



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, 2007**

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, 2007 with comparative figures for the corresponding period in 2006 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2007	2006
		(Unaudited)	(Unaudited and restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:			
Turnover	3	1,009,589	884,003
Cost of sales		(809,967)	(714,859)
Gross profit		199,622	169,144
Other income and gains, net		11,399	7,769
Distribution costs		(53,013)	(46,846)
Administrative expenses		(101,768)	(91,227)
Impairment losses for bad and doubtful debts		(349)	(325)
Profit from operations	4	55,891	38,515
Finance costs		(13,024)	(13,033)
Investment income		783	3,263
Loss on disposal of a subsidiary		(1,305)	–
Share of results of associates		14,512	16,178
Profit before taxation		56,857	44,923
Taxation	5	5,495	5,374
Profit for the period from continuing operations		51,362	39,549
Discontinued operation:			
Loss for the period from discontinued operation		–	(4,335)
Profit for the period		51,362	35,214
Attributable to:			
Equity holders of the Company		40,610	22,332
Minority interests		10,752	12,882
		51,362	35,214
Basic earnings (loss) per share for profit (loss) attributable to the equity holders of the Company during the period	6		
– from continuing operations		5.74 cents	3.77 cents
– from discontinued operation		– cents	(0.61) cents
		5.74 cents	3.16 cents
Proposed interim dividend: HK\$0.006 per share (2006: HK\$0.005 per share)		4,260	3,538

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2007 (Unaudited) HK\$'000	31st December, 2006 (Audited) HK\$'000
Non-current Assets			
Property, plant and equipment	7	348,919	353,917
Investment properties		28,930	29,830
Leasehold land and land use rights		45,976	36,377
Interests in associates		239,904	218,321
Available-for-sale financial assets		7,867	7,657
Deferred tax assets		18,272	17,838
		<u>689,868</u>	<u>663,940</u>
Current Assets			
Inventories		647,777	600,845
Leasehold land and land use rights		1,920	1,234
Trade and other receivables	8	745,389	673,017
Bills receivable		31,950	28,987
Tax recoverable		429	477
Pledged bank deposits		33,254	31,963
Bank balances and cash		106,833	106,962
		<u>1,567,552</u>	<u>1,443,485</u>
Current Liabilities			
Trade and other payables	9	694,319	628,413
Bills payable		119,489	131,487
Amounts due to associates		52,246	34,350
Tax payable		7,652	5,327
Bank and other borrowings – due within one year		339,290	310,338
Obligations under finance leases – due within one year		4,366	4,556
		<u>1,217,362</u>	<u>1,114,471</u>
Net Current Assets		<u>350,190</u>	<u>329,014</u>
Total Assets less Current Liabilities		<u>1,040,058</u>	<u>992,954</u>
Non-current Liabilities			
Bank and other borrowings – due after one year		11,755	19,316
Obligations under finance leases – due after one year		4,212	6,356
Deferred tax liabilities		11,638	11,324
		<u>27,605</u>	<u>36,996</u>
Net Assets		<u>1,012,453</u>	<u>955,958</u>
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	10	283,009	283,009
Share premium		241,479	241,479
Other reserves	11	53,911	40,634
Retained profits			
– Proposed dividend		4,260	10,613
– Others		252,259	215,909
		<u>834,918</u>	<u>791,644</u>
Minority interests		177,535	164,314
Total Equity		<u>1,012,453</u>	<u>955,958</u>

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, 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 and 1st July, 2006	283,009	241,479	29,476	187,249	152,226	893,439
Fair value gains:						
– Available-for-sale financial assets	–	–	(97)	–	–	(97)
– Buildings	–	–	895	–	208	1,103
Deferred taxation adjustment	–	–	(36)	–	–	(36)
Realised on disposal of interest in a subsidiary	–	–	(15)	–	(75)	(90)
Realised on disposal of discontinued operation	–	–	(61)	–	–	(61)
Currency translation differences	–	–	10,472	–	1,169	11,641
Net income recognised directly in equity	–	–	11,158	–	1,302	12,460
Profit for the period	–	–	–	42,811	10,591	53,402
Total recognised income for the period	–	–	11,158	42,811	11,893	65,862
Acquisition of additional interests in subsidiaries	–	–	–	–	524	524
Dividends paid to minority shareholders	–	–	–	–	(329)	(329)
Dividend relating to 2006	–	–	–	(3,538)	–	(3,538)

