大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 118)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2013

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, 2013 with comparative figures for the corresponding period in 2012 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	3	**1,157,443**	1,000,606
Cost of sales		**(968,928)**	(830,347)
Gross profit		**188,515**	170,259
Other income and gains, net		**10,782**	17,655
Distribution costs		**(73,585)**	(65,293)
Administrative expenses		**(122,855)**	(112,760)
Allowance for impairment of bad and doubtful debts		**(322)**	(317)
Profit from operations		**2,535**	9,544
Finance costs		**(9,051)**	(10,508)
Investment income, net		**1,259**	2,425
Gain on deregistration of a subsidiary		**1,727**	–
Share of results of associates		**649**	1,742
(Loss) profit before taxation	4	**(2,881)**	3,203
Taxation	5	**(4,717)**	(5,693)
Loss for the period		**(7,598)**	(2,490)
Attributable to:			
– Equity holders of the Company		**(11,795)**	(3,918)
– Non-controlling interests		**4,197**	1,428
		(7,598)	(2,490)
Loss per share for loss attributable to the equity holders of the Company during the period	6		
– Basic		**(HK1.65 cents)**	(HK0.55 cents)
– Diluted		**–**	–
Proposed interim dividend: Nil (2012: Nil)		**–**	–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30th June, 2013 (Unaudited) *HK$'000*	2012 (Unaudited) *HK$'000*
Loss for the period	**(7,598)**	(2,490)
Other comprehensive income for the period, net of tax:		
Change in fair value of available-for-sale financial assets	**(9)**	(92)
Share of other comprehensive income (expense) of associates	**6,749**	(2,228)
Exchange differences arising from translation of financial statements of foreign operations	**18,337**	(5,824)
	25,077	(8,144)
Total comprehensive income (expense) for the period	**17,479**	(10,634)
Attributable to:		
– Equity holders of the Company	**11,553**	(11,565)
– Non-controlling interests	**5,926**	931
Total comprehensive income (expense) for the period	**17,479**	(10,634)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30th June, 2013 (Unaudited)** *HK$'000*	31st December, 2012 (Audited) *HK$'000*
Non-current Assets			
Property, plant and equipment	7	**708,443**	708,834
Leasehold land and land use rights		**56,454**	56,392
Interests in associates		**430,298**	421,823
Available-for-sale financial assets		**6,696**	6,704
Deferred tax assets		**6,492**	5,643
		1,208,383	1,199,396
Current Assets			
Inventories		**724,955**	649,602
Trade and other receivables	8	**796,569**	713,699
Current tax recoverable		**144**	673
Pledged bank deposits		**60,812**	53,562
Cash and cash equivalents		**293,118**	209,206
		1,875,598	1,626,742
Current Liabilities			
Trade and other payables	9	**1,118,893**	846,189
Amounts due to associates		**234**	1,317
Bank borrowings		**329,830**	355,772
Obligations under finance leases		**14,711**	15,903
Current tax payable		**7,646**	5,601
		1,471,314	1,224,782
Net Current Assets		**404,284**	401,960
Total Assets less Current Liabilities		**1,612,667**	1,601,356

	Notes	**30th June, 2013 (Unaudited)** ***HK$'000***	31st December, 2012 (Audited) *HK$'000*
Non-current Liabilities			
Obligations under finance leases		**8,262**	15,277
Deferred tax liabilities		**9,024**	8,177
		17,286	23,454
Net Assets		**1,595,381**	1,577,902
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital	10	**286,772**	286,772
Reserves		**1,103,718**	1,092,165
		1,390,490	1,378,937
Non-controlling interests		**204,891**	198,965
Total Equity		**1,595,381**	1,577,902

