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, 2014

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, 2014 with comparative figures for the corresponding period in 2013 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	3	**1,230,862**	1,157,443
Cost of sales		**(1,018,655)**	(968,928)
Gross profit		**212,207**	188,515
Other income and gains, net		**15,700**	10,782
Distribution costs		**(75,220)**	(73,585)
Administrative expenses		**(142,620)**	(122,855)
Allowance for impairment of bad and doubtful debts, net		**–**	(322)
Profit from operations		**10,067**	2,535
Finance costs		**(10,376)**	(9,051)
Investment income		**3,814**	1,259
Gain on deregistration of a subsidiary		**–**	1,727
Share of results of associates		**(639)**	649
Profit (loss) before taxation	4	**2,866**	(2,881)
Taxation	5	**(5,433)**	(4,717)
Loss for the period		**(2,567)**	(7,598)
Attributable to:			
– Equity holders of the Company		**(16,614)**	(11,795)
– Non-controlling interests		**14,047**	4,197
		(2,567)	(7,598)
Loss per share for loss attributable to the equity holders of the Company during the period	6		
– Basic		**(HK2.32 cents)**	(HK1.65 cents)
Proposed interim dividend: Nil (2013: Nil)		**–**	–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30th June, 2014 (Unaudited) *HK$'000*	2013 (Unaudited) *HK$'000*
Loss for the period	**(2,567)**	(7,598)
Other comprehensive (expense) income for the period, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
Change in fair value of available-for-sale financial assets	**79**	(9)
Share of other comprehensive (expense) income of associates	**(325)**	6,749
Exchange differences arising from translation of financial statements of foreign operations	**(9,603)**	18,337
	(9,849)	25,077
Total comprehensive (expense) income for the period	**(12,416)**	17,479
Attributable to:		
– Equity holders of the Company	**(25,861)**	11,553
– Non-controlling interests	**13,445**	5,926
Total comprehensive (expense) income for the period	**(12,416)**	17,479

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30th June, 2014 (Unaudited)** *HK$'000*	31st December, 2013 (Audited) *HK$'000*
Non-current Assets			
Property, plant and equipment		**787,029**	709,223
Leasehold land and land use rights		**55,037**	56,271
Goodwill		**53,483**	53,483
Intangible assets		**12,678**	13,370
Interests in associates		**43,105**	45,343
Available-for-sale financial assets		**573**	494
Deferred tax assets		**25,091**	25,970
		976,996	904,154
Current Assets			
Inventories		**668,812**	640,975
Trade and other receivables	7	**837,769**	794,148
Current tax recoverable		**1,982**	1,162
Short-term bank deposit with maturity over three months		**51,976**	80,035
Pledged bank deposits		**207,167**	219,553
Cash and cash equivalents		**383,522**	450,827
		2,151,228	2,186,700
Current Liabilities			
Trade and other payables	8	**897,047**	900,180
Amounts due to associates		**473**	481
Bank borrowings		**510,749**	438,128
Obligations under finance leases		**9,004**	12,911
Deferred Consideration payable		**4,360**	4,274
Current tax payable		**7,878**	7,217
		1,429,511	1,363,191
Net Current Assets		**721,717**	823,509
Total Assets less Current Liabilities		**1,698,713**	1,727,663

	Notes	**30th June, 2014 (Unaudited)** *HK$'000*	31st December, 2013 (Audited) *HK$'000*
Non-current Liabilities			
Obligations under finance leases		**5,709**	5,194
Deferred tax liabilities		**15,696**	16,429
Deferred Consideration Payable		**5,312**	7,514
		26,717	29,137
Net Assets		**1,671,996**	1,698,526
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital	9	**532,903**	286,772
Reserves		**915,590**	1,187,582
Proposed final dividend		**–**	10,754
		1,448,493	1,485,108
Non-controlling interests		**223,503**	213,418
Total Equity		**1,671,996**	1,698,526

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, 2013 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, 2014. 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 2014, the Group adopted the standard, amendment and interpretations of HKFRS below, which are relevant to its operations.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities
Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011), Investment entities
HK(IFRIC) – Int 21, Levies

The adoption of this revised HKFRS has had no significant impact on the results and financial position of the Group.

