大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 118)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2007

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2007

	Note	**2007** *HK$*	2006 *HK$*
Turnover	*2*	**2,093,377,079**	1,912,967,085
Cost of sales		**(1,707,055,795)**	(1,522,181,575)
Gross profit		**386,321,284**	390,785,510
Other income and gains, net		**42,456,772**	34,124,282
Distribution costs		**(118,108,159)**	(106,347,483)
Administrative expenses		**(212,774,788)**	(201,179,002)
Other operating expenses		**(4,095,510)**	(1,575,689)
Allowance for impairment of bad and doubtful debts		**(9,780,150)**	(15,110,606)
Net gain on disposal of properties, plant and equipment and leasehold land and land use rights		**59,999,829**	1,039,458
Profit from operations		**144,019,278**	101,736,470
Finance costs		**(27,088,135)**	(27,927,482)
Investment income		**1,647,619**	4,777,545
(Loss) Gain on disposal of subsidiaries		**(1,158,846)**	10,561
Loss on disposal of associates		**(93,250)**	–
Gain on disposal of discontinued operation		**–**	60,629
Share of results of associates		**30,299,480**	29,445,850
Profit before taxation	*3*	**147,626,146**	108,103,573
Taxation	*4*	**9,933,951**	11,544,167
Profit for the year from continuing operations		**137,692,195**	96,559,406
Discontinued operation:			
Loss from discontinued operation	*5*	**–**	(7,943,071)
Profit for the year		**137,692,195**	88,616,335
Attributable to:			
Equity holders of the Company		**100,040,174**	65,143,015
Minority interests		**37,652,021**	23,473,320
		137,692,195	88,616,335
Basic earnings (loss) per share for profit (loss) attributable to the equity holders of the Company during the year	*6*		
– from continuing operations		**14.12 cents**	10.33 cents
– from discontinued operation		**N/A**	(1.12) cents
		14.12 cents	9.21 cents
Dividends	*7*	**14,910,476**	14,150,454

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2007

	Note	**2007** *HK$*	2006 *HK$*
Non-current Assets			
Property, plant and equipment		**342,056,163**	353,916,700
Investment properties		**21,460,000**	29,830,000
Leasehold land and land use rights		**44,487,714**	36,376,732
Goodwill		**–**	–
Interests in associates		**271,203,774**	218,320,863
Available-for-sale financial assets		**5,055,010**	7,656,695
Deferred tax assets		**21,138,883**	17,838,652
		705,401,544	663,939,642
Current Assets			
Inventories		**597,318,110**	600,845,124
Leasehold land and land use rights		**1,013,153**	1,233,702
Trade and other receivables	*8*	**734,386,277**	702,003,580
Tax recoverable		**465,589**	476,885
Pledged bank deposits		**33,820,056**	31,963,316
Cash and cash equivalents		**188,935,065**	106,962,393
		1,555,938,250	1,443,485,000
Current Liabilities			
Trade and other payables	*9*	**725,966,417**	759,900,308
Amounts due to associates		**48,703,065**	34,349,684
Tax payable		**6,513,033**	5,327,039
Bank and other borrowings – due within one year		**269,545,927**	310,337,523
Obligations under finance leases – due within one year		**5,480,551**	4,556,173
		1,056,208,993	1,114,470,727
Net Current Assets		**499,729,257**	329,014,273
Total Assets less Current Liabilities		**1,205,130,801**	992,953,915

	Note	2007 HK$	2006 HK$
Non-current Liabilities			
Bank and other borrowings – due after one year		**55,720,389**	19,315,727
Obligations under finance leases – due after one year		**7,679,497**	6,356,003
Deferred tax liabilities		**13,211,494**	11,324,318
Total non-current Liabilities		**76,611,380**	36,996,048
Net Assets		**1,128,519,421**	955,957,867
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital		**284,009,077**	283,009,077
Share premium		**244,118,039**	241,478,789
Other reserves		**79,312,661**	40,633,709
Retained profits			
– Proposed dividend		**10,650,340**	10,612,840
– Others		**308,750,451**	215,909,710
		926,840,568	791,644,125
Minority Interests		**201,678,853**	164,313,742
Total Equity		**1,128,519,421**	955,957,867

Notes:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, certain financial assets and financial liabilities and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

In the current year, the Group has applied, for the first time, the following new Hong Kong Accounting Standards ("HKAS"), amendment and interpretations ("Int") ("new HKFRSs") issued by the HKICPA, which are first effective for the Group's current financial year.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The principal effects of adopting these new and revised HKFRSs are summarised as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

(b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

(c) HK(IFRIC) – Int 7 Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

This interpretation provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group entities have a currency of a hyperinflationary economy as its functional currency, this interpretation is not relevant to the Group's operations.

(d) HK(IFRIC) – Int 8 Scope of HKFRS 2

This interpretation requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. As the Company has only issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation does not have any impact on the Group's financial statements.

(e) HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation is not relevant for the Group's operations and does not have any impact on the Group's financial statements.