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*	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 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 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 arising from translation of financial statements of foreign operations	–	–	–	–	–	(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 and 1st July 2012	286,772	246,094	37	380	31,985	170,395	(338)	–	650,980	1,386,305	188,884	1,575,189
Loss for the period	–	–	–	–	–	–	–	–	(20,257)	(20,257)	9,609	(10,648)
Other comprehensive income for the period:												
Fair value loss:												
– Available-for-sale financial assets	–	–	–	–	–	–	(477)	–	–	(477)	–	(477)
Share of reserves of associates	–	–	–	–	–	1,509	–	–	–	1,509	–	1,509
Surplus on revaluation of properties held for own use	–	–	–	–	8,092	–	–	–	–	8,092	697	8,789
Deferred taxation adjustment	–	–	–	–	(1,264)	–	–	–	–	(1,264)	(120)	(1,384)
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	5,034	–	–	–	5,034	475	5,509
Total other comprehensive income for the period	–	–	–	–	6,828	6,543	(477)	–	–	12,894	1,052	13,946
Total comprehensive income for the period	–	–	–	–	6,828	6,543	(477)	–	(20,257)	(7,363)	10,661	3,298
Transactions with owners:												
Realised on dilution of interest in an associate	–	–	–	–	–	(5)	–	–	–	(5)	–	(5)
Dividend paid to the non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(580)	(580)
Balance at 31st December 2012 and 1st January 2013	**286,772**	**246,094**	**37**	**380**	**38,813**	**176,933**	**(815)**	**–**	**630,723**	**1,378,937**	**198,965**	**1,577,902**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,795)**	**(11,795)**	**4,197**	**(7,598)**
Other comprehensive income for the period:												
Fair value loss:												
– Available-for-sale financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**(9)**	**–**	**–**	**(9)**	**–**	**(9)**
Share of reserves of associates	**–**	**–**	**–**	**–**	**–**	**6,749**	**–**	**–**	**–**	**6,749**	**–**	**6,749**
Exchange differences arising from translation of financial statements of foreign operations	**–**	**–**	**–**	**–**	**–**	**16,608**	**–**	**–**	**–**	**16,608**	**1,729**	**18,337**
Total other comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**23,357**	**(9)**	**–**	**–**	**23,348**	**1,729**	**25,077**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**23,357**	**(9)**	**–**	**(11,795)**	**11,553**	**5,926**	**17,479**
Transactions with owners:												
Realised on lapse of share options	**–**	**–**	**–**	**(380)**	**–**	**–**	**–**	**–**	**380**	**–**	**–**	**–**
Balance at 30th June 2013	**286,772**	**246,094**	**37**	**–**	**38,813**	**200,290**	**(824)**	**–**	**619,308**	**1,390,490**	**204,891**	**1,595,381**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30th June,	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(5,393)**	(56,950)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**131,803**	(25,185)
NET CASH USED IN FINANCING ACTIVITIES	**(43,481)**	(34,245)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**82,929**	(116,380)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**172,561**	220,470
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**2,741**	(958)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**258,231**	103,132
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**293,118**	139,775
Bank overdrafts	**(34,887)**	(36,643)
	258,231	103,132

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, 2012 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, 2013. 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 2013, the Group adopted the standard, amendment and interpretations of HKFRS below, which are relevant to its operations.

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income
HKFRS 10, Consolidated financial statements
HKFRS 11, Joint arrangements
HKFRS 12, Disclosure of interests in other entities
HKFRS 13, Fair value measurement
HKAS 27 (2011), Separate financial statements (2012)
HKAS 28 (2011), Investments in associates and joint ventures
Revised HKAS 19, Employee benefits
Annual improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Government loans
Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12, Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: Transition guidance

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.

The following new standard, amendment and interpretations have been issued but are not effective for 2013 and have not been early adopted:

Amendments to HKAS 32, Financial Instruments: Presentation – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011), Investment entities
HKFRS 9, Financial instruments
Amendments to HKFRS 7 and HKFRS 9, Mandatory effective date of HKFRS 9 and Transition disclosures

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, 2013 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	195,461	167,724	526,976	263,442	3,840	–	1,157,443
Inter-segment sales	14,232	251	989	–	2,810	(18,282)	–
Total revenue	209,693	167,975	527,965	263,442	6,650	(18,282)	1,157,443
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	14,540	(10,825)	2,300	8,029	(975)	197	13,266
Unallocated corporate expenses							(10,731)
Profit from operations							2,535
Finance costs							(9,051)
Investment income, net							1,259
Gain on deregistration of a subsidiary							1,727
Share of results of associates		(390)	(337)		1,376		649
Loss before taxation							(2,881)

