



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, 2006

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, 2006 with comparative figures for the corresponding period in 2005 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2006	2005
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	3	919,205	778,744
Cost of sales		(751,485)	(616,174)
Gross profit		167,720	162,570
Other income and gains, net		8,018	9,086
Distribution costs		(47,539)	(46,368)
Administrative expenses		(93,143)	(89,558)
Impairment losses for bad and doubtful debts		(325)	(280)
Profit from operations	4	34,731	35,450
Finance costs		(13,590)	(11,212)
Investment income		3,269	377
Loss on disposal of an associate		-	(163)
Share of results of associates		16,178	10,960
Profit before taxation		40,588	35,412
Taxation	5	5,374	5,432
Profit for the period		35,214	29,980
Attributable to:			
Equity holders of the Company		22,332	18,630
Minority interests		12,882	11,350
		35,214	29,980
Basic earnings per share for profit attributable to the equity holders of the Company during the period	6	3.16 cents	2.64 cents
Proposed interim dividend (HK\$0.005 per share)		3,538	-

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June,	31st December,
		2006	2005
		(Unaudited)	(Audited)
		HK\$'000	HK\$'000
	<i>Notes</i>		

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Minority interests HK\$'000	
At 1st January, 2005	282,491	241,479	22,173	117,654	157,559	821,356
Realised on disposal of interest in an associate	-	-	(7)	-	-	(7)
Share of changes in equity of associates	-	-	55	-	23	78
Currency translation differences	-	-	251	-	70	321
Net income recognised directly in equity	-	-	299	-	93	392
Profit for the period	-	-	-	18,630	11,350	29,980
Total recognised income for the period	-	-	299	18,630	11,443	30,372
At 30th June, 2005 and 1st July, 2005	282,491	241,479	22,472	136,284	169,002	851,728
Fair value gains:						
- Available-for-sale financial assets	-	-	59	-	-	59
- Buildings	-	-	4,947	-	(1)	4,946
Realised on disposal of properties	-	-	(10,717)	10,717	-	-
Share of changes in equity of associates	-	-	1,683	-	1,044	2,727
Currency translation differences	-	-	6,833	-	1,592	8,425
Net income recognised directly in equity	-	-	2,805	10,717	2,635	16,157
Profit for the period	-	-	-	35,591	7,531	43,122
Total recognised income for the period	-	-	2,805	46,308	10,166	59,279
Issue of shares	518	-	-	-	-	518
Acquisition of additional interests in subsidiaries	-	-	-	-	(22,310)	(22,310)

Proposed interim dividend (HK\$0.005 per share)

3,538

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**CONDENSED CONSOLIDATED BALANCE SHEET**

	<b>30th June, 2006 (Unaudited) HK\$'000</b>	<b>31st December, 2005 (Audited) HK\$'000</b>
Non-current Assets		
Property, plant and equipment	340,410	352,186
Investment properties	29,030	29,030
Leasehold land and land use rights	36,492	37,233
Interests in associates	189,821	176,614
Available-for-sale financial assets	7,623	7,649
Deferred tax assets	16,545	16,483
	<b>619,921</b>	<b>619,195</b>
Current Assets		
Inventories	576,720	515,080
Leasehold land and land use rights	1,062	1,062
Trade and other receivables	693,504	587,082
Bills receivable	19,914	22,320
Tax recoverable	280	23
Pledged bank deposits	20,800	15,208
Bank balances and cash	106,763	116,815
	<b>1,419,043</b>	<b>1,257,590</b>
Current Liabilities		
Trade and other payables	658,454	498,408
Bills payable	103,200	95,802
Amounts due to associates	14,540	9,428
Tax payable	6,629	11,194
Bank and other borrowings – due within one year	330,036	351,254
Obligations under finance leases – due within one year	4,278	4,896
	<b>1,117,137</b>	<b>970,982</b>
Net Current Assets	<b>301,906</b>	<b>286,608</b>
Total Assets less Current Liabilities	<b>921,827</b>	<b>905,803</b>
Non-current Liabilities		
Bank and other borrowings – due after one year	10,709	21,265
Obligations under finance leases – due after one year	7,670	9,790
Deferred tax liabilities	10,009	9,536
	<b>28,388</b>	<b>40,591</b>
Net Assets	<b>893,439</b>	<b>865,212</b>
Equity		
Capital and reserves attributable to the Company's equity holders:		
Share capital	283,009	283,009
Share premium	241,479	241,479
Other reserves	29,476	25,277
Retained profits		
– Proposed dividend	3,538	10,613
– Others	183,711	164,917
	<b>741,213</b>	<b>725,295</b>
Minority interests	152,226	139,917
Total Equity	<b>893,439</b>	<b>865,212</b>