(f) HK(IFRIC) – Int 10 Interim Financial Reporting and Impairment

This interpretation prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's financial statements.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Primary reporting format – Business segments

At 31st December, 2007, the Group is organised on a product basis into four main business segments.

Continuing operations:
(1) trading of industrial consumables;
(2) manufacturing of plastic processing products;
(3) manufacturing of machinery; and
(4) manufacturing of printed circuit boards.

Discontinued operation:
Manufacturing of audio and electronic products

Details of the discontinued operation are disclosed in note 5.

The segment results for the year ended 31st December, 2007 are as follows:

	Industrial consumables *HK$*	Plastic processing products *HK$*	Machinery *HK$*	Printed circuit boards *HK$*	Other operations *HK$*	Eliminations *HK$*	Consolidated *HK$*
TURNOVER							
External sales	**366,467,005**	**479,495,091**	**806,800,302**	**440,614,681**	**–**	**–**	**2,093,377,079**
Inter-segment sales	**6,960,302**	**–**	**7,911,414**	**–**	**–**	**(14,871,716)**	**–**
Total revenue	**373,427,307**	**479,495,091**	**814,711,716**	**440,614,681**	**–**	**(14,871,716)**	**2,093,377,079**

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables *HK$*	Plastic processing products *HK$*	Machinery *HK$*	Printed circuit boards *HK$*	Other operations *HK$*	Eliminations *HK$*	Consolidated *HK$*
RESULTS							
Segment results	**31,452,282**	**23,572,063**	**82,350,998**	**29,714,187**	**2,265,134**	**694,576**	**170,049,240**
Unallocated corporate expenses							**(26,029,962)**
Profit from operations							**144,019,278**
Finance costs							**(27,088,135)**
Investment income							**1,647,619**
Loss on disposal of subsidiaries							**(1,158,846)**
Loss on disposal of associates							**(93,250)**
Share of results of associates		**(175,787)**	**3,245,882**		**27,229,385**		**30,299,480**
Profit before taxation							**147,626,146**
Taxation							**9,933,951**
Profit before minority interests							**137,692,195**

	Industrial consumables *HK$*	Plastic processing products *HK$*	Machinery *HK$*	Printed circuit boards *HK$*	Other operations *HK$*	Consolidated *HK$*
ASSETS						
Segment assets	**205,540,785**	**364,471,845**	**1,014,268,168**	**274,652,123**	**70,973,283**	**1,929,906,204**
Interests in associates						**271,203,774**
Available-for-sale financial assets						**5,055,010**
Unallocated corporate assets						**55,174,806**
Consolidated total assets						**2,261,339,794**
LIABILITIES						
Segment liabilities	**76,807,957**	**70,675,797**	**422,529,755**	**144,164,060**	**7,909,872**	**722,087,441**
Tax payable						**6,513,033**
Borrowings						**338,426,364**
Unallocated corporate liabilities						**65,793,535**
Consolidated total liabilities						**1,132,820,373**
OTHER INFORMATION						
Capital additions	**1,476,132**	**9,307,901**	**33,824,326**	**25,913,966**	**832,187**	**71,354,512**
Depreciation and amortisation	**1,159,229**	**16,428,851**	**21,530,660**	**15,352,273**	**1,501,166**	**55,972,179**
Other non-cash expenses (income)	**(313,054)**	**(1,060,935)**	**14,885,673**	**267,896**	**10,126,350**	**23,905,930**

The segment results for the year ended 31st December, 2006 are as follows:

	Continuing operations							Discontinued operation		
	Industrial consumables *HK$*	Plastic processing products *HK$*	Machinery *HK$*	Printed circuit boards *HK$*	Other operations *HK$*	Eliminations *HK$*	Sub-total *HK$*	Audio and electronic products *HK$*	Eliminations *HK$*	Consolidated *HK$*
TURNOVER										
External sales	345,942,479	425,165,758	685,684,256	456,174,592	–	–	1,912,967,085	109,664,550	–	2,022,631,635
Inter-segment sales	8,499,425	18,273,484	10,976,674	–	–	(19,779,373)	17,970,210	–	(17,970,210)	–
Total revenue	354,441,904	443,439,242	696,660,930	456,174,592	–	(19,779,373)	1,930,937,295	109,664,550	(17,970,210)	2,022,631,635

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables *HK$*	Plastic processing products *HK$*	Machinery *HK$*	Printed circuit boards *HK$*	Other operations *HK$*	Eliminations *HK$*	Sub-total *HK$*	Audio and electronic products *HK$*	Eliminations *HK$*	Consolidated *HK$*
RESULTS										
Segment results	27,707,969	28,589,602	33,134,111	31,109,331	2,225,061	1,153,429	123,919,503	(7,238,845)	–	116,680,658
Unallocated corporate expenses							(22,183,033)	–		(22,183,033)
Profit (loss) from operations							101,736,470	(7,238,845)		94,497,625
Finance costs							(27,927,482)	(720,533)		(28,648,015)
Investment income							4,777,545	16,306		4,793,851
Gain on disposal of a subsidiary							10,561	1		10,562
Gain on disposal of discontinued operation							60,629	–		60,629
Share of results of associates		(344,763)	5,632,786		24,157,827		29,445,850	–		29,445,850
Profit (loss) before taxation							108,103,573	(7,943,071)		100,160,502
Taxation							11,544,167	–		11,544,167
Profit (loss) before minority interests							96,559,406	(7,943,071)		88,616,335

