

## | REPORT OF THE DIRECTORS |

The directors of the Company (the "Directors") have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2009.

### **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 41 to the financial statements.

### **RESULTS**

The results of the Group for the year ended 31st December, 2009 are set out in the consolidated income statement on page 29 of the annual report.

### **FINAL DIVIDEND**

The Board does not recommend to pay final dividend for the year ended 31st December, 2009 (2008: Nil).

### **FINANCIAL REVIEW**

#### **Liquidity and Financial Resources**

As at 31st December, 2009, the Group's shareholders' funds were approximately HK\$991,891,000, compared with approximately HK\$982,821,000 as at 31st December, 2008.

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. The Group's debt ratio as at 31st December, 2009 was approximately 0.47 (2008: 0.50), and the liquidity ratio was approximately 1.53 (2008: 1.54), both were maintained at a healthy level. As at 31st December, 2009, cash, bank balances and time deposits amounted to approximately HK\$309,027,000. All these reflect that the Group is in sound financial position.

#### **Foreign Currencies and Treasury Policy**

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

### **FINANCIAL SUMMARY**

A summary of the results, the assets and liabilities of the Group for the past five financial years is set out on page 110 of the annual report.

### **INVESTMENT PROPERTIES, LEASEHOLD BUILDINGS AND PLANT AND EQUIPMENT**

The investment properties and leasehold buildings of the Group were revalued on 31st December, 2009. The resulting surplus arising on revaluation of investment properties attributable to the Group has been credited to the consolidated income statement. The resulting surplus and deficit arising on revaluation of leasehold buildings attributable to the Group has been credited or charged to the buildings revaluation reserve or consolidated income statement as appropriate.

During the year, the Group spent, in aggregate, approximately HK\$70,881,315 on the acquisition of property, plant and equipment for the purpose of expanding business.

Details of these and other movements in plant and equipment of the Group and of the Company during the year are set out in note 15 to the financial statements.

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## SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 to the financial statements.

## RESERVES

Details of the movements in the reserves of the Company during the year under review are set out in note 28 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's turnover and purchases for the year respectively.

## DIRECTORS

The Directors during the year and up to the date of this report were:

### Executive Directors

Tang To (*Chairman*)

Wong Yiu Ming (*Chief Executive Officer*)

Jiang Wei

### Non-Executive Directors

Tang Kwan (*Honorary Chairman*)

Wu Ding (*Vice Chairman*)

Kan Wai Wah

Qu Jinping

### Independent Non-Executive Directors

Yip Jeffery

Yeung Shuk Fan

Cheng Tak Yin

In accordance with Article 103 of the Company's Articles of Association, Mr. Wong Yiu Ming, Mr. Tang Kwan, Mr. Kan Wai Wah and Ms. Yeung Shuk Fan will retire from office and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries, which is not terminable within one year without payment of compensation (other than statutory compensation).

## TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Non-Executive Directors and the Independent Non-Executive Directors were appointed for a specific term of three years commencing from 1st June, 2007, 1st January, 2008, 8th September, 2009 and 30th January, 2010 respectively. Every director including those appointed for a specific term is subject to retirement by rotation and re-appointment at least once every three years.

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### DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

During the year under review, the interests and short positions of the Directors and the chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong (the "SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be maintained under section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), to be notified to the Company and the Stock Exchange are as follows:

#### Interests in the Shares

Name of Directors	Personal Interests	Number of shares held			Total	Approximate % of total Issued Shares of the Company
		Family Interests	Corporate Interests	Others Interests		
Tang To	2,970,000	2,000 (Note 2)	300,617,458 (Note 1)	224,000 (Note 3)	303,813,458	42.79
Wong Yiu Ming	11,696,072	–	–	–	11,696,072	1.65
Tang Kwan	–	297,157,052 (Note 4)	–	–	297,157,052	41.86
Kan Wai Wah	136,400	–	–	–	136,400	0.02
Cheng Tak Yin	1,716,000	–	–	4,400	1,720,400	0.24

Notes:

- As at 31st December, 2009, 3,460,406 Shares of those 300,617,458 Shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang and 50% by his spouse. Mr. Tang was deemed to be interested in the remaining 297,157,052 Shares of those 300,617,458 Shares under the SFO through his deemed interests in Codo Development Limited ("Codo").

As at 31st December, 2009, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing"), was deemed to be interested in 297,157,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited ("Keepsound"), a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust, (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin Limited ("Fullwin"); (iv) 16.09% by Yik Wan Company Limited ("Yik Wan"); and (v) 20.23% by 5 individuals and 2 limited companies.

