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
FOR THE SIX MONTHS ENDED 30 JUNE 2018

RESULT SUMMARY

- Revenue increased by 15.7% to HK$1,332,327,000 (2017: HK$1,151,834,000)
- Gross profit margin was 16.9%, as compared to 17.2% for the corresponding period
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") increased to HK$123,063,000, representing an EBITDA margin of 9.2% (2017: 4.8%)
- Profit for the Period increased to HK$66,800,000 (2017: HK$6,818,000)
- Net debt to equity ratio improved to 4.1% (31 December 2017: 7.1%)

INTERIM RESULTS

The board of directors (the "Board") of Cosmos Machinery Enterprises Limited (the "Company") is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 (the "Period"). The interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	2	**1,332,327**	1,151,834
Cost of sales		**(1,107,201)**	(953,743)
Gross profit		**225,126**	198,091
Other income and gains		**14,556**	11,112
Selling and distribution costs		**(75,264)**	(66,692)
Administrative expenses		**(125,871)**	(123,403)
Operating profit		**38,547**	19,108
Finance costs		**(10,311)**	(9,449)
Investment income		**2,728**	1,593
Gain on disposal of a subsidiary		**44,588**	–
Share of results of associates		**1,915**	1,732
Profit before tax	3	**77,467**	12,984
Taxation	4	**(10,667)**	(6,166)
Profit for the Period		**66,800**	6,818
Profit attributable to:			
– Equity shareholders of the Company		**61,682**	1,135
– Non-controlling interests		**5,118**	5,683
		66,800	6,818
Earnings per share	5		
– Basic		**8.57 HK cents**	0.16 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2018 (Unaudited) *HK$'000*	2017 (Unaudited) *HK$'000*
Profit for the Period	**66,800**	6,818
Other comprehensive income/(loss), net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income/(loss) of associates	**208**	(719)
– Exchange differences arising from translation of financial statements of foreign operations	**(4,805)**	27,649
– Release of translation reserve upon disposal of a subsidiary	**(547)**	–
– Release of other reserve upon disposal of available-for-sale financial asset	**–**	(907)
	(5,144)	26,023
Total comprehensive income for the Period	**61,656**	32,841
Profit attributable to:		
– Equity shareholders of the Company	**55,665**	24,973
– Non-controlling interests	**5,991**	7,868
Total comprehensive income for the Period	**61,656**	32,841

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*
Non-current Assets			
Property, plant and equipment		**632,791**	644,876
Leasehold land and land use rights		**42,321**	43,320
Goodwill		**53,483**	53,483
Intangible assets		**7,146**	7,838
Interests in associates		**31,994**	32,369
Finance lease receivables		**23,205**	16,472
Deferred tax assets		**29,231**	29,518
		820,171	827,876
Current Assets			
Inventories		**621,410**	524,571
Finance lease receivables		**89,804**	100,965
Trade and other receivables	6	**994,018**	923,611
Other financial assets		**59,529**	20,277
Current tax recoverable		**1,988**	1,473
Cash and bank balances		**355,922**	348,746
		2,122,671	1,919,643
Assets of disposal group classified as held for sale		**–**	23,140
		2,122,671	1,942,783
Current Liabilities			
Trade and other payables	7	**1,008,934**	928,635
Provision for restructuring		**52,956**	52,956
Amount due to an associate		**755**	865
Bank borrowings		**346,727**	380,598
Obligations under finance leases		**2,168**	2,696
Deferred consideration payable		**8,148**	8,148
Current tax payable		**5,832**	7,622
		1,425,520	1,381,520
Liabilities directly associated with assets classified as held for sale		**–**	26,723
		1,425,520	1,408,243
Net Current Assets		**697,151**	534,540
Total Assets less Current Liabilities		**1,517,322**	1,362,416