3. SEGMENT REPORTING

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

(1) trading of industrial consumables;

(2) manufacturing of plastic processing products;

(3) manufacturing of machinery; and

(4) manufacturing and trading of printed circuit boards.

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, 2014 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	**211,821**	**175,528**	**409,378**	**429,025**	**5,110**	**–**	**1,230,862**
Inter-segment sales	**6,686**	**143**	**850**	**–**	**2,824**	**(10,503)**	**–**
Total revenue	**218,507**	**175,671**	**410,228**	**429,025**	**7,934**	**(10,503)**	**1,230,862**
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	**13,794**	**(10,615)**	**(12,569)**	**35,634**	**(632)**	**195**	**25,807**
Unallocated corporate expenses							**(15,740)**
Profit from operations							**10,067**
Finance costs							**(10,376)**
Investment income, net							**3,814**
Share of results of associates		**(406)**	**(233)**				**(639)**
Profit before taxation							**2,866**

	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, 2014						
Segment assets	**276,356**	**375,690**	**1,222,864**	**598,973**	**159,369**	**2,633,252**
Interests in associates						**43,105**
Available-for-sale financial assets						**573**
Unallocated corporate assets						**451,294**
Consolidated total assets						**3,128,224**

The segment results for the period ended 30th June, 2013 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	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	Plastic processing products	Machinery	Printed circuit boards	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
At 31st December 2013						
Segment assets	256,654	384,514	1,258,923	550,326	96,348	2,546,765
Interests in associates						45,343
Available-for-sale financial assets						494
Unallocated corporate assets						498,252
Consolidated total assets						3,090,854

	Sales revenue by geographical market Six months ended 30th June,	
	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**133,842**	299,495
PRC	**706,986**	739,439
Other Asia-Pacific countries	**194,945**	86,339
North America	**8,157**	18,608
Europe	**186,932**	13,562
	1,230,862	1,157,443

4. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30th June,	
	2014	2013
	HK$'000	*HK$'000*
Profit (loss) before taxation has been arrived at after charging and crediting the following:		
Charging:		
Depreciation and amortisation on:		
– Owned assets	**37,816**	36,865
– Intangible assets	**692**	–
– Assets held under finance leases	**2,363**	2,843
– Leasehold land held for own use under finance leases	**306**	301
– Leasehold land and land use rights	**807**	735
Operating lease payments – Land and buildings	**14,463**	11,630
and crediting:		
Gain on disposal of property, plant and equipment	**458**	1,106
Rental income net of nil direct outgoings	**323**	175

5. TAXATION

	Six months ended 30th June,	
	2014	2013
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax	**200**	610
Overseas taxation	**5,233**	4,107
	5,433	4,717

Hong Kong Profits Tax is calculated at 16.5% (2013: 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,	
	2014	2013
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$16,614,000)**	(HK$11,795,000)
Basic loss per share	**(HK2.32 cents)**	(HK1.65 cents)

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

7. 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$748,143,000 (31st December, 2013: approximately HK$689,737,000) and their ageing analysis is as follows:

	30th June, 2014	31st December, 2013
	HK$'000	*HK$'000*
0 to 3 months	**542,958**	475,278
4 to 6 months	**59,293**	95,312
7 to 9 months	**38,253**	55,056
Over 9 months	**107,639**	64,091
	748,143	689,737

8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately HK$635,740,000 (31st December, 2013: approximately HK$636,033,000) and their ageing analysis is as follows:

	30th June, 2014	31st December, 2013
	HK$'000	*HK$'000*
0 to 3 months	**461,790**	478,975
4 to 6 months	**89,549**	100,533
7 to 9 months	**58,040**	46,019
Over 9 months	**26,361**	10,506
	635,740	636,033

