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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, 2009

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, 2009 with comparative figures for the corresponding period in 2008 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2009	2008
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	3	691,407	1,011,015
Cost of sales		(570,410)	(829,200)
Gross profit		120,997	181,815
Other income and gains, net		10,135	11,181
Distribution costs		(41,183)	(53,854)
Administrative expenses		(93,598)	(102,972)
Allowance for impairment losses of bad and doubtful debts		(328)	(300)
(Loss) profit from operations	4	(3,977)	35,870
Finance costs		(8,468)	(12,266)
Investment income		1,133	1,164
Share of results of associates		3,775	5,651
(Loss) profit before taxation		(7,537)	30,419
Taxation	5	2,572	5,341
(Loss) profit for the period		(10,109)	25,078

		Six months ended 30th June,	
		2009	2008
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Attributable to:			
Equity holders of the Company		(18,147)	20,184
Non-controlling interests		8,038	4,894
		<u>(10,109)</u>	<u>25,078</u>
Basic (loss) earnings per share for (loss)			
profit attributable to the equity holders of			
the Company during the period	6	<u>(2.56 cents)</u>	<u>2.84 cents</u>
Proposed interim dividend: Nil (2008: Nil)		<u>-</u>	<u>-</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June,	
	2009	2008
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit for the period	(10,109)	25,078
Other comprehensive income for the period:		
Exchange differences arising on translation of foreign operations	(435)	46,404
Gain on changes in fair value of available-for-sale investments	—	2
	<hr/>	<hr/>
Total comprehensive income for the period	(10,544)	71,484
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30th June, 2009 (Unaudited) <i>HK\$'000</i>	31st December, 2008 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current Assets			
Property, plant and equipment	7	346,321	340,736
Leasehold land and land use rights		42,985	43,325
Interests in associates		225,444	234,903
Available-for-sale financial assets		4,729	4,729
Deferred tax assets		4,386	4,386
		623,865	628,079
Current Assets			
Inventories		576,424	597,412
Leasehold land and land use rights		757	784
Trade and other receivables	8	652,519	735,154
Tax recoverable		2,448	2,543
Pledged bank deposits		34,033	120,698
Cash and cash equivalents		201,935	189,369
		1,468,116	1,645,960
Current Liabilities			
Trade and other payables	9	594,565	666,428
Amounts due to associates		61,719	61,742
Derivative financial instruments	10	–	167
Bank and other borrowings			
– due within one year		248,179	328,282
Obligations under finance leases			
– due within one year		8,015	6,920
Tax payable		4,375	4,453
		916,853	1,067,992
Net Current Assets		551,263	577,968
Total Assets less Current Liabilities		1,175,128	1,206,047

		30th June, 2009	31st December, 2008
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current Liabilities			
Bank and other borrowings			
– due after one year		44,370	61,259
Obligations under finance leases			
– due after one year		8,044	8,754
Deferred tax liabilities		229	229
		<u>52,643</u>	<u>70,242</u>
Net Assets		<u>1,122,485</u>	<u>1,135,805</u>
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	<i>11</i>	283,972	283,972
Reserves		680,241	698,849
		<u>964,213</u>	<u>982,821</u>
Non-controlling interests		<u>158,272</u>	<u>152,984</u>
Total Equity		<u>1,122,485</u>	<u>1,135,805</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Share	Share	Capital	Share	Buildings	Translation	Other	Proposed	Retained	Total	Non-	Total
	capital	premium	redemption	options	revaluation			dividend	profits		controlling	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January, 2008	284,009	244,118	-	3,052	12,899	63,429	(67)	10,650	308,751	926,841	201,679	1,128,520
Profit for the period	-	-	-	-	-	-	-	-	20,184	20,184	4,894	25,078
Other comprehensive income												
Fair value gains:												
- Available-for-sale financial assets	-	-	-	-	-	-	2	-	-	2	-	2
Currency translation differences	-	-	-	-	-	41,252	-	-	-	41,252	5,152	46,404
Total comprehensive income	-	-	-	-	-	41,252	2	-	20,184	61,438	10,046	71,484
Transfer on lapse of share options	-	-	-	(2,864)	-	-	-	-	2,864	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,920)	(1,920)
Dividend relating to 2007	-	-	-	-	-	-	-	(10,650)	-	(10,650)	-	(10,650)
At 30th June, 2008 and 1st July, 2008	284,009	244,118	-	188	12,899	104,681	(65)	-	331,799	977,629	209,805	1,187,434
Profit for the period	-	-	-	-	-	-	-	-	25,056	25,056	6,172	31,228
Other comprehensive income												
Fair value gains:												
- Available-for-sale financial assets	-	-	-	-	-	-	95	-	-	95	-	95
Share of changes in equity of associates	-	-	-	-	-	-	451	-	-	451	-	451
Revaluation deficit on buildings	-	-	-	-	(3,491)	-	-	-	-	(3,491)	(608)	(4,099)
Deferred taxation adjustment	-	-	-	-	(1,651)	-	-	-	-	(1,651)	(1,324)	(2,975)
Realised on disposal of properties	-	-	-	-	(741)	-	-	-	741	-	-	-
Currency translation differences	-	-	-	-	-	(15,233)	-	-	-	(15,233)	(744)	(15,977)
Total comprehensive income	-	-	-	-	(5,883)	(15,233)	546	-	25,797	5,227	3,496	8,723