	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 31st December, 2006 and 1st January, 2007	283,009	241,479	40,634	226,522	164,314	955,958
Realised on disposal of interest in a subsidiary	-	-	(211)	-	1,516	1,305
Currency translation differences	-	-	13,488	-	2,197	15,685
Net income recognised directly in equity	-	-	13,277	-	3,713	16,990
Profit for the period	-	-	-	40,610	10,752	51,362
Total recognised income for the period	-	-	13,277	40,610	14,465	68,352
Acquisition of additional interests in a subsidiary	-	-	-	-	(120)	(120)
Capital contributed from minority shareholders	-	-	-	-	2,139	2,139
Dividends paid to minority shareholders	-	-	-	-	(3,263)	(3,263)
Dividend relating to 2006	-	-	-	(10,613)	-	(10,613)
At 30th June, 2007	<u>283,009</u>	<u>241,479</u>	<u>53,911</u>	<u>256,519</u>	<u>177,535</u>	<u>1,012,453</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	17,064	59,254
NET CASH USED IN INVESTING ACTIVITIES	(24,877)	(12,769)
NET CASH FROM (USED IN) FINANCING	8,443	(68,486)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	630	(22,001)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	61,063	79,810
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,748	859
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>64,441</u>	<u>58,668</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	106,833	106,763
Bank overdrafts	(42,392)	(48,095)
	<u>64,441</u>	<u>58,668</u>

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, 2006 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, 2007. 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 2007, the Group adopted the standard, amendment and interpretations of HKFRS below, which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK (IFRIC) – Int 8	Scope of HKFRS 2 (effective from 1st March, 2006)
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Reporting and Impairment (effective from 1st November, 2006)
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HKFRS 7	Financial Instruments: Disclosures

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 has been issued but is not effective for 2007 and has not been early adopted:

HKFRS 8	Operating Segments
---------	--------------------

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, 2007, the Group is organised on a product basis into four main business segments.

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

The segment results for the period ended 30th June, 2007 are as follows:

	Industrial materials and consumables <i>HK\$'000</i>	Plastic products and processing <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	186,390	228,035	372,699	222,465	–	–	1,009,589
Inter-segment sales	3,617	–	5,090	–	–	(8,707)	–
Total revenue	<u>190,007</u>	<u>228,035</u>	<u>377,789</u>	<u>222,465</u>	<u>–</u>	<u>(8,707)</u>	<u>1,009,589</u>
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	<u>18,388</u>	<u>4,874</u>	<u>16,208</u>	<u>21,498</u>	<u>7,773</u>	<u>3,990</u>	72,731
Unallocated corporate expenses							(16,840)
Profit from operations							55,891
Finance costs							(13,024)
Investment income							783
Loss on disposal of a subsidiary							(1,305)
Share of results of associates							14,512
Profit before taxation							<u>56,857</u>

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

	Continuing operations						Discontinued operation		Consolidated	
	Industrial materials and consumables	Plastic products and processing	Machinery	Printed circuit board	Other operations	Eliminations	Sub-total	Audio and electronic products		Eliminations
	HK\$'000	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	208,431	-	-	884,003	35,202	-	919,205
Inter-segment sales	3,996	5,515	6,701	-	-	(10,697)	5,515	-	(5,515)	-
Total revenue	<u>171,484</u>	<u>209,493</u>	<u>310,807</u>	<u>208,431</u>	<u>-</u>	<u>(10,697)</u>	<u>889,518</u>	<u>35,202</u>	<u>(5,515)</u>	<u>919,205</u>

Inter-segment sales are charged at prevailing market rates

RESULT										
Segment result	<u>12,169</u>	<u>15,206</u>	<u>9,788</u>	<u>15,814</u>	<u>1,507</u>	<u>(2,716)</u>	51,768	(3,784)	-	47,984
Unallocated corporate expenses							(13,253)	-		(13,253)
Profit (loss) from operations							38,515	(3,784)		34,731
Finance costs							(13,033)	(557)		(13,590)
Investment income							3,263	6		3,269
Share of results of associates							16,178	-		16,178
Profit before taxation							<u>44,923</u>	<u>(4,335)</u>		<u>40,588</u>