	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						
At 30th June, 2013						
Segment assets	**260,570**	**389,843**	**1,329,382**	**410,924**	**189,073**	**2,579,792**
Interests in associates						**430,298**
Available-for-sale financial assets						**6,696**
Unallocated corporate assets						**67,195**
Consolidated total assets						**3,083,981**

The segment results for the period ended 30th June, 2012 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	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	196,924	152,270	452,825	208,857	5,401	(15,671)	1,000,606
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	11,268	(3,929)	10,544	(1,001)	361	544	17,787
Unallocated corporate expenses							(8,243)
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							3,203

	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						
At 31st December, 2012						
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

	Sales revenue by geographical market Six months ended 30th June,	
	2013	2012
	HK$'000	*HK$'000*
Hong Kong	**299,495**	257,569
PRC	**739,439**	625,967
Other Asia-Pacific countries	**86,339**	91,445
North America	**18,608**	7,945
Europe	**13,562**	17,680
	1,157,443	1,000,606

4. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30th June,	
	2013	2012
	HK$'000	*HK$'000*
(Loss) profit before taxation has been arrived at after charging and crediting the following:		
Charging:		
Depreciation and amortisation on:		
– Owned assets	**36,865**	35,639
– Assets held under finance leases	**2,843**	1,981
– Leasehold land held for own use under finance leases	**301**	180
– Leasehold land and land use rights	**735**	717
Loss on disposal of property, plant and equipment	**–**	3,474
Operating lease payments – Land and buildings	**11,630**	7,629
and crediting:		
Gain on disposal of property, plant and equipment	**1,106**	–
Rental income net of direct outgoings	**175**	220

5. TAXATION

	Six months ended 30th June, 2013 HK$'000	2012 HK$'000
The charge comprises:		
Hong Kong Profits Tax	**610**	385
Overseas taxation	**4,107**	5,308
	4,717	5,693

Hong Kong Profits Tax is calculated at 16.5% (2012: 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 PER SHARE

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

	Six months ended 30th June, 2013	2012
Weighted average number of shares in issue during the period	**716,930,692**	716,930,692
Loss attributable to the equity holders of the Company	**(HK$11,795,000)**	(HK$3,918,000)
Basic loss per share	**(HK1.65 cents)**	(HK0.55 cents)

Diluted loss per share for 2012 & 2013 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares for both period. During the period ended 30th June, 2013, all share options outstanding had also lapsed.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group has acquired property, plant and equipment amounting to approximately HK$35,675,000.

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$663,453,000 (31st December, 2012: approximately HK$598,879,000) and their ageing analysis is as follows:

	30th June, 2013	31st December, 2012
	HK$'000	*HK$'000*
0 to 3 months	**461,353**	440,521
4 to 6 months	**84,143**	63,359
7 to 9 months	**31,122**	35,203
Over 9 months	**86,835**	59,796
	663,453	598,879

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately HK$661,304,000 (31st December, 2012: approximately HK$555,170,000) and their ageing analysis is as follows:

	30th June, 2013	31st December, 2012
	HK$'000	*HK$'000*
0 to 3 months	**575,405**	422,901
4 to 6 months	**64,181**	106,679
7 to 9 months	**11,745**	17,572
Over 9 months	**9,973**	8,018
	661,304	555,170

10. SHARE CAPITAL

	Number of ordinary shares	Value
		HK$'000
Ordinary shares of HK$0.40 each		
Authorised:		
At 1st January, 2013 and 30th June, 2013	1,000,000,000	400,000
Issued and fully paid:		
At 1st January, 2013 and 30th June, 2013	716,930,692	286,772

11. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	30th June, 2013	31st December, 2012
	HK$'000	*HK$'000*
Within 1 year	**22,522**	19,719
Between 2 to 5 years	**30,389**	30,017
Over 5 years	**16,203**	15,051
	69,114	64,787

Operating lease payments represent rentals payable by the Group for certain of its office properties and factories and plant and machinery. Leases are negotiated mostly for terms of ranging from 1 to 10 years and rentals are almost fixed for the said term.