9. SHARE CAPITAL

	Number of ordinary shares	Value HK$'000
Authorised:		
Ordinary shares of HK$0.40 each		
At 31st December, 2013	1,000,000,00	400,000
At 30th June, 2014 *(note)*	–	–
Issued and fully paid:		
At 1st January, 2014	716,930,692	286,772
Transfer from share premium and capital redemption reserve *(note)*	–	246,131
At 30th June, 2014	716,930,692	532,903

Note: Under the Hong Kong Companies Ordinance (Cap. 622), which came into force on 3 March 2014, the concept of authorised share capital no longer exists. In accordance with the said Ordinance, the Company's shares no longer have a par or nominal value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition. In addition, in accordance with the transitional provisions set out in section 37 of Schedule 11 to the said Ordinance, any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital.

10. CAPITAL COMMITMENTS

	30th June, 2014 ***HK$'000***	31st December, 2013 *HK$'000*
Capital expenditure:		
Authorised but not contracted for	**163,769**	94,768
Contracted but not provided for	**2,437**	6,594
	166,206	101,362

11. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	30th June, 2014	31st December, 2013
	HK$'000	*HK$'000*
Guarantees given to financial institutions in respect of credit facilities utilized by third party	**–**	–

12. 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, 2014	31st December, 2013
	HK$'000	*HK$'000*
Leasehold buildings	**73,999**	76,020
Leasehold land and land use rights	**8,965**	9,222
Plant and machinery	**45,370**	51,170
Bank deposits	**207,167**	219,553
	335,501	355,965

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

For the first half of 2014, consolidated turnover was approximately HK$1,230,862,000, up by 6% over the corresponding period last year. Loss for the period of approximately HK$16,614,000 was reported. Given the slow-down in economic growth of the US, the PRC and some countries with important emerging markets, the global economy lost its momentum and remained uncertain. In the PRC, control of credit further tightened to avoid property bubble, which slackened economic activities generally. Coupled with the hike of PRC lending rate, manufacturers retarded their demand for acquisition and replacement of industrial equipment and production facilities. Thus, the Group's business as a whole was considerably impacted. Despite such an unfavourable economic environment, all business teams of the Group continued their dedication to work by keeping abreast of the market trend and marketing initiatives, and making appropriate reactions and adjustments responsive to those movements and changes in a proactive and practical manner.

Manufacturing Business

Machinery

For the first half of 2014, our machinery business recorded an overall turnover of approximately HK$409,378,000 which declined by approximately 22% over the same period last year, and accounted for approximately 34% of the Group's consolidated turnover. Operating loss of approximately HK$12,569,000 was reported for the period.

During the period, the economic growth of the PRC remained conservative. However, domestic manufacturers kept cautious about the economic prospects, thus their interest of investing in industrial machineries and equipment stayed low. Further, owing to the weak economic growth in foreign markets, foreign manufacturers reduced their capital expenditures. As a result of the depressed internal and external economic conditions, overall market demand for plastic injection moulding machine weakened, intensifying the competition in the industry. To this end, our designated business team has initiated corresponding measures including reorganising corporate structure, redeploying management, sales and production staff, and streamlining manpower, so as to reduce costs and efficiently deploy human resources. In addition, we endeavoured to implement various product optimisations such as product design, component configurations and features, with a view to minimise the impact of adverse economic conditions on our business.

For plastic injection moulding machine business, our business team positions the conventional plastic injection moulding machines as mid- to high-end products, with the goal of bringing the product performances to reach the highest standards in the industry in the PRC. Moreover, our business team strives to optimise product features in order to enhance the quality stability and reliability. In terms of material procurement, apart from purchasing quality materials and components, greater efforts has been made to control the costs incurred in the supply chain, thereby simultaneously advancing our product quality and price competitiveness. Besides, the Ge-Green & Excellence all-electric plastic injection moulding machine, our new product that can produce precision plastic parts, is mainly used in the medical products and high-end toy markets. Our business team will continue to optimise its design and configurations to expand its applicability in different markets.