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

	2007 HK\$'000	2006 HK\$'000
Hong Kong	398,243	324,010
Other regions in the People's Republic of China	485,091	482,495
Other Asia-Pacific countries	55,198	47,162
Europe	19,401	17,523
North America	51,656	12,813
Continuing operations	<u>1,009,589</u>	884,003
Discontinued operation	-	35,202
	<u>1,009,589</u>	<u>919,205</u>

4. Profit from operations

	Six months ended 30th June,		
	2007	2006	
	Continuing operations	Continuing operations	Discontinued operation
	HK\$'000	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:			
Depreciation and amortisation			
Depreciation and amortisation on:			
Owned assets	26,293	26,612	1,173
Assets held under finance leases	2,379	911	–
Leasehold land and land use rights	960	691	–
and after crediting:			
Gain on disposal of property, plant and equipment	5,774	80	–
Release of negative goodwill to income (included in other income and gains, net)	–	95	–
	<u>–</u>	<u>95</u>	<u>–</u>

5. Taxation

	Six months ended	
	30th June,	
	2007	2006
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	1,803	1,693
Overseas taxation	3,692	3,300
Deferred taxation	–	381
	<u>5,495</u>	<u>5,374</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 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 ordinary share is based on the Group's 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,	
	2007	2006
Weighted average number of shares in issue during the period	707,522,692	707,522,692
Profit attributable to the equity holders of the Company from continuing operations	HK\$40,610,000	HK\$26,667,000
Earnings per share from continuing operations	5.74 cents	3.77 cents
Loss attributable to the equity holders of the Company from discontinued operation	–	(HK\$4,335,000)
Loss per share from discontinued operation	–	(0.61) cents

7. Property, plant and equipment

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$22,440,000.

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\$589,728,000 (31st December, 2006: approximately HK\$541,118,000) and their ageing analysis is as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
0 to 3 months	475,096	400,640
4 to 6 months	51,276	67,464
7 to 9 months	17,717	22,226
Over 9 months	45,639	50,788
	<u>589,728</u>	<u>541,118</u>

9. Trade and other payables

Included in trade and other payables are trade payables of approximately HK\$418,745,000 (31st December, 2006: approximately HK\$414,276,000) and their ageing analysis is as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
0 to 3 months	367,104	286,615
4 to 6 months	28,881	80,221
7 to 9 months	14,625	34,300
Over 9 months	8,135	13,140
	<u>418,745</u>	<u>414,276</u>

10. Share capital

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2007 and 30th June, 2007	<u>1,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1st July, 2006, 1st January, 2007 and 30th June, 2007	<u>707,522,692</u>	<u>283,009</u>

11. Other reserves

	Buildings revaluation <i>HK\$'000</i>	Translation <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2006	17,225	7,993	59	25,277
Share of changes in equity of associates	–	712	–	712
Currency translation differences	–	3,487	–	3,487
At 30th June, 2006 and 1st July, 2006	17,225	12,192	59	29,476
Fair value gains:				
– Available-for-sale financial assets	–	–	(97)	(97)
– Buildings	895	–	–	895
Deferred taxation adjustment	(36)	–	–	(36)
Realised on disposal of interest in a subsidiary	–	(15)	–	(15)
Realised on disposal of discontinued operation	–	(61)	–	(61)
Currency translation differences	–	10,472	–	10,472
At 31st December, 2006 and 1st January, 2007	18,084	22,588	(38)	40,634
Realised on disposal of interest in a subsidiary	–	(211)	–	(211)
Currency translation differences	–	13,488	–	13,488
	–	13,277	–	13,277
At 30th June, 2007	<u>18,084</u>	<u>35,865</u>	<u>(38)</u>	<u>53,911</u>

12. Operating lease commitments

The Group as lessee

	30th June, 2007 <i>HK\$'000</i>	30th June, 2006 <i>HK\$'000</i>
Minimum lease payments made during the period under operating leases in respect of:		
Land and buildings	6,806	6,773
Plant and machinery	347	91
	<u>7,153</u>	<u>6,864</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, 2007 HK\$'000	31st December, 2006 HK\$'000
Within one year	11,766	10,815
In the second to fifth year inclusive	34,889	37,103
Over five years	41,784	50,547
	<u>88,439</u>	<u>98,465</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\$103,000 (2006: approximately HK\$154,000) was approximately HK\$1,129,000 (2006: approximately HK\$1,164,000). The properties are expected to generate rental yields of 8% (2006: 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, 2007 HK\$'000	31st December, 2006 HK\$'000
Within one year	1,405	763
In the second to fifth year inclusive	194	1,681
After five years	-	-
	<u>1,599</u>	<u>2,444</u>