- As at 31st December, 2009, 2,000 Shares were held by the spouse of Mr. Tang.
- As at 31st December, 2009, 224,000 Shares were jointly held by Mr. Tang and his spouse.
- As at 31st December, 2009, Mr. Tang Kwan was deemed to be interested in the block of 297,157,052 Shares under the SFO through his deemed interests in Codo. As at 31st December, 2009, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 5 individuals and 2 limited companies.

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The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2009.

As at 31st December, 2009, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at 31st December, 2009 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2009, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2009, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

#### Interests in the Shares

Name of Substantial Shareholders	Number of shares held		Total	Approximate % of total Issued Shares of the Company
	Direct Interests	Deemed Interests		
Law Kit Fong	–	297,157,052 (Note 1)	297,157,052	41.86
Codo	–	297,157,052 (Note 2)	297,157,052	41.86
Cosmos Holdings	127,052,600	170,104,452 (Note 3)	297,157,052	41.86
Tai Shing	170,104,452	–	170,104,452	23.96
Saniwell Holding Inc.	–	297,157,052 (Note 4)	297,157,052	41.86
China Resources (Holdings) Company Limited	169,649,046 (Note 5)	–	169,649,046	23.90

Notes:

- Ms. Law Kit Fong is deemed to be interested in the block of 297,157,052 Shares through her direct and indirect interests in Elegant Power and Codo. As at 31st December, 2009, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 Shares. As at 31st December, 2009, Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power) and 8.37% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).
- As at 31st December, 2009, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2009, Codo is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power, which is wholly-owned by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan; and (v) 20.23% by 5 individuals and 2 limited companies.

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3. Cosmos Holdings was deemed to be interested in 170,104,452 Shares through its subsidiary, Tai Shing.
4. As at 31st December, 2009, Saniwell Holding Inc. was deemed to be interested in the block of 297,157,052 Shares under the SFO through its deemed interests in Codo. Codo is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan; and (v) 20.23% by 5 individuals and 2 limited companies.
5. As shown by the latest interest disclosure information maintained pursuant to Part XV of the SFO provided to the Company by China Resources Corporation, China Resources Co., Limited and CRC Bluesky Limited, the above three companies were deemed to be interested in the Shares owned by China Resources (Holdings) Company Limited.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2009.

Save as disclosed above, as at 31st December, 2009, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

### **DIRECTOR'S AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Other than as disclosed above, at no time during the year under review was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and Chief Executive to acquire benefits by means of the acquisition of shares or any underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of SFO); and none of the Directors, their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or any of its controlling shareholders, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, that subsisted at the end of the year under review or at any time during the year under review.

### **SHARE OPTION SCHEME**

In order to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants for their contributions and/or potential contributions to the Group and for such other purposes as the Board may approve from time to time, the Company has adopted the share option scheme at the Annual General Meeting of the Company held on 30th May, 2005, and unless otherwise terminated or amended, this scheme will remain in force for 10 years from that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets on the date of the offer of the share options; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

The offer of the grant of option may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 by the grantee. The option period of the share options is determined by the directors at their absolute discretion and notified by them to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date of offer. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The Company did not grant any share option and there is no outstanding during the year under review.

Further details of the share option scheme are set out in note 27 to the financial statements.

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## **AUDIT COMMITTEE**

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 2009 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

## **REMUNERATION COMMITTEE**

The remuneration committee comprises three Independent Non-Executive Directors and the Chairman of the Board of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of Executive Directors and senior management and making recommendations to the Board as regards the remuneration packages from time to time.

## **COMMITTEE OF EXECUTIVE DIRECTORS**

The Company has established the Committee of Executive Directors which includes all the three Executive Directors and meets frequently as when necessary and is responsible for the management and day-to-day operations of the Group.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31st December, 2009, the Group has approximately 5,500 employees (2008: approximately 5,500), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The remuneration policy of the Company for non-executive directors is to ensure that they are sufficiently compensated for their efforts and time dedicated to the Company and that for the employees, including the executive directors and senior management is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. No director, or any of his associates and executive, is involved in deciding his own remuneration.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2009.

## **COMPLIANCE WITH THE CODE PROVISIONS SET OUT IN THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The directors consider that the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2009.

## **COMPLIANCE WITH MODEL CODE**

Throughout the year ended 31st December, 2009, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules and all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

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### **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of the Independent Non-Executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers all of the Independent Non-Executive Directors are independent.

### **PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st December, 2009.

### **PUBLICATION OF ANNUAL REPORT**

This annual report is published on the Company's website at [www.cosmel.com](http://www.cosmel.com) and the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk).

On behalf of the Board

**TANG To**

*Chairman*

Hong Kong, 20th April, 2010