Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2020

RESULTS SUMMARY

	Six months ended 30 June		
	2020	2019	
	(Unaudited)	(Unaudited)	
	HK$'000	*HK$'000*	**Change**
Revenue	**1,015,273**	1,147,312	–11.5%
Gross profit	**161,790**	176,289	–8.2%
Operating profit	**5,983**	31,878	–81.2%
(Loss)/profit for the period	**(8,993)**	18,303	–149.1%

	30 June	31 December	
	2020	2019	
	(Unaudited)	(Audited)	**Change**
Net debt to equity ratio	**3.0%**	8.9%	–5.9pp

The Board has resolved not to declare the interim dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") 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 2020 (the "Period"). These interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**1,015,273**	1,147,312
Cost of sales		**(853,483)**	(971,023)
Gross profit		**161,790**	176,289
Other income and gains, net		**9,250**	36,287
Selling and distribution costs		**(67,142)**	(85,110)
Administrative expenses		**(97,915)**	(95,588)
Operating profit		**5,983**	31,878
Finance costs		**(10,815)**	(12,390)
Investment income		**2,136**	2,413
Gain on deregistration of a subsidiary		**–**	2,662
Share of results of associates		**227**	1,231
(Loss)/profit before tax	*4*	**(2,469)**	25,794
Taxation	*5*	**(6,524)**	(7,491)
(Loss)/profit for the period		**(8,993)**	18,303
(Loss)/profit attributable to:			
– Equity shareholders of the Company		**(9,554)**	19,800
– Non-controlling interests		**561**	(1,497)
		(8,993)	18,303
(Loss)/earnings per share	*6*		
– Basic		**(1.11) HK cents**	2.30 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(8,993)**	18,303
Other comprehensive (expense)/income, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
– Share of other comprehensive expense of associates	**(568)**	(133)
– Exchange differences arising from translation of financial statements of foreign operations	**(21,833)**	(4,795)
– Release of translation reserve upon disposal of an associate	**49**	–
– Release of translation reserve upon deregistration of a subsidiary	**–**	(2,662)
	(22,352)	(7,590)
Total comprehensive (expense)/income for the period	**(31,345)**	10,713
Total comprehensive (expense)/income attributable to:		
– Equity shareholders of the Company	**(29,539)**	12,840
– Non-controlling interests	**(1,806)**	(2,127)
Total comprehensive (expense)/income for the period	**(31,345)**	10,713

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Non-current Assets			
Property, plant and equipment		**565,121**	597,417
Right-of-use assets		**89,802**	99,973
Goodwill		**53,483**	53,483
Intangible assets		**4,380**	5,071
Interests in associates		**31,703**	32,809
Financial assets at fair value through other comprehensive income		**–**	–
Finance lease receivables		**8,670**	40,175
Deferred tax assets		**29,030**	29,577
		782,189	858,505
Current Assets			
Inventories		**457,231**	434,640
Finance lease receivables		**124,058**	102,432
Trade and other receivables	*7*	**835,499**	890,987
Other financial assets		**30,987**	4,687
Current tax recoverable		**1,017**	5
Cash and bank balances		**345,876**	312,633
		1,794,668	1,745,384
Current Liabilities			
Trade and other payables	*8*	**703,607**	699,646
Contract liabilities		**101,055**	66,202
Amount due to an associate		**–**	149
Bank borrowings		**280,236**	299,843
Lease liabilities		**13,765**	14,052
Current tax payable		**6,457**	5,297
		1,105,120	1,085,189
Net Current Assets		**689,548**	660,195
Total Assets less Current Liabilities		**1,471,737**	1,518,700

	30 June 2020 (Unaudited) *HK$'000*	31 December 2019 (Audited) *HK$'000*
Non-current Liabilities		
Bank borrowings	**45,188**	53,376
Lease liabilities	**41,011**	49,250
Deferred tax liabilities	**30,442**	29,633
	116,641	132,259
Net Assets	**1,355,096**	1,386,441
Equity		
Capital and reserves attributable to equity shareholders of the Company:		
Share capital	**609,027**	609,027
Reserves	**533,103**	562,642
	1,142,130	1,171,669
Non-controlling Interests	**212,966**	214,772
Total Equity	**1,355,096**	1,386,441

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.

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 2019, except for amendments to HKFRS 16: COVID-19 Related Rent Concessions (as described in Note 2 below). Other amendments to standards and new interpretation that are effective for the first time for the 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 2019 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 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 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 new standard or amendments have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2022
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 amendments to HKFRS16: COVID-19 Related Rent Concessions is issued in June 2020 and is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including interim or annual financial statements not yet authorised for issue as at 4 June 2020, the date the amendment was issued.

