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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 ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2010**

INTERIM RESULTS

The board of directors (the “Board”) of Cosmos Machinery Enterprises Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2010 with comparative figures for the corresponding period in 2009 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2010	2009
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	3	1,173,385	691,407
Cost of sales		(947,860)	(570,410)
Gross profit		225,525	120,997
Other income and gains, net		12,180	10,135
Distribution costs		(63,237)	(41,183)
Administrative expenses		(101,393)	(93,598)
Allowance for impairment of bad and doubtful debts		(4,392)	(328)
Profit (loss) from operations		68,683	(3,977)
Finance costs		(7,081)	(8,468)
Investment income, net		1,164	1,133
Gain on dilution of interests in an associate		200,670	–
Share of results of associates		2,439	3,775
Profit (loss) before taxation	4	265,875	(7,537)
Taxation	5	7,061	2,572
Profit (loss) for the period		<u>258,814</u>	<u>(10,109)</u>
Attributable to:			
Equity holders of the Company		243,574	(18,147)
Minority interests		15,240	8,038
		<u>258,814</u>	<u>(10,109)</u>
Earnings (loss) per share for profit (loss) attributable to the equity holders of the Company during the period	6		
– Basic		34.31 cents	(2.56 cents)
– Diluted		34.29 cents	(2.56 cents)
Proposed interim dividend: Nil (2009: Nil)		–	–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30th June,	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the period	258,814	(10,109)
Other comprehensive income for the period:		
Cash flow hedges	34	–
Change in fair value of available-for-sale financial assets	259	–
Share of other comprehensive (loss) income of associates	(2,282)	588
Exchange differences:		
net movement in translation reserve	7,781	(1,023)
	5,792	(435)
Total comprehensive income for the period, net of tax	264,606	(10,544)
Attributable to:		
Equity holders of the Company	248,564	(18,608)
Minority interests	16,042	8,064
Total comprehensive income for the period	264,606	(10,544)

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2010 (Unaudited) <i>HK\$'000</i>	31st December, 2009 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current Assets			
Property, plant and equipment	7	394,151	361,601
Leasehold land and land use rights		43,301	42,508
Interests in associates		441,228	240,349
Available-for-sale financial assets		4,990	4,674
Deferred tax assets		3,878	3,854
		887,548	652,986
Current Assets			
Inventories		586,469	519,611
Leasehold land and land use rights		864	822
Trade and other receivables	8	832,148	672,660
Derivative financial instruments		1,289	1,422
Tax recoverable		1,820	2,143
Pledged bank deposits		31,849	39,750
Cash and cash equivalents		315,745	309,027
		1,770,184	1,545,435
Current Liabilities			
Trade and other payables	9	849,075	673,318
Amounts due to associates		53,149	53,263
Derivative financial instruments		1,261	1,427
Bank and other borrowings			
– due within one year		279,853	263,949
Obligations under finance leases			
– due within one year		8,498	10,262
Tax payable		8,392	6,251
		1,200,228	1,008,470
Net Current Assets		569,956	536,965
Total Assets less Current Liabilities		1,457,504	1,189,951

		30th June, 2010	31st December, 2009
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current Liabilities			
Bank and other borrowings			
– due after one year		24,562	16,981
Obligations under finance leases			
– due after one year		7,802	11,454
Deferred tax liabilities		2,908	2,882
		<hr/>	<hr/>
Total Non-current Liabilities		35,272	31,317
		<hr/>	<hr/>
Net Assets		1,422,232	1,158,634
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	10	283,972	283,972
Reserves		957,019	707,919
		<hr/>	<hr/>
		1,240,991	991,891
Minority Interests		181,241	166,743
		<hr/>	<hr/>
Total Equity		1,422,232	1,158,634
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standards (“HKASs”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The accounting policies and basis of preparation adopted are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31st December, 2009 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards, HKASs and Interpretations (“HKFRS”) which are effective for accounting periods commencing on or after 1st January, 2010. The effect of adopting these new and revised HKFRS are set out in note 2 below.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In 2010, the Group adopted the standard, amendment and interpretations of HKFRS below, which are relevant to its operations.