	Continuing operations					Discontinued operation	
	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Audio and electronic products	Consolidated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
ASSETS							
Segment assets	183,857,875	333,868,341	940,166,030	255,741,727	93,020,890	21,642,020	1,828,296,883
Interests in associates							218,320,863
Available-for-sale financial assets							7,656,695
Unallocated corporate assets							53,150,201
Consolidated total assets							2,107,424,642
LIABILITIES							
Segment liabilities	81,755,699	66,472,818	430,862,543	148,374,937	3,317,447	24,354,397	755,137,841
Tax payable							5,327,039
Borrowings							340,565,426
Unallocated corporate liabilities							50,436,469
Consolidated total liabilities							1,151,466,775
OTHER INFORMATION							
Addition of goodwill	–	–	981,123	–	–	–	981,123
Capital additions	1,551,880	12,204,154	19,868,990	21,637,366	429,282	443,851	56,135,523
Depreciation and amortisation	974,459	17,413,493	20,485,205	14,671,986	1,736,788	1,734,338	57,016,269
Other non-cash expenses	169,863	3,840,755	13,629,416	559,366	695,417	4,971,763	23,866,580

Secondary reporting format – Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2007	2006
	HK$	*HK$*
Hong Kong	**804,749,061**	608,529,651
PRC	**1,048,219,380**	1,084,800,934
Other Asia-Pacific countries	**120,632,569**	98,686,926
North America	**74,221,683**	82,582,828
Europe	**45,554,386**	38,366,746
Continuing operations	**2,093,377,079**	1,912,967,085
Discontinued operation	**–**	109,664,550
	2,093,377,079	2,022,631,635

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment and goodwill**	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**1,095,134,267**	490,853,326	**931,255**	2,438,801
PRC	**1,141,663,638**	1,559,563,466	**70,423,257**	52,119,242
Other Asia-Pacific countries	**11,329,193**	15,684,114	**–**	–
North America	**6,481,983**	7,950,765	**–**	–
Europe	**6,730,713**	11,730,951	**–**	2,114,752
Continuing operations	**2,261,339,794**	2,085,782,622	**71,354,512**	56,672,795
Discontinued operation	**–**	21,642,020	**–**	443,851
	2,261,339,794	2,107,424,642	**71,354,512**	57,116,646

3. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging and crediting the following:

	2007		2006	
	Continuing operations	**Discontinued operation**	Continuing operations	Discontinued operation
	HK$	***HK$***	*HK$*	*HK$*
Charging:				
Staff costs:				
Directors' remuneration	**15,309,022**	**–**	13,974,614	–
Salaries and other benefits	**249,563,711**	**–**	219,734,824	10,843,080
Retirement benefits scheme contributions	**4,550,671**	**–**	8,670,428	114,020
Share based payments	**2,998,829**	**–**	–	–
	272,422,233	**–**	242,379,866	10,957,100
Depreciation and amortisation on:				
– Owned assets	**51,659,417**	**–**	49,922,540	1,847,175
– Assets held under finance leases	**3,299,609**	**–**	4,012,852	–
– Leasehold land and land use rights	**1,013,153**	**–**	1,233,702	–
Impairment losses on goodwill (included in other operating expenses)	**–**	**–**	981,123	–
Auditors' remuneration				
– Current year	**2,004,212**	**–**	1,874,325	137,000
– Underprovided in prior years	**31,730**	**–**	12,650	8,000
Loss on disposal of property, plant and equipment	**3,697,817**	**–**	–	226,711
Impairment losses on property, plant and equipment	**1,500,000**	**–**	195,481	800,471
Operating lease payments	**13,145,157**	**–**	12,756,276	30,926
Revaluation deficit on leasehold buildings	**152,916**	**–**	494,566	–
Write-down of inventories	**13,972,864**	**–**	3,289,645	4,971,763
Share of associates' taxation	**5,341,455**	**–**	5,541,839	–
and crediting:				
Rental income net of direct outgoings	**1,835,251**	**–**	2,456,839	–
Revaluation surplus on leasehold buildings	**426,874**	**–**	–	–
Gain on disposal of investment properties	**8,976,730**	**–**	–	–
Gain on disposal of property, plant and equipment and leasehold land and land use rights	**63,697,646**	**–**	1,039,458	–

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2007	2006
	HK$	*HK$*
Hong Kong Profits Tax		
Current year	**2,364,322**	2,655,092
(Over) Under-provision in prior years	**(95,718)**	127,265
	2,268,604	2,782,357
Taxation outside Hong Kong		
Current year	**8,809,867**	8,234,261
Under-provision in prior years	**101,987**	–
	8,911,854	8,234,261
Deferred taxation relating to the origination and reversal of temporary differences	**(1,246,507)**	527,549
Taxation charge	**9,933,951**	11,544,167

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the domestic taxation rates applicable to profits of the consolidated companies as follows:

	2007	2006
	HK$	*HK$*
Profit before taxation (including loss from discontinued operation)	**147,626,146**	100,160,502
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	**25,834,575**	17,528,088
Tax effect of expenses that are not deductible in determining taxable profit	**37,220,547**	22,371,386
Tax effect of income that is not taxable in determining taxable profit	**(60,666,621)**	(35,328,422)
Under-provision of profits tax in prior years, net	**6,269**	127,265
Tax effect of tax losses not recognised	**8,490,035**	8,208,714
Tax effect of temporary differences not recognised	**(259,816)**	695,991
Tax effect of utilisation of tax losses not previously recognised	**(1,085,387)**	(2,832,221)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**394,349**	773,366
Taxation charge	**9,933,951**	11,544,167
Represented by:		
Tax charge attributable to discontinued operation *(note 5)*	**–**	–
Tax charge attributable to continuing operations	**9,933,951**	11,544,167
Taxation charge	**9,933,951**	11,544,167

5. DISCONTINUED OPERATION

Pursuant to a resolution passed by the board of directors dated 31st December, 2006, the Group disposed of a subsidiary, Glory Horse Industries Limited ("Glory Horse"), and discontinued its manufacturing of audio and electronic products. On 31st December, 2006, the Group entered into an agreement with an independent third party to dispose of its entire interest in the Glory Horse for an aggregate cash consideration of HK$3, at fair value determined by both parties. The disposal was completed on 31st December, 2006. An analysis of the results, cash flows of the discontinued operation is as follows:

	2007	2006
	HK$	*HK$*
THE GROUP		
Results		
Turnover	–	109,664,550
Cost of sales	–	(109,791,426)
Gross loss	–	(126,876)
Other operating income	–	500,377
Distribution costs	–	(2,109,067)
Administrative expenses	–	(5,503,279)
Operating loss	–	(7,238,845)
Finance costs	–	(720,533)
Investment income	–	16,306
Gain on disposal of a subsidiary	–	1
Loss for the year	–	(7,943,071)

6. EARNINGS PER SHARE

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

	2007	2006
Weighted average number of shares in issue during the year	**708,704,884**	707,522,692
Profit attributable to the equity holders of the Company from continuing operations	**HK$100,040,174**	HK$73,086,086
Earnings per share from continuing operations	**14.12 cents**	10.33 cents
Loss attributable to the equity holders of the Company from discontinued operation	**N/A**	(HK$7,943,071)
Loss per share from discontinued operation	**N/A**	(1.12) cents

Diluted earnings per share for the year ended 31st December, 2007 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares for that year.

7. DIVIDENDS

	2007	2006
	HK$	*HK$*
Interim dividend of HK$0.006 (2006: HK$0.005) per share	**4,260,136**	3,537,614
Dividend proposed after the balance sheet date of HK$0.015 (2006: HK$0.015) per share	**10,650,340**	10,612,840
	14,910,476	14,150,454

8. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2007	2006
	HK$	*HK$*
Trade and bills receivables	**634,843,227**	635,222,116
Less: allowance for impairment of doubtful debts	**64,101,498**	62,024,480
Trade and bills receivables, net	**570,741,729**	573,197,636
Other receivables	**184,094,659**	141,725,692
Less: allowance for impairment of doubtful debts	**21,511,974**	13,990,808
Other receivables, net	**162,582,685**	127,734,884
Amounts due from related parties	**1,061,863**	1,071,060
	734,386,277	702,003,580

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values. All trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group allows an average credit period of 90 days to 120 days for customers. The aged analysis of the Group's trade and bills receivables, based on the invoice date and net of allowances, at the balance sheet date is as follows:

	THE GROUP	
	2007	2006
	HK$	*HK$*
0 to 3 months	**406,553,187**	429,626,546
4 to 6 months	**91,081,590**	67,463,581
7 to 9 months	**26,969,550**	22,226,433
Over 9 months	**46,137,402**	53,881,076
	570,741,729	573,197,636

9. TRADE AND OTHER PAYABLES

	THE GROUP	
	2007	2006
	HK$	*HK$*
Trade and bills payables	**479,823,325**	545,763,020
Accruals and other payables	**245,123,715**	208,325,024
Amounts due to related parties	**1,019,377**	5,812,264
	725,966,417	759,900,308

The directors consider that the carrying amount of trade and other payables approximates to their fair value. All trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The aged analysis of the Group's trade and bills payables at the balance sheet date is as follows:

	THE GROUP	
	2007	2006
	HK$	*HK$*
0 to 3 months	**407,736,126**	418,102,088
4 to 6 months	**52,839,935**	80,220,745
7 to 9 months	**6,701,347**	34,300,012
Over 9 months	**12,545,917**	13,140,175
	479,823,325	545,763,020

10. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	**–**	–	**750,640,000**	647,476,008
Outsiders	**894,101**	1,627,365	**–**	–
	894,101	1,627,365	**750,640,000**	647,476,008

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2007 and 31st December, 2006.

11. PLEDGE OF ASSETS

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

	Net book value	
	2007	2006
	HK$	*HK$*
Investment properties	**–**	13,500,000
Leasehold buildings	**67,690,337**	67,722,000
Leasehold land and land use rights	**12,380,447**	14,947,063
Plant and machinery	**10,647,847**	22,148,126
Bank deposits	**33,820,056**	31,963,316
	124,538,687	150,280,505

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

12. EVENT SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to the balance sheet date, the Group disposed of the remaining investment properties at a consideration of HK$21,460,000 to an independent third party.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.5 cents per share (2006: HK1.5 cents per share) for the year ended 31st December, 2007. Upon shareholders' approval at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 30th June, 2008 to shareholders whose names appear on the register of members of the Company as at the date of the 2008 Annual General Meeting.

CLOSE OF REGISTER

The register of members of the Company will be closed from 23rd May, 2008 to 29th May, 2008 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the final 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 22nd May, 2008.

RESULTS

The Group's consolidated turnover for the year 2007 was in the region of approximately HK$2,093,377,000, representing an increase of about 3% over the approximate figure of HK$2,022,632,000 for 2006. Our profit after taxation stood at about HK$137,692,000, or some 55% higher than the approximate figure of HK$88,616,000 for the previous year. For the year ended 31st December, 2007 the profit attributable to shareholders was about HK$100,040,000, increasing by 54% when compared with last year.

CHAIRMAN'S STATEMENT

In the second year of the Eleventh Five-Year Plan, China further pushed ahead for the implementation of the overall strategy on optimizing industrial structure and uplifting technological level, so as to radically turnaround from the previously adopted extensive development mode and reduction of export tax rebate on products characterized by high energy-consuming, high-polluting and high resources-consuming. In addition, in order to avoid an overheated economy, more stringent measures were adopted to control money supply and retrench new loan. Over the past year, owing to the continued upward adjustment of state minimum wages which resulted in rising labor cost and appreciation of Renminbi, the operating costs and profit across all types of industries were directly affected. However, the implementation of such policies is beneficiary to the long-term sustainable and healthy development of the country as a whole. Since it is not the aim of China to remain as the "world factory" but to become a technologically advanced country, therefore gives rise to such series of structural changes in market. In face of such challenges, the Group had aggressively enhanced its product portfolio and launched a series of measures such as optimizing production equipment and technology level and placing emphasis on energy saving, environmental protection and reduction of materials consumption.

Carrying on the past and opening up for the future, the Group had, while seeking for better performance, continued to invest in new technology, new products and new markets. During the period under review, amid the abrupt market changes, our new products and new markets had both contributed positively to the Group.

For the machinery manufacturing business, owing to its newly developed and continuously optimizing high-tech injection moulding machine series in recent years, the business had recorded encouraging sales to industries which require high performance such as auto component and communication devices in last year. Sales of CNC sheet-metal processing machine and rubber injection machine both achieved considerable growth. These high performance products had, not only be able to stay away from hostile competition, but also setting off the downturn of the general purpose injection moulding machine market. During the year, new patented products developed by the Group, such as Hf series foam injection moulding machine and "DCM – direct compound moulding" plastic injection moulding machine, had enhanced the efficiency of our customers by combing energy saving, material saving and performance enhancement features. These new products will serve as new impetus for our future market development and also new elements of our adjusted product portfolio.

The overall performance of plastic products and processing business had declined owing to rising material cost and labor cost. Nevertheless, the good news is our professional plastic packaging factory in Zhuhai has made significant progress in terms of securing new quality customers and integration of production management, and has stopped loss and achieved breakeven. Besides, our optic plastic manufacturing business also laid new platform for the launch of new products and achieved continuous profit growth. It is expected the profitability of plastic processing business will further enhance following adjustment of its customer structure and consolidation of production capacity in the coming year.

Printed circuit board business continued to adjust its product mix during the year by expanding the production volume and securing orders for multi-layer printed circuit board and focusing on value added business so as to dilute part of the rising costs and maintain its business performance. The plan for product mix adjustment will be implemented in the coming year, which includes reducing the production volume of low value-added single-layer printed circuit board and purchase of new equipment to sustain its profitability.

Trading business continued to record higher performance, which mainly attributable to our successful strategy in exploring new markets and targeting customers who request for high quality products. As a result of the vigorous implementation of state's general policy, market demand for high quality products will continuously increase, it is expected this business can maintain its stable growth.

China's rapid development in recent years has astonished the world but at the same time created certain imbalance issues, and adjustment seems unavoidable in this stage. It is expected new laws and regulations promulgated in recent years will continue to be implemented in more stringent manner, minimum wages will continue to be uplifted yearly, and more supplementary rules and regulations will be launched. The new corporate income tax law and new labor contract law promulgated in the year are continuance of such adjustment. It is anticipated that more laws and regulations in protecting and safeguarding the interests and benefits of the employees will be launched subsequently. On the other hand, China will head for intensive economic development and pursue for quality and technology advancement.

Nowadays, in order to survive and continuously develop, enterprises must be able to response to market changes and identify business opportunity amid those changes. To meet those rapid changes, the middle and high level management must receive well training. Therefore, it is the Group's long term strategy to focus on personnel training investment. During the year, the Group launched a systematic training course for its mid and high-level management staff in respect of management theory and practical application. The results were encouraging. Given such experiences, the Group decided to carry on such kind of training in the coming year. It is expected that through learning and improvement, our management ability, response ability and innovative ability will continuously be improved. The Group will also gain more experience in personnel training and have more talents and be able to capture more opportunities amid the rapid changing environment and therefore achieve better performance.

This year is the fifty anniversary of the Group. We will continue to adhere to our good corporate practice and principles of "anchored in the industries, people-oriented, continuous learning, pragmatic and innovative", to undertake social responsibility, to generate satisfactory return for our shareholders and to develop our staff potential to the fullest extent.

On behalf of the Group, I would like to express my sincere thanks to the long term support of all our shareholders and directors. I would also like to pay my tribute to our staff for their continuous learning and improvement and their hard work for contributing to the success of the Group.

BUSINESS REVIEW

Manufacturing Business

Machinery

In 2007, the turnover of the Group's machinery business was HK$806,800,000, accounted for approximately 39% of the Group's consolidated turnover and representing an increase of approximately 18% over approximately HK$685,684,000 of the same period of last year, while operating profit of the year was approximately HK$82,351,000 representing an increase of approximately 149% over the same period of last year.

During the year under review, owing to shrinking profit margin of most of our export oriented customers caused by Renminbi appreciation and reduction of tax rebate for export plastic products, a more conservative and prudent approach was adopted by our customers when investing in injection moulding machinery, which together with soaring plastic price as a result of inflated cruel oil price, had resulted in substantial decrease in the demand for general purpose injection moulding machine in the second half of 2007. However, thanks to the Group's strategic adjustment on its product portfolio started a few years ago, the Group's development towards customized plastic injection machinery and relevant sales and marketing work was thus strengthened: e.g. medium and large J series direct hydraulic clamping two platen plastic injection moulding machine and Fx series high precision injection moulding machine. During the period, sales to domestic auto industry, household electrical appliances and communication industry achieved satisfactory growth, thus setting off the impact of curtailed sales to the toy industry and the daily products industry. In terms of export business, due to appreciation of Renminbi, order from some price sensitive markets started to slow down in the second half of 2007, however a double-digit growth was still recorded on a whole year basis.

In terms of new products, sales of CNC sheet-metal processing machine and rubber injection machine recorded strong growth, with sales up approximately 65% and 80% respectively over the same period of last year. The Group's self-developed project on CNC sheet-metal processing machine (Network Intelligent CNC Sheet-metal Processing Equipment) had not only received wide recognition from its customers, but also awarded the Top-Grade Honor for Science and Technology Development by the People's Government of Dongguan Municipality in August 2007. In terms of rubber processing machine, the Group had successfully developed and launched to the market the DKM-RL series (1200T clamping force) large-sized rubber injection machine for the manufacturing of hollow rubber insulator for use in transmission and distribution of extreme high voltage up to 500,000 volt, which is the first self-developed and manufactured horizontal rubber injection machine in the PRC, thereby putting a stop to the traditional reliance on Europe imported equipment in the power transmission and distribution hardware industry. Moreover, DKM-RL 1200 rubber injection machine and 260-80Hf hyper foam high-performance foam plastic injection moulding machine were also awarded the Machinery and Equipment Design Certificate of Merit of the Hong Kong Awards for Industries of 2007. The launch of these new products had not only stimulated our sales but also contributed to the rubber and plastic processing industry in China in terms of enhancing their technology level.

In the coming year, the Group will continue to speed up its pace to optimize and promote its new injection moulding machines, such as the Hf series foam injection moulding machine characterized by its patented material saving and energy saving features and the "DCM – direct compound moulding" plastic injection moulding machine, to cater for the increasing environmental concern of the community as well as to provide added value for its customers for improving their gross profit. In terms of export market, the Group will implement product and market exploration strategy. The large J series two platen machine was awarded the CE certification during the year and full marketing campaign can be launched in Eastern Europe market and major auto markets. It is expected overall export business will sustain double-digit growth in terms of sales.

The Group has made CNC sheet-metal processing machine and rubber injection machine as its strategic growth business and these two product lines are expected to generate substantial growth in 2008. Through product design improvement and further cost optimization and expansion of production capacity, it is expected the surging manufacturing cost pressure can be set off and thus further improve the gross profit. To cater for the continuous growth of the Group's machine manufacturing business and relocation of Dongguan Nanchen factory, Dongguan Dongchen factory expansion project and the construction of Wuxi new factory at Wuxi National High-tech Industrial Development Zone had commenced during the year. Moreover, the Group will continue to optimize the production of the Group's factories located in southern and eastern China in order to maximize their resources synergy. In conclusion, with new products entering their growth period and driven by strong export growth, the Group is cautiously optimistic on the sustainable growth of sales and profit of the machine manufacturing business.

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was HK$479,495,000, representing an increase of about 13% as compared with the same period of last year and accounted for approximately 23% of the Group's consolidated turnover, while operating profit of the year was HK$23,572,000, decreased by approximately 18% over the same period of last year.

Our plastic processing operation in Dongguan continued to be affected by surging raw material prices including paint and chemical materials during the year, which combined with increasingly complicated product design and production technology, had resulted in higher production cost. Besides, continuous asking for lower prices by the customers had also shrunken the gross profit of the business and leading to a less than satisfactory result in the first half of the year. In the second half of the year, the Group strived to improve its production processing and workflow, a new fully automatic production line was added, thereby enhancing its paint production capacity, improving its quality and reducing the scrap rate and ultimately save more material and improve the gross profit. The result is notable.

The Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging achieved higher sales to existing customers and also satisfactory sales to new customers given the robust economic development in China. In 2007, it recorded an increase in turnover of approximately 22%, with profitability substantially improved during the period. However, in the past year, with dramatic change in macro economic environment, continuously soaring operation costs including labour cost and raw material cost, had created a very difficult environment for the plastic processing industry. Fortunately, by implementing a series of management reform and resource reallocation, for example, integrating the printing workshop and the extrusion workshop, re-arranging the production machines of the plastic processing workshop, strengthening control over machine efficiency and product scrap rate, thereby keeping production cost and management fee at a reasonable level and laying the foundation for a sustainable and stable business growth.

For the optic products business, with sales contribution from self-developed products, overall turnover of this segment increased approximately 25% in 2007. The sales of large magnifier, being the major sales growth contributor, almost double the sales of last year. In response to market demand, new series of design are now being developed. During the year under review, production cost including electricity, plastic material and wages had all substantially increased which together with the appreciation of Renminbi had further eroded our gross profit . Fortunately, such fixed expenses were set off by increased sales and improved operating profit, thus gross profit margin was maintained at the same level as last year. Also, a number of new injection moulding machines were introduced during the year to replace the obsolete machines.

Printed Circuit Board

In terms of printed circuit board business, sales of HK$440,615,000 was recorded in 2007, decreased by 3% as compared with the same period of last year and accounted for 21% of the Group's consolidated turnover, while operating profit was approximately HK$29,714,000, slightly decreased by approximately 4% over last year.

During the year, in face of rising labour cost and Renminbi appreciation, the Group had actively conducted negotiation with its customers to seek their support for proper adjustment on selling prices, the Group had also secured lower prices from some of its suppliers for raw materials, thereby setting off part of its inflated cost. In terms of products, the Group shifted its focus to multi-layer printed circuit board production in order to widen its profit margin. In terms of cost control, automated processing equipment was introduced during the year for lowering of the proportion of labour cost, which together with the proper application of an upgraded enterprise resource management software, thus enabling better production process, effective cost control and better product quality.

Trading Business

Industrial Consumables

During the period under review, industrial consumables accounted for 17% of the Group's consolidated turnover, with turnover increased to approximately HK$366,467,000, representing an increase of 6% as compared with the same period of last year. Operating profit was HK$31,452,000, up approximately 14% as compared with last year.

During the year, with China's economy remained robust and a stable development of the manufacturing sector as a whole, our major target industries such as auto, electronics, spring, machine manufacturing, machine tool, household electrical appliances and mould, all achieved steady growth. Besides, our sound market development strategy had enabled our products to successfully enter the mining machine and telecommunication equipment sectors, an important move for our future business growth. Given the strong business momentum in the year, the Group had further optimized its customer structure so as to minimize its operating risks and enhance its profitability.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd., the associate of the Group in Shenzhen, was able to maintain a stable development and achieve satisfactory returns during the year. In the period under review, the company's plan to list its A shares on Shenzhen Stock Exchange was progressing smoothly. The Company will make timely disclosure on such progress in accordance with relevant rules and regulations.

Suzhou Sanguang Science & Technology Co., Ltd.

Suzhou Sanguang Science & Technology Co., Ltd., a 21.13% associate company of the Group, notified the Group on 31st January, 2008 that it intended to list its shares on Shenzhen Stock Exchange and had been under close supervision for application in the A share issue by Guolian Securities Co., Ltd.. The Group will make appropriate disclosure when the company submits its listing application to the China Securities Regulatory Commission.