The amendment introduces a new practical expedient for lessees to elect not to assess whether COVID-19 related rent concessions is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of COVID-19 that meets all of the following conditions:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- There is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes were not lease modifications. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

During the Period, certain monthly lease payments for the leases of the Group's buildings have been waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the Period. Accordingly, a reduction in the lease payments arising from the rent concessions of approximately HK$407,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

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.

Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's top executive management monitors the results attributable to each reportable segment on the following basis:

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

Unallocated items mainly comprise financial and corporate assets and corporate expenses.

The segment results for the six months ended 30 June 2020 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	140,430	173,821	369,519	324,391	7,112	–	1,015,273
Inter-segment sales *(Note)*	12,585	129	38	–	30	(12,782)	–
Total revenue	153,015	173,950	369,557	324,391	7,142	(12,782)	1,015,273
Segment result	6,921	9,376	126	3,494	762	–	20,679
Unallocated corporate expenses							(14,696)
Operating profit							5,983
Finance costs							(10,815)
Investment income							2,136
Share of results of associates							227
Loss before tax							(2,469)

Note:

Inter-segment sales are determined at prevailing market rates.

The segment results for the six months ended 30 June 2019 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	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.

	Sales revenue by geographical market	
	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**172,703**	203,800
Mainland China	**727,341**	764,443
Other Asia-Pacific countries	**81,732**	140,961
North America	**5,481**	4,684
Europe	**28,016**	33,424
	1,015,273	1,147,312

4. (LOSS)/PROFIT BEFORE TAX

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
(Loss)/profit before tax is arrived at after charging the following:		
Depreciation and amortisation on:		
– Property, plant and equipment		
– Ownership interest in leasehold land and buildings held for own use	**1,721**	1,587
– Other owned assets	**28,775**	34,074
– Intangible assets	**691**	692
– Right-of-use assets	**8,375**	7,487
Short-term leases payment	**589**	2,173

5. TAXATION

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Hong Kong profits tax	**159**	101
Overseas taxation	**6,365**	7,390
	6,524	7,491

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per ordinary share is based on the Group's (loss)/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	
	2020	2019
Weighted average number of ordinary shares in issue during the period	**861,930,692**	861,930,692
	HK$'000	*HK$'000*
(Loss)/profit attributable to the equity shareholders of the Company	**(9,554)**	19,800
	HK cents	*HK cents*
Basic (loss)/earnings per share	**(1.11)**	2.30

No diluted (loss)/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 2020	31 December 2019
	HK$'000	*HK$'000*
0 to 3 months	**479,169**	534,352
4 to 6 months	**78,668**	115,156
7 to 9 months	**63,257**	50,413
Over 9 months	**78,318**	64,502
Total trade receivables	**699,412**	764,423
Other receivables	**97,682**	98,567
Prepayments	**38,377**	27,646
Amounts due from related parties	**28**	351
	835,499	890,987

8. TRADE AND OTHER PAYABLES

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

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
0 to 3 months	**416,444**	376,909
4 to 6 months	**90,228**	108,968
7 to 9 months	**31,248**	34,792
Over 9 months	**27,527**	32,372
Total trade payables	**565,447**	553,041
Accruals and other payables	**132,225**	137,005
Amounts due to non-controlling interests	**4,800**	9,600
Amounts due to related parties	**1,135**	–
	703,607	699,646

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue of the Group decreased by 11.5% to approximately HK$1,015,273,000 (30 June 2019: approximately HK$1,147,312,000). It was mainly attributable to drop of revenue in several business segments caused by the novel coronavirus (COVID-19) outbreak (the "Pandemic") across the world and the trade frictions between the United States and the People's Republic of China (the "PRC") during the Period.

Gross profit for the Period amounted to approximately HK$161,790,000, with gross profit margin increased from 15.4% for the corresponding period of 2019 to 15.9% for the Period. The slightly rise in gross profit margin was resulted from a decrease of labour and production costs in the first half of 2020.

The Group recorded a loss of approximately HK$8,993,000 in the first half of the 2020 (30 June 2019: profit of approximately HK$18,303,000). Details of each business segment during the Period are set out in the Business Review section.

BUSINESS REVIEW

Crucial impact of Coronavirus (COVID-19) Pandemic against the Group

Similar to most companies in the PRC and around the globe, all of our business segments were massively challenged by the Pandemic and its implications. At the early stage of the Pandemic, essentially all of our manufacturing businesses confronted with unprecedented social lockdown measures in the Mainland China. It affected most people movements, heavily disrupted supply chains, caused factory shutdowns, delayed sales and marketing activities, and diverted attention to employee health and safety to protect our staff to ensure a fast and smooth factory reopening.