The Group as lessor

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

	30th June, 2013 *HK$'000*	31st December, 2012 *HK$'000*
Within 1 year	**614**	232
Between 2 to 5 years	**231**	–
	845	232

12. CAPITAL COMMITMENTS

	30th June, 2013 *HK$'000*	31st December, 2012 *HK$'000*
Capital expenditure:		
Authorised but not contracted for	**–**	–
Contracted but not provided for	**20,363**	28,523
	20,363	28,523

13. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	30th June, 2013 *HK$'000*	31st December, 2012 *HK$'000*
Guarantees given to financial institutions in respect of credit facilities utilized by third party	**–**	–

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:

	Net Book Value	
	30th June, 2013	31st December, 2012
	HK$'000	*HK$'000*
Leasehold buildings	**59,745**	58,590
Leasehold land and land use rights	**20,546**	20,467
Plant and machinery	**57,749**	60,045
Bank deposits	**60,812**	53,562
	198,852	192,664

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,	
	2013	2012
	HK$'000	*HK$'000*
Substantial shareholder and its subsidiaries:		
EDP charges received *(note i)*	**92**	92
Companies controlled by certain directors and its relatives:		
Management fee paid *(note i)*	**498**	498
EDP charges received *(note i)*	**26**	26

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

	30th June, 2013	31st December, 2012
	HK$'000	*HK$'000*
Non-controlling shareholders:		
Balances due from the Group *(note ii)*	**–**	383
Balances due to the Group *(note ii)*	**459**	663
Associates:		
Balance due from the Group *(note ii)*	**234**	1,317
Balances due to the Group *(note ii)*	**33,754**	25,542

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 world economy remained in its adjustment stage. The United States showed a sign of gradual recovery but remained unstable. Europe was still shrouded by the cloud of debt crisis. In China, its economic growth was also slowing down with enterprises facing difficulties in obtaining credit facilities, while operating cost of manufacturing enterprises in the country continued to increase. In this business environment, enterprises were operating in difficulty. During the reporting period, turnovers of most of the Group's businesses still recorded increases when compared to the corresponding period last year. However, because of the difficult business environment the Group faced, its consolidated profit performance was unfavourable. During the period under review, the Group's consolidated turnover was approximately HK$1,157,443,000, an increase of 16% as compared with about HK$1,000,606,000 of the corresponding period last year. Net loss was approximately HK$11,795,000.

Manufacturing Business

Machinery

Machinery business recorded an overall sales turnover of approximately HK$526,976,000 during the period, an increase of about 17% as compared with the same period last year, representing about 45% of the Group's consolidated turnover. Operating profit during the period was approximately HK$2,300,000.

During the period, this business went through a change in its major product mix and further cultivated for business in China's mid/western area and new export markets. Hence, sales in the domestic and overseas markets increased 17% and 28% respectively. Nevertheless, due to the disorderly vicious competition, the selling prices of general purpose series injection moulding machine (including the servo-driven energy-saving plastic injection moulding machine) was under pressure, resulting in a slight decrease in its gross profit margin. In addition, there were several new products we promoted in the market that resulted in a significant increase of administrative and selling expenses as compared with the corresponding period last year. This, together with increase in labour cost during the period, manifested a relatively significant reduction in profit in that short period of time.

Concerning the research and development of product technology, the Group has deployed its established mainstay direction of strategy – "energy saving, high efficiency, automation and networking". Together with the close collaboration of our in-house engineering research and development team and our strategic suppliers, we have successfully developed a new generation of the ESH series full servo-driven electric high speed CNC turrent punch press. The series of machine commands such merits as energy saving, high accuracy of finishing and very high cost effectiveness. This series of machine is scheduled to go into volume production and sales in the second half of this year, which may result in improving profit contribution from the related product line. As regards to the optimization and upgrade of our core product of injection moulding machine, the new generation of SeII series servo-driven energy-saving injection moulding machine will be in the market in the third quarter of this year. It will help escalate the competitive edge of the product and hence enhancing its market share. On the other hand, targeting the subdivided high-end plastic processing equipment market, the Group is developing the Ge series all-electric injection moulding machine to forge ahead as the industry's specialized machine, which includes moulding thin-wall precision plastics and multi-material products.