HKAS 27 (Revised)	Consolidation and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 3 (Revised)	Business combinations
HK (IFRIC) – Int 17	Distribution of non-cash assets to owners
HK (IFRIC) – Int 18	Transfer of assets from customers
Improvements to HKFRSs 2009	

The Group has assessed the impact of the adoption of these standard, amendment and interpretations and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies.

The following new standard, amendment and interpretations have been issued but are not effective for 2010 and have not been early adopted:

HK (IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments
HKAS 24 (Revised)	Related party disclosures
HKFRS 9	Financial instruments

The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group’s accounting policies and presentation of the financial statements will be resulted.

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) manufacturing of printed circuit boards.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment:

The segment results for the period ended 30th June, 2010 are as follows:

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit board <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER							
External sales	212,692	205,917	485,788	268,302	686	-	1,173,385
Inter-segment sales	10,902	-	1,621	-	2,427	(14,950)	-
Total revenue	<u>223,594</u>	<u>205,917</u>	<u>487,409</u>	<u>268,302</u>	<u>3,113</u>	<u>(14,950)</u>	<u>1,173,385</u>
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	<u>18,329</u>	<u>9,011</u>	<u>24,041</u>	<u>27,686</u>	<u>444</u>	<u>24</u>	79,535
Unallocated corporate expenses							(10,852)
Profit from operations							68,683
Finance costs							(7,081)
Investment income							1,164
Gain on dilution of interests in an associate							200,670
Share of results of associates							2,439
Profit before taxation							<u>265,875</u>

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit boards <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS						
At 30th June, 2010						
Segment assets	237,838	350,269	1,182,084	375,870	28,155	2,174,216
Interests in associates						441,228
Available-for-sale financial assets						4,990
Unallocated corporate assets						37,298
Consolidated total assets						<u>2,657,732</u>

The segment results for the period ended 30th June, 2009 are as follows:

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit board <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER							
External sales	118,796	149,232	215,646	206,332	1,401	–	691,407
Inter-segment sales	1,303	19	213	–	2,630	(4,165)	–
Total revenue	<u>120,099</u>	<u>149,251</u>	<u>215,859</u>	<u>206,332</u>	<u>4,031</u>	<u>(4,165)</u>	<u>691,407</u>
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	<u>3,710</u>	<u>781</u>	<u>(24,865)</u>	<u>26,346</u>	<u>1,977</u>	<u>409</u>	8,358
Unallocated corporate expenses							(12,335)
Loss from operations							(3,977)
Finance costs							(8,468)
Investment income							1,133
Share of results of associates							3,775
Loss before taxation							<u>(7,537)</u>

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit boards <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS						
At 31st December, 2009						
Segment assets	179,951	333,273	1,045,119	321,834	28,751	1,908,928
Interests in associates						240,349
Available-for-sale financial assets						4,674
Unallocated corporate assets						44,470
						<u>2,198,421</u>
Consolidated total assets						<u><u>2,198,421</u></u>

	Sales revenue by geographical market	
	Six months ended 30th June,	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	315,209	272,702
Other regions in the People's Republic of China	758,302	353,769
Other Asia-Pacific countries	69,864	43,235
North America	8,099	8,581
Europe	21,911	13,120
	<u>1,173,385</u>	<u>691,407</u>

4. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30th June,	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) before taxation has been arrived at after charging and crediting the following:		
Charging:		
Depreciation and amortisation		
Depreciation and amortisation on:		
Owned assets	22,394	24,655
Assets held under finance leases	3,783	1,793
Leasehold land and land use rights	432	379
Loss on disposal of property, plant and equipment	–	943
	<u>–</u>	<u>27,770</u>
and crediting:		
Gain on disposal of property, plant and equipment	163	–
	<u>163</u>	<u>–</u>

5. TAXATION

	Six months ended	
	30th June,	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	1,095	479
Overseas taxation	5,966	2,093
	<hr/> 7,061 <hr/>	<hr/> 2,572 <hr/>

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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 holder of the Company divided by the weighted average number of ordinary shares in issue during the period.