Our trading businesses although spared from the challenges of managing the reopening of manufacturing operation, they had to promptly adapt to home office arrangements, online communications with customers and suppliers, trying to solve complex logistics issues, and navigate a heavily disrupted supply chain.

All in all, we are proud of all our teams for our achievements of total staff safety, relatively smooth manufacturing plants reopening, quickly adapt to new methods of marketing activities and capturing new opportunities arising from the Pandemic.

Unfortunately, in a global perspective, the Pandemic and economic uncertainties remain unresolved and will continue for some time. Nevertheless, the Group will continue to closely monitor the Pandemic evolution and react proactively to the market situation.

Machinery Manufacturing Business

The Group's injection molding machine ("IMM") manufacturing business, similar to most machinery manufacturers, experienced traumatic impact from the Pandemic in the PRC. Nevertheless, our teams performed well in managing factory reopening after the Chinese New Year holidays. The automotive and household appliance sectors have yet to stage a recovery during the first half, sales of our large size two-platen machine series were depressed. Conversely, with strong demands from customers in the food and beverage packaging and infrastructure sectors, boosted our sales of smaller sized machines. While overall sales turnover increased slightly compared to same period last year, profit margins were under high pressure as competing manufacturers pushed selling prices low, and supply chain disruptions caused fluctuating prices of various materials and components. Our manufacturing facilities required internal adjustments to adapt to high production volume for small sized machines, which temporarily impacted our production efficiencies and profit margins. The second half of this year remains challenging as the pace of economic rebound is forecasted to be uneven in the Mainland China across different industry sectors, while our export business remains subdued due to overall global economic weakness caused by the Pandemic.

Presently, our orders on hand are relatively healthy. The automotive and household appliance sectors displayed early signs of rebound, which we hope to capture more opportunities for large sized machines. The IMM business continues to improve its cash flow by increasing cooperation with leasing companies and tight control of account receivables. Moreover, our self-developed "iSee" smart industry 4.0 platform continues to attract new customers' adoption and acceptance. We continue to channel resources into this key digitalization platform and research and development to provide exceptional value to our customers.

For the extrusion and rubber injection molding machines manufacturing business, market disruptions caused by the Pandemic were severe. As this business segment positioned to grow export business in recent years, majority of our export orders placed during the Period were either delayed or deliveries postponed for various reasons. For the PRC market, supply chains were disrupted in the first quarter, causing delay of machine deliveries. The automotive industry remained weak, which impacted our growth in this key sector. Fortunately, major customers in the electric vehicle sector satisfactorily took delivery of our rubber injection machines.

As a proactive response to market sentiments during the spread of the Pandemic, this business segment rushed in to capture opportunities in the melt-blown fabric manufacturing solutions for medical grade surgical face mask applications. Demands were unprecedented as market players scrambled to secure supplies for high quality melt-blown fabric for mask production. Furthermore, we refined our designs of extrusion equipment, innovated on automation and auxiliary processes, and marketed our solutions in an agile manner. New orders from melt-blown fabric production lines have helped sustain financial results during this period.

Management teams have responded proactively to confront various challenges. In addition of new product innovations such as the above mentioned melt-blown fabric production lines, the teams implemented quality control measures, refine product designs, fine tune marketing strategies, and improve internal processes. This business continues to focus on innovative high end total solutions for niche market applications for the automotive, telecommunications, and infrastructure industries. Together with management team's fast responding measures, we are hopeful to capture more opportunities as our key customers' activities rebound in coming months.

Plastic Products Processing and Manufacturing Businesses

For our plastic food packaging production plant in Zhuhai, it was relatively moderately impacted by the Pandemic. The factory was one of the earliest to reopen in the region after the Chinese New Year holidays. Sales orders were robust despite severe impact during the worst stages of the Pandemic in the Mainland China. Our team performed admirably when responding to challenges posed by disrupted supplies, logistics, and production bottlenecks, in order to ensure smooth deliveries to our customers. Although key customer orders in the dairy and health supplement sectors displayed uneven growth patterns, some caused by market demand fluctuations while others caused by product re-designs, a relatively stable revenue and profit contribution is likely to continue for this year. The management team continues to devote efforts on new product designs, automation solutions for efficient production, quality control excellence, and novel marketing strategies.