13. Other commitments

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Investments	<u>156,182</u>	<u>5,276</u>
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	<u>-</u>	<u>-</u>

14. Contingent liabilities

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	<u>19,127</u>	<u>1,627</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, 2007 HK\$'000	31st December, 2006 HK\$'000
Investment properties	–	13,500
Leasehold buildings	68,932	67,722
Leasehold land and land use rights	15,242	14,947
Plant and machinery	20,078	22,148
Bank deposits (<i>Note</i>)	33,254	31,963
	<u>137,506</u>	<u>150,280</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,	
	2007 HK\$'000	2006 HK\$'000
Substantial shareholder and its subsidiaries:		
EDP charges received (<i>note i</i>)	92	92
Management fee paid (<i>note i</i>)	1,407	1,410
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>)	<u>–</u>	<u>1,028</u>

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

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Substantial shareholder and its subsidiaries:		
Balances due from the Group (<i>note ii</i>)	5,144	5,430
Balances due to the Group (<i>note ii</i>)	160	46
Minority shareholders:		
Balances due from the Group (<i>note ii</i>)	383	383
Balances due to the Group (<i>note ii</i>)	893	1,025
Associates:		
Balance due from the Group (<i>note ii</i>)	52,246	34,350
Balances due to the Group (<i>note ii</i>)	<u>35,552</u>	<u>35,312</u>

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

The consolidated turnover of the Group for the first half of the year was approximately HK\$1,009,589,000, representing an increase of about 10% over the corresponding period last year. During the period under review, the operating profit and the net profit attributable to shareholders were approximately HK\$55,891,000 and HK\$40,610,000 respectively. The net profit attributable to shareholders increased by approximately 82% over the corresponding period last year.

In the second year of the implementation of the Eleventh Five-Year Plan of China, the country carried out a series of encouraging and incentive policies to transform and improve the industry, and promulgated stringent regulatory measures in respect of low value-added, high energy-consuming, high-polluting and high resources-consuming enterprises. This represents challenge as well as opportunities for the Group, of which the PRC has long been the main market and major manufacturing base.

The Group has been winning accolades from the government and customers for its perseverant and continuous development of new products. During the half year under review, the new technology of our Dong Hua Machinery Ltd. was awarded the Top-Grade Honor for Science and Technology Development by the People's Government of Dongguan Municipality, and Dong Hua injection moulding machine was also honorably selected as China Top Brand by the PRC government, both of which demonstrate the outstanding performance and achievements of the company in the development and research of new products. Meanwhile, a significant increase of orders was also recorded as advanced new products were gradually accepted by customers.

The fluctuation in the exchange rate of Renminbi, the inflation issue in the PRC as well as the implementation of the new labor law bring pressure of different degrees on the operation of the Group. During the period under review, the Group has taken various responsive measures, including the adjustment of financing strategies and the strengthening of the management of human resources and training of personnel. Moreover, in response to changes in the market and products, the Group has also initiated the planning of two manufacturing bases in eastern and southern China, so as to be well prepared for the transformation and elevation of the Group.

Manufacturing Business

Machinery

Under the favourable condition brought about by the continuous economic growth of the Mainland and increased demand on domestic equipment, overall sales of machinery increased 23% when compared with the corresponding period last year to approximately HK\$372,699,000 for this period, accounting for approximately 37% of the Group's consolidated turnover. Operating profit for the period was approximately HK\$16,208,000, an increase of approximately 66% when compared with the corresponding period last year.