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Non-current Liabilities		
Bank borrowings	**59,323**	45,125
Obligations under finance leases	**1,262**	–
Deferred tax liabilities	**25,384**	25,152
	85,969	70,277
Net Assets	**1,431,353**	1,292,139
Equity		
Capital and reserves attributable to equity shareholders of the Company:		
Share capital	**612,653**	532,903
Reserves	**601,064**	547,591
	1,213,717	1,080,494
Non-controlling Interests	**217,636**	211,645
Total Equity	**1,431,353**	1,292,139

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2017, except for the adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include Hong Kong Accounting Standards and interpretations, in current period for the first time.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

The Group has adopted the following new and revised standards for the first time for the current period's financial information. The Group has not early adopted any new and revised HKFRSs that have been issued but are not yet effective.

- HKFRS 9 Financial Instruments

- HKFRS 15 Revenue from Contracts with Customers

The Group has been impacted by HKFRS 9 and HKFRS 15 that require restatement of the financial statements. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Other new and revised standards apply for the first time in 2018, but have no material impact on the condensed consolidated financial statements of the Group.

(a) HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces the provisions of HKAS 39 Financial Instruments: Recognition and Measurement, that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies as below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated as the Group does not have any hedge instrument.

Accounting policy

(i) Classification and measurement

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss; and

- those to be measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

	31 December 2017 as previously reported	Reclassify from available-for-sale financial asset to financial asset at FVOCI *(Note A)*	1 January 2018 as restated
	Unaudited		
	HK$'000	*HK$'000*	*HK$'000*
Available-for-sale financial assets			
– Unlisted equity investment*	–	–	–
Financial asset at FVOCI			
– Unlisted equity investment	–	–	–

* *Fully impaired as at 31 December 2017*

Note A:

(A) Reclassification of available-for-sale financial asset to financial asset at fair value through other comprehensive income - unlisted equity investment.

The Group elected to present change in the fair value of its equity investment (previously classified as available-for-sale financial asset) in other comprehensive income as it is long-term and strategic investment that is not expected to be sold in the short to medium term.

(ii) Impairment

From 1 January 2018, the Group assesses the expected credit losses associated with its financial assets on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group has trade receivables for sales of products that are subject to the new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the simplified approach under HKFRS 9 to measure the expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the aging days.

Cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

(b) **HKFRS 15 Revenue from Contracts with Customers**

The Group has adopted HKFRS 15 from 1 January 2018, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 15, the Group has adopted the modified retrospective approach for transition to the new standard. Under this approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 15 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 15, i.e. 1 January 2018; (iii) the Group recognizes the cumulative effect of initial application of HKFRS 15 as an adjustment to the opening balance of retained profits in the year of adoption, i.e. as at January 2018; and (iv) the Group elects to apply for the new standard only to sales contracts that are not completed as at 1 January 2018.

Impact of adoption

The following table illustrates the impact to each line items affected in current period by the adoption of HKFRS 9 and HKFRS 15 as compared to HKAS 39, HKAS 18 and HKAS 11 (that were previously in effect before the adoption of HKFRS 15) as belows:

	31 December 2017 as previously reported	**Effect of adoption of HKFRS 9**	**Effect of adoption of HKFRS 15**	**1 January 2018 as restated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Condensed consolidated statement of financial position (extract)				
Trade and other receivables	923,611	(2,073)	(808)	920,730
Retained profits	(394,223)	2,073	119	(392,031)
Trade and other payables	(928,635)		686	(927,949)

2. SEGMENT REPORTING

The Group's operating segments based on information reported to the executive directors of the Company, being the chief operating decision makers for the purposes of assessing performance and allocating resources are listed hereunder:

(1) trading of industrial consumables;

(2) manufacturing of plastic processing products;

(3) manufacturing of machinery; and

(4) processing and trading of printed circuit boards.

