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 2019

RESULTS HIGHLIGHTS

- For the six months ended 30 June 2019, revenue amounted to approximately HK$1,147,312,000, representing a decrease of approximately 13.9% as compared with that of approximately HK$1,332,327,000 for the corresponding period of 2018;

- For the six months ended 30 June 2019, gross profit margin was approximately 15.4%, representing a decrease of approximately 1.5 percentage points as compared with that of approximately 16.9% for the corresponding period of 2018;

- For the six months ended 30 June 2019, earnings before interest, taxes, depreciation and amortisation ("EBITDA") amounted to approximately HK$82,024,000, representing a decrease of approximately 33.3% as compared with that of approximately HK$123,063,000 for the corresponding period of 2018. EBITDA margin was approximately 7.1%, representing a decrease of approximately 2.1 percentage points as compared with that of approximately 9.2% for the corresponding period of 2018; and

- For the six months ended 30 June 2019, profit amounted to approximately HK$18,303,000, representing a decrease of approximately 72.6% as compared with that of approximately HK$66,800,000 for the corresponding period of 2018.

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 2019 (the "Period"). The unaudited interim results of the Group for the six months ended 30 June 2019 have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue		**1,147,312**	1,332,327
Cost of sales		**(971,023)**	(1,107,201)
Gross profit		**176,289**	225,126
Other income and gains, net		**36,287**	14,556
Selling and distribution costs		**(85,110)**	(75,264)
Administrative expenses		**(95,588)**	(125,871)
Operating profit		**31,878**	38,547
Finance costs		**(12,390)**	(10,311)
Investment income		**2,413**	2,728
Gain on deregistration of a subsidiary		**2,662**	–
Gain on disposal of a subsidiary		**–**	44,588
Share of results of associates		**1,231**	1,915
Profit before tax	*4*	**25,794**	77,467
Taxation	*5*	**(7,491)**	(10,667)
Profit for the Period		**18,303**	66,800
Profit attributable to:			
– Equity shareholders of the Company		**19,800**	61,682
– Non-controlling interests		**(1,497)**	5,118
		18,303	66,800
Earnings per share	*6*		
– Basic		**2.30 HK cents**	8.57 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the Period	**18,303**	66,800
Other comprehensive expense, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
– Share of other comprehensive (expense)/income of associates	**(133)**	208
– Exchange differences arising from translation of financial statements of foreign operations	**(4,795)**	(4,805)
– Release of translation reserve upon disposal of a subsidiary	**–**	(547)
– Release of translation reserve upon deregistration of a subsidiary	**(2,662)**	–
	(7,590)	(5,144)
Total comprehensive income for the Period	**10,713**	61,656
Total comprehensive income attributable to:		
– Equity shareholders of the Company	**12,840**	55,665
– Non-controlling interests	**(2,127)**	5,991
Total comprehensive income for the Period	**10,713**	61,656

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
Non-current Assets			
Property, plant and equipment		**599,861**	618,271
Leasehold land and land use rights		**–**	40,271
Right-of-use assets		**103,140**	–
Goodwill		**53,483**	53,483
Intangible assets		**5,762**	6,454
Interests in associates		**30,954**	31,139
Finance lease receivables		**78,614**	44,451
Deferred tax assets		**26,316**	26,419
		898,130	820,488
Current Assets			
Inventories		**512,411**	491,937
Finance lease receivables		**95,169**	109,249
Trade and other receivables	*7*	**919,520**	934,171
Other financial assets		**9,579**	33,930
Current tax recoverable		**2,495**	2,216
Cash and bank balances		**334,143**	339,702
		1,873,317	1,911,205
Current Liabilities			
Trade and other payables	*8*	**795,596**	792,545
Contract liabilities		**77,856**	66,323
Provision for restructuring		**20,352**	30,238
Provision for indemnity		**–**	25,780
Amounts due to an associate		**496**	704
Bank borrowings		**363,620**	357,052
Lease liabilities		**12,223**	–
Obligations under finance leases		**–**	2,547
Current tax payable		**3,550**	5,732
Dividend payable		**17,239**	–
		1,290,932	1,280,921
Net Current Assets		**582,385**	630,284
Total Assets less Current Liabilities		**1,480,515**	1,450,772