Attributable to equity holders of the Company

	Share capital	Share premium	Capital redemption	Share options	Buildings revaluation	Translation	Other	Proposed dividend	Retained profits	Total	Non- controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repurchase of own shares	(37)	-	37	-	-	-	-	-	(35)	(35)	-	(35)
Transfer on lapse of share options	-	-	-	(188)	-	-	-	-	188	-	-	-
Elimination of non-controlling interests in an associate	-	-	-	-	-	-	-	-	-	-	(59,054)	(59,054)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,263)	(1,263)
At 31st December, 2008 and 1st January, 2009	283,972	244,118	37	-	7,016	89,448	481	-	357,749	982,821	152,984	1,135,805
Loss for the period	-	-	-	-	-	-	-	-	(18,147)	(18,147)	8,038	(10,109)
Other comprehensive income												
Currency translation differences	-	-	-	-	-	(461)	-	-	-	(461)	26	(435)
Total comprehensive income	-	-	-	-	-	(461)	-	-	(18,147)	(18,608)	8,064	(10,544)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,776)	(2,776)
At 30th June, 2009	283,972	244,118	37	-	7,016	88,987	481	-	339,602	964,213	158,272	1,122,485

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	51,705	3,299
NET CASH GENERATED FROM INVESTING ACTIVITIES	73,386	73,056
NET CASH USED IN FINANCING ACTIVITIES	(131,030)	(46,398)
	<hr/>	<hr/>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,939)	29,957
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	177,209	172,617
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	35	6,295
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	171,305	208,869
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	201,935	213,958
Bank overdrafts	(30,630)	(5,089)
	<hr/>	<hr/>
	171,305	208,869
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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, 2008 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, 2009. The changes to the Group’s accounting policies and the effect of adopting these new accounting policies are set out in note 2 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following new/revised HKFRS issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January, 2009.

HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a subsidiary, Jointly Controlled Entity or Associate
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendments to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new

and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

In 2009, the following new standard has been issued but is not effective for 2009 and has not been early adopted:

Effective for annual periods beginning on or after 1st July, 2009

HKAS 27 (Revised)	Consolidated 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

Effective for transfers on or after 1st July, 2009

HK(IFRIC) – Int 18	Transfer of Assets from Customers
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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. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group has adopted HKFRS 8 “Operating segments” with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14, “Segment reporting”) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

At 30th June, 2009, the Group is organised on a product basis into four main business segments.

- (1) trading of industrial consumables
- (2) manufacturing of plastic processing products
- (3) manufacturing of machinery; and
- (4) manufacturing of printed circuit board

The Group determines its operating segments based on the internal reports reviewed by the management that are used to make strategic decisions. Segment results represent the profit (loss) for the period in each operating segment. This is the measure reported to the Group’s management for the purpose of resource allocation and assessment of segment performance.