Profit for the period	-	-	-	35,591	7,531	43,122
Total recognised income for the period	-	-	2,805	46,308	10,166	59,279
Issue of shares	518	-	-	-	-	518
Acquisition of additional interests in subsidiaries	-	-	-	-	(22,310)	(22,310)
Dividends paid to minority shareholders	-	-	-	-	(16,941)	(16,941)
Dividend relating to 2004	-	-	-	(7,062)	-	(7,062)
At 31st December, 2005 and 1st January, 2006	283,009	241,479	25,277	175,530	139,917	865,212
Share of changes in equity of associates	-	-	712	-	388	1,100
Currency translation differences	-	-	3,487	-	626	4,113
Net income recognised directly in equity	-	-	4,199	-	1,014	5,213
Profit for the period	-	-	-	22,332	12,882	35,214
Total recognised income for the period	-	-	4,199	22,332	13,896	40,427
Acquisition of additional interests in a subsidiary	-	-	-	-	(95)	(95)
Capital contributed from minority shareholders	-	-	-	-	636	636
Dividends paid to minority shareholders	-	-	-	-	(2,128)	(2,128)
Dividend relating to 2005	-	-	-	(10,613)	-	(10,613)
At 30th June, 2006	283,009	241,479	29,476	187,249	152,226	893,439

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended 30th June,</b>	
	<b>2006 (Unaudited) HK\$'000</b>	<b>2005 (Unaudited) HK\$'000</b>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<b>59,254</b>	(37,062)
NET CASH USED IN INVESTING ACTIVITIES	<b>(12,769)</b>	(16,698)
NET CASH (USED IN) FROM FINANCING	<b>(68,486)</b>	29,697
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(22,001)</b>	(24,063)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>79,810</b>	89,004
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>859</b>	78
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>58,668</b>	65,019
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>106,763</b>	98,268
Bank overdrafts	<b>(48,095)</b>	(33,249)
	<b>58,668</b>	65,019

## Notes:

**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, 2005 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, 2006. 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**

The HKICPA has issued the following amendments, new standards and interpretations which are effective for accounting periods commencing on or after 1st January, 2006:

HKAS 1 (Amendment)	"Presentation of financial statements"
HKAS 19 (Amendment)	"Actuarial gains and losses, group plans and disclosures"
HKAS 21 (Amendment)	"Net investment in a foreign operation"
HKAS 27 (Amendment)	"Consolidated and separate financial statements"
HKAS 39 (Amendment)	"Financial instruments: recognition and measurement" – the fair value option
HKAS 39 (Amendment) and HKFRS 4	"Financial instruments: recognition and measurement" – Financial guarantee contracts
HKFRS 3 (Amendment)	"Business combinations"
HKFRS-Int 4	"Determining whether an arrangement contains a lease"

The adoption of the above amendments had no material effect on the Group's policies.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HKFRS 7	"Financial instruments: disclosures"
HKAS 1 (Amendment)	"Presentation of financial statements: capital disclosures"

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**

At 30th June, 2006, the Group is organised on a product basis into five main business segments.