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Non-current Liabilities		
Bank borrowings	**10,000**	20,111
Lease liabilities	**51,824**	–
Obligations under finance leases	**–**	4,528
Deferred tax liabilities	**25,781**	25,848
	87,605	50,487
Net Assets	**1,392,910**	1,400,285
Equity		
Capital and reserves attributable to equity shareholders of the Company:		
Share capital	**609,027**	609,027
Reserves	**570,143**	557,303
Proposed final dividend	**–**	17,239
	1,179,170	1,183,569
Non-controlling Interests	**213,740**	216,716
Total Equity	**1,392,910**	1,400,285

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the applicable disclosure provisions of Listing Rules and Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial statements have been prepared in accordance with the accounting policies which are consistent with those adopted in the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of Hong Kong Financial Reporting Standard ("HKFRS") 16 Leases as described in Note 2 below. Other amendments to standards and new interpretation that are effective for the first time for this interim period did not have any material impact to the result or financial position of the Group.

The information in this interim financial report is unaudited and does not constitute statutory financial statements. The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The following amendments have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the related impact of adopting the above amendments to the Group. The Group is not yet in a position to state whether there would be substantial changes to the Group's accounting policies and presentation of the financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following new and revised HKFRSs that are first effective for the current accounting period of the Group.

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over income tax treatments
Amendments to HKAS 19	Plan amendment, curtailment or settlement
Amendments to HKAS 28	Long-term interests in associates and joint ventures
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle
Amendments to HKFRS 9	Prepayment features with negative compensation

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial statements.

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC)-Int 4, Determining whether an arrangement contains a lease, HK(SIC)-Int 15, Operating leases – incentives, and HK(SIC)-Int 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has adopted HKFRS 16 from 1 January 2019, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 16, 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 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 January 2019.

Since the Group recognised the right-of-use assets at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments there was no impact to the opening balance of retained profits.

(a) The Group as a lessee

Leases previously classified as operating lease under HKAS 17

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed consolidated statement of financial position immediately before the date of initial application.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17:

(i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

(ii) applied the recognition exemption for leases which the lease term ends within 12 months of the date of initial application.

(iii) applied the recognition exemption for leases of low value assets.

(iv) excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

(v) used hindsight, in determining the lease term if the contract contains options to extend or terminate the lease.

Leases previously classified as obligations under finance leases under HKAS 17

For leases previously classified as obligations under finance leases under HKAS 17 the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application.

(b) The Group as a lessor

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(c) Impacts of adoption

When measuring lease liabilities, the Group discounted lease payments by using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8%.

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	84,441
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases with remaining lease term ending on or before 31 December 2019	(3,224)
	81,217
Less: total future interest expenses	(17,937)
Present value of remaining lease payments, discounted using the Group's incremental borrowing rate at 1 January 2019	63,280
Add: obligations under finance leases recognised as at 31 December 2018	7,075
Total lease liabilities recognised at 1 January 2019	70,355
Of which are:	
Current lease liabilities	12,393
Non-current lease liabilities	57,962
	70,355

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 *HK$'000*	1 January 2019 as restated *HK$'000*
Land and buildings	**56,706**	63,280
Leasehold lands	**39,477**	40,271
Plant and machinery	**6,957**	7,364
Total right-of-use assets	**103,140**	110,915

The following table illustrates the impact to each line items of financial statements affected in current period by the adoption of HKFRS 16:

	31 December 2018 as previously reported *HK$'000*	**Effect of adoption of HKFRS 16** *HK$'000*	**1 January 2019 as restated** *HK$'000*
Condensed consolidated statement of financial position (extract)			
Property, plant and equipment	618,271	(7,364)	610,907
Leasehold land and land use rights	40,271	(40,271)	–
Right-of-use assets	–	110,915	110,915
Obligations under finance leases	7,075	(7,075)	–
Lease liabilities	–	70,355	70,355

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) processing and trading of printed circuit boards.

The segment results for the six months ended 30 June 2019 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*
REVENUE							
External sales	**158,595**	**233,400**	**383,270**	**355,839**	**16,208**	**–**	**1,147,312**
Inter-segment sales *(Note)*	**7,120**	**–**	**1,089**	**–**	**69**	**(8,278)**	**–**
Total revenue	**165,715**	**233,400**	**384,359**	**355,839**	**16,277**	**(8,278)**	**1,147,312**
Segment result	**1,086**	**40,626**	**(9,050)**	**1,691**	**11,014**	**–**	**45,367**
Unallocated corporate expenses							**(13,489)**
Operating profit							**31,878**
Finance costs							**(12,390)**
Investment income							**2,413**
Gain on deregistration of a subsidiary							**2,662**
Share of results of associates							**1,231**
Profit before tax							**25,794**

Note:

Inter-segment sales are determined at prevailing market rates.

