to focus on research and sales of the industry-specific machines and precision press forming flexible production lines.

After several years of research and development, the optimization of the Ge series all-electric plastic injection molding machine, with a total of 20 models, was completed, and they were put in the market for product trials in the second half of the year. Ge series is the most high-end series out of the GREENLINE servo-driven energy saving plastic injection moulding machines, targeting industries like pharmaceutical packaging, optics products and precision plastic parts. And the Group has already started selling them in bulk since early 2013. In the JSe series, the large servo-driven two platen plastic injection moulding machine, was upgraded and optimized with clamping forces of 1300T to 4000T that would greatly enhance operation speed, and was accepted extensively by our customers.

In respect of deepening and exploration of the market, the Group has completed the coverage of pre-sale and after-sale services in second-tier cities in inland areas of China for this business during the year. In respect of the export business, sales have declined and developing countries remained the main sales market. In consideration of the Group's product mix being gradually transformed to the higher end of the market, subsequent overseas marketing campaigns and sales network will expand to North America and Western Europe.

The Se series servo-driven energy-saving plastic injection moulding machine, assembled by our Indian joint venture partner JH-WELLTEC, has been widely taken by customers in India this year. During this period, localized supply chains were successfully constructed for some of the machinery structural parts, sale and after sale points were also established in eight of India's industrial cities, thus enhancing our long-term sustainable development and competitive advantage.

In respect of the production base distribution in China, the Group will continue to take full advantage of the facilities that surround the Wuxi High Technology Industrial Development Zone, and manufacture our own sheet-metal press brake that was originally outsourced for manufacture, and at the same time focus on the production and sales of the FS series servo-driven hydraulic energy-saving models. On the other hand, a separate production workshop was built on our base in southern China in the year under review, which is equipped with dust-free and air conditioning production environment to provide the best conditions for assembling high precision models.

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was approximately HK$332,364,000, representing a decrease of about 29% as compared with the same period last year and accounted for approximately 16% of the Group's consolidated turnover. Due to the rise in the overall material and labor costs, the business recorded a loss of approximately HK$20,215,000. Contributing to the loss included an amount of HK$8,700,000 for business restructuring, which was attributed to the closure of the plastic product factory in Wuxi, the termination of the plastic bucket production line in the Dongguan factory, and the relocation of the factory in Hefei.

In respect of the home appliances and A/V products processing business, the production base located in Dongguan experienced a major setback in the first half of the year. During this period, due to the external economic downturn, customers tended to be conservative in developing new products, resulting in significant decrease in and even cancellation of orders. That coupled with the growing complexity of product design and production technology, and escalating production cost, drove the business to a relatively significant loss position. Affected by the subsidy policy for home appliances products in rural areas which was made two years ago, which turned out to be negative to the business as the market prematurely exhausted its purchasing power, the plastic products and processing business located in Hefei showed a downturn in the first half of the year. But starting in the third quarter, orders gradually increased and basically climbed back up to the normal level in the fourth quarter, the overall profitability of the business for the full year's operation reached a breakeven.

During the financial year under review, food packaging and cutlery sales were similar to the same period of last year, of which sales of candy sticks increased by about 26% compared with those of the previous year. Since there was not any significant fluctuation in the price of plastic, we were able to control costs and resulted in an increase in profit in this area. The business was also committed to optimize cost management and to increase the overall gross profit margin. In the year, the business's production workshop and technological processes were reengineered for a number of products, which included upgrading to a one hundred thousand grade dust-free workshop, increasing automated production equipment and developing our own valve gate type multi-cavity hot runner system mould, so as to effectively improved the cleanliness and quality of our products, and, in turn, secure orders from major customers. Overall, this business recorded a satisfactory amount of profit.

During the year, the sales of our eco-friendly kitchenware brand, BioChef, spanned from Hong Kong to Southeast Asia, the United Kingdom and the United States. Various distribution channels were also developed in China, including some strategic cooperation arrangements. The gift packages which were sold during Mid-Autumn Festival and New Year received excellent feedback. However, as this business is still at the stage of establishing its brand image and distribution channels, overall profitability was not broken even yet.

For the sales of optic and lighting products, during the period under review, sales were similar to the same period of last year, yet overall performance was not encouraging and recorded a loss as a result of increasing operating expenses and shrinking gross profit.

Printed Circuit Board

For the printed circuit board business, the sales of 2012 was approximately HK$565,986,000, representing an increase of approximately 30% compared with the same period of last year, and accounted for about 27% of the Group's consolidated turnover, while operating profit for the period was approximately HK$22,933,000.

The first half of the year 2012 was a difficult year for the business's operation. Due to the recessionary external economic climate, the business loses its orders seriously while operating costs were under rising pressure, and hence its business results in the half year once recorded a loss.

Although the economic situation in the second half of the year remained in its doldrums, the number of orders increased substantially thanks to the efforts of the management team. The business therefore revived in the second half of the year as orders for circuit boards from the car industry in Europe increased significantly. Besides, technological production processes were improved to control costs effectively. Hence, the business made desirable contribution of profit during the period under review.

Trading Business

Industrial Consumables

The trading business during the year under review accounted for a turnover of approximately HK$374,806,000, representing a decrease of 10% compared with the same period of last year and accounted for approximately 17% of the Group's consolidated turnover. The operating profit for the period was approximately HK$23,553,000.

During the year under review, the credit crunch in Europe and America continued to constrain our exports, the major adjustments and tightening of credit by domestic banks in China made it very difficult for the manufacturing business. During this tough time, externally our strategy was to proactively focus on developing new markets, strengthening the competitiveness of our sales team, accommodating the requirements of environmental protection and energy conservation, as well as factory automation. Internally, we successfully reduced our inventory level, and strictly maintained our account receivables reasonably well. With these measures, we managed to keep the business in a solid financial position.