PROSPECTS

Looking forward in 2008, it is believed that China's economy will continue to maintain a stable growth. However, given stronger measures on macro economic control will be imposed, it is expected that investment and domestic demand will slow down and thus demand for plastic processing machinery will only record moderate growth. Nevertheless, some industries, such as auto accessories and household electrical appliances will benefit from the rapid growth in both manufacturing and sales of automobile as well as the 2008 Olympic Games, which will fuel the demand for high quality household electrical appliances and in turn sustain the demand for large and high performance injection moulding machine. On the other hand, despite those unfavourable factors such as surging raw material price, shortage of electricity supply, additional labour cost due to introduction of new labour law in China, reduction of export tax rebate and appreciation of Renminbi, the Group is not able to transfer all those additional cost to its customers because of fierce market competition. In turn, the Group will try to mitigate those impacts on its profit margin through continuous adherence to effectiveness enhancement measures to control both internal and external cost.

In addition, the Company has issued an announcement and a circular to its shareholders on 5th December, 2007 and 24th December, 2007 respectively in relation to compensation for relocation of Dong Hua Machinery Limited ("Dong Hua"), the Group's subsidiary located in Jianshe Road, Dongguan. Due to the urban planning of Dongguan, the State-owned Assets Supervision and Administration Commission of Dongguan ("SASAC") planned to call back the land and requested Dong Hua to move out from the land. After due consideration, the Company decided to co-operate with the state's planning and plans to relocate the plants. The Company thus entered into a compensation agreement with SASAC whereas Dong Hua will receive compensation for relocation of the plants of approximately RMB76,092,000. Dong Hua will relocate to a parcel of land at Zhou Wu District, Fu Cheng, Dongguan with a site area of approximately 66,365 sq.m. The land was purchased by the Group in 1993 on which 19,203 sq.m. of the site area have been utilized by the Group since 1994 to construct factory buildings. The remaining 47,162 sq.m. of site area will be used for the relocation of Dong Hua. Since Dong Hua will relocate to Zhou Wu District, Dongguan, the Group will therefore commence expansion of the factory building in different stages in the year. Whereas in Wuxi, the Group had purchased a piece of land of approximately 75,000 sq.m. in Wuxi National High-tech Industrial Development Zone in 2006. The Group intends to commence construction of factory building and facilities thereon in the coming year in different stages. It is expected that upon completion of expansion in Dongguan and Wuxi, the production capacity will greatly enhanced and be able to meet market demand.

In terms of trading business, with anticipated stable economic growth in China and full government backup on original industry to enhance product quality and value, it is expected that market demand for high quality components and tools will increase accordingly, which is crucial and favourable for the trading of import products. Meanwhile, as a result of soaring raw material prices, such as metal and plastic, and gradual abolishment of export tax rebate, higher cost is incurred for the processing and manufacturing industries. The situation is further worsen by the gradual implementation of the policy for optimizing industries structure in Guangdong Province, and create additional adverse impact for the trading business in the coming year. In face of such opportunities and challenges, the Group will continue to explore new markets and products and will also finalize its enterprise resources planning system (with customer relationship management application), with an aim to further improve its logistics supply and enhance operating efficiency, and to secure reasonable return through high quality services and products that meet the requirements of the customers.

For plastic processing business, the Group will strengthen its business development capability so as to provide higher quality products to more customers who have their brands. In addition, the Group will focus on cost and expenditure control, optimize production efficiency and enhance automatization in order to secure sustainable profitability growth.

For printed circuit board, despite its already diversified customer base, the Group is still actively exploring new customers to further broaden its customer base for future business development. For environmental protection, the Group has adopted the European Union's guidance on restriction of use of certain hazardous substance (RoHS) and recycling of reclaimed water.

The year 2008 marks the 50th anniversary of the Group. In accordance with its best corporate practice over the past 50 years, the Group will continue to adhere to its progressive but prudence attitude to seek sustainable and stable growth. The Group will strive to reinforce its business while at the same time strengthen personnel training. The aim is to enhance its operating efficiency and profitability and secure better return for its shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2007 the Group's shareholders' funds were approximately HK$926,841,000, 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 31st December, 2007 was approximately 0.50 (2006: 0.55), and the liquidity ratio was approximately 1.30 (2006: 1.30), both were maintained at a healthy level. As at 31st December, 2007 cash, bank balances and time deposits amounted to approximately HK$188,935,000. All these reflect that the Group is in sound financial position.

Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group had no fixed interest rate borrowings and had not engaged in any financial instruments for hedging or speculative activities.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

AUDIT COMMITTEE

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 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 provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of Executive Directors and senior management and making recommendations to the Board as regards the remuneration packages from time to time.

COMMITTEE OF EXECUTIVE DIRECTORS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2007, the Group has approximately 7,000 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 year ended 31st December, 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 year ended 31st December, 2007.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 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 have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual 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 annual 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 April 2008.

On behalf of the Board
TANG To
Chairman

Hong Kong, 23rd April, 2008

As at the date hereof, the board of directors of the Company is comprised of eleven directors, of which four are executive directors, namely Mr. Tang To, Mr. Jiang Wei, Mr. Wong Yiu Ming 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, Ms. Yeung Shuk Fan and Mr. Cheng Tak Yin.