The segment results for the six months 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.

	Sales revenue by geographical market Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**203,800**	307,502
Mainland	**764,443**	890,896
Other Asia-Pacific countries	**140,961**	92,886
North America	**4,684**	6,689
Europe	**33,424**	34,354
	1,147,312	1,332,327

4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Profit before tax is arrived at after charging the following:		
Depreciation and amortisation on:		
– Owned assets	**35,661**	32,210
– Assets held under finance leases	**–**	195
– Leasehold land held for own use under finance leases	**–**	1,493
– Leasehold land and land use rights	**–**	696
– Intangible assets	**692**	692
– Right-of-use assets	**7,487**	–
Operating lease payments		
– Land and buildings	**–**	10,359
Short-term leases payment	**2,173**	–

5. TAXATION

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong profits tax	**101**	1,183
Overseas taxation	**7,390**	9,484
	7,491	10,667

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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.

6. 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	
	2019	2018
Weighted average number of ordinary shares in issue during the Period	**861,930,692**	719,334,006
	HK$'000	*HK$'000*
Profit attributable to the equity shareholders of the Company	**19,800**	61,682
	HK cents	*HK cents*
Basic earnings per share	**2.30**	8.57

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

7. 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 2019	31 December 2018
	HK$'000	*HK$'000*
0 to 3 months	**537,913**	525,742
4 to 6 months	**105,225**	120,390
7 to 9 months	**43,936**	55,787
Over 9 months	**93,982**	68,096
Total trade receivables	**781,056**	770,015
Other receivables	**95,557**	128,173
Prepayments	**42,641**	35,398
Amounts due from related parties	**266**	585
	919,520	934,171

8. TRADE AND OTHER PAYABLES

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

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
0 to 3 months	**505,065**	449,779
4 to 6 months	**65,884**	99,822
7 to 9 months	**23,353**	38,042
Over 9 months	**40,845**	23,790
Total trade payables	**635,147**	611,433
Accruals and other payables	**150,849**	171,512
Amounts due to non-controlling interests	**9,600**	9,600
	795,596	792,545

9. DIVIDENDS

(a) Final dividend of HK$0.02 per share in respect of the year ended 31 December 2018 amounting to approximately HK$17,239,000 was proposed by the directors of the Company on 28 March 2019 and was approved by shareholders of the Company at the Company's annual general meeting held on 13 June 2019. The dividends were paid on 31 July 2019.

(b) The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Sales revenue of the Group decreased by 13.9% to approximately HK$1,147,312,000 (30 June 2018: approximately HK$1,332,327,000). It was mainly attributable to the global economic uncertainties and deteriorating market sentiments caused by trade dispute between the People's Republic of China ("PRC") and the United States during the Period.

Gross profit for the Period amounted to approximately HK$176,289,000, with gross profit margin of decreased from 16.9% for the corresponding period of 2018 to 15.4% for the Period. The slightly drop in gross profit margin was resulted from an increase of labour and production costs in the first half of 2019.

As stated in the announcement of the Company dated 23 December 2016, the Group planned to restructure its plastic products and processing business and machinery manufacturing business, including the cessation of operation of certain manufacturing businesses and optimization of the production capacities in plants located at Dongguan and Wuxi. The restructuring projects are expected to be completed by the end of 2019.

The profits of the Group decreased to approximately HK$18,303,000 in the first half of the 2019 (30 June 2018: approximately HK$66,800,000). It was mainly attributable to drop of sales revenue in various business segments caused by trade dispute between the PRC and the United States during the Period, and there was no non-recurring gain on the disposal of a subsidiary recorded during the Period as compared with the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Machinery Manufacturing Business

During the period under review, our machinery manufacturing business was affected in varying degrees amid escalating trade tensions between the PRC and the United States and overall deteriorating capital expenditure across various sectors caused by the Mainland's sluggish economy.