	Six months ended	
	30th June,	
	2010	2009
Weighted average number of shares in issue during the period	709,930,692	709,930,692
Profit (loss) attributable to the equity holders of the Company	HK\$243,574,000	(HK\$18,147,000)
Basic earnings (loss) per share	<u>34.31 cents</u>	<u>(2.56 cents)</u>
Weighted average number of ordinary shares in issue during the period used in the basic earnings (loss) per share calculation	709,930,692	709,930,692
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all share options outstanding during the period	<u>473,108</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	710,403,800	709,930,692
Profit (loss) attributable to the equity holders of the Company	HK\$243,574,000	(HK\$18,147,000)
Diluted earnings (loss) per share	<u>34.29 cents</u>	<u>(2.56 cents)</u>

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$59,529,000.

8. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade and bills receivables of approximately HK\$622,034,000 (31st December, 2009: approximately HK\$494,168,000) and their ageing analysis is as follows:

	30th June, 2010	31st December, 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 3 months	441,076	368,252
4 to 6 months	77,294	49,977
7 to 9 months	43,337	16,344
Over 9 months	60,327	59,595
	<hr/>	<hr/>
	622,034	494,168
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately HK\$547,701,000 (31st December, 2009: approximately HK\$427,772,000) and their ageing analysis is as follows:

	30th June, 2010	31st December, 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 3 months	452,274	320,107
4 to 6 months	74,781	89,863
7 to 9 months	2,982	2,029
Over 9 months	17,664	15,773
	<hr/>	<hr/>
	547,701	427,772
	<hr/> <hr/>	<hr/> <hr/>

10. SHARE CAPITAL

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2010 and 30th June, 2010	1,000,000,000	400,000
Issued and fully paid:		
At 1st January, 2010 and 30th June, 2010	709,930,692	283,972

11. OPERATING LEASE COMMITMENTS

The Group as lessee

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
Minimum lease payments made during the period under operating leases in respect of:		
Land and buildings	7,274	7,434
Plant and machinery	–	–
	7,274	7,434

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30th June, 2010	31st December, 2009
	HK\$'000	HK\$'000
Within one year	23,449	12,356
In the second to fifth year inclusive	31,357	26,072
Over five years	15,945	24,445
	70,751	62,873

Operating lease payments represent rentals payable by the Group for certain of its office properties and factories and plant and machinery, leases are negotiated for an average term of 2-10 years and rentals are fixed for an average of 2-10 years.

The Group as lessor

Property rental income earned during the period net of outgoings of approximately HK\$18,000 (2009: approximately HK\$41,000) was approximately HK\$143,000 (2009: approximately HK\$194,000).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts under non-cancellable operating leases:

	30th June, 2010	31st December, 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	273	538
In the second to fifth year inclusive	250	294
	<hr/>	<hr/>
	523	832
	<hr/> <hr/>	<hr/> <hr/>

12. CAPITAL COMMITMENTS

	30th June, 2010	31st December, 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure:		
Authorised but not contracted for	–	–
Contracted but not provided for	58,708	6,384
	<hr/>	<hr/>
	58,708	6,384
	<hr/> <hr/>	<hr/> <hr/>

13. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	30th June, 2010	31st December, 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	–	–
	<hr/> <hr/>	<hr/> <hr/>

14. PLEDGE OF ASSETS

At the balance sheet date, assets with the following carried amounts were pledged by the Group to secure general banking facilities:

	Net Book Value	
	30th June, 2010 HK\$'000	31st December, 2009 HK\$'000
Leasehold buildings	23,333	23,200
Leasehold land and land use rights	3,922	3,940
Plant and machinery	43,949	47,149
Bank deposits	31,849	39,750
	<u>103,053</u>	<u>114,039</u>

Note: The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The pledged deposits are denominated in RMB.

15. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the period, the Group had significant transactions with the following related parties:

	Six months ended 30th June,	
	2010 HK\$'000	2009 HK\$'000
Substantial shareholder and its subsidiaries:		
EDP charges received (<i>note i</i>)	92	92
Management fee paid (<i>note i</i>)	1,394	1,412
Companies controlled by certain directors:		
Management fee paid (<i>note i</i>)	498	498
EDP charges received (<i>note i</i>)	26	26
Associates:		
Sales of finished good (<i>note i</i>)	–	51
Sub-contracting charges received (<i>note i</i>)	–	1,320
EDP charges received (<i>note i</i>)	27	64
Purchases (<i>note i</i>)	–	5,911
	<u>–</u>	<u>5,911</u>

At the balance sheet date, the Group has balances with the following related parties:

	30th June, 2010 HK\$'000	31st December, 2009 HK\$'000
Substantial shareholder and its subsidiaries:		
Balances due from the Group (<i>note ii</i>)	–	–
Balances due to the Group (<i>note ii</i>)	1	12
Non-controlling shareholders:		
Balances due from the Group (<i>note ii</i>)	383	383
Balances due to the Group (<i>note ii</i>)	604	825
Associates:		
Balance due from the Group (<i>note ii</i>)	53,149	53,263
Balances due to the Group (<i>note ii</i>)	75,994	75,942

Notes:

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) The balances are unsecured, interest free and have no fixed repayment term.

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

In retrospect to the first half of 2010 when the global financial crisis had taken place over one year ago, major economies in the world were on their way to recovery as market demand and investment confidence stabilized gradually, and the Group upheld its prudent and pragmatic operating direction to weather this economic crisis. During the reporting period, our businesses overcame different changes and challenges emerged in the business environment and at the same time seized the opportunity of economic recovery with a clearer development strategy and a more streamlined operational structure, such that the performance of most of the businesses have recovered or even surpassed their respective levels prior to the financial crisis occurred. During the period, the Group's consolidated turnover amounted to approximately HK\$1,173,385,000, representing an increase of approximately 70% from the same period of last year. Operating profit and net profit attributable to the shareholders amounted to approximately HK\$68,683,000 and HK\$243,574,000. The above net profit included a gain in carrying amount of approximately HK\$201,000,000 as recognized for the deemed disposal of interest in associate by the Company after the successful listing of A shares of Shenzhen Haoningda Meters Co., Ltd. on Shenzhen Stock Exchange during the period, details of which were disclosed in the announcement dated 8th February, 2010 and in the 2009 Annual Report.

Manufacturing Business

Machinery

The growth in domestic industry was driven by the RMB 4 trillion economic revival measure launched by the China Government last year, such that the machinery business recorded an overall sales amount of approximately HK\$480 million for the period with an increase of 125% as compared with the same period of last year, which accounted for approximately 41% of the consolidated turnover of the Group. This business segment took a favorable turn from loss to profit during the period with an operating profit of approximately HK\$24,041,000, while the operating loss was HK\$24,865,000 for the same period of last year.

The Central Government has launched series of measures to stimulate the economy consecutively, which included "Home Appliance and Car Subsidy Policy for Rural Areas", acceleration and expansion of infrastructure projects and relaxation of restriction on money-supply, which resulted in a strong rebound in the domestic market. Foreseeing a brighter and ascertained prospect, the domestic customers were eager to make investment in equipment, the intention of which even surpassed to some extent the demand level before the financial crisis occurred. Regarding the demand from overseas market, a growth of over 30% was recorded as compared with the same period of last year. Moulding machine, the core product, recorded a significant increase in consolidated gross profit margin as a result of the combination of various factors like strategic adjustment of product mix, concentration on the research, production and sale of GREENLINE Se-series servo energy saving machinery and the effect of

mass production. Moreover, the main trend of energy saving and the direct effect of industrial electricity fee markup last year have made Se-series extensively recognized by our customers as its sales grew with each passing month, and it is expected that the sales proportion of this product series will gradually increase. For CNC sheet-metal fabricating and other machines, both benefited by the addition of infrastructure projects and the consumption growth domestically, the sales volume doubled and the gross profit margin resumed its level in the past.