During the year under review, the business successfully developed its market for automated equipment (such as robotic arms), and further increased its market share in the elevator industry. There was also a significant growth in the project for reengineering the hydraulic servo-driven system for plastic injection moulding machines, which helped compensating for the slowdown that occurred in other businesses. In addition, the growth of new products such as plastic fasteners and special stainless steel wire were ideal, reducing the negative impact the sluggish market had made on the business. Hence, the overall business made reasonable contribution of profit this year.

Other businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), an associate of the Group in Shenzhen, recorded stable operating income, hence achieving a reasonable return for the Group this year. During the year under review, this business was busy developing new products that included but not limited the single and three-phase smart meters, power cable accessories, energy-saving and emission reduction products, and the low voltage centralized meter system solutions, which were all highly praised by our customers. Nonetheless, the Group planned in late December 2012 to sell certain of its stake in Haoningda, and had made all necessary disclosure on such an intention.

BUSINESS PROSPECTS

The machinery business will continue to employ "steady growth" as the overall strategy, and will use product deepening and market development as the marketing mix strategy. In respect of the research and development and the production and marketing of products, "environmentally-friendly, energy-saving, precition" will continue to be the leading direction. At the same time, we will enhance the automation and network functions of our products, along with a full upgrade on all of our product lines in every aspect, which hopefully could help us in gaining a larger market share in the high-end market. We expect that the State will continue to increase the minimum wage as it has been happening every year. To this end and in the case of inevitable labor cost increase, the Group will further consider cost optimization options for all activities in the value-added chain to enhance our competitive advantage. The Group is prudently optimistic about the future of the the machinery manufacturing business.

The plastic processing business will continue with its existing marketing strategy and strengthen its position in the market. Meanwhile, to manage soaring cost, the business will continue to streamline its business process and upgrade its plant equipment to reduce costs and optimize structure. In addition, the business will be dedicated to independent research and development, and marketing to continue its development in a high standard, high-value-added and high-growth market, so as to bring reasonable contribution of profit to the Group.

The trading business will continue to uphold the strategy of "seeking progress in stability". Without sacrificing the financial health of the Company, new markets and products will also be explored and developed, along with tighter control on cost, account receivable and inventory management, aiming to maintain profit growth in this uncertain economic environment.

For the printed circuit board business, its sales will continue to adhere to a strategic principle that will focus on an identified number of the most promising end-users as its key development targets. And, we will capitalize on our consistency in providing high quality products and excellent after-sales service that are flexible and resilient. These will enable us to establish our position in the printed circuit board business. Thus, it is expected that the orders and turnover for the coming year will be more stable; the capacity of the company will be running at a fairly high level.

Looking ahead to 2013, the Group, along with other manufacturers in China, will share the same challenges that include fluctuation in raw material prices, increased labor cost and the uncertainties in the external economy, etc. Nevertheless, the Group will continue to manage these issues and maintain a steady pace of development. In respect of operation, operating costs and risks can be further reduced through optimizing cost control and promoting automation; turnover can be increased through the committed efforts in developing new markets and improving the distribution network. In addition, we will continue to conduct research and development on energy-saving and biodegradable products, and develop the market for environmentally friendly products. We will constantly keep our business up-to-date and look for new opportunities. In respect of internal management, we will continue to optimize the structure and training of human resources, and improve the ERP information management system, and for financial control, a prudent financial management style will be implemented for a healthy development of the Group. The Board of Directors and the Management will uphold a positive, stable, and healthy attitude, and implement an effective and strong management system, while paying close attention to the macroeconomic and market changes to take countermeasures accordingly to enable all our businesses restore an upward trend.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2012, the Group's shareholders' funds were approximately HK$1,378,937,000 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 31st December, 2012 was approximately 0.44 (2011: 0.44), and the liquidity ratio was approximately 1.33 (2011: 1.40), both were maintained at a healthy level. As at 31st December, 2012, cash, bank balances and time deposits amounted to approximately HK$209,206,000. All these reflect that the Group is in sound financial position.

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 year, 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its controlling shareholders, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, that subsisted at the end of the year under review or at any time during the year under review.

AUDIT COMMITTEE

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Corporate Governance Code in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 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 comprises three Independent Non-Executive Directors and the Chairman of the Board of the Company. It has adopted terms of reference which are in line with the code provisions of the Corporate Governance Code in Appendix 14 of the Listing Rules. 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 as regards the remuneration packages from time to time.

NOMINATION COMMITTEE

The nomination committee of the Company comprises three Independent Non-Executive Directors and two Executive Directors was established on 29th March, 2012 with written terms of reference in compliance with the code provisions of 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 and 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 31st December, 2012, the Group has approximately 6,000 employees (2011: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2012.

CORPORATE GOVERNANCE

The directors consider that the Company has complied with the Code on Corporate Governance Practices (for the period from 1st January, 2012 to 31st March, 2012) and Corporate Governance Code (for the period from 1st April, 2012 to 31st December, 2012) as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2012 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 2012 annual general meeting of the Company (the "2012 AGM") due to their other business engagements. However, the Board believes that the presence of independent non-executive director at the 2012 AGM allowed the Board to develop a balanced understanding of the views of shareholders.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 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 fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers all of the Independent Non-executive Directors are independent.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.cosmel.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2012 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 in mid April 2013.

On behalf of the Board
TANG To
Chairman

Hong Kong, 27th March, 2013

As at the date hereof, the board of directors of the Company is comprised of eleven 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 four are independent non-executive directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei.