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 2021

RESULTS SUMMARY

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue	**1,499,998**	1,015,273
Gross profit	**256,962**	161,790
Operating profit	**54,124**	5,983
Profit/(loss) for the period	**39,300**	(8,993)

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2021 (30 June 2020: 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 (collectively referred to as the "**Group**") for the six months ended 30 June 2021 (the "**Period**"). These interim results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue		**1,499,998**	1,015,273
Cost of sales		**(1,243,036)**	(853,483)
Gross profit		**256,962**	161,790
Other income and gains, net		**6,123**	9,250
Selling and distribution costs		**(101,603)**	(67,142)
Administrative expenses		**(107,358)**	(97,915)
Operating profit		**54,124**	5,983
Finance costs		**(9,162)**	(10,815)
Investment income		**1,922**	2,136
Share of results of associates		**1,099**	227
Profit/(loss) before tax	*4*	**47,983**	(2,469)
Taxation	*5*	**(8,683)**	(6,524)
Profit/(loss) for the period		**39,300**	(8,993)
Profit/(loss) attributable to:			
– Equity shareholders of the Company		**40,215**	(9,554)
– Non-controlling interests		**(915)**	561
		39,300	(8,993)
Earnings/(loss) per share	*6*		
– Basic		**4.67 HK cents**	(1.11) HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit/(loss) for the period	**39,300**	(8,993)
Other comprehensive income/(expense), net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income/(expense) of associates	**382**	(568)
– Exchange differences arising from translation of financial statements of foreign operations	**15,316**	(21,833)
– Release of translation reserve upon disposal of an associate	**–**	49
	15,698	(22,352)
Total comprehensive income/(expense) for the period	**54,998**	(31,345)
Total comprehensive income/(expense) attributable to:		
– Equity shareholders of the Company	**53,926**	(29,539)
– Non-controlling interests	**1,072**	(1,806)
Total comprehensive income/(expense) for the period	**54,998**	(31,345)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Notes	**30 June 2021 (Unaudited) *HK$'000***	31 December 2020 (Audited) *HK$'000*
Non-current Assets			
Property, plant and equipment		**575,948**	595,173
Right-of-use assets		**93,720**	93,638
Goodwill		**53,483**	53,483
Intangible assets		**2,997**	3,688
Interests in associates		**37,361**	38,510
Finance lease receivables		**27,526**	28,434
Deferred tax assets		**34,824**	34,470
		825,859	847,396
Current Assets			
Inventories		**545,125**	450,208
Finance lease receivables		**196,476**	171,526
Trade and other receivables	*7*	**996,047**	865,814
Other financial assets		**16,681**	4,998
Current tax recoverable		**1,299**	67
Cash and bank balances		**441,016**	494,669
		2,196,644	1,987,282
Current Liabilities			
Trade and other payables	*8*	**924,358**	809,969
Contract liabilities		**131,022**	107,687
Bank borrowings		**295,100**	284,469
Lease liabilities		**14,844**	15,020
Current tax payable		**9,706**	10,464
		1,375,030	1,227,609
Net Current Assets		**821,614**	759,673
Total Assets less Current Liabilities		**1,647,473**	1,607,069

	30 June 2021 (Unaudited) *HK$'000*	31 December 2020 (Audited) *HK$'000*
Non-current Liabilities		
Bank borrowings	**23,966**	37,875
Lease liabilities	**39,930**	40,819
Deferred tax liabilities	**28,596**	28,392
	92,492	107,086
Net Assets	**1,554,981**	1,499,983
Equity		
Capital and reserves attributable to equity shareholders of the Company:		
Share capital	**609,027**	609,027
Reserves	**713,525**	659,599
	1,322,552	1,268,626
Non-controlling Interests	**232,429**	231,357
Total Equity	**1,554,981**	1,499,983

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

This 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 2020. The amendments to standards adopted by the Group in the current period are set out in Note 2 below.

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 2020 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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2020 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those consolidated 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 Companies Ordinance.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendment to HKFRS 16, Covid–19–related rent concessions beyond 30 June 2021 (early adopted)

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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) processing and manufacturing of plastic 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.

The segment results for the six months ended 30 June 2021 are as follows:

	Industrial consumables *HK$'000*	**Plastic products** *HK$'000*	**Machinery** *HK$'000*	**Printed circuit boards** *HK$'000*	**Other operations** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
REVENUE							
External sales	**250,690**	**265,022**	**585,995**	**386,033**	**12,258**	**–**	**1,499,998**
Inter-segment sales *(Note)*	**16,206**	**–**	**–**	**–**	**–**	**(16,206)**	**–**
Total revenue	**266,896**	**265,022**	**585,995**	**386,033**	**12,258**	**(16,206)**	**1,499,998**
Segment result	**24,988**	**15,420**	**25,540**	**(2,228)**	**6,808**	**–**	**70,528**
Unallocated corporate expenses							**(16,404)**
Operating profit							**54,124**
Finance costs							**(9,162)**
Investment income							**1,922**
Share of results of associates							**1,099**
Profit before tax							**47,983**

Note:

Inter-segment sales are determined at prevailing market rates.

The segment results for the six months ended 30 June 2020 are as follows:

	Industrial consumables *HK$'000*	Plastic products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *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 breakdown of revenue by geographical market is as follows:

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Hong Kong	**188,255**	172,703
Mainland China	**1,149,419**	727,341
Other Asia-Pacific countries	**115,071**	81,732
North America	**7,114**	5,481
Europe	**40,139**	28,016
	1,499,998	1,015,273

4. PROFIT/(LOSS) BEFORE TAX

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Profit/(loss) 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	**1,790**	1,721
– Other owned assets	**28,155**	28,775
– Intangible assets	**691**	691
– Right-of-use assets	**8,317**	8,375
Short-term leases payment	**1,047**	589

5. TAXATION

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Hong Kong profits tax	**544**	159
Overseas taxation	**8,139**	6,365
	8,683	6,524

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2020: 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/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per ordinary share is based on the Group's profit/(loss) 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	
	2021	2020
Weighted average number of ordinary shares in issue during the period	**861,930,692**	861,930,692
	HK$'000	*HK$'000*
Profit/(loss) attributable to the equity shareholders of the Company	**40,215**	(9,554)
	HK cents	*HK cents*
Basic earnings/(loss) per share	**4.67**	(1.11)

No diluted earnings/(loss) per share is presented as the Company did not have any potential ordinary share outstanding during the period.

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 2021	31 December 2020
	HK$'000	*HK$'000*
0 to 3 months	**542,068**	586,318
4 to 6 months	**163,983**	74,156
7 to 9 months	**79,897**	41,456
Over 9 months	**61,810**	39,486
Total trade receivables	**847,758**	741,416
Other receivables	**104,833**	95,723
Prepayments	**43,442**	28,623
Amounts due from related parties	**14**	52
	996,047	865,814

8. TRADE AND OTHER PAYABLES

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

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
0 to 3 months	**562,171**	485,431
4 to 6 months	**134,036**	128,812
7 to 9 months	**39,323**	14,262
Over 9 months	**29,607**	21,615
Total trade payables	**765,137**	650,120
Accruals and other payables	**159,221**	159,849
	924,358	809,969

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue

Revenue of the Group for the Period was approximately HK$1,499,998,000 (30 June 2020: approximately HK$1,015,273,000), an increase of 47.7% over the same period last year, which was mainly due to the Mainland China market rebounded significantly due to pent-up demand which resulted in an improvement in the Group's revenue.

Gross profit and gross profit margin

For the six months ended 30 June 2021 and 2020, the Group's gross profit amounted to approximately HK$256,962,000 and HK$161,790,000, respectively, with a gross profit margin of 17.1% and 15.9%, respectively. As the adverse impact of the Coronavirus Disease 2019 (COVID-19) pandemic at the beginning of last year dragged down the financial performance, the gross profit and gross profit margin of the Group were notable compared with the same period last year.

Administrative expenses

The administrative expenses of the Group were approximately HK$107,358,000 for the Period (30 June 2020: approximately HK$97,915,000), an increase of 9.6% over the same period last year. The increase in administrative expenses was mainly due to increase in staff bonus.

Selling and distribution costs

The selling and distribution costs of the Group for the Period amounted to approximately HK$101,603,000, increased by 51.3% as compared to approximately HK$67,142,000 for the same period last year. Due to the improvement in the Group's revenue during the Period, the Group's selling and distribution costs increased significantly.

Finance costs

The Group's finance costs amounted to approximately HK$9,162,000 for the Period, representing a decrease of 15.3% as compared to approximately HK$10,815,000 for the same period last year which was mainly due to gradual repayment of bank borrowings. The Group will continue to improve the efficiency of capital utilisation and strive for the most favourable conditions for obtaining bank credits, so as to reduce the overall finance charges.

BUSINESS REVIEW

Machinery Manufacturing Business

The Group's injection moulding machine ("**IMM**") manufacturing business sustained high order intake momentum for the first half of 2021, in line with other machinery manufacturers in Mainland China. Year-on-year revenue growth was notable, as the immediate adverse effects of the early phase of the COVID-19 pandemic in last year created an unusual low base number. In the first half of 2021, sales of our small and medium sized machines continue to dominate. Robust sales were recorded in industries such as daily consumer products, packaging, PVC (Polyvinyl Chloride), and household appliances. However, our thin-walled high speed customized machines for food packaging industry experienced a marked drop, as market demands return to normalized levels compared to explosive demands at the beginning of the pandemic last year. Furthermore, sales to the automotive and consumer electronics industries rebounded compared to depressed levels experienced last year.

During the first half of 2021, despite the high order intake, this business segment had to tackle key challenges with our supply chain. Strong demands across industries for raw materials such as cast iron, motion and drive components coincided with raw material prices surging significantly, while production capacities of suppliers reaching near its limits, inflated prices to record highs and created delivery delays. Ever surging freight and shipment costs and scarcity of freight containers affected our export sales with delayed deliveries and higher transportation costs. Our production bases worked tirelessly to coordinate production plans, and speed up production in order to meet tight delivery timelines, while recruitment of assembly workers and technical talents is on-going.

The Group pushed forward the plans to invest in new machining centres and various equipment to increase and enhance production capacities of our small and medium sized machine series. Deliveries and implementation are expected in the second half of 2021. On the product development side, this business is well on its pace to develop and launch our revamped full electric series and large sized multi-material IMM. Sales of our new flagship model "SEIII" is also encouraging. Customer adoption of our smart digital industrial platform "iSee 4.0" continues to gather pace, while our production bases have utilized a highly customized version of "iSee 4.0" to further expand digitization of our production and management processes.

The Group is cautious on its outlook for the IMM business for the rest of 2021. High volume of order intake is likely not sustainable as manufacturers in Mainland China and globally began to turn cautious on capital equipment investments. The People's Republic of China (the "**PRC**") and global economic recovery remains uneven and the pandemic is resurging in most parts of the world. Rising raw materials prices will likely affect our financial performance in the second half of 2021. Nevertheless, management teams will focus on timely delivery for orders on hand, continue to dedicate resources on research and development, and also upgrade production facilities and management practices to comply with environmental protection and emissions control policies, as well as further strengthen the management teams.

For the extrusion and rubber injection moulding machines and hydraulic presses manufacturing business, it achieved significant growth in sales compared to same time last year. Sales of our customized and highly automated rubber injection moulding machines series catered to the transportation and automotive industries recorded strong growth in Mainland China and export markets. Our five-layer co-extrusion machines specialized for the automotive market displayed attractive market potential to key customers, while lower-end extrusion machines face intense competition from large number of market players. Moreover, hydraulic presses and highly automated systems specially designed for automotive braking parts achieved breakthrough in orders from key customers, and we are hopeful sales momentum can continue.

While experiencing robust order intake for the Period, the management teams devoted significant efforts to mitigate supply chain challenges. Similar to the IMM business, this business had to work tirelessly with suppliers to ensure timely delivery of raw materials and components. Raw materials prices, namely cast iron, machining of parts, motion and drive components surged dramatically. This business strived to mitigate this impact by promoting higher-end customized models, revising selling price, and closely cooperated with suppliers.

This business will continue to ramp up its research and development efforts to enhance quality and precision for its products, and upgrade automation and digitization systems to create tangible value for customers, and expand unique applications to solve customers' pain points. Management teams are confident in their on-going product and management transformations will bear fruit to target for sustainable growth. However, external challenges in terms of rising raw materials costs, uneven recovery in export markets, and supply chain uncertainties are likely the operating risks for at least the latter part of the year.

Plastic Products Processing and Manufacturing Businesses

The plastic food packaging plant in Zhuhai achieved moderate growth for the Period. The growth comes from key customers in the baby formula dairy industry and health supplements industry as they increased stock levels around the Chinese New Year period due to concerns for disruptions by sporadic spreads of pandemic in Mainland China. Export businesses mainly serving customers in confectionary industries experienced steady growth during the Period, although high freight costs and disrupted shipment schedules dampened its potential growth in sales. Meanwhile, a long-term key customer in baby formula dairy industry decreased orders due to their internal major restructuring. Management teams will work closely with this key customer to revive future growth once its restructuring plans are complete.

Collaborations of new projects and designs with several key customers are on-going, with hopes to start production by the second half of the year. A few projects experienced delays out of our control mainly due to customers' internal approval procedures. During the first half of 2021, designs and applications for biodegradable plastics packaging were developed and actively promoted to customers. The business had focused to develop in this area in recent years and will continue to deploy resources in eco-friendly and plastic reduction solutions to align with eco-sustainability values of all stakeholders. Customized automation to reduce direct labour and enhance quality checking systems continues to be invested and deployed, as defined by our long-term strategy.

Despite the steady growth in sales, this business is facing crucial challenges. Prices for plastic resins had been on a steep and volatile rise. Some of the increased costs can partially pass onto customers through pre-negotiated price adjustment protocols. However, it is forecasted the rise of raw materials costs will affect profit especially in the latter half of the year. Labour costs are rising, and recruitment of new staff proved challenging, as in line with most areas of Mainland China. In recent months, the forced periodic stoppage of electricity in Guangdong Province increased more pressure on our deliveries, production efficiencies and costs.

The plastic components processing plant for household appliances in Hefei endured yet another testing period. Sales growth of household appliances in Mainland China became saturated while rising costs affected profit for key players in the industry. The business faced intense pressure to discount selling prices to our main customer. Price negotiations dominated the agendas for a large portion of this period. Our management teams responded well by mobilizing all departments to refine 5S practices, adopt improved management techniques including use of digital systems in order to decrease unit costs and wastages. Special attention was paid to enhance internal training of technical skillsets and effective management culture.

The business produced a slight profit despite intense price negotiations with customers, rising raw materials and labour costs, while focusing efforts on tight financial controls to strive for a healthy cash flow. Sales orders should stabilize for the rest of year, if the household appliance industry in Mainland China does not deteriorate, and if appliance exports continue its momentum. As this business operates in a highly competitive market, the management teams must focus on enhancing production efficiencies and lean manufacturing measures to realize continuous cost savings.