Regarding the development of product technology, we have successfully developed the first servo driven hydraulic energy saving system powered by regenerated brake-energy in China through the close coordination between our engineering research team and suppliers of key OEM components and by drawing on the successful examples of trans-industry (escalator and motor) that apply the concept of brake-energy regeneration and application on moulding machines, and exhibited the Se-series moulding machine equipped with the “Servo-driven Hydraulic Brake-energy Regeneration Usage Device” at CHINAPLAS exhibition in Shanghai in May of this year. In addition, we further deepened our R&D on the energy saving effect of super-sized injection moulding machines to realize the optimal servo-driven combination and model. In May of this year, Se-series (2200T Clamping force) was appraised as conforming to the first grade (the highest grade) energy-saving standard by the National Quality Supervision and Inspection Centre of Plastic Machinery; and GREENLINE Se-series even became the only super-sized injection moulding machine (1600T–2800T Clamping force) for the whole industry being appraised as conforming to the first grade energy saving rating, which symbolized an important milestone for GREENLINE Se-series in the course of energy saving development.

Plastic Products and Processing

The consolidated sales of this business for the period was approximately HK\$205,917,000, representing an increase of about 38% as compared with the same period of last year and accounted for approximately 18% of the Group’s consolidated turnover with operating profit of the period was approximately HK\$9,011,000, while the operating profit for the same period of last year was HK\$781,000.

Regarding the plastic processing business in Dongguan, benefited by orders for newly developed products made by customers, coupled with the increase in the overall sales to end customers in various industries, the sales of this business increased by approximately 25% during the period under review as compared with the same period of last year, of which high-gloss products, LED lights and other high value-added products particularly recorded significant increases. During the period, operating profit resumed a reasonable level due to the increase in turnover. However, like most of the manufacturing industries, this business had to face the increasing pressure on costs inevitably, such as the continuous rise in raw materials and labor expenses. In this regard, this business will continue to concentrate on strengthening production efficiency, cost control and personnel management, etc., in order to reduce the effect of cost pressure that may have on profit.

For the optic products business, as the U.S. has not recovered from the financial crisis, whilst Europe was hampered by a new round of economic crisis, the purchasing power of countries of European Dollar was affected that imports shrank. During the period, turnover and gross profits margin of this business improved as compared with the same period of last year, of which the sales of microscope products with higher gross profit recorded a relatively significant increase. However, as the export market has yet fully recovered, this business could only record slender profit during the period.

For the plastic cutlery and food packaging plastic-injection products business in Zhuhai, along with gradual recovery of the economic situation at home and abroad, in addition to the promotion and application of new degradable and environment-friendly materials, which has been widely accepted and recognized by customers, such that during the reporting period, the sales of this business was in a stable development and recorded a comparable turnover with that of the same period of last year; but the growth in gross profit was pressured by continued rise of plastic price and labor costs. Fortunately, measures in respect of this business like energy saving production and automation reform were yielding results while administrative management charges was under proper control, such that its profit recorded only a slight drop as compared with the same period of last year.

For the plastic processing business in Hefei, as Hefei has been gradually becoming one of the household electrical appliances manufacturing centers in China, and as driven by the State's policies such as "Home Appliances Subsidy Policy for Rural Areas" and "Urbanization Construction for Rural Areas", sales and profit of this business recorded a pleasant growth as compared with the same period of last year. Regarding the project of extending factory premises in Hefei, plans like early-stage land planning, factory premise purchase and construction, and expansion of production lines were being carried out one by one.