The plastic components processing plant for household appliances situated in Hefei faced a number of challenges caused by the Pandemic. The household appliances market, which our plant is focused on serving, saw large drop in sales in the Mainland China amid the Pandemic, and marked drop and delays of sales in the export markets. Profit margins were under pressure from our key customer. The management team responded well on health and safety measures for our workers and factory reopening efforts amidst facing logistical challenges. After factory successfully reopened, our team focused on manufacturing process efficiency improvements and unit cost reduction efforts. The landscape for household appliances in the Mainland China remains challenging with uneven growth and limited growth for profit margins. We will strive on to improve overall liquidity and cash positions to safeguard against worsening market conditions.

The blow molded mannequin production plant in Dongguan was critically impacted by the effects of the Pandemic during the first half year. Prior to the global outbreak, this business obtained a healthy amount of order on hand from reputable global fashion and sporting goods brands, as a result of business development efforts the past couple of years. However, as vast majority of customers are based in Europe, the Pandemic wrecked havoc to our customers' retail businesses in Europe and globally. Deliveries were postponed, our production scaled down to a minimum, and our operation costs were trimmed down significantly reacting to this challenging business environment. While we see early signs from selected customers order deliveries will partially resume in coming months, we believe it will take time for retail businesses to resume in full force, while some customers will inevitably shift their retail store expansion strategies. Cash positions of this company is still manageable considering the adverse effect on large drop in sales turnover. At this time, the Group is still cautiously optimistic on long term outlook of blow molded mannequin display items, as the trend to shift away from glass fibre mannequins will persist, while a number of competitors in blow molded mannequins are experiencing business continuity issues, we stand to capture more market share once the market rebounds from the current depressed levels.

Our investment in multi-colour injection molded gift and premium items business experienced a near total evaporation in sales once the Pandemic hit hard in Europe. Our existing end customers are solely based in Europe. The Pandemic and the ensuing lockdowns in Europe shifted our customers' marketing strategies and consumers' behaviour, which deemed gift and premiums as non-essential consumption, at least in the short term. As a result, the Group decided against further investment of resources into this business, and divestment arrangements are ongoing. Financial impact of divestment to the Group is deemed minimal.

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

Revenue for the PCB processing business suffered significantly during this period as a result our factory's shutdown and phased-in reopening at the early stage of the Pandemic control measures. Massive efforts to coordinate staff health and safety were successful albeit it inevitably impacted the operation's normally high production efficiencies. Customers from European and Japanese automotive sectors and electronic gaming sectors displayed weaker than expected volumes as a result of the Pandemic. Order forecast visibility was unusually low from our European automotive customers as a prolonged slowdown in sales is expected. Important marketing events such as exhibitions were cancelled and had to migrate to online platforms and other means. Overall weak demands caused lower than usual production capacity utilization, which significantly reduced our profit margins.

At the moment, we forecast stable incoming of orders from electronic gaming customers as well as PRC automotive manufacturers. However, a significant turnaround to reach projected growth in a short term is unlikely given the weakness of order volume from European automotive customers. The management teams will focus on market development, production process streamlining, and stringent costs control.

The PCB trading business faced similar impact from the global economic weakness and uncertainties, as well economic activities restrictions and challenges brought by the Pandemic. Since the business serves mainly Japanese reputable manufacturers, our key customers are concentrated in the electronics and automotive sectors. While sales volume decreased slightly in the first half, it is forecast to rebound conservatively in the second half. Cost control measures that took place the last fiscal year produced cost benefits for this year.

After relevant laboratory testing certifications were successfully obtained last year, the company scaled up its PCB testing and quality control services and solutions to serve customers while producing a new revenue stream. The management team will focus its efforts to further broaden our product and services portfolio, refine our sales and marketing processes to target longer term success.

Industrial Consumables Trading Business

The industrial consumables trading business suffered similar market and supply chain disruptions caused by the Pandemic. Travel restrictions and factory shutdowns impacted our sales and distribution at the height of the Pandemic control measures in the PRC. Key customer segments suffered such as elevator manufacturers, automotive, electric vehicle related components, robotics, and export oriented electronics customers.

Meanwhile, medical device and components customer segments saw robust growth as demands grow amid the Pandemic and a result of our long term customer development. Moreover, supply chains were disrupted locally in the Mainland China as suppliers' factory shutdown and logistics issues challenged normal delivery. Import of automation components from a key supplier experienced prolonged delay as their factory in Philippines exercised lockdown, which impacted our growth in the 5G communications customer group. However, customer orders rebounded towards the second quarter as customers increase inventory levels to minimize supply chain issues, and restocking took place as previously delayed projects resume. Looking forward, key customer segments such as automotive, electric vehicles, laser cutting machineries, consumer electronics, are expected to rebound from the weak state in the first half.