Due to the persistent surplus supply of general purpose plastic injection moulding machines in the domestic market, competition remained intense during the period. Accordingly, the Group has strategically adjusted its product portfolio through appropriate allocation of its resources to large and medium machines, which include direct hydraulic clamping 2-platen plastic injection moulding machine and export-oriented plastic injection moulding machine. During the period, sales of small and medium machines slightly declined whereas medium and large machines and export-oriented plastic injection moulding machine recorded over 40% increase. In respect of new products development, the Group launched the patented "HyperFoam" foam injection moulding machine and "DCM-direct compound moulding" plastic injection moulding machine at the end of May this year. Both series has gained high recognition in the plastic injection industry in terms of their material and energy saving features and they were well-received by customers. It was expected that both series will be able to make concrete contribution to the Group's revenue in the coming year. Sales of other machinery products, such as CNC sheet-metal working machine and rubber injection machine, recorded a satisfactory growth of over 25% when compared with the corresponding period last year. However, since these series of new products are still in development stage and their comparatively high operating cost have impaired the margin of this segment.

Plastic Products and Processing

The plastic products and processing business has recorded a consolidated sales of approximately HK\$228,035,000 for the period, an increase of approximately 12% when compared with the corresponding period last year and accounted for approximately 23% of the Group's consolidated turnover. Operating profit for the period was approximately HK\$4,874,000, a decrease of approximately 68% when compared with the corresponding period last year.

The plastic processing plant in Dongguan suffered a decline in gross profit as a result of the rising raw material prices such as paint and plastic resin and the increase in labor wage. Moreover, due to intensified competition in the plastic processing industry, its margin was impaired and its performance was unsatisfactory during the period.

Sales of the optic products business for the period increased 29% when compared with the corresponding period last year, as the Group has secured orders from relatively large customers in the USA and Japan. Despite the challenges of increasing cost, the Group still managed to achieve satisfactory result by employing the meager profit but high turnover strategy. The Group will continue to strive for better performance by broadening its customer base through its diversified sales channels and flexible marketing strategy.

During the period, the plant in Zhuhai in plastic injection products of plastic tableware and food packaging has focused on the production of products with higher margin and has strengthened the co-operative relation with its customers, and this strategy resulted in expansion in market share and approximately 20% increase in sales. With better production and sales management as well as stringent control over administrative and management costs, performance of this business has shown improvement with breakeven in the period. It is expected that fair improvement in sales and profit can be achieved in the second half of this year.

Printed Circuit Board

Sales of printed circuit board amounted to approximately HK\$222,465,000 for the period, accounting for 22% of the Group's consolidated turnover and representing an increase of approximately 7% when compared with the corresponding period last year. Operating profit for the period was approximately HK\$21,498,000, an increase of approximately 36% when compared with the corresponding period last year. During the period, the printed circuit board market remained active; sales mainly came from two-side and multi layer printed circuit board with Japan and Europe remained their major markets. The Group has been dedicated in improving its production management, minimizing impairment and loss from scrap products and reducing outsourced processing, and together with the adoption of a new generation of enterprise resources management software, effective cost control was achieved and profit margin was improved, which contributed to the increase in profit. In the second half of this year, processing capacity and operation efficiency of the printed circuit board business will be enhanced with the addition of new processing equipment, this will help to ensure the Group's competitive edges in this industry and to cope with future expansion needs.

Trading Business

Industrial Materials and Consumables

Benefiting from the PRC's strong economic growth in the first half of 2007, turnover for the period was approximately HK\$186,390,000, representing an increase of approximately 11% as compared with last year, accounting for approximately 18% of the Group's consolidated turnover. The promotion of new products introduced in last year has started to reap positive results, which together with the exploration of potential customers of higher profit margin, such as those engage in the mining industry and outdoor display screen, have resulted in the increase in the proportion of higher gross profit margin business. Meanwhile, portfolio of existing customers was further optimized to increase our profitability. Although the price of metal increased during the period, the increase in production cost was set off through adjustment on selling prices. Therefore, an operating profit of approximately HK\$18,388,000 was recorded during the period, representing an increase of approximately 51% as compared with the same period of last financial year.

Other Businesses

Electronic Watt-Hour Meters and Related Business

With the improvement of power grid in the PRC, domestic market demand for high-precision electronic watt-hour meters also increased. As such, Shenzhen Haoningda Meters Co., Ltd., the associate of the Group in Shenzhen, was able to maintain a stable development and achieved reasonable returns during the period.