For hydraulic press business, our main focus is to design and manufacture industry-tailored machines based on the specific requirements of professional customers in the niche market. Due to the postponement of acquisition of tailored hydraulic press by foreign professional customers, this business saw a decline in turnover for the period as compared with the corresponding period last year. Our business team has formulated corresponding sales and production strategies, aiming at gradual and steady market expansion.

For CNC punching press business, our sales team has undergone a reorganisation. At the current stage, we are working on the optimisation in product design, features and quality, and the cost control on supply chain. Turnover of this business for the period declined as compared with the same period last year. It is expected that gradual recovery in orders will be seen in the second half of the year.

For the period, the business of rubber injection moulding machine and extruding machine performed well. It is evidenced by the significant increase in its turnover as compared with that of the corresponding period last year. Among all, our extruding machine which is designed and manufactured tailored for high-end professional customers, is well received by our customers. Product optimisations and cost controls on supply chain are all under way. This business is expected to sustain its positive performance in the second half of the year.

Plastic Products and Processing

For the first half of 2014, consolidated turnover of this business was approximately HK$175,528,000, representing an increase of approximately 5% over the corresponding period last year, and accounted for approximately 14% of the Group's consolidated turnover. Operating loss of approximately HK$10,615,000 was reported.

For the first half of the year, performance of the business of home appliance, A/V product and plastic part processing in Dongguan remained unsatisfying. As compared with the corresponding period last year, turnover for the period dropped while loss slightly narrowed. Due to the shrinking of A/V product market, during the first half of the year, no new customers were acquired and there were only few new products developed by our existing customers. It led to a decrease in turnover and a loss reported. In response, we are now actively exploring customers for non-A/V products in hopes of increase sales and profit.

The production base in Hefei attained rational results in both turnover and profit for the period. By implementing management informationisation, technology standardisation, and production automation, the business has made appropriate improvement in management optimisation. As to production facilities, several robot arms and coating lines were introduced during the period. Meanwhile, based on the requirements of technology standardisation, modification of moulds and facilities was made to enhance management and production efficiency, which in turn, offset the increasing labour costs. On the business front, to cope with the abrupt increase in orders, our business team proactively identified and selected reputable suppliers to collaborate with so as to achieve advantages of profit sharing, cooperative relationship, win-win situation and mutual development. For human resources, efforts have been put to adjust departmental structures, reduce communication gaps, reinforce staff appraisal system and vitalise internal interactions. Furthermore, staff retention policy has been put in place to ensure our staff can work at ease.

The specialised food packaging and cutlery business in Zhuhai showed an obvious decrease in turnover and profit for the period as compared with the same period last year. Impacted by the instability in customers' orders our major customers suspended their orders of candy sticks, which resulted in a reduction in sales. Further, the escalating raw material prices and the increase in labour cost drove gross profit margin downward. Despite of many challenges, in the area of product development, during the period, this business successfully developed a new folding seal cap for milk powder containers with advanced tightness and scoop holder that minimise the risk of contained milk powder being contaminated. This newly developed folding seal cap was well recognized by leading local and international milk powder suppliers as they started placing orders during the period. In addition, in-mould labeling products became the sales highlight in the period and were mainly supplied to leading local brand manufacturers.

With efforts made in development for more than half a year, our eco-friendly kitchenware brand, BioChef, has built up its first sales network in the PRC through online and offline sales channels. In the meantime, we have entered into letters of intent with various distributors to jointly and severally introduce products into the retail markets in different areas. However, due to the fact that our initiative in marketing and brand promotion has just commenced, the business has yet to make a breakthrough and registered a loss for the period.

For optic and lighting business, turnover for the period increased as compared with the same period last year. Nonetheless, loss was again reported. Both of the diminished orders for magnifiers by existing customers and the failure of launching products in a timely manner during the period due to prolonged period of product development have negative impacts on sales to a certain extent. Fortunately, the increasing demand of Japanese customers for magnifiers was able to cover the sales reduction. Moreover, our product line of smartphone lens was well received by customers, which contributed to the increase of sales and gross profit margin.