The segment results for the period ended 30 June 2018 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*
REVENUE							
External sales	**197,201**	**234,380**	**462,209**	**425,214**	**13,323**	**–**	**1,332,327**
Inter-segment sales *(Note)*	**12,474**	**96**	**3,006**	**–**	**–**	**(15,576)**	**–**
Total revenue	**209,675**	**234,476**	**465,215**	**425,214**	**13,323**	**(15,576)**	**1,332,327**
Segment result	**6,467**	**20,094**	**13,433**	**6,221**	**6,869**	**–**	**53,084**
Unallocated corporate expenses							**(14,537)**
Operating profit							**38,547**
Finance costs							**(10,311)**
Investment income							**2,728**
Gain on disposal of a subsidiary							**44,588**
Share of results of associates							**1,915**
Profit before tax							**77,467**

Note: Inter-segment sales are determined at prevailing market rates.

The segment results for the period ended 30 June 2017 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*
REVENUE							
External sales	167,508	193,718	392,383	386,525	11,700	–	1,151,834
Inter-segment sales *(Note)*	13,179	–	1,398	–	–	(14,577)	–
Total revenue	180,687	193,718	393,781	386,525	11,700	(14,577)	1,151,834
Segment result	5,168	2,134	6,592	11,397	5,071	–	30,362
Unallocated corporate expenses							(11,254)
Operating profit							19,108
Finance costs							(9,449)
Investment income							1,593
Share of results of associates							1,732
Profit before tax							12,984

Note: Inter-segment sales are determined at prevailing market rates.

	Sales revenue by geographical market Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**307,502**	341,545
Mainland China	**890,896**	698,610
Other Asia-Pacific countries	**92,886**	68,113
North America	**6,689**	11,516
Europe	**34,354**	32,050
	1,332,327	1,151,834

3. PROFIT BEFORE TAX

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Profit before tax is arrived at after charging/(crediting) the following:		
Depreciation and amortisation on:		
– Owned assets	**32,210**	29,259
– Assets held under finance leases	**195**	1,034
– Leasehold land held for own use under finance leases	**1,493**	1,097
– Leasehold land and land use rights	**696**	679
– Intangible assets	**692**	692
Operating lease payments		
– Land and buildings	**10,359**	9,597

4. TAXATION

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong profits tax	**1,183**	645
Overseas taxation	**9,484**	5,521
	10,667	6,166

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. EARNINGS PER SHARE

The calculation of the basic earnings per ordinary share is based on the Group's profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue during the Period.

	Six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares in issue during the Period	**719,334,006**	716,930,692
Profit attributable to the equity shareholders of the Company	**HK$61,682,000**	HK$1,135,000
Basic earnings per share	**8.57 HK cents**	0.16 HK cents

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

6. TRADE AND OTHER RECEIVABLES

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

The aging analysis of trade receivables, based on the invoice date and net of allowance for impairment of bad and doubtful debts, is as follows:

	30 June 2018 *HK$'000*	31 December 2017 *HK$'000*
0 to 3 months	**606,961**	559,202
4 to 6 months	**105,626**	155,047
7 to 9 months	**55,938**	51,402
Over 9 months	**61,324**	47,020
Total trade receivables	**829,849**	812,671
Other receivables	**122,395**	82,076
Prepayment	**41,752**	28,814
Amounts due from related parties	**22**	50
	994,018	923,611

7. TRADE AND OTHER PAYABLES

The aging analysis of trade payables, based on the invoice date, is as follows:

	30 June 2018 *HK$'000*	31 December 2017 *HK$'000*
0 to 3 months	**589,032**	437,757
4 to 6 months	**97,527**	108,352
7 to 9 months	**18,536**	25,920
Over 9 months	**17,122**	18,229
Total trade payables	**722,217**	590,258
Accruals and other payables	**276,408**	328,032
Amount due to related parties	**10,309**	10,345
	1,008,934	928,635

8. DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Sales revenue of the Group increased by 15.7% to HK$1,332,327,000 (2017: HK$1,151,834,000). It was mainly attributable to the improvement of performance in the machinery manufacturing segment, plastic products and processing segment and the trading segments during the Period.