The blow moulded mannequin production plant in Dongguan experienced mixed results in terms of sales orders. Vast majority of key customers are based in Europe, further pandemic outbreaks and ensuing lockdowns in Europe affected fashion and sporting goods brands customers' retail operation and promotional programs. These customers scaled down orders or delayed shipment of orders. Thankfully, a major European sports retail customer which we have heavily invested our resources to develop in recent years, increased their purchase volumes, as they are satisfied with our products and quality, as well as to suit their overseas and Asian markets expansion.

As the business endured the pullback of orders last year due to the pandemic, our operation overheads are already relatively lean and efficient. As a result, the uneven sales and delivery schedules did not cause adverse financial impact to this business. Management teams proactively refine production processes to enhance product quality and production efficiency, to prepare for optimal cost structures if and when sales orders ramp up to expected levels. A new 3D printing department was set up to cater for fast prototyping and low volume orders to suit customers' needs. Plastic resin prices, particularly PC (Polycarbonate) had risen dramatically during the Period. Financial impact to profit are manageable as portions of cost increase could be shared with our customers. Sales orders from European customers are difficult to forecast for the second half of 2021, as the spread of the pandemic, and economic recovery and consumer spending patterns are highly uncertain at the moment.

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

The PCB processing business endured a difficult first half of 2021. The price of copper in the world dramatically soared to record highs and greatly affected our raw material costs. Price of PCB base boards also consistently adjusted upwards to unprecedented levels. Our profit suffered even though sales volume increased, as customers placed orders urgently in anticipation of unit price increase on our side. Our selling prices adjusted upwards in stages, but could not dampen the large adverse impact of rising raw material costs. Furthermore, orders from customers in automotive, consumer electronics, and gaming industries rebounded to pre-pandemic levels.

In addition to rising raw material costs, the business faced labour shortages soon after the Chinese New Year period. It affected our optimal production processes and efficiencies, while significantly increased subcontracting of various production processes, which raised our production costs further. Additionally, cash flow was tighter than normal as certain suppliers demanded faster than normal cash payments in order to secure timely supplies.

Rising momentum of raw material costs may not subside and likely remains volatile in the near future. Labour shortages have eased to a certain degree however labour costs will keep rising, and management team is focusing on optimizing production processes to reduce subcontracting costs. Sales orders are predicted to be fluctuating in coming months. Profit of the second half of 2021 are forecasted to be reduced relative to previous years as substantial surge of raw material costs could not be offset by upward adjustment of selling price. Moreover, financial prudency will be a priority in order to reduce stock levels and maintain adequate cash flow.

The PCB trading business achieved a slight growth in sales and profit. New projects from recently developed customers mainly from Japanese automotive and consumer electronics industries, more than offset the gradual loss of orders from one of our key customers specializing in office printing equipment. Sourcing costs increased as manufacturers adjusted selling prices reflecting rising costs of raw materials, however it did not materially impact our profit due to effective management. Our PCB laboratory testing and quality control services are developing according to plan, as well as new sales teams in various locations are delivering results after the previous grooming stages.

The Group is hopeful this business can steadily grow its customer base and create value for customers amid the challenging conditions in PCB industry. Optimal cost structures and a healthy cash flow are key targets for management.

Industrial Consumables Trading Business

The industrial consumables trading business recorded higher growth in sales and profit compared to same time last year. The outbreak of the pandemic in Mainland China early last year adversely affected this business thus create a low base number. As Mainland China maintained superb control of the pandemic, production capabilities and vibrant supply chains across most industries, PRC manufacturers obtained robust sales orders for products domestically and globally. Customer groups that contributed strong growth for this business include semi-conductors, consumer electronics, machineries, medical equipment, renewable clean energy, and lithium batteries. Customers from automotive and household appliance industries rebounded from previous year's relatively low sales levels, and increased their purchases during the Period. Our motion and drive components and solutions achieved better than expected growth, while steel and fastener products grew according to plan due to improved market conditions and previous business development activities.