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							<u>(12,335)</u>
Loss from operations							(3,977)
Finance costs							(8,468)
Investment income							1,133
Share of results of associates							<u>3,775</u>
Loss before taxation							<u>(7,537)</u>

The segment results for the period ended 30th June, 2008 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	188,365	192,933	385,375	244,342	-	-	1,011,015
Inter-segment sales	3,828	-	1,100	-	-	(4,928)	-
Total revenue	<u>192,193</u>	<u>192,933</u>	<u>386,475</u>	<u>244,342</u>	<u>-</u>	<u>(4,928)</u>	<u>1,011,015</u>
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	<u>17,126</u>	<u>5,135</u>	<u>13,938</u>	<u>10,327</u>	<u>810</u>	<u>3,463</u>	50,799
Unallocated corporate expenses							<u>(14,929)</u>
Profit from operations							35,870
Finance costs							(12,266)
Investment income							1,164
Share of results of associates							5,651
Profit before taxation							<u>30,419</u>

	Sales revenue by geographical market	
	Six months ended 30th June,	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	272,702	350,499
Other regions in the People's Republic of China	353,769	534,156
Other Asia-Pacific countries	43,235	87,903
Europe	13,120	22,970
North America	8,581	15,487
	<u>691,407</u>	<u>1,011,015</u>

4. (LOSS) PROFIT FROM OPERATIONS

Six months ended 30th June,
2009 2008
HK\$'000 HK\$'000

(Loss) profit from operations has been arrived at after charging:

Depreciation and amortisation

Depreciation and amortisation on:

Owned assets	24,655	26,604
Assets held under finance leases	1,793	1,615
Leasehold land and land use rights	379	609
Loss on disposal of property, plant and equipment	943	1,954
Fair value loss on derivative financial instruments	–	172
	<u> </u>	<u> </u>

5. TAXATION

Six months ended 30th June,
2009 2008
HK\$'000 HK\$'000

The charge comprises:

Hong Kong Profits Tax	479	1,502
Overseas taxation	2,093	3,315
Deferred taxation	–	524
	<u> </u>	<u> </u>
	<u>2,572</u>	<u>5,341</u>

Hong Kong Profits Tax is calculated at 16.5% (2008: 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. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per ordinary share is based on the Group's (loss) profit attributable to equity holder of the Company divided by the weighted average number of ordinary shares in issue during the period.

Six months ended 30th June,
2009 2008

Weighted average number of shares in issue during the period	709,930,692	710,022,692
(Loss) profit attributable to the equity holders of the Company	(HK\$18,147,000)	HK\$20,184,000
(Loss) earnings per share	(2.56 cents)	2.84 cents

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$33,203,000.

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\$444,345,000 (31st December, 2008: approximately HK\$503,042,000) and their ageing analysis is as follows:

	30th June, 2009	31st December, 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 3 months	313,111	331,820
4 to 6 months	29,871	68,847
7 to 9 months	16,520	36,523
Over 9 months	84,843	65,852
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	444,345	503,042
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9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately HK\$386,689,000 (31st December, 2008: approximately HK\$448,014,000) and their ageing analysis is as follows:

	30th June, 2009	31st December, 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 3 months	296,820	281,025
4 to 6 months	59,724	139,722
7 to 9 months	13,530	14,671
Over 9 months	16,615	12,596
	<hr/>	<hr/>
	386,689	448,014
	<hr/> <hr/>	<hr/> <hr/>

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments which represent foreign exchange forward contracts which are not qualified for hedge accounting under the requirements of HKAS 39 are deemed as held for trading.

11. SHARE CAPITAL

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2009 and 30th June, 2009	1,000,000,000	400,000
Issued and fully paid:		
At 1st July, 2008	710,022,692	284,009
Repurchase of own shares	(92,000)	(37)
At 1st January, 2009 and 30th June, 2009	709,930,692	283,972

12. OPERATING LEASE COMMITMENTS

The Group as lessee

	Six months ended 30th June,	
	2009	2008
	HK\$'000	HK\$'000
Minimum lease payments made during the period under operating leases in respect of:		
Land and buildings	7,434	7,451
Plant and machinery	–	14
	<u>7,434</u>	<u>7,465</u>

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, 2009	31st December, 2008
	HK\$'000	HK\$'000
Within one year	12,623	10,896
In the second to fifth year inclusive	30,381	26,446
Over five years	22,011	28,162
	<u>65,015</u>	<u>65,504</u>

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\$41,000 (2008: approximately HK\$24,000) was approximately HK\$194,000 (2008: approximately HK\$208,000).