- (1) trading of industrial consumables
- (2) manufacturing of plastic processing products
- (3) manufacturing of machinery
- (4) manufacturing of audio and electronic products
- (5) manufacturing of printed circuit boards

The segment results for the period ended 30th June, 2006 are as follows:

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External sales	167,488	203,978	304,106	35,202	208,431	-	-	919,205
Inter-segment sales	3,996	5,515	6,701	-	-	-	(16,212)	-
Total revenue	<u>171,484</u>	<u>209,493</u>	<u>310,807</u>	<u>35,202</u>	<u>208,431</u>	<u>-</u>	<u>(16,212)</u>	<u>919,205</u>

Inter-segment sales are charged at prevailing market rates

## RESULT

Segment result	<u>12,169</u>	<u>11,299</u>	<u>9,788</u>	<u>(3,703)</u>	<u>15,814</u>	<u>1,507</u>	<u>(2,797)</u>	44,077
Unallocated corporate expenses								(9,346)
Profit from operations								34,731
Finance costs								(13,590)
Investment income								3,269

**5. Taxation**

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	1,693	709
Overseas taxation	3,300	4,723
Deferred taxation	381	-
	<u>5,374</u>	<u>5,432</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) 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 per share**

The calculation of the basic earnings per share for the period is based on the profit attributable to the equity holder of the Company for the period of approximately HK\$22,332,000 (2005: approximately HK\$18,630,000) and on the weighted average number of shares in issue during the period of 707,522,692 (2005: 706,228,857).

Diluted earnings per share for period ended 30th June, 2005 and 2006 have not been disclosed as no diluting events existed during these periods.

**7. Property, plant and equipment**

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$17,392,000.

**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 receivables of approximately HK\$536,186,000 (31st December, 2005: approximately HK\$458,229,000) and their ageing analysis is as follows:

	30th June, 2006	31st December, 2005
	HK\$'000	HK\$'000
0 to 3 months	381,619	313,131
4 to 6 months	57,579	53,588
7 to 9 months	26,801	26,877
Over 9 months	70,187	64,633
	<u>536,186</u>	<u>458,229</u>

**9. Trade and other payables**

Included in trade and other payables are trade payables of approximately HK\$428,128,000 (31st December, 2005: approximately HK\$322,829,000) and their ageing analysis is as follows:

	30th June, 2006	31st December, 2005
	HK\$'000	HK\$'000
0 to 3 months	326,709	254,577

RESULT								
Segment result	<u>12,169</u>	<u>11,299</u>	<u>9,788</u>	<u>(3,703)</u>	<u>15,814</u>	<u>1,507</u>	<u>(2,797)</u>	<u>44,077</u>
Unallocated corporate expenses								<u>(9,346)</u>
Profit from operations								<u>34,731</u>
Finance costs								<u>(13,590)</u>
Investment income								<u>3,269</u>
Share of results of associates								<u>16,178</u>
Profit before taxation								<u><u>40,588</u></u>

The segment results for the period ended 30th June, 2005 are as follows:

	Industrial consumables HK\$'000	Plastic processing products HK\$'000	Machinery HK\$'000	Audio and electronic products HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER								
External sales	119,947	165,468	277,550	45,084	170,695	-	-	778,744
Inter-segment sales	3,939	8,790	5,989	-	-	-	(18,718)	-
Total revenue	<u>123,886</u>	<u>174,258</u>	<u>283,539</u>	<u>45,084</u>	<u>170,695</u>	<u>-</u>	<u>(18,718)</u>	<u>778,744</u>

Inter-segment sales are charged at prevailing market rates

RESULT								
Segment result	<u>6,872</u>	<u>14,381</u>	<u>16,193</u>	<u>(5,840)</u>	<u>9,573</u>	<u>2,437</u>	<u>714</u>	<u>44,330</u>
Unallocated corporate expenses								<u>(8,880)</u>
Profit from operations								<u>35,450</u>
Finance costs								<u>(11,212)</u>
Investment income								<u>377</u>
Loss on disposal of an associate								<u>(163)</u>
Share of results of associates								<u>10,960</u>
Profit before taxation								<u><u>35,412</u></u>