Injection moulding machine manufacturing business was affected by unsatisfactory performance of major automotive industry's customers, and recorded lower orders and sales. The automotive industry in the Mainland was a key growth driver for our machinery manufacturing business in recent years. Although under-performance in the automotive industry in the near term, our focus to the automotive industry market remains undeterred. For the injection moulding machine business, our existing automated manufacturing solutions, namely J series two-platen injection moulding machines, are undergoing further performance upgrades in terms of speed, production efficiency and precision to suit customers' needs. Further, new research and development solutions catered to high-end automotive industry requirements, such as J series chemical micro-foaming special injection moulding machines (化學微發泡專用注塑機) which received preliminary encouraging customer feedback. The Group is also developing other industry specific solutions, such as large-sized electric/hydraulic hybrid injected moulding machines and will be launched onto the market in due course. With respect to our self-developed "iSee" digital smart industry 4.0 platform, the number of active users recorded significant increased during the period. We will continue to develop and strengthen this digital smart platform to enhance customer production management with transparency and efficiency.

In respect of extrusion machines and rubber injection machines business, encouraging sales growth and order intake were recorded during the period despite the challenging market environment. This result was achieved by supporting from higher-end niche market customers, which also validate our pivot to divert resources into these markets.

In recent years, the Group has committed to streamline management structure and enhance production efficiencies, and improve after-sales service and product features and quality of machinery manufacturing business. Meanwhile, we will further monitor labour and other costs, as well as strengthen control on financial risks. Despite the prevailing challenging market conditions, the Group believes that this business will continue to grow in an orderly manner.

Plastic Products and Processing Business

The food packaging production business based in Zhuhai recorded comparable satisfactory operating results as compared to same period last year. Although sales volume dropped slightly due to major customers' new product launch cycle, the production business of high-end in-mould labelling folding cap sealed with scoop for dairy products still contributed to a desired results. Through years of dedicated continuous improvements in hygiene, quality control, automation and production processes, we achieved improvement in production efficiency and lower scrap rates, while earning trusts from major customers. We will continue to devote resources in digitalized smart factory applications, as well as customized automation solutions to further strive for cost savings and implement agile management. For the latter half of the year, we will work closely with customers on new product designs and implementation of new production technologies.

The plant located in Hefei that specializes in plastic component production for home appliance industry recorded a slight decrease in sales volume during the period under review, mainly attributable to focus on higher quality orders. At the same time, this plant will continue to streamline its management structure and enhance a higher production output per worker to reduce direct labour costs. In order to maintain an effective capital management and reasonable rate of return, we took measures to improve the quality of its balance sheet items and working capital structure, with marked results so far.

With respect to production of other high-tech injection molding products, namely specialized technologies of blow-moulding plastic mannequins and multi-colour injection moulding businesses, it provided mixed results during the period. Although customer development in recent years achieved numerous new order intakes, the scale and length of orders are not stable in view of the sluggish market conditions in the first half of the year. We will continue to support these two businesses and remain cautiously optimistic agreed milestones to be achieved gradually.

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

Sales revenue of the PCB processing business decreased as compared to the same period last year. It was mainly attributed to delay in customers' various projects and orders. We turned cautious in its business outlook amid the intensified trade dispute between the PRC and the United States. Orders from Europe and the electronic gaming industry were relatively weak in this period. The business continues to strengthen production technologies related to higher-end high density interconnect (HDI) PCBs, and new equipment will be online in second half of 2019, to further improve production of HDI products. Looking forward to the rest of this year, orders from the electronic gaming industry is forecast to see a significant rebound, with a healthy portion of HDI products. We have signed agreements with new customers from renowned Japanese electronics industry, and overall sales orders should improve in second half of 2019, thus production capacities should be better utilized.

Sales revenue of the PCB trading business recorded a slight drop as compared to same period last year since several customers delayed placement of orders amid market conditions in the first half of the year, and a portion of orders placed from some major customers shifted outside the PRC. In addition to proactively developing PCB, the circuit board trading business will vigorously expand related trading business such as electronic raw materials and components. The professional PCB testing and certification services center will be launched in second half of 2019. Meanwhile, we will keep optimizing relevant organizational structure to improve its fixed costs.

Industrial Consumables Trading Business

Operating results for our industrial consumables trading business suffered from the unresolved Sino-US trade disputes and a bearish market outlook across various sectors. Our trading business served several important industries such as automotive, machinery, electronics, semi-conductors, elevators and toys etc, which displayed marked weakness on overall volume. In response, the trading business is actively reshuffling its product portfolio and implementing various cost controls measures, while maintaining a healthy inventory level. Further, we are also vigorously developing new business such as special metals for the medical industry, servo solutions for lithium batteries, and providing automation solutions for manufacturers in various industries.