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, 2009 HK\$'000	31st December, 2008 HK\$'000
Within one year	685	298
In the second to fifth year inclusive	61	61
	<u>746</u>	<u>359</u>
	<u>746</u>	<u>359</u>
13. CAPITAL COMMITMENTS		
	30th June, 2009 HK\$'000	31st December, 2008 HK\$'000
Capital expenditure:		
Authorised but not contracted for	–	–
Contracted but not provided for	2,652	2,652
	<u>2,652</u>	<u>2,652</u>
	<u>2,652</u>	<u>2,652</u>
14. CONTINGENT LIABILITIES		
	30th June, 2009 HK\$'000	31st December, 2008 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	9,097	9,097
	<u>9,097</u>	<u>9,097</u>
	<u>9,097</u>	<u>9,097</u>

15. PLEDGE OF ASSETS

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

	Net Book Value	
	30th June, 2009 HK\$'000	31st December, 2008 HK\$'000
Plant and machinery	34,728	34,716
Bank deposits (<i>Note</i>)	34,033	120,698
	<u>68,761</u>	<u>155,414</u>

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

16. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	Six months ended 30th June,	
	2009 HK\$'000	2008 HK\$'000
Substantial shareholder and its subsidiaries:		
EDP charges received (<i>note i</i>)	92	92
Management fee paid (<i>note i</i>)	1,412	1,407
Companies controlled by certain directors:		
Management fee paid (<i>note i</i>)	498	498
EDP charges received (<i>note i</i>)	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>)	64	–
Purchases (<i>note i</i>)	5,911	–

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

	30th June, 2009 HK\$'000	31st December, 2008 HK\$'000
Substantial shareholder and its subsidiaries:		
Balances due from the Group (<i>note ii</i>)	166	401
Balances due to the Group (<i>note ii</i>)	26	12
Non-controlling shareholders:		
Balances due from the Group (<i>note ii</i>)	383	383
Balances due to the Group (<i>note ii</i>)	825	825
Associates:		
Balance due from the Group (<i>note ii</i>)	61,719	61,742
Balances due to the Group (<i>note ii</i>)	78,367	95,288

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

During the reporting period, the financial crisis lingered and there was no sign of recovery in the global economy, such that customers from all walks were rather conservative when making investments or orders, posing an extremely difficult operation environment for the manufacturing industries. Businesses of the Group were inevitably dampened to different extent and recorded a regression for the overall results. The Group's consolidated turnover for the period amounted to approximately HK\$691,407,000, representing a decrease of approximately 32% from the same period of last year, while operating loss and net loss attributable to the shareholders amounted to approximately HK\$3,977,000 and HK\$18,147,000, decreased by about 111% and 190% respectively from the same period of last year.

Manufacturing Business

Machinery

The plunge of orders in the market since the outbreak of the global financial crisis last year continued its effects for the first half of the year as demand in the market remained sluggish. During the period, the overall sales was approximately HK\$215,646,000, representing a decrease of 44% from the same period of last year, and accounted for approximately 31% of the Group's consolidated turnover, while operating loss of the period was approximately HK\$24,865,000, representing a decrease of approximately 278% from the same period of last year.

Against a backdrop of general downturn and recession in the global economy and uncertainties in the domestic market, the customers were reluctant to make investment in equipment, some even scaled down their investment or suspended orders already made, which accounted mainly for the significant drop in sales for the period. The export business was hit seriously as it fell by more than half from the same period of last year; the gross profit margin of general purpose injection moulding machines decreased by about 7% as competition intensified when the supply exceeded the demand; the profit margin of other machinery products were down a number of percentages. This business had undergone restructuring of organization since the fourth quarter of last year with certain capital input cut down and cost-control measures implemented. However, the results of which will not be evident until the second quarter of the year, such that this business recorded a loss for the first half of the year.