Gross profit for the Period amounted to HK$225,126,000, with gross profit margin of 16.9% which compared to 17.2% for the corresponding period. The slight drop in gross profit margin was resulted from increasing raw materials costs, additional costs incurred for the development of new products, and heightened pricing pressure in various business sectors in the first half of 2018. Nevertheless, the Group continues to strengthen the control over production costs and operating overheads.

During the Period, the Group recorded a non-recurring gain on disposal of entire issued share capital of and indirect wholly-owned subsidiary, MS Plasticorp, of approximately HK$44,500,000, after deducting related statutory cost and expenses. For more details of the disposal, please refer to the section "Material Acquisition and Disposal" below.

As stated in the announcement of the Company dated 23 December 2016, the Group planned to restructure its plastic products and processing segment and machinery manufacturing segment, including the cessation of operation of certain manufacturing businesses and optimization of the production capacities in machinery manufacturing plants located at Dongguan and Wuxi. The restructuring projects including assets relocation and optimization, organizational restructuring and production efficiency enhancement are on-going, under the closely-monitoring of a designated task force during the Period, and adjusting its actions as it sees fit. The Group will update the progress of the respective restructuring in due course.

The profits of the Group increased to HK$66,800,000 in the first half of the 2018 (2017: HK$6,818,000), including a non-recurring gain with amount HK$44,500,000 from the disposal of subsidiary mentioned above. In addition, the improvement in operating profits was mainly resulted from the increase in sales revenue and tight control over the operating expenses during the Period.

The net debt to equity ratio improved to 4.1% as at 30 June 2018. The overall cash flow position and debt maturity profile of the Group maintained at a healthy level.

BUSINESS REVIEW

Machinery Manufacturing Business

During the Period, the machinery manufacturing segment recorded sales growth in the Mainland China market, especially in the industries of automotive components, daily necessities and infrastructure construction. The segment has improved its operating results compared with that of same period, mainly arised from delivery of sales orders received in second half of 2017. The Group continues to put efforts in the optimization of industry tailor-made moulding machines associated with professional total solutions in specialized niche markets. The segment observed a slight slowdown of sales orders intake from customers of injection moulding machines starting from mid of second quarter in 2018, as business and investment sentiment outlook in Mainland China showed signs of deteriorating. The Group is prudently cautious to the operating results of this segment in the second half of this year. In response, the business segment deploys strict costs controls and measures to reduce overall financial risks by inventory management and cashflow management.

Moreover, this key business segment continues the execution of the restructuring plan started in end of 2016 including the streamline of its organization structure, strength the cost control over the supply chain and realignment of its export sales team. On the other hand, it continues to enhance the research & design capabilities and invest additional resources in developing innovative value-added products with higher profit margin in the second half of 2018. The successful implementation of the "Smart Industry 4.0 Solution" also provides a platform for the development of smart products. In the near future, the segment commits to further enhance research & design in new products towards the direction of professional and smart total solution.

Regarding the extrusion machines and rubber plastic machinery business, positive feedback from customers in niche markets were received after development and installation of various automated production solutions in order to strengthen the functionality and capabilities of standard models with lower energy consumption and better product stability. It continues to focus on the development of multi-layer extrusion machines particularly made for the manufacturing of fuel coolant liquid pipes in auto industry.

Plastic Products and Processing Business

During the Period under review, the Zhuhai food packaging production plant of the plastic products and processing segment recovered satisfactorily from the serious damage caused by the typhoon in the second half of last year and quickly resumed its production after few months with upgraded manufacturing workshops, further improvement in the hygiene condition of the production environment and various upgrades in factory infrastructures. The overall production efficiency and output are enhanced after additional investment in new machines and equipment with new specifications. Moreover, it continues to develop the high-margin customer portfolio, in particular for the folding cap seals with scoop for dairy products, increase the applications of new and advanced digitized factory management technology, and also enhance the production process automation. This aims to build a better and more efficient operation team and keep the direct labour costs at comparatively reasonable level.