Printed Circuit Board

The printed circuit board business recorded a turnover of approximately HK$429,025,000 for the period, which accounted for approximately 35% of the Group's consolidated turnover and represented an increase of approximately 63% when compared with the corresponding period last year. Operating profit was approximately HK$35,634,000.

The business achieved sound performance during the period, primarily due to the brisk sales of new products. The sizable demand of certain European and Japanese customers boosted significant increase in shipment. A relatively stable order book was maintained. New products such as related printed circuit boards for automotive lighting systems and high-speed printers were well received by customers after launching into markets with increasing orders sustained.

In terms of production process, the business team reinforced its monitoring of quality control and executed its "7S" management standards which comprises Seiri, Seiton, Seiso, Safety, Saving, Standard and Shitsuke, with objectives to benefit from product quality assurance and smooth production activities; to keep the workplace and production facilities in a neat, tidy and orderly manner by setting out standards for workplace and production sites; to continually improve the working environment and reduce operating costs; and to improve staff efficiency and motivation. In terms of cost control, carbon emission reduction measures are in place to maximise capital efficiencies. In terms of customer services, customer confidence has strengthened through constantly understanding customers' business development, increasing the number of customer visits, maintaining close ties with customers, and improving its after-sales enquiry services. Although China's minimum wage soared this year, the business attained positive results thanks to the management's efforts in business adjustments and repositioning in response to the market changes.

Meanwhile, the circuit board trading business acquired last year operated well in general in the first half of the year. Our business team built up a stronger synergy and maintained healthy development in the sound operating model of the Company, resulting in a significant growth in both turnover and profit.

Trading Business

For the first half of the year, consolidated turnover of the trading business was HK$211,821,000, which accounted for approximately 17% of the Group's consolidated turnover, and represented an increase of 8% when compared with the same period last year. Operating profit for the period was approximated HK$13,794,000.

During the period under review, despite the overall operating environment was depressed, certain industries such as elevator, semi-conductor, and communication industries still maintained in a relatively stable position. By capturing the potential customers in the above industries and implementing effective cost control, our trading team achieved its overall turnover and profit higher than expectation. Also, there was an increase in number of customers of our medical equipment and robot arm business, which expanded our profitability for the year. On top of this, it laid a solid foundation for market development in the future. The steel tape slitting processing business is gradually moving to a steady growth, hence fortifying our confidence in further development of processing trade.

PROSPECTS

Machinery

For machinery business, it is anticipated that the global economic condition will remain uncertain in the second half of the year. Therefore, the business will experience unfavourable impacts and will encounter severe challenges. Nevertheless, our business team will adhere to the guiding strategy of "solidifying foundation and strengthening capabilities". With fulfilling customer needs as the ultimate goal, we will actively improve the features of all machinery products to ensure the quality at its best. We will proactively enforce cost and quality controls by purchasing high quality parts and components at competitive prices. In doing so, quality improvement will be achieved at the same or lower costs. Professional trainings will be provided to our sales staff to enrich their sales techniques and product knowledge about machinery. We will facilitate close communications between our sales team and engineering department and strengthen our reporting mechanism, through which customer requirements on features and quality of machinery products can be reported to the engineers promptly for due adjustments and arrangements. In terms of sales channels, it is planned to expand our domestic sales network to increase our geographic coverage across the nation. In terms of market development, it is proposed to conduct in-depth studies on the industries of customers such as construction material, food packaging and medical products, for the purpose of understanding their requirements on the features of plastic and sheet metal processing machineries. In terms of research and development, we will pursue our focus on "environmental conservation, energy saving, high efficiency and precision". On this basis, we will achieve optimal configuration, features and efficiency of our existing machinery products, and launch new design models to accommodate different customer needs. Leveraging the determination of management in establishing a series of product optimisation and cost-cutting measures, together with revised sales strategies and product development, it is believed that benefits will be brought to the business during the second half of the year and corresponding improvement in performance can be expected.