**Sales revenue by geographical market  
Six months ended  
30th June,**

	2006 HK\$'000	2005 HK\$'000
Hong Kong	<u>324,223</u>	278,855
Other regions in the People's Republic of China	<u>482,618</u>	397,293
Other Asia-Pacific countries	<u>50,363</u>	39,322
Europe	<u>47,751</u>	37,479
North America	<u>14,250</u>	25,795
	<u><u>919,205</u></u>	<u>778,744</u>

**4. Profit from operations**

**Six months ended  
30th June,**

	2006 HK\$'000	2005 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Depreciation and amortisation on:		
Owned assets	<u>27,785</u>	27,370
Assets held under finance leases	<u>911</u>	2,167
Leaseholds land and land use rights	<u>691</u>	531
and after crediting:		
Gain on disposal of property, plant and equipment	<u>80</u>	882
Release of negative goodwill to income (included in other income and gains, net)	<u>95</u>	-

Included in trade and other payables are trade payables of approximately HK\$428,128,000 (31st December, 2005: approximately HK\$322,829,000) and their ageing analysis is as follows:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
0 to 3 months	<u>326,709</u>	254,577
4 to 6 months	<u>60,031</u>	38,127
7 to 9 months	<u>14,385</u>	11,700
Over 9 months	<u>27,003</u>	18,425
	<u><u>428,128</u></u>	<u>322,829</u>

**10. Share capital**

**Number of ordinary shares**

**Value  
HK\$'000**

Ordinary shares of HK\$0.40 each

Authorised:

At 1st January, 2006 and 30th June, 2006	<u>1,000,000,000</u>	<u>400,000</u>
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Issued and fully paid:

At 1st July, 2005	706,228,857	282,491
Issue of shares	<u>1,293,835</u>	<u>518</u>

At 1st January, 2006 and at 30th June, 2006	<u>707,522,692</u>	<u>283,009</u>
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**11. Other reserves**

	Buildings revaluation HK\$'000	Translation HK\$'000	Other HK\$'000	Total HK\$'000
At 1st January, 2005	22,995	(822)	-	22,173
Realised on disposal of interest in an associate	-	(7)	-	(7)
Share of changes in equity of associates	-	55	-	55
Currency translation differences	-	251	-	251
At 30th June, 2005 and 1st July, 2005	<u>22,995</u>	<u>(523)</u>	<u>-</u>	<u>22,472</u>
Fair value gains:				
- Available-for-sale financial assets	-	-	59	59
Revaluation surplus	4,947	-	-	4,947
Realised on disposal of properties	(10,717)	-	-	(10,717)
Share of changes in equity of associates	-	1,683	-	1,683
Currency translation differences	-	6,833	-	6,833
At 31st December, 2005 and 1st January, 2006	<u>17,225</u>	<u>7,993</u>	<u>59</u>	<u>25,277</u>
Share of changes in equity of associates	-	712	-	712
Currency translation differences	-	3,487	-	3,487
	<u>-</u>	<u>4,199</u>	<u>-</u>	<u>4,199</u>
At 30th June, 2006	<u><u>17,225</u></u>	<u><u>12,192</u></u>	<u><u>59</u></u>	<u><u>29,476</u></u>

## 12. Operating lease commitments

### The Group as lessee

	30th June, 2006 HK\$'000	30th June, 2005 HK\$'000
Minimum lease payments made during the period under operating leases in respect of:		
Land and buildings	6,773	6,127
Plant and machinery	91	530
	<u>6,864</u>	<u>6,657</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, 2006 HK\$'000	31st December, 2005 HK\$'000
Within one year	12,335	12,212
In the second to fifth year inclusive	42,095	39,497
Over five years	67,669	65,751
	<u>122,099</u>	<u>117,460</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\$154,000 (2005: approximately HK\$121,000) was approximately HK\$1,164,000 (2005: approximately HK\$1,033,000). The properties are expected to generate rental yields of 8% (2005: 8%) on an ongoing basis. All of the properties held have committed tenants for the next 1-3 years.