With respect to other production lines, the extrusion production line developed the ultra-size cutter and haul-off unit during the period, which can process pipes of 2 metres in diameter, and the PERT 32 high throughput single screw extruder (410 kg per hr). During the period, we had developed a rubber injection moulding machine that boasts the energy saving and automated functions – the DKM-RC25D series of machine, which is used as a double-station joint corner rubber injection machine in the automotive sealing part industry.

Plastic Products and Processing

Looking back to the first half of this year, the consolidated sales turnover of this business was approximately HK$167,724,000, representing an increase of about 10% as compared with the same period last year and accounting for about 15% of the Group's consolidated turnover. Operating loss was about HK$10,825,000.

In respect of the processing business of household electrical appliances and A/V products in our production base in Dongguan, operating performance in the first half of this year remained unfavourable as both operating turnover and result were not as good as the same period last year. The major reason behind such a performance was that we did not yet adjust ourselves to accommodate the product design and quality requirements of new customers. The production lead time was therefore longer and the number of rework was quite significant, resulting in cost increase and loss. In the meantime, we have conducted an adjustment to the management and organization of this business and enhanced our engineering technological capacity, and have made appropriate screening on the products involved in order to give up individual orders that incurred relatively significant losses for the business.

After the completion of moving into its new plant and the implementation of optimizing its production management, the Hefei production base saw a gradual revival of its business performance. With the cultivation of new customers and their increase in number, this business is poised to develop along a healthy direction.

Concerning the food packaging and cutlery business in Zhuhai, sales turnover during the reporting period slightly increased as compared with the same period last year, which was however more than offset by the increases in the price of plastic material as well as labour cost, resulting in a decline in profit. The sales of candy sticks recorded a relatively significant increase in turnover, which compensated partly the slowdown in milk powder scoops and container covers business. In respect of in-mould labeling plastic containers, as a result of the recognition of domestic ice-cream and milk product manufacturers, our orders in this respect increased significantly. However, due to the weakness of Japanese Yen, orders of disposable plastic cutlery from Japan saw a slow down. In the meantime, our production base in Zhuhai is in the process of increasing its production facilities to cope with its development requirement.

Our eco-friendly kitchenware brand, BioChef was on its trial sale through different distribution channels in the domestic market during the period, and received good reception. Nevertheless, it is still necessary to put in more effort to establish brand image and increase market share. Hence, we will in future enhance our investment in the brand's product development and market promotion so as to increase sales volume and reduce cost through the economy of scale production.

In the business of optical products, our product of plastic optical lens was in majority exported to the US market. However, the economic slowdown of the US business had a direct impact on the business of this product and hence its business was unfavourable. In the meantime, resources have been invested in the development of optical auxiliary parts of the smart phone in order to develop a market that goes beyond amplifying and microscopic lens.

Printed Circuit Boards

For the printed circuit board business, sales turnover during the period under review was approximately HK$263,442,000, accounting for approximately 23% of the Group's consolidated turnover and representing an increase of approximately 26% as compared with the same period last year. Operating profit recorded for this segment was approximately HK$8,029,000.

Major clientele of this business came from Europe and Japan, and the product mainly caters for the industries of household electrical appliances, game players, interior and exterior lighting systems for automobiles, etc. During the reporting period, thanks to segment's prosperous business performance in the second half of last year that continued into the period, its capability in providing quality services to clients of good potential, and the cooperation and the hard work of various departments in the technical process that enhances improvement, production cost was hence controlled within a reasonable range. Thus, the business result in the first half of the year was achieved on the expected target.

Trading Business

Trading business during the period recorded a consolidated turnover of approximately HK$195,461,000, representing an increase of approximately 5% as compared with the same period last year and accounting for approximately 17% of the Group's consolidated turnover. Operating profit for the period was approximately HK$14,540,000.