In addition, as stated in the announcements of the Company dated 7th June, 2007 and 9th July, 2007, the associate intends to list its A shares in Shenzhen Stock Exchange and that it has been under close supervision and guidance for application in the A Share Issue on Shenzhen Stock Exchange by the China Merchants Securities Co., Ltd.. Where the associate proceeds to make the formal application to the China Securities Regulatory Commission, the Company will comply with the relevant disclosure as and when appropriate.

PROSPECTS

The Group is prudent but optimistic on its machinery business. Since the PRC posted as high as 11.5% economic growth in the first half of 2007, it is expected that macro-economic measures will further strengthen and Renminbi will be subjected to greater pressure of appreciation, which in turn will result in a slow down in the demand for machinery products. On the other hand, in light of such unfavourable factors such as inflation of raw material prices and staff cost, the Group will continue to optimize its product portfolio, adjust production flow and reinforce management on sales and marketing, in order to mitigate such negative effects as well as maintaining a stable growth and earnings. In addition, the Group intends to expand the Dongguan and Wuxi factories in phases, add new facilities and increase production capacity so as to meet market demand. Total capital expenditure of which is estimated to be at approximately US\$20,000,000.

The Group remains prudent on its trading business in the second half of the year. Owing to the continual implementation of the macro-economic control policy, together with the gradual implementation of exports restriction policies on high-energy consumption, high-pollution and certain resource products as well as the policy of “actual operation of bank guarantee money”, processing trade has been seriously affected and uncertainties arise on the business development in the second half of the year. However, with our experienced sales team, we are confident in securing reasonable return by sticking to our market expansion strategies.

For plastic processing business, it is expected that the price of plastic raisin and production cost will continue to rise and thus affecting our operating profit. The Group will actively seek to broaden its customer base, select customers with high profit margin products, strive to improve production and sales management, enhance production efficiency so as to achieve reasonable return in the second half of the year.

For printed circuit board, the Group will continue to perfect its process flow and product mix, enhance the technology level of its products, provide high-end products and respond to emerging markets needs timely, thereby realizing a static and continuous growth of this business sector.

The Group has been adhering to its motto of “People-oriented and achieving practical and aggressive progress” by actively allocating resources for the training of its second tier middle and upper management staff. The Group believes through enhancement of staffs’ management ability and team spirit, we can ultimately overcome any outside challenges, and achieve effective and static business growth and safeguard better returns for our shareholders.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare an interim dividend of HK0.6 cents per share (2006: 0.5 cents) in respect of the six months ended 30th June, 2007 payable on or about 12th November, 2007 to the Shareholders of the Company whose names are on the register of members on 30th October, 2007.

The register of members of the Company will be closed from 24th October, 2007 to 30th October, 2007 (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, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 23rd October, 2007.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2007, the Group's shareholders' funds were approximately HK\$834,918,000, compared with approximately HK\$791,644,000 as at 31st December, 2006.

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, 2007 was approximately 0.55 (31st December, 2006: 0.55), and the liquidity ratio was approximately 1.29 (31st December, 2006: 1.30), both were maintained at a healthy level. As at 30th June, 2007, cash, bank balances and time deposits amounted to approximately HK\$106,833,000. All these reflect that the Group is in sound financial position.

Contingent Liabilities

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	<u><u>19,127</u></u>	<u><u>1,627</u></u>

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, 2007 HK\$'000	31st December, 2006 HK\$'000
Investment properties	–	13,500
Leasehold buildings	68,932	67,722
Leasehold land and land use rights	15,242	14,947
Plant and machinery	20,078	22,148
Bank deposits (<i>Note</i>)	33,254	31,963
	<u>137,506</u>	<u>150,280</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.

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, 2007 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 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, 2007, the Group has approximately 6,000 employees (2006: 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 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, 2007, 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, 2007.

COMPLIANCE WITH MODEL CODE

Throughout the six months ended 30th June, 2007, 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 and the website of The Stock Exchange of Hong Kong Limited at 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 despatched to shareholders of the Company in late September 2007.

On behalf of the Board

TANG To

Chairman

Hong Kong, 24th September, 2007

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. Jiang Wei, 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. Wu Ding, Mr. Kan Wai Wah and Mr. Qu Jinping and three are independent non-executive directors, namely Mr. Yip Jeffery, Miss Yeung Shuk Fan and Mr. Cheng Tak Yin.