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, 2006 HK\$'000	31st December, 2005 HK\$'000
Within one year	1,653	2,513
In the second to fifth year inclusive	58	2,202
After five years	-	38
	<u>1,711</u>	<u>4,753</u>

## 13. Other commitments

Capital expenditure contracted for but not provided in the financial statements in respect of:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Acquisition of land and buildings	2,528	2,792
Investments	5,000	6,256
	<u>7,528</u>	<u>9,048</u>

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Substantial shareholder and its subsidiaries:		
Balances due by the Group (note iii)	5,131	5,217
Balances due to the Group (note iii)	62	260
Minority shareholders:		
Balances due by the Group (note iii)	6,868	6,857
Balances due to the Group (note iii)	1,338	695
Associates:		
Balance due by the Group (note iii)	14,540	9,428
Balances due to the Group (note iii)	9,246	10,233

### Notes:

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) No interest was charged (2005: 10% per annum on the outstanding balances) for the period.
- (iii) The balances are unsecured, interest free and have no fixed repayment term.

## BUSINESS REVIEW AND PROSPECTS

### Business Review

The Group's consolidated turnover for the first half of the year was approximately HK\$919,205,000, representing an increase of about 18% over the corresponding period last year. During the period, the operating profit and the net profit attributable to shareholders were approximately HK\$34,731,000 and HK\$22,332,000 respectively.

During the half year under review, although the Group was still affected by undesirable factors such as the continuous macro-economic adjustment policies on the Mainland, soaring raw material prices and the increase of human resource cost, thanks to the determined efforts made by our employees, the appropriate adjustment of operation strategy and the implementation of corresponding respondent measures, most of our businesses recorded satisfactory results. During the period, trading of industrial materials and consumables was the most satisfactory operation, reaping over 40% growth in turnover, while the plastic products manufacturing and processing business and the printed circuit board business also recorded an increase of over 20% in turnover, and their profits were better than expectation. In addition, the watt-hour meter business operated by the associate still enjoyed high profitability, while its machinery manufacturing business performed slightly below expectation, making only 10% increase in turnover. During the period under review, the net profit attributable to shareholders increased by approximately 20% over the corresponding period last year.

### Manufacturing Business

#### Machinery

The demand for equipment in Mainland market rebounded and was better than the corresponding period last year, but it was still adversely affected by the macro-economic adjustment policies on Mainland and the high price in plastic raw materials, the overall turnover only slightly increased by approximately 10% over the corresponding period. Under the continuous recovery situation in Mainland market,

Capital expenditure contracted for but not provided in the financial statements in respect of:

Acquisition of land and buildings	2,528	2,792
Investments	5,000	6,256
	<u>7,528</u>	<u>9,048</u>

Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment

	<u>–</u>	<u>–</u>
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#### 14. Contingent liabilities

<b>30th June, 2006</b>	31st December, 2005
<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>
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#### 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, 2006	31st December, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment properties	13,500	13,500
Leasehold buildings	31,834	42,036
Leasehold land and land use rights	15,928	12,266
Plant and machinery	65,610	66,373
Bank deposits ( <i>Note</i> )	20,800	15,208
	<u>147,672</u>	<u>149,383</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, 2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Substantial shareholder and its subsidiaries:		
EDP charges received ( <i>note i</i> )	92	92
Management fee paid ( <i>note i</i> )	1,410	1,563
Companies controlled by certain directors:		
Management fee paid ( <i>note i</i> )	498	498
EDP charges received ( <i>note i</i> )	26	26
Minority shareholders:		
Rental paid ( <i>note i</i> )	1,028	1,147
Interest paid ( <i>note ii</i> )	–	1,053