On the other hand, the improvement in operation efficiency of our Hefei plastic processing plant including mainly in areas of automation of production processes, application of new raw materials and centralization of material-supply system with additional investment in the new efficiency-oriented warehousing facilities, was offset by the margin squeezed by major customers during the Period. Moreover, the increasing cost of manufacturing overheads and installation of environmental machines and equipment for complying with the stringent environmental regulations in the Mainland China has posed additional high pressure in the operating profit margin in the coming quarters. The production plant continues to diversify the customer mix and optimize its production capacities to maintain its competitiveness in the market.

The Group also observed certain progress in its investment in the production of plastic products with advanced technology during the Period, in particular the environmental-friendly plastic mannequins and multi-color injection moulding businesses. The overall performance of this manufacturing segment is expected to improve gradually through crystallization of these pioneering investments, continuous measures to uplift the profit level of existing productions and execution of critical business restructuring of non-profit-making operations in the near future.

Printed Circuit Board ("PCB") Processing and Trading Business

The sales revenue of PCB processing business increased in the first half of 2018 compared with that of last year, as a result of additional sales orders received from various major customers. However, the overall profitability dropped markedly due to the fluctuation in the price of raw materials, additional investment in new products and intense competition within the industry. The segment expects such challenges continue in the coming quarters with pressure on the overall profit margin. In order to maintain its market competitiveness, the processing business is gradually shifting its product mix to higher-margin multi-layers and high density interconnect ("HDI") product series. Moreover, it continues to strengthen automated production and optimize production capacities, so as to enhance its production efficiency and uplift the product quality with lower scrap rate arising from the development of new products.

Regarding the PCB trading business, the team continues to strive for maintaining its healthy level of profitability through entering into new markets, expanding existing customer base, leverage on its professional quality assurance knowhow, and tight control over the operating overheads during the Period. In addition to training up professional sales and services teams, it also invested in circuit board quality inspection equipment and facilities to enhance its sales revenue base by providing a wide range professional testing and value-added services to associated customers. Accordingly, the segment expects to observe synergic effect from the collaboration between processing and trading businesses in the coming years.

Industrial Consumables Trading Business

The domestic and global business environment of this business segment remains challenging during the Period. Nevertheless, overall performance in terms of sales and profitability improved slightly compared to the same period last year. It was attributed mainly by favourable currency movements and improved performance in its target markets. The sales performance of new products such as the cables for elevators and the high-quality domestic-manufactured stainless steel wire was improving. Meanwhile, product sales to industries such as automotive, household appliances, smartphones and machineries saw improvements. In the second half of 2018, the segment continues to optimize its inventory management and improve the supply-chain monitoring mechanism.

This trading segment realigns its strategy to focus on the development of system-integration business and aims to capture potential business opportunities of factory automation and production process enhancement. It also continues to develop high-margin fast-growing industrial customers such as auto parts and robotic arms.

This segment sees increasingly stringent challenges in coming quarters due to shift in business and investment sentiments in Mainland China. Customers in various industries turn cautious regarding launch of new products. The trading segment strives to maintain adequate profitability and management of financial risks amid economic uncertainties.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's total outstanding bank borrowings amounted to HK$406,050,000 (31 December 2017: HK$425,723,000) which comprised mainly bank loans and trade finance facilities. The bank borrowings repayable within one year and in the second to the fifth year amounted to HK$346,727,000 and HK$59,323,000 respectively (31 December 2017: HK$380,598,000 and HK$45,125,000 respectively).

After deducting cash and bank balances of HK$355,922,000 (31 December 2017: HK$348,746,000), the Group's net borrowings amounted to HK$50,128,000 (31 December 2017: HK$76,977,000). Shareholders' equity as at 30 June 2018 was HK$1,213,717,000 (31 December 2017: HK$1,080,494,000). Accordingly, the Group's net gearing ratio was 4.1%. During the Period, the Group's net cash outflow from operating activities amounted to approximately HK$52,838,000. Net cash inflow from investing activities amounted to approximately HK$11,313,000.