Although this business benefited from a better than expected market outlook alongside a broad customer base across many industries, it faced key challenges during the Period. With most industrial commodities surging in price, almost all our product sourcing costs increased significantly. Meanwhile, producers especially those located overseas, could not ramp up production to meet sudden increases in demands, caused severe shipment delays. By proactive response and working together with customers, the business managed to minimize adverse impact to profit. Management teams performed well by not only focusing on sales and bottom line growth, but maintained lean inventory levels and improved its receivables turnover.

Looking ahead, management teams are cautious and are prepared for a pullback in sales momentum. As the pandemic rages on, its impact in Mainland China and globally are difficult to predict. Rising costs for raw materials and shortage of critical components are hurting profitability of manufacturers large and small, especially those serving export markets. A portion of orders that shifted to the PRC due to the pandemic wrecking havoc to supply chains overseas, may shift out of the PRC sooner or later. At the same time, management teams will maintain focus to develop focal industries with long-term potential such as renewable clean energy, electric vehicles, medical equipment, and telecommunications. Besides, financial health and adequate liquidity are important areas to maintain, as well as talent recruitment and retention.

Proposed Privatisation of the Company by Cosmos Machinery (Holdings) Limited by Way of a Scheme of Arrangement under Section 673 of the Companies Ordinance

References were made to (i) the scheme document jointly issued by the Company and Cosmos Machinery (Holdings) Limited (the "**Offeror**") dated 21 May 2021 (the "**Scheme Document**") in relation to, among other things, the proposed privatisation of the Company by the Offeror by way of a scheme of arrangement under section 673 of the Companies Ordinance and the proposed withdrawal of listing of the Company; and (ii) the announcement jointly issued by the Company and the Offeror dated 18 June 2021 in relation to the results of the Court Meeting and General Meeting and lapse of the Proposal and the Scheme (the "**Announcement**"). Unless otherwise defined, capitalised terms used in this paragraph shall have the same meanings as those defined in the Scheme Document and the Announcement.

On 18 June 2021, the resolution to approve the Scheme was not approved by the Scheme Shareholders at the Court Meeting in accordance with the requirements of the Companies Ordinance and the Takeovers Code. On the same date, the Special Resolution was not passed by the Shareholders at the General Meeting.

As the Scheme was not approved in accordance with the requirements of the Companies Ordinance and the Takeovers Code at the Court Meeting and the Special Resolution was not passed by the Shareholders at the General Meeting: (a) the Proposal and the Scheme will not be implemented and have therefore lapsed; (b) the offer period has ended; and (c) the listing of the Shares on the Stock Exchange will be maintained.

Subsequent Event

There has been no material event since the end of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group's total outstanding bank borrowings amounted to approximately HK$319,066,000 (31 December 2020: approximately HK$322,344,000) which comprised mainly bank loans and trade finance facilities. The bank borrowings repayable within one year, in the first to the second year and in the second to the fifth year amounted to approximately HK$295,100,000, HK$16,049,000 and HK$7,917,000 respectively (31 December 2020: approximately HK$284,469,000, HK$26,175,000 and HK$11,700,000 respectively).

As at 30 June 2021, the Group's gearing ratio (calculated by dividing total bank indebtedness and lease liabilities by net assets) was 24.0% (31 December 2020: 25.2%).

The Group's current ratio (calculated by dividing current assets over current liabilities) was maintained at 1.60 as at 30 June 2021 (31 December 2020: 1.62).

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 dollar 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 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 2021, the Group had no material contingent liabilities (31 December 2020: Nil).

MATERIAL ACQUISITION AND DISPOSAL

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 (the "**Shares**") during the Period. The total number of issued Shares remained at 861,930,692 Shares at 30 June 2021.

EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 30 June 2021, the Group had a total of 2,563 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 (the "**Remuneration Committee**"), 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 Mainland China 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

The Group is proud of our subsidiaries as they managed to capture growth opportunities in the first half year in line with vibrant activities in dynamic key industries, despite threats of raw material price hikes and interrupted delivery of supplies. Looking forward to the second half of 2021, the Group is extremely cautious and concerned on what lies ahead. Geopolitical tensions between the PRC and numerous Western countries display no signs of abating. Sanctions and counter sanctions, unjustified claims and threats become increasingly the new norm. The pandemic is worryingly spreading wildly in the forms of mutated variants around the globe, despite efforts to ramp up vaccination rates in most countries. How this affects the world's fragile economic recovery is difficult to predict, but certainly everyone suffers economically and socially.

Robust momentum of sales orders from a wide spectrum of manufacturing industries in Mainland China since the second quarter in 2020, has begun to slow down, and quite obviously in certain industries. Customers' outlook are turning cautious in industries such as infrastructure, automotive, household appliances, and machinery. With raw material prices surging to record levels, we saw customers placing larger than normal orders in the first half of 2021, in anticipation of upward adjustment of selling prices. Such order intake patterns will likely not continue in latter part of the year. Meanwhile, large portions of our customers are confronting the same scenario, as rising prices cannot be wholly passed onto the market. Prices for cast iron, metals, electric components, plastic resins, and chemical products are likely to keep surging and be volatile. As mentioned above, production costs and profitability for most of our businesses will likely suffer in the second half of 2021 relative to the first half of 2021. For our export businesses, the pace of global economic recovery, high sea freight costs, shortage of containers and shipment, and volatile currency movements will hinder our growth potential.

The Group's businesses are anchored in Mainland China market. Although we anticipate a reversal of strong sales orders momentum in the broad manufacturing sector, a number of key economic policies can provide opportunities for well-prepared businesses. The "Dual Circulation" strategy will place a larger focus on the domestic market, and not become over-reliant on export-led development. Alongside the "Fourteenth Five Year Plan", Mainland China will direct resources with relevant regulations to grow strategic novel industries such as 5G communications, renewable clean energy, new energy transportation, robotics, nano technologies, and novel materials. Our businesses will continue to innovate our product offerings and develop our key customers in these focal industries. Resources will be deployed according to plan, in areas including product research and development, capital expenditures, talent training development, customized automation, and digital management platforms. Our prudent financial management tradition will continue in the course of anticipated uncertainties, with focus on key aspects such as cash flow management, production and management cost controls, and suitable currency risk management.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2021 (30 June 2020: Nil).

PURCHASE, SALE OR REDEMPTION OF THE 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 value of shareholders of the Company (the "**Shareholders**") and safeguarding interests of Shareholders and other stakeholders.

In the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules throughout the Period, except for the following deviation:

Deviation from code provision A.6.7 of the CG Code

Code provision A.6.7 of the CG 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. During the Period, Mr. Kan Wai Wah and Mr. Qu Jinping, both non-executive Directors, and Mr. Ho Wei Sem and Mr. Huang Zhi Wei, both independent non-executive Directors, had other business engagements. They were unable to attend the court meeting of the Company (the "**Court Meeting**") and extraordinary general meeting of the Company (the "**EGM**") held on 18 June 2021 and annual general meeting of the Company held on 24 June 2021. However, the Company considered that the presence of the chairman of each of nomination committee of the Company, Remuneration Committee and Audit Committee, and other executive Directors at the said meetings, as well as the presence of the solicitor and independent financial adviser of the Company, and the financial adviser of Cosmos Machinery (Holdings) Limited at the Court Meeting and EGM, which were sufficient for addressing the queries from the attending Shareholders.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2021 INTERIM REPORT

The interim results announcement of the Company is published on the websites of the Company at www.cosmel.com and the Stock Exchange at www.hkexnews.hk. The 2021 interim report of the Company will be published on the above websites and despatched to the Shareholders in due course.

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

Hong Kong, 26 August 2021

As at the date of this announcement, the Board is comprised of seven Directors, of which two are executive Directors, namely Mr. Tang To and Mr. Tang Yu, Freeman, and two are non-executive Directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping and three are independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin and Mr. Huang Zhi Wei.