Printed Circuit Board

The printed circuit board business recorded a sales of approximately HK\$268,302,000 in first half year, representing an increase of about 30% as compared with the same period of 2009, and accounted for approximately 23% of the Group's consolidated turnover, while operating profit for the period was approximately HK\$27,686,000, and operating profit for the same period last year was HK\$26,346,000. Looking back on the first half of the year, all sectors and industries resumed thriving to some extent in the aftermaths of the global crisis, that orders from customers of this business could still maintain a satisfactory amount. Yet, due to the continuous rally of raw materials price and RMB exchange rate during the period, production costs of this business has increased. We have proposed to customers the arrangement about price increase progressively so as to reduce the pressure from rising costs. The profitability was eventually better than expected owing to a steady number of orders secured during the period.

Trading business

In 2009, the trading business has successfully expanded into the domestic market in China to cope with the severe economic crisis at that moment and to make up for the gliding export market, laying a sound foundation for business growth this year. Along with the gradual economic recovery worldwide in 2010, China's domestic demand stimulating policy has been yielding results as demand from customers in different sectors and industries obviously increased as compared with that of last year, resulting in a significant business upturn in trading business for the first half year. During the period, the Group's consolidated turnover amounted to approximately HK\$212,692,000, representing an increase of 79% as compared with the same period of last year. The operating profit for the period was approximately HK\$18,329,000, while the operating profit for the same period last year was HK\$3,710,000. In May this year, we spent approximately RMB8,391,000 on purchasing a new office in Yuexiu District of Guangzhou City, which can avoid any future effects of rent rise and frequent moving on business operations.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), an associate company of the Group in Shenzhen, was listed on Shenzhen Stock Exchange by issuing A shares in February 2010 and becoming one of the Group's investment projects with great growth potential. Haoningda raised total proceeds of approximately RMB687,000,000, which will be used as planned to augment the development of electronic watt-hour meters and electric automation management system terminal projects while part of the proceeds will be applied to construction of a corporate technology R&D centre and establishment of marketing networks. After the listing, Haoningda posed enhancement in its financial base, business level as well as market share. During the period, Haoningda developed sound and stably and achieved pleasant results as anticipated.

PROSPECTS

In respect of the machinery business, it is anticipated that the market can maintain to be stabilized. This business will be operated in accordance with a strategy for steady growth that focuses on the domestic market and the energy saving machinery, as complemented by the overseas market. Besides, along with the completion of the new plant located in Dongcheng District of Dongguan in May this year that enlarges the production capacity by about 20%, it is believed that orders on hand can be handled and that the continued growth momentum of servo energy saving plastic processing machinery can be catered to by appropriate adjustment. In respect of the construction of the domestic supply chain, we will further strengthen the strategic partnership cooperation relationship with key OEM-version component suppliers to match up the mid to long term planning of product R&D and production capacity enlargement. It is believed that the machinery manufacturing business can sustain a pleasant growth on the basis of the adjusted product mix, that the Group is optimistic about its future results performance.

In respect of the plastic product and processing business, the plastic processing business in Dongguan will strive with efforts for orders of mini-refrigerators, energy-saving LED table lamps and others with a higher product value, and will continue to solicit new customers in other industries. With a satisfactory order condition for the second half of the year, it is anticipated that results for the year can maintain a steady growth. For optic products business, there are new customers and projects being secured under some negotiations in mature stage in relation to plastic processing and pen-shape microscopes, and it is expected that sales of this business can be promoted as driven by these new customers and new projects. As for business of plastic cutlery and food packaging, we will stress on production management for the second half of the year and adopt an array of measures to enhance efficiency and control costs while perfecting its customer services to promote product development efficiency and explore new markets.

In respect of the printed circuit board business, it is anticipated that the minimum salary, the price of raw materials and the exchange rate of RMB will be all on the rise, and that the operating situation will become more difficult for the second half of the year. In addition to continued improvement of product quality, this business will develop products with higher production effectiveness to retain its competitiveness.