#### Manufacturing Business

##### Machinery

The demand for equipment in Mainland market rebounded and was better than the corresponding period last year, but it was still adversely affected by the macro-economic adjustment policies on Mainland and the high price in plastic raw materials, the overall turnover only slightly increased by approximately 10% over the corresponding period. Under the continuous oversupply situation in Mainland market, price pressure of general purpose plastic injection moulding machines was further intensified due to the unregulated competition, and the increase of human resource cost also affected the profit. In line with the Company's product strategy that favours the high-end plastic injection moulding machines and those applicable for overseas market in terms of resource allocation, sales of general purpose plastic injection moulding machines in Mainland market dropped slightly, while the increase in overseas business and sales of various high-end plastic injection moulding machines, compensated part of the loss. During the period, resources of various production bases and marketing platforms located in different places were further integrated and the operation models of multi-products and multi-places were continuously optimized, which speeded up the market expansion and segmentation, and shortened the time for introducing new products (for example: special purpose high speed plastic injection moulding machines for thin-wall products and CNC turret punch presses) into market. Moreover, in order to accelerate the response speed of after-sales services in overseas market and to enhance the relative competitiveness, overseas service centres were set up in three different time zones respectively, which are expected to commence operation in the fourth quarter of this year. Judging from the amount of on hand orders and potential orders, it is in prospect that the machinery manufacturing business can sustain a stable growth in the second half year.

##### Plastic Products and Processing

The soaring petroleum price harnessed a great burden of cost on our plastic product and processing business that used plastics as its principal raw materials, which, together with the consistent increase of energy price and labour cost, further shrunk the Group's profitability in this business. Nevertheless, thanks to the effective measures we took and the great efforts of our staff, sales grew by 23% and our profit was roughly at the same level as the corresponding period last year.

For the plastic processing business, as the orders from new customers was on the rise and those from old customers remained constant, profit level was kept for economies of scale and the relevant cost-reduction measures came into effect, despite the slight increase of cost of materials during the half year under review. For the plastic products, the sanitary plastic cutlery and food container business achieved better results as the overseas segment recorded a cheerful growth.

##### Electronic and Audio Products

Being confronted with the continuous loss in the electronic and audio business, the Group decided to take even harsher actions, in addition to plant relocation, production scale shrinking as well as some rationalization moves early in the year which had further reduced the loss, to resolve its adverse impact on the Group.

##### Printed Circuit Board

During the half year under review, with the increase in order, the PCB business recorded satisfactory results with a turnover of more than HK\$200 million, representing an increase of 22% over the corresponding period last year. Although the prices of certain raw materials rose continuously, the increment of the cost was partially set off through price adjustment with the understanding and cooperation of our customers. Meanwhile, through adjustment of production portfolio so as to concentrate on multi-layer PCBs of more sophisticated design, longer processing flow, higher technical requirement and bigger profit margin, the PCB operation recorded a cheerful growth in its profit. Considering that the labour cost would increase as a result of salary adjustment, the Group decided to, besides implementing a tighter management, purchase new advanced processing equipment to accommodate the order which had been outsourced previously, so as to save the relevant outsourcing cost, and such moves resulted in a balance of overall efficiency.

## Trading Business

### *Industrial Materials and Consumables*

During the first half of the year, the trading business of the Group recorded better than expected results with an increase of 40% in turnover. The satisfactory performance in the first half of the year had resulted from more purchases from customers. At the end of last year, due to the rising price of raw materials, the customers from industries serviced by the Group (e.g. automobile parts, electronic products, cables, etc.) kept down their demand and maintained their inventory level conservatively so as to mitigate inventory risk. However, customers had to increase their purchases to offset the deficiency of material inventory in view of the prosperous market condition in the first two quarters of the year. Furthermore, our professional sales team who provided efficient and quality service to customers was also one of the major factors by which the Group achieved good results. The market for the second half of the year is expected to slow down. However, with the well established sales offices located in prosperous economic regions such as the Pearl River Delta, Yangtze River Delta and Bohai Rim, and as well as the commencement of operation of the storage and distribution center in Shanghai, our nationwide sales and support network will certainly provide customers with better services.

## Other Businesses

### *Electronic Watt-Hour Meters and Related Business*

During the first half of the year under review, this business sector maintained satisfactory growth and achieved better results. New hi-tech products, including remote self-reading meters and systems for better management of electricity capacity/loading and distribution monitoring based on 2.5G-3G GPRS frequency bands, were gradually launched in the market and the business is expected to achieve good performance in the second half of the year.