As this business implemented restructuring and cost optimization measures near the end of last fiscal year, financial results have improved as expected given the challenging market conditions. The management teams will focus on liquidity and cash flow improvements, as well as investing resources to develop innovative solutions to our customers.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group's total outstanding bank borrowings amounted to approximately HK$325,424,000 (31 December 2019: approximately HK$353,219,000) 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$280,236,000 and HK$45,188,000 respectively (31 December 2019: approximately HK$299,843,000 and HK$53,376,000 respectively).

After including lease liabilities of approximately HK$54,776,000 (31 December 2019: approximately HK$63,302,000) and deducting cash and bank balances of approximately HK$345,876,000 (31 December 2019: approximately HK$312,633,000), the Group's net borrowings amounted to approximately HK$34,324,000 (31 December 2019: approximately HK$103,888,000). Shareholders' equity as at 30 June 2020 was approximately HK$1,142,130,000 (31 December 2019: approximately HK$1,171,669,000).

The net debt to equity ratio (calculated as net borrowings divided by shareholders' equity) decreased to 3.0% as at 30 June 2020 (31 December 2019: 8.9%), attributable to a decrease of bank borrowings and lease liabilities. 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 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals by the Group during the 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 2020.

EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 30 June 2020, the Group had a total of 2,856 employees 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.

The emoluments of the Directors 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.

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.

OUTLOOK AND FORECAST

As previously stated, all companies within the Group faced varying challenges as a result of the economic turmoil and social lockdown measures caused by the Pandemic. Like most companies, the challenges we faced were unprecedented. Fortunately, all of our companies responded superbly in efforts to protect all of our staff, and our operations reopening were smooth in general thanks to our total team effort.

As most of our businesses are anchored in the Mainland China and it continues to be our main market, it was encouraging to see the Chinese government implemented effective and coordinated efforts to combat the Pandemic to ensure health and safety of the population, thus allowing the economy to function in a relative healthy manner once the virus was under control.

While a number of key manufacturing sectors displayed visible weakness in the first half, namely the automotive, electrical appliances, consumer electronics, toys, and machineries, we were fortunate to capture opportunities in the food and beverage packaging, medical devices, surgical face masks, and infrastructure sectors. However, our export businesses and customers positioned in export sales, suffered as economies around the world are still experiencing varying degrees of economic weakness and disruptions, and we are not optimistic for a swift turnaround of export related sales.

Going forward, the PRC manufacturing sectors should stage a resumption of rebounds and growth as long as the Pandemic remains under control, and Chinese government stimulus and policies should steer growth in consumption, infrastructure projects, 5G telecommunications, and technology advancement. Though the scale and effectiveness of such policies remains uncertain. Our businesses will position ourselves to capture opportunities in automotive, electric vehicles, food and beverage packaging, medical applications, telecommunications, and electronics sectors.

However, in addition to challenges posed the Pandemic, we see increasingly worrying signs of geopolitical hostilities mainly between the Western countries and the PRC. Enterprises not only have to manage implications from trade tariffs, but having to face implications of sanctions and trade restrictions on a country level, which impacts inter-connected global demands and supply chains. The fierce geopolitical and economic posturing and actual sanctions will continue, and it is worrying to witness the adverse impact on capital equipment investments going forward. The Group will strive to position ourselves as well as possible to focus on industrial segments that has long term potential growth within the Mainland China.

Meanwhile, the Group's companies enjoyed a number of government subsidies and savings as given to companies affected by the Pandemic. These subsidies and savings helped cushion the blow to our financial results. Given the previously stated adverse economic backdrop, a sizable positive turnaround of financial results is deemed challenging. In the midst of these challenging times, we shall continue to focus on financial health of our operations to ensure adequate cash flow and necessary costs control measures in order to sustain our businesses and contributions to the bottom line. Meanwhile, selective and necessary investment into research and development, talent recruitment and management will continue.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2020 (30 June 2019: 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 deviation:

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 general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Qu Jinping, non-executive Director, and Mr. Ho Wei Sem and Mr. Huang Zhi Wei, both independent non-executive Directors, had other business engagements; while Mr. Kan Wai Wah, non-executive Director, stayed in overseas due to the implementation of the travel restriction and quarantine requirements among overseas and Hong Kong resulted from the outbreak of COVID-19. They were unable to attend the annual general meeting of the Company held on 12 June 2020. However, the Company considered that the presence of the chairman of each of nomination committee, remuneration committee and audit committee, and other executive directors at the said meeting was sufficient for addressing the queries from shareholders.

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

Hong Kong, 27 August 2020

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.