To accommodate the market trend of environmental and energy-saving machinery, we had further upgraded the function of Sv series servo-driven pump energy-saving and high precision injection moulding machine which was launched in the middle of last year during the period, and had extended the solution of which to rubber injection machine products. Besides, with our self-developed R&D technology, we had successfully developed the localized and enhanced version of the servo-driven pump solution with the addition of the Se series energy-saving injection moulding machines. Since its launch at the exhibition in May of the year, the Se series had ingratiated

the customers with its outstanding function/price ratio, and was expected to be the major injection moulding machine product of this business following a product mix adjustment. Moreover, it will improve the overall market share and the gross profit contribution of the small and medium machinery segment. For CNC sheet-metal processing machine products, the Group had successfully developed the CNC Turrent Punch Press LX230BKD that can process large-sized sheet of 1500mm x 2500mm in a time, which is particularly useful in market exploration and in meeting sheet-metal processing requirements of mass transit system under infrastructure projects.

Plastic Products and Processing

The consolidated sales of this business for the period was approximately HK\$149,232,000, representing a decrease of about 23% as compared with the same period of last year and accounted for approximately 22% of the Group's consolidated turnover, while operating profit of the period was approximately HK\$781,000, decreased by approximately 85% from the same period of last year.

The first half of 2009 was a severe winter for the export industry in Southern China. The Group's plastic processing plant in Dongguan was confronted with order cancellations and postponements by some customers and almost total suspension of new product development, in addition to fierce competition within the plastic processing industry that resulted in deteriorating forced reduction of prices. Consequently, its turnover for the period decreased by more than 30%. Fortunately, thanks to the cost-control measures implemented in the first half that controlled production cost by perfection of work process and improved automation of the plant, a slight profit was recorded for this segment during the period.

The optic products business, mainly export in nature, was influenced also during the period as its turnover and gross profit margin dropped drastically. This was because the customers were reluctant to purchase in order to mitigate inventory risk. In spite of a slowdown in price rise of production costs such as price of plastics and electricity fee in the first half of the year, the operating situation of this business showed very less improvement.

Owing to the difficult economic situation at home and abroad during the first half, the Zhuhai plant which specializes in injection moulding products of plastic cutlery and food packaging recorded a decrease in turnover by 10% as compared to the same period of last year, even though it had reinforced the development of new customers as well as new products. However, benefited by the relatively low plastics price and aided by strengthened and effective internal control of management, administration and production costs, this business had recorded a profit for the period.

For other plastic processing plants which are located at Shenyang, Hefei and Wuxi, as the operation mainly focused on the processing of casings and components of household electrical appliances which was affected by the poor condition in the household electrical appliance industry during the period that resulted in a fallback in the sales and results, we are adopting measures and adjustment strategy in response to it and may have to discontinue enterprises which were unprofitable for a long period.

Printed Circuit Board

As to printed circuit board business, sales of approximately HK\$206,332,000 was recorded for the first half of the year, accounting for approximately 30% of the Group's consolidated turnover, which represented a decrease of approximately 16% as compared with the same period of last year. Operating profit was approximately HK\$26,346,000, increased by approximately 155% as compared with the same period of last year. During the period, the production cost was lower than expected as price of raw materials (such as metal material) fell drastically as compared with the same period of last year and the rise in salary was stabilized. Therefore, a desirable increase in operating profit was recorded although in an adverse economic condition. On the other hand, this business segment will continue to increase the output ratio of multi-layer printed circuit board so as to maintain its profit momentum in the second half year.

Trading Business

Industrial Materials and Consumables

Dampened by the financial crisis, the trading business was also on the decline, and some business developed mainly to meet domestic demand, such as 3G communication equipment and MTR screened automatic door, could only made up for part of the loss. During the period, the consolidated turnover was HK\$118,796,000, representing a decrease of 37% from the same period of last year, accounting for approximately 17% of the Group's consolidated turnover. Operating profit was approximately HK\$3,710,000, a decrease of 78% from the same period of last year. It is expected that the market is stabilizing as business of the customers will be recovering by the end of the second quarter of the year, and that the situation will take a favorable turn in the second half of the year.

Other Businesses

Electronic Watt-Hour Meters and Related Business

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), the associate of the Group in Shenzhen, recorded a desirable profit for the period. The application for listing of its shares on Shenzhen Stock Exchange by this company was approved by CSRC on 2 September of the year, pursuant to which Haoningda will, in the form of IPO, issue not more than 20 million of A shares of par value RMB1.00 each. The date of listing and other detailed particulars are yet to be finalized. The Group will make relevant disclosures on the progress in due course.