In respect of the trading business, it is anticipated that after the rapid growth in the first half of the year, the market condition will cool down slightly in the second half of the year and the business will tend towards a steady development. Notwithstanding a remarkably improved operation environment in the first half of the year, the debt crisis in Europe and in the US is yet to be resolved and the road to recovery of the global economy is long, difficult and arduous as clouded by a remaining fragile market confidence. In fact, in the latter time of the second quarter, signs of slowdown had emerged in some industries as particular customers recorded hoarding up of parts and components, such that the demand in market will decrease accordingly in the second half of the year. Confronted with such rapid-changing market, while implementing the policy to retrench expenditure, the trading business will continue to intensify development of business for the domestic demand market, explore new products and services conformed with concepts of environmental protection and energy saving. It is believed that the results for the year will pose desirable performance.

The economic recovery in the first half of 2010 has brought about considerable positive effects on the sales and profit of the Group's businesses as evidenced in the encouraging growth figures set out in the interim results, and has strengthened the confidence for the Group's businesses to strive for better results in the second half of the year. However, there exist a number of hidden troubles, such as the upcoming period of contraction for the economy in Europe, the uncertainties lie in the prospect for full recovery of the global economy, the soaring costs like raw material and labor costs, the risk of slowdown underlying the economic development of China, all represent the challenges to be addressed by the Group with prudence in the second half of the year or in 2011. Nevertheless, endowed with Cosmos's solid and healthy foundation, our outstanding management team apt at rising to the occasion, we are deeply convinced that we have

ample capability and determination to address any significant challenge and change ahead. The Group will persist in scientific research and development, continue to cultivate management talents, deploy resources timely into high added-value business and products, and enhance competitive edge, so as to realize sustainable development of the Group's businesses and achieve brilliant results again.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2010 (2009: Nil).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2010, the Group's shareholders' funds were approximately HK\$1,240,991,000, compared with approximately HK\$991,891,000 as at 31st December, 2009.

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 30th June, 2010 was approximately 0.46 (31st December, 2009: 0.47), and the liquidity ratio was approximately 1.47 (31st December, 2009: 1.53), both were maintained at a healthy level. As at 30th June, 2010, cash, bank balances and time deposits amounted to approximately HK\$315,745,000. All these reflect that the Group is in sound financial position.

Contingent Liabilities

	30th June, 2010	31st December, 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	—	—
	<u> </u>	<u> </u>

Pledge of Assets

At the balance sheet date, assets with the following carried amounts were pledged by the Group to secure general banking facilities:

	Net book value	
	30th June, 2010	31st December, 2009
	HK\$'000	HK\$'000
Leasehold buildings	23,333	23,200
Leasehold land and land use rights	3,922	3,940
Plant and machinery	43,949	47,149
Bank deposits	31,849	39,750
	<u>103,053</u>	<u>114,039</u>

Note: The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The pledged deposits are denominated in RMB.

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 period, 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.

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 in Appendix 14 of the Listing Rules. The unaudited financial statements of the Company for the six months ended 30th June, 2010 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 of the Company 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 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 in respect of 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 which 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 30th June, 2010, the Group has approximately 5,500 employees (2009: approximately 5,500). The remuneration policy of the Group was formulated in accordance with market trends and performance of employees. Benefits plans have included schemes of insurance, retirement, share option and so on.

The remunerations 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

During the six months ended 30th June, 2010, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

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 six months ended 30th June, 2010.

COMPLIANCE WITH MODEL CODE

Throughout the six months ended 30th June, 2010, 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 been fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.cosmel.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. The interim report will be available at the Company's website and the website of The Stock Exchange of Hong Kong Limited and despatched to shareholders of the Company in September 2010.

On behalf of the Board

TANG To

Chairman

Hong Kong, 24th August, 2010

As at the date hereof, the board of directors of the Company is comprised of ten directors, of which three are executive directors, namely Mr. Tang To, Mr. Jiang Wei and Mr. Wong Yiu Ming and four are non-executive directors, namely Mr. Tang Kwan, Mr. Wu Ding, Mr. Kan Wai Wah and Mr. Qu Jinping and three are independent non-executive directors, namely Mr. Yip Jeffery, Ms. Yeung Shuk Fan and Mr. Cheng Tak Yin.