During the period under review, certain industries such as the automotive, injection moulding machine, elevator, semi-conductor, communication and robotic arm industries were thriving. Hence, this business was able to ride on the prospering trend of the aforesaid industries and therefore resulted in better than expected performance in consolidated turnover and profit. However, quite a few industries remained in their doldrums and as a result the overall business operating environment could only be considered as stable. Hence, this business will be required to continue exploring new industries and enhance its product lines to cope with the ever-changing market development.

Other businesses

Electronic Watt-Hour Meters and Related businesses

The Group had, during the period under review, disposed its interests in the associated company located in Shenzhen, Shenzhen Haoningda Meters Co., Ltd. ("Haoningda") for an aggregate consideration of approximately RMB467,000,000. The disposal constituted a very substantial disposal. After it was passed in the extraordinary general meeting on May 29 of this year, the transaction was completed on July 5 of this year. As Haoningda does not belong to the Group's core businesses, the disposal can spare more resources for the Group so that it can deploy the disposal consideration to concentrate on developing its major business and increase the Group's financial strength.

BUSINESS PROSPECTS

Looking into the second half of 2013, the domestic and foreign macro-economic conditions of the machinery business shall remain perplexing. The market demand for plastic and sheet-metal processing equipment may see an increasing risk of slowdown. It is anticipated that the high-end equipment market shall suffer lesser impact from the fluctuation of economic cycle. This business will endeavour to continue its road towards transformation and upgrade to "All Products". While maintaining an appropriate production scale for cost advantage, the business will enhance its effort in upgrading its product mix and move it to the high-end market. We strongly believe that the machinery manufacturing business shall appropriately adjust its product and marketing mix in order to improve its business performance.

For the business of plastic products and processing, the plastic products processing business in Dongguan will go through such measures as restructuring, clientele screening, and production flow optimization in order to narrow down its loss. Concerning the household electrical appliances' processing business in Hefei, its number of orders is expected to increase gradually and its existing production facilities will be improved, which will lay a good foundation for the development in the second half of the year and beyond. With its endeavour to implement the aforesaid moves, it is believed that the business's performance in the second half of the year will be improved.

With respect to the business of printed circuit board, it is anticipated that orders from certain customers may see a significant increase in the third quarter of this year. These orders may include orders from domestic manufacturers of large household electrical appliances and lighting products, and mass production of motherboards required by well-known household game player brands. Orders will also include printed circuit boards for large-scale outdoor LED display facilities for the 2016 Olympic Game to be held in Brazil, and for the small-scale LED facilities for Japan's railway system. Hence, it is expected the business will see a relatively significant business performance in the second half of the year.

In the trading business, external economic environment will remain to be challenging as sluggishness will continue along with weak domestic demand and the shrinking manufacturing industry in the second half of this year. Although this business performed better than expected in the first half of this year, majority of its business came from certain industries only. And we saw a slowdown in the beginning of the third quarter of this year. Because of the continuing credit tightening of the Chinese government, small and medium manufacturing factories are under the pressure of the survival of the fittest. This business has actively cultivated new industries, enhanced production lines, and has grasped opportunities offered by our nation's twelfth five-year plan in energy saving and emission reduction and in the transformation and upgrade of industries. We hope that there will be a breakthrough in the business's profit contribution in the second half of this year and the business will accomplish the new profit target for the whole year.

Looking into the second half of 2013, international economic environment will remain to be plagued with complexity and uncertainty. The slowdown of the Chinese economy that negatively impacted consumer demand may continue into the second half of this year and the anticipated domestic debt market sentiment may remain rather difficult. Hence, small and medium customers would face financing problems. As external factors remain unstable, we will concentrate on carrying out established strategies, strictly managing factors that are within our control. That includes adopting more cost optimization strategies, continuing our investment in research and development in new technology for key products, and improving our products' technical process. Internally, we will continue to ensure that account receivables, inventories and cash flow of various businesses will be managed healthily to avoid the increase of bad debt, and that sufficient working capital and healthy capital structure will be maintained. The Board of Directors is convinced that, with the relentless hard work of our management and staff, the Group's various businesses is poised to have significant improvement in the second half of this year.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2013 (2012: Nil).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2013, the Group's shareholders' funds were approximately HK$1,390,490,000, compared with approximately HK$1,378,937,000 as at 31st December, 2012.