## PROSPECTS

Looking into the second half of the year, the Group will generally maintain a prudent optimistic attitude in view of the Chinese Government's implementation of a new round macro-economic control measures, strong Renminbi and escalating interest rates, and new investments of enterprises will be restricted.

The machinery market of China is still in fierce competition, especially the market for general-purpose machinery and equipment. The exploration of overseas market has made continuous progress as the number of orders is growing, and enquires and orders for new products such like high productivity multi-layer blow-moulding machines also increase substantially. It is expected that the machinery manufacturing sector will achieve satisfactory results in the second half of the year. Discussion on further cooperation with Japan UBE Industries Ltd. is still in progress and is expected to have fruitful result within this year.

Nurturing of talents, especially at the middle and senior levels, is also a priority for the Group. We strongly believe that with the devotion of our staff, our business will continue to progress steadily.

## INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare an interim dividend of HK0.5 cents per share (2005: Nil) in respect of the six months ended 30th June, 2006 payable on or about 13th November, 2006 to the Shareholders of the Company whose names are on the register of members on 31st October, 2006.

The register of members of the Company will be closed from 25th October, 2006 to 31st October, 2006 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Registrars, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 24th October, 2006.

## FINANCIAL REVIEW

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

Other than as disclosed above, at no time during the period 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.

## 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. No option were granted, exercised, cancelled or lapsed during the six months ended 30th June, 2006.

## 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, 2006 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 provision 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 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 five 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 30th June, 2006, the Group has approximately 6,000 employees (2005: approximately 6,000), 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

The register of members of the Company will be closed from 25th October, 2006 to 31st October, 2006 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Registrars, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 24th October, 2006.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 30th June, 2006, the Group's shareholders' funds were approximately HK\$741,213,000, compared with approximately HK\$725,295,000 as at 31st December, 2005.

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 gearing ratio as at 30th June, 2006 was approximately 3.8% (31st December, 2005: 5.6%), and the liquidity ratio was approximately 1.27 (31st December, 2005: 1.30), both were maintained at a healthy level. As at 30th June, 2006, cash, bank balances and time deposits amounted to approximately HK\$106,763,000. All these reflect that the Group is in sound financial position.

### Contingent Liabilities

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	—	—

### 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, 2006 HK\$'000	31st December, 2005 HK\$'000
Investment properties	13,500	13,500
Leasehold buildings	31,834	42,036
Leasehold land and land use rights	15,928	12,266
Plant and machinery	65,610	66,373
Bank deposits ( <i>Note</i> )	20,800	15,208
	<u>147,672</u>	<u>149,383</u>

*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 certain fixed interest rate borrowings but had not engaged in any financial instruments for hedging or speculative activities.

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

During the six months ended 30th June, 2006, 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 (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2006.

To be consistent with the Code Provisions A.4.2 and E.2.1, Article 74(v), Article 94 and Article 103(A) of the Articles of Association of the Company were duly amended in the Annual General Meeting of the Company held on 29th May, 2006.

### COMPLIANCE WITH MODEL CODE

Throughout the six months ended 30th June, 2006, 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 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](http://www.cosmel.com) and the website of The Stock Exchange of Hong Kong Limited at [www.hkex.com.hk](http://www.hkex.com.hk). The interim report will be available at the Company's website and the website of The Stock Exchange of Hong Kong Limited and dispatched to shareholders of the Company in late September 2006.

On behalf of the Board  
**TANG To**  
Chairman

Hong Kong, 25th September, 2006

*As at the date hereof, the board of directors of the Company is comprised of twelve directors, of which five are executive directors, namely Mr. Tang To, Mr. Zhao Zhuoying, Mr. Wong Yiu Ming, Mr. Yan Wing Fai Richard and Mr. Li Tin Loi, and four are non-executive directors, namely Mr. Tang Kwan, Mr. He Zhiqi, Mr. Kan Wai Wah and Mr. Qu Jinping and three are independent non-executive directors, namely Mr. Liang Shangli, Mr. Yip Jeffery and Miss Yeung Shuk Fan.*