We believe that the operating results of this business is expected to improve in the second half of the year driven by customer growth and demand. In addition, we will continue to implement strict financial risks control and inventory management. The business is expected to improve and strengthen position for its key markets in the second half of 2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group's total outstanding bank borrowings amounted to approximately HK$373,620,000 (31 December 2018: approximately HK$377,163,000) 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 approximately HK$363,620,000 and HK$10,000,000 respectively (31 December 2018: approximately HK$357,052,000 and HK$20,111,000 respectively).

After including lease liabilities and obligations under finance leases of approximately HK$64,047,000 (31 December 2018: approximately HK$7,075,000) and deducting cash and bank balances of approximately HK$334,143,000 (31 December 2018: approximately HK$339,702,000), the Group's net borrowings amounted to approximately HK$103,524,000 (31 December 2018: approximately HK$44,536,000). Shareholders' equity as at 30 June 2019 was approximately HK$1,179,170,000 (31 December 2018: approximately HK$1,183,569,000).

The net debt to equity ratio (calculated as net borrowings divided by shareholders' equity) increased to 8.8% as at 30 June 2019, attributable by an increase of lease liabilities to approximately HK$64,047,000 when the Group had first adopted Hong Kong Financial Reporting Standard 16 Leases during the Period. The overall cash flow position and debt maturity profile of the Group maintained at a healthy level.

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollars, Renminbi and United States dollars. 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 Renminbi and enter into forward contracts when necessary. The Group's long-term bank loans were denominated mainly in Hong Kong dollars and carried interest at floating rates. Credit risk was hedged mainly through credit insurance.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

MATERIAL ACQUISITIONS & DISPOSALS

There were no material acquisitions and disposals by the Group during this Period.

CAPITAL STRUCTURE

There was no change in the total number of issued shares of the Company during the Period. The total number of issued shares of the Company remained at 861,930,692 shares at 30 June 2019.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had a total of 3,143 employees located in Hong Kong and Mainland. 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.

The Group had also provided training programmes or courses for the mainland staff at all levels from different departments, and also for directors and employees of the Company so as to further enhance their technical skills in production operation and management, professional skills and knowledge, respectively.

The emoluments of the directors of the Company are decided by the remuneration committee of the Company, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

OUTLOOK AND PROSPECTS

In our view, the macro economic outlook is expected to remain uncertain and challenging in the near future. Full impact and consequences arising from the trade tensions between the PRC and the United States have yet to be fully determined. The Group observed economic uncertainties already triggered cautious capital spending sentiments in manufacturing sectors in the Mainland, affecting different industries in varying degrees. Several important industries that have driven our growth in recent years, namely automotive, semi-conductor, machinery, consumer electronics etc. displayed visible weakness in orders in the first half of the year. Although we may anticipate a slight rebound in activities in these industries, if proved correct, may positively impact the Group's businesses in the second half of the year. However, customers behaviour and confidence are imponderable based on the current overall economic situation, and there will be unpredictable reactions due to fluctuations in the economic environment. The Group believes the manufacturing sectors in the Mainland are dynamic. Despite the current depressed sentiments, we still believe that certain industries will continue to grow, namely food packaging, consumer goods, medical, etc. By concentrating resources on the development and serving the potential industries and customers, we trust that the Group will achieve reasonable returns continuously.

In response to expected challenging times ahead, members of the Group will divert even more resources and attention to overall cost controls, production efficiencies, automation, and financial risks mitigation. The Group will lead its companies in efforts to ensure relatively sound cash flow to operate effectively during trying times. As mentioned above, members of the Group will continue to devote research and development resources to key projects serving strategic customers and industries.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE CODE

The Board is committed to practicing and 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 "Corporate Governance 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 Period, except for the following deviations:

Deviation from code provision A.6.7 of the Corporate Governance Code

The code provision A.6.7 of the Corporate Governance 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 and Mr. Kan Wai Wah, both non-executive directors 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 of the Company held on 13 June 2019 due to other business engagements. However, the Board believes that the presence of other independent non-executive directors of the Company at the annual general meeting have allowed the Board to develop a balanced understanding of the views of shareholders of the Company.

Deviation from code provision C.2.5 of the Corporate Governance Code

Under the code provision C.2.5 of the Corporate Governance Code, the Group should have an internal audit function. The Company did not perform the internal audit function for the Period. The Board is aware of the importance of internal audit function and is currently endeavoring to identify a suitable candidate to act as internal audit member to meet the requirements in accordance with the code provision C.2.5 of the Corporate Governance Code.

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

Hong Kong, 27 August 2019

As at the date of this announcement, 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.