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, 2013 was approximately 0.48 (31st December, 2012: 0.44), and the liquidity ratio was approximately 1.27 (31st December, 2012: 1.33), both were maintained at a healthy level. As at 30th June, 2013, cash, bank balances and time deposits amounted to approximately HK$293,118,000 and available banking facilities amounted to approximately HK$518,000,000. All these reflect that the Group is in sound financial position.

Financial Guarantees and Contingent Liabilities

	30th June, 2013	31st December, 2012
	HK$'000	*HK$'000*
Guarantees given to financial institutions in respect of credit facilities utilized by third party	**–**	–

Pledge of Assets

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

	Net book value	
	30th June, 2013	31st December, 2012
	HK$'000	*HK$'000*
Leasehold buildings	**59,745**	58,590
Leasehold land and land use rights	**20,546**	20,467
Plant and machinery	**57,749**	60,045
Bank deposits	**60,812**	53,562
	198,852	192,664

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.

VERY SUBSTANTIAL DISPOSAL

On 9th April, 2013, the wholly-owned subsidiary of the Company Fair Friend (Hong Kong) Enterprise Co., Limited entered into sale and purchase agreements with Beijing Sunbeway Investment Co., Ltd. and Beijing Jin Yuan Yi Tong Trading Co., Ltd. respectively to dispose 4,700 and 121 shares of Hon Kiu Machine Factory Limited, an associate owned 49.4% by the Company ("Hon Kiu") at consideration of RMB455,430,000 (equiv. to HK$570,653,790) and RMB11,724,900 (equiv. to HK$14,691,300) respectively. Hon Kiu holds 51,000,000 shares (representing 63.75%) of Shenzhen Haoningda Meters Co., Ltd, which is a joint stock limited company in the PRC and whose shares are listed on the Shenzhen Stock Exchange. The disposal constituted a very substantial disposal for the Company. A circular carrying all information regarding the disposal had been sent to shareholders of the Company on 10th May, 2013 and an extraordinary general meeting was convened on 29th May 2013 to approve the sale and purchase agreements. The disposal was completed on 5th July, 2013.

POST BALANCE SHEET EVENT

On 14th August, 2013, a 52% owned subsidiary of the Company, Gainbase Industrial (Holding) Limited ("Gainbase") entered into sale and purchase agreement with MA International Co., Limited, Gainbase purchased the entire issued share capital of KFE Hong Kong Co., Limited ("KFE HK") at a consideration of USD2,400,000 (equivalent to approximately HK$18,720,000), which will be satisfied in cash. KFE HK is principally engaged in trading of laminates and printed circuit boards. KFE HK has two wholly-owned subsidiaries established in the PRC, namely KFE (Shenzhen) Co., Limited which is a back office providing quality checking and assurance services to the customers; and KFE (Suzhou) Co., Limited which is a sale office to serve customers in Northern China. The acquisition constituted a discloseable transaction for the Company, the Company has made an announcement on 14th August, 2013 in accordance with the requirements of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company comprises three Independent Non-Executive Directors. The unaudited financial statements of the Company for the six months ended 30th June, 2013 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 comprises three Independent Non-Executive Directors, the Chairman and the Chief Executive Officer of the Board. 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 diversity (including but not limited to gender, age, cultural and educational background) 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, 2013, the Group has approximately 6,000 employees (2012: approximately 6,000). 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, 2013, 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 Corporate Governance Code during the six months ended 30th June, 2013 as contained in Appendix 14 of the Listing Rules 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 2013 annual general meeting of the Company held on 28th May, 2013 and the extraordinary general meeting held on 29th May, 2013 due to their other business engagements. However, the Board believes that the presence of independent non-executive directors at the said general meetings allowed the Board to develop a balanced understanding of the views of shareholders.

COMPLIANCE WITH MODEL CODE

Throughout the six months ended 30th June, 2013, 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 and the website of The Stock Exchange of Hong Kong Limited at 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 2013.

On behalf of the Board
TANG To
Chairman

Hong Kong, 28th August, 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.