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars and Japanese Yen. As the Hong Kong dollar remained pegged to the United States dollar, there was no material exchange risk in this respect. The Group continues to monitor its foreign exchange exposure in Japanese Yen and Renminbi and enter into forward contracts when necessary. The Group's long-term bank loan facilities were denominated mainly in Hong Kong dollars and carried interest at floating rates. Credit risk was hedged mainly through credit insurance.

CAPITAL STRUCTURE

Subscription of New Shares

On 30 April 2018, the Company entered into a subscription agreement with Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Saniwell Holding Inc. ("Saniwell"), pursuant to which the Company has allotted and issued and Cosmos Holdings and Saniwell subscribed for 108,750,000 ordinary shares of the Company (the "Shares") and 36,250,000 Shares respectively at a subscription price of HK$0.55 per subscription share. All conditions precedent in respect of the subscription agreement have been fulfilled and the conditional Subscription of the Subscription Share by Cosmos Holdings and Saniwell pursuant to the terms of the subscription agreement took place on 27 June 2018. Upon completion, an aggregate of 145,000,000 new Shares have been duly allotted and issued to Cosmos Holdings and Saniwell. Accordingly, immediately after completion, the Company had 861,930,692 Shares in issue.

Use of Net Proceeds from Subscription New Shares

The gross proceeds from the subscription amounted to HK$79,750,000. Pursuant to Company's announcement dated 30 April 2018 and Company's circular dated 19 May 2018, the net proceeds raised from the subscription was approximately HK$76,800,000 after deducting related professional fees and related expenses and the net subscription price was appropriately HK$0.53 per subscription share. However, the amount of related professional fees and related expenses increased by approximately HK$800,000, the actual net proceeds raised from the subscription was approximately HK$76,000,000 and the net subscription price was appropriately HK$0.52 per subscription share.

The Company proposed to use the net proceeds from subscription shares as set out in the section "Reasons for the Subscription and Use of Proceeds" of the Company's circular dated 19 May 2018. There is no any actual use of proceeds up to 30 June 2018 as the completion of subscription took place on 27 June 2018.

MATERIAL ACQUISITION AND DISPOSAL

Disposal of Entire Issued Share Capital of a Subsidiary

On 1 September 2017, Sunford Enterprises Limited, an indirect wholly-owned subsidiary of the Company, as vendor entered into a sale and purchase agreement with Giant Express Investment Limited, as purchaser, to sell entire issued share capital of MS Plasticorp, a company incorporated in Cook Islands and an indirect wholly-owned subsidiary of the Company prior to the completion of disposal, at an aggregate consideration of RMB82,000,000. The disposal was completed on 20 March 2018. Following the completion of the disposal, MS Plasticorp ceased to be a subsidiary of the Company.

For details, please refer to the Company's announcements dated 1 September 2017, 11 October 2017, 22 December 2017 and 20 March 2018, and the Company's circular dated 20 September 2017.

There was no material acquisition by the Group during the Period.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2018, the Group had approximately 3,620 employees (31 December 2017: approximately 3,460), located in Hong Kong and Mainland China. The remuneration policy regarding the employees of the Group is based on qualifications, competence and the performance of the employees as well as market trends. Employees' benefits include retirement benefits and medical insurance coverage.