Plastic Products and Processing

For the home appliance, A/V product and plastic part processing business in Dongguan, it is expected that the A/V product market will continue to shrink in the future. Non-A/V product business is expected to commence in the second half of the year, in anticipation of realising sales. We will also keep on quality improvement, enhancing production efficiency and reducing scrap, in order to raise our overall gross profit margin and improve our operating condition.

In the second half of the year, the production base in Hefei will endeavour to improve product quality and continue to optimise its management structure. In terms of sales, actions will be taken to retain existing customers while developing new customers, thereby laying foundation for future development. With a view to accelerate the processing and transmission of logistic information and reduce intermediate circulation, our management team in Hefei has formulated plans to strengthen its management on logistic informationisation so as to minimise costs and heighten efficiencies. Upon the completion of second stage construction of our simple workshop, assembly lines and warehouses can be relocated into this new workshop, thus promoting lean production. To alleviate our liquidity pressure, we will strive to control customer payments to gradually shorten the turnover days of trade receivables and payables.

For the specialised food packaging and cutlery business in Zhuhai, as a measure to retain calibres and promote a stronger sense of belonging among our frontline staff, during the period, we provided our workshop technicians and frontline managers with trainings covering the areas of production technologies, communication skills, and management concepts, aiming at building up and fortifying team spirit. The benefits of providing trainings can be seen from the stabilised turnover of frontline staff, as well as the maintenance and improvement of product quality. The management of the business believes such benefits will continue to bring positive impacts in the second half of the year. In addition, the newly developed folding seal cap for milk powder containers and scoop holder have become pioneers of its kind. As a matter of fact, hygienic and uncontaminated milk powder is what parents want. Thus, food packaging and its accessories that can significantly reduce the risk of food contamination, is the mainstream of food packaging industry. Several leading local and international branded milk powder manufacturers have approached us, of which certain premier brand manufacturers have started to place orders. We expect orders will sustain and grow.

For our eco-friendly kitchenware brand, Biochef, it is planned to focus on brand building and market promotion in the second half of the year, in order to increase sales volume and to expand market share. In terms of product development, we have hired an industrial product designer to redesign a series of products suitable to the PRC market, so as to satisfy the requirements of those customers. It is expected that a full series of products will be launched in the second half of the year. Besides, we have drawn up a range of plans with various retailers for strategic marketing and promotion. It is designated to increase brand exposure and provide opportunities for more consumers to experience and use our Biochef eco-friendly kitchenware.

For the optic and lighting business, Japanese customers have great potential demand for magnifiers as the aging population continues in Japan. As such, they are now in collaboration with our team to establish production lines for magnifiers. Moreover, our smartphone lens series are well received by users. In view of the situation, we will focus on the development of add-on zoom lens for smartphone. In the meantime, we will develop a series of optic gift sets, such as lighted high power magnifier and lighted paperweight magnifier, in order to increase the functions of products to satisfy different consumer needs.

Printed Circuit Board

For printed circuit board, the market will be full of challenges in the second half of the year. A majority of the customers of the business are Japanese manufacturers. As the Sino-Japan relationship is at an impasse due to geopolitical reason, Japanese enterprises are at crossroads in China. They may follow the Japanese government's political direction by slowing down the pace of some new project development, or shifted those projects to other countries. Recently, some Japanese manufacturers have taken such a move. This political factor has stored up obstacles for the business. In response, the management is stepping up efforts in strategic deployment and adjustment on customer distribution and shift its focus to the US and European markets. This, on one hand, will minimise the impacts caused by the geopolitical factor on the business, and on the other hand, will enable the business to explore new markets and increase its sales and market share.

To maintain its steady growth, our printed circuit board trading business will endeavour to improve its operating strategies in order to accommodate customer needs and response to market changes. The steps which include maintaining high standard quality service and selectively adjusting sales strategies will improve the performance in the second half of the year. In addition, the restructuring of our Suzhou team will ensure steady business development and customer satisfaction.