PROSPECTS

Under the impacts of the financial crisis, the global economy including Mainland China had experienced significant fluctuation during the first half of 2009, and the Group had posed an unprecedented regression of results. Clouded by the economic uncertainties, the Group had adopted series of cost-control measures at beginning of the year to optimize its operating costs, streamline and improve internal management to weather such economic crisis.

In respect of machinery business, although there are signs of recovery in the market in the second half of the year, a number of uncertainties still exist in the external environment. This business segment will continue its efforts to tap new resources and economize on expense; carry out stringent cost-control to cope with the challenges ahead. On the product strategy front, it will expedite the mass production pace of the Se series small and medium size injection moulding machines and the extension of its application to super-sized injection moulding machines. Meanwhile, the models of machine with lower gross profit margin will be further integrated in order to enhance their operation effectiveness. On the rubber injection machine product front, in light of the continued upward momentum of the electricity transmission and distribution industry under the further investment in infrastructure projects by the Central Government, total solution for producing super-high-voltage insulator is added to strive for a larger proportion of market share. It is expected that the results of machinery manufacturing business will see improvement in the second half of the year as market demand is taking a favorable turn, coupled with a product mix strategic adjustment.

In respect of plastic products and processing business, the Group's plastic processing plant in Dongguan will keep on soliciting new customers and to adopt the High Gloss Injection Moulding Technology (高光注塑) that has already been widely applied in the production of high end household electrical appliances. For the second half of the year, the plant specialized in injection moulding products of plastic cutlery and food packaging will focus on the application of bio-degradable plastic material. An advanced printing production line from Holland will be introduced to increase its printing capacity as well as to enhance quality of the products. Meanwhile, the quality control including maintaining a neat and clean production environment, will be strengthened. Currently, we are negotiating with some sizable domestic customers for new orders, which are hopefully realized in the second half of the year to further improve the profit of this business segment. On the optic product front, Collimator lens (聚光透鏡), a new product will be developed in the second half of the year in order to secure more orders for improving the sales of the second half of the year.

In respect of trading business, measures such as stringent cost-control, optimization of staff, cut-down on inventory and account receivables have been implemented to address intensified market competition and are yielding favourable results. In the meantime, it will augment development of business targeted for the domestic demand market; explore products and services with factory automation concept. Therefore, it is confident to seize the business opportunities under adversity for satisfactory results in the second half of the year.

Looking forward to the second half of 2009, it is not possible to have rapid recovery of the global economy in the aftermath of the radical change of the financial crisis. Notwithstanding series of measures launched by the Government of the PRC to stimulate the economy and to proactively expand the domestic demand market, the corporate business environment is rife with uncertainties, and so the second half will remain a difficult period for the Group. Fortunately, we have a superior and competent team that is apt at dealing with contingency. On the occasion of a rapidly changing period, of a prospect beset with difficulties, we strongly believe in the rule of “crisis co-exists with chances”, that we have to be more adamant than ever to overcome the adversity, to continue improving our operation effectiveness, perfect our industry structure and give play to our team spirit. Thus the Group’s business is sure to regain its upward momentum, and with the painstaking contribution of all the staff, the unceasing support of the customers and the business partners, the Group is bound to generate more value for the shareholders in the future.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2009 (2008: Nil).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2009, the Group’s shareholders’ funds were approximately HK\$964,213,000, 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 30th June, 2009 was approximately 0.46 (31st December, 2008: 0.50), and the liquidity ratio was approximately 1.60 (31st December, 2008: 1.54), both were maintained at a healthy level. As at 30th June, 2009, cash, bank balances and time deposits amounted to approximately HK\$201,935,000. All these reflect that the Group is in sound financial position.

Contingent Liabilities

	30th June, 2009	31st December, 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	9,097	9,097

Pledge of Assets

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

	Net book value	
	30th June, 2009	31st December, 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Plant and machinery	34,728	34,716
Bank deposits (<i>Note</i>)	34,033	120,698
	68,761	155,414

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

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, 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 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, 2009, the Group has approximately 5,500 employees (2008: approximately 6,000). 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, 2009, 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, 2009.

COMPLIANCE WITH MODEL CODE

Throughout the six months ended 30th June, 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 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 late September 2009.

On behalf of the Board
TANG To
Chairman

Hong Kong, 23rd September, 2009

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.