OUTLOOK AND PROSPECTS

The global economy is expected to become increasingly challenging in the coming quarters, especially in the manufacturing sectors. The economic and trading relationship amongst the United States, China and the European Union is getting more dynamic with high uncertainty. The recent China-US trade dispute and conflict poses increasing instability to the global trade system and hence the volatility of capital market and fluctuation of currencies. The Group keeps closely monitoring several key challenges ahead including the continuous increases of manufacturing costs and raw material costs, uneven demands, and abrupt shifts of government policies. The visibility of sales orders is low in the coming quarters, which motivates our management team to react to such unstable market demand with implementation of contingent measures, including costs controls, closer cooperation with customers, stricter inventory management, and prudent financial risk management. The Group's operating performance had recently recovered from the critical restructuring exercise of the machinery manufacturing segment and the plastic product and processing segment executed across 2016 and 2017. Those measures serve as a good platform for the Group to capture future growth opportunities. However, the pace of recovering is expected to be uneven in view of the arguably grim outlook of the manufacturing sector in Mainland China at the moment.

Amid uncertainties and poor market sentiment in the overall macro-economic environment, The Group continues to align its strategic direction of providing innovative, high-technology and best quality products to our customers. Our bolstering research and development capabilities and the collaboration across different business segments enable the Group to penetrate extensively into specific targeted industrial sectors in the near future. The Group's long-term goal is to enhance the overall profitability by leveraging the existing well-organized business platform and capital employed.

Amid uncertainties in the overall macro-economic environment, the Group observes great business opportunities arising from the fast-growing industries, mainly automotive including new-energy vehicles, innovative consumer electronics, communications, food and medical packaging, medical equipment, new industrial materials and components. With the consistent commitment of the Mainland China government to develop new energy, energy saving, environmental protection and new materials industries, the Group continues to align its strategic direction of providing innovative, high-technology and good quality products to our customers. Our bolstering research and development capabilities and the collaboration across different business segments enable the Group to penetrate extensively into specific focusing industrial sectors in the near future.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Issued New Shares

On 30 April 2018, the Company entered into the subscription agreement with Cosmos Holdings and Saniwell, pursuant to which the Company allotted and issued, and Cosmos Holdings and Saniwell subscribed for 108,750,000 Shares and 36,250,000 Shares respectively at the subscription price of HK$0.55 per subscription share. Cosmos Holdings is a controlling shareholder of the Company. Saniwell is the trustee of The Saniwell Trust, the beneficiaries of which include Mr. Tang To, an executive director of the Company, and certain of his family members.

The details of use of net proceeds from subscription new shares are set out in the heading "Use of Net Proceeds from Subscription New Shares" of the section of the "Management Discussion and Analysis" of this announcement.

The subscription was completed on 27 June 2018 and an aggregate of 145,000,000 new Shares were allotted and issued on 27 June 2018.

For details, please refer to the Company's announcements dated 30 April 2018, 19 May 2018, 1 June 2018, 7 June 2018, 20 June 2018 and 27 June 2018, the Company's circular dated 19 May 2018, the Company's supplemental circular dated 2 June 2018.

Share as disclosed above, there was no purchase, sale or redemption of listed securities by the Group during the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining a high standard of corporate governance for the enhancement of shareholders' value and safeguarding interests of shareholders of the Company and other stakeholders.

In the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2018, except for the following deviation:

Deviation from code provision A.6.7 of the Code

Code provision A.6.7 of the Code stipulates that independent non-executive directors and non-executive directors should attend the issuer's general meetings and develop a balanced understanding of the views of shareholders. Mr. Qu Jinping, non-executive director of the Company and Mr. Ho Wei Sem and Mr. Huang Zhi Wei, both independent non-executive directors of the Company were unable to attend the annual general meeting and extraordinary general meeting of the Company held on 7 June 2018 and adjourned extraordinary general meeting of the Company held on 20 June 2018 due to other business engagements. However, the Board believes that the presence of other non-executive director and independent non-executive directors at the such general meetings have allowed the Board to develop a balanced understanding of the views of shareholders of the Company.

By order of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

Hong Kong, 28 August 2018

As at the date hereof, the Board is comprised of ten directors, of which four are executive directors, namely Mr. Tang To, Mr. Wong Yiu Ming, Mr. Tang Yu, Freeman and Mr. Mei Zheqi, 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.