Trading Business

For trading business, looking ahead, the political reform and macro-economic adjustment in the PRC will lead to a sluggish economic growth in the second half of the year. In Europe and the US, the economies may show modest improvement but challenges remain. Against the backdrop of volatile internal and external economic conditions, combined with the pressure of keen competition with the fittest survival in the PRC manufacturing industry, our trading business team will grasp the opportunities arising from the initiatives of energy saving, emission reduction and industrial reform upgrade, as promulgated in the Twelfth Five Year Plan, to actively develop new businesses and strengthen product lines. We are confident to achieve positive results.

Conclusion

Ahead, it is anticipated that the global economy is not in the position to resume its momentum in the second half of the year. Further, the geopolitical factor will raise concerns. In the PRC, the focus of macro-economic policy will remain on controlling credit growth. Under such circumstances, inactivity of credit market and the hike of lending rate will result in financing difficulties and low interest in investment by SMEs. Despite the business distress caused by external conditions, the Group is persistent to adhere to it philosophies towards strengthening its core businesses, executing resource restructuring, maintaining sound financial position, improving quality of products and services and optimising team structure in a proactive, practical and prudent manner. With all of these measures, the management is optimistic to the future prospects. Through staff efforts and cohesiveness, we look forward to achieving promising results in the second half of the year.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2014 (2013: Nil).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2014, the Group's shareholders' funds were approximately HK$1,448,493,000, compared with approximately HK$1,485,108,000 as at 31st December, 2013.

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, 2014 was approximately 0.47 (31st December, 2013: 0.45), and the liquidity ratio was approximately 1.50 (31st December, 2013: 1.60), both were maintained at a healthy level. As at 30th June, 2014, cash, bank balances and time deposits amounted to approximately HK$435,498,000 and available banking facilities amounted to approximately HK$535,000,000. All these reflect that the Group is in sound financial position.

Financial Guarantees and Contingent Liabilities

	30th June, 2014 *HK$'000*	31st December, 2013 *HK$'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, 2014 *HK$'000*	31st December, 2013 *HK$'000*
Leasehold buildings	**73,999**	76,020
Leasehold land and land use rights	**8,965**	9,222
Plant and machinery	**45,370**	51,170
Bank deposits	**207,167**	219,553
	335,501	355,965

Foreign Currencies and Treasury Policy

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

AUDIT COMMITTEE

The audit committee of the Company comprises three Independent Non-Executive Directors. The unaudited financial statements of the Company for the six months ended 30th June, 2014 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 Rules Governing the Listing of Securities on the Stock Exchange ("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 Committee of Executive Directors is responsible for the management and day-to-day operations of the Group. The Committee meets frequently as when necessary. Mr. Jiang Wei, the Executive Director, resigned from his office on 11th July, 2014. The Committee considers that Mr. Jiang's resignation does not affect the operation of the Committee. Currently, the Committee comprises three Executive Directors.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June, 2014, the Group has approximately 5,000 employees (2013: 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 LISTED SECURITIES OF THE COMPANY

During the six months ended 30th June, 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board consider that the Company has applied the principles of and complied with most of the code provisions of the Corporate Governance Code (the "Code") during the six months ended 30th June, 2014 as set out in Appendix 14 of the Listing Rules, with the exception of code provision A.6.7 of the code which is explained 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 2014 annual general meeting of the Company held on 28th May, 2014 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.

During the period, Mr. Wu Ding, the Vice Chairman and the Non-Executive Director, and Mr. Jiang Wei, the Executive Director, resigned from their office. The Board considers that the resignation of the two directors do not affect the operation of the Group and the corporate governance of the Board to the Group. New directors would be appointed when the time is appropriate as long as the Board believes that the appointments of whom are benefit to the Group and reinforce the competence of corporate governance of the Board.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

Throughout the six months ended 30th June, 2014, 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 2014.

On behalf of the Board
TANG To
Chairman

Hong Kong, 28th August, 2014

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