



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, 2008

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, 2008 with comparative figures for the corresponding period in 2007 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	1,011,015	1,009,589
Cost of sales		<u>(829,200)</u>	<u>(809,967)</u>
Gross profit		181,815	199,622
Other income and gains, net		11,181	11,399
Distribution costs		(53,854)	(53,013)
Administrative expenses		(102,972)	(101,768)
Impairment losses for bad and doubtful debts		<u>(300)</u>	<u>(349)</u>
Profit from operations	4	35,870	55,891
Finance costs		(12,266)	(13,024)
Investment income		1,164	783
Loss on disposal of a subsidiary		–	(1,305)
Share of results of associates		<u>5,651</u>	<u>14,512</u>
Profit before taxation		30,419	56,857
Taxation	5	<u>5,341</u>	<u>5,495</u>
Profit for the period		<u><u>25,078</u></u>	<u><u>51,362</u></u>
Attributable to:			
Equity holders of the Company		20,184	40,610
Minority interests		<u>4,894</u>	<u>10,752</u>
		<u><u>25,078</u></u>	<u><u>51,362</u></u>
Basic earnings per share for profit attributable to the equity holders of the Company during the period	6	<u><u>2.84 cents</u></u>	<u><u>5.74 cents</u></u>
Proposed interim dividend: Nil (2007: HK\$0.006 per share)		<u><u>–</u></u>	<u><u>4,260</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30th June, 2008 (Unaudited) HK\$'000	31st December, 2007 (Audited) HK\$'000
Non-current Assets			
Property, plant and equipment	7	350,912	342,056
Investment properties		–	21,460
Leasehold land and land use rights		45,446	44,488
Interests in associates		223,886	271,204
Available-for-sale financial assets		5,083	5,055
Deferred tax assets		22,138	21,139
		647,465	705,402
Current Assets			
Inventories		692,813	597,318
Leasehold land and land use rights		1,218	1,013
Trade and other receivables	8	815,167	734,386
Tax recoverable		1,494	466
Pledged bank deposits		25,703	33,820
Cash and cash equivalents		213,958	188,935
		1,750,353	1,555,938
Current Liabilities			
Trade and other payables	9	820,694	725,966
Amounts due to associates		1,317	48,703
Derivative financial instruments	10	172	–
Tax payable		5,504	6,513
Bank and other borrowings – due within one year		310,666	269,546
Obligations under finance leases – due within one year		6,228	5,481
		1,144,581	1,056,209
Net Current Assets		605,772	499,729
Total Assets less Current Liabilities		1,253,237	1,205,131
Non-current Liabilities			
Bank and other borrowings – due after one year		42,689	55,720
Obligations under finance leases – due after one year		8,624	7,680
Deferred tax liabilities		14,490	13,211
		65,803	76,611
Net Assets		1,187,434	1,128,520

	<i>Notes</i>	30th June, 2008 (Unaudited) HK\$'000	31st December, 2007 (Audited) HK\$'000
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	<i>11</i>	284,009	284,009
Share premium		244,118	244,118
Other reserves	<i>12</i>	117,703	79,313
Retained profits			
– Proposed dividend		–	10,650
– Others		331,799	<u>308,751</u>
		977,629	926,841
Minority interests		209,805	<u>201,679</u>
Total Equity		<u>1,187,434</u>	<u>1,128,520</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, 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 and 1st July, 2007	283,009	241,479	53,911	256,519	177,535	1,012,453
Fair value gains:						
– Available-for-sale financial assets	–	–	(29)	–	–	(29)
Revaluation surplus on buildings	–	–	2,609	–	430	3,039
Deferred taxation adjustment	–	–	(107)	–	–	(107)
Realised on disposal of properties	–	–	(7,687)	7,687	–	–
Realised on disposal of subsidiaries	–	–	(248)	–	102	(146)
Realised on disposal of associates	–	–	960	–	–	960
Recognition on grant of share options	–	–	3,215	–	–	3,215
Share issue upon exercise of share options	1,000	2,639	(139)	–	–	3,500
Transfer on lapse of share options	–	–	(24)	24	–	–
Currency translation differences	–	–	26,852	–	2,181	29,033
Net income recognised directly in equity	1,000	2,639	25,402	7,711	2,713	39,465
Profit for the period	–	–	–	59,431	26,900	86,331
Total recognised income for the period	1,000	2,639	25,402	67,142	29,613	125,796
Dividends paid to minority shareholders	–	–	–	–	(5,469)	(5,469)
Dividend relating to 2007	–	–	–	(4,260)	–	(4,260)

	Attributable to equity holders of the Company					Total <i>HK\$'000</i>
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	
At 31st December, 2007 and 1st January, 2008	<u>284,009</u>	<u>244,118</u>	<u>79,313</u>	<u>319,401</u>	<u>201,679</u>	<u>1,128,520</u>
Fair value gains						
– Available-for-sale financial assets	–	–	2	–	–	2
Currency translation differences	<u>–</u>	<u>–</u>	<u>41,252</u>	<u>–</u>	<u>5,152</u>	<u>46,404</u>
Net income recognised directly in equity	<u>–</u>	<u>–</u>	<u>41,254</u>	<u>–</u>	<u>5,152</u>	<u>46,406</u>
Profit for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>20,184</u>	<u>4,894</u>	<u>25,078</u>
Total recognised income for the period	<u>–</u>	<u>–</u>	<u>41,254</u>	<u>20,184</u>	<u>10,046</u>	<u>71,484</u>
Transfer on lapse of share options	–	–	(2,864)	2,864	–	–
Dividends paid to minority shareholders	–	–	–	–	(1,920)	(1,920)
Dividend relating to 2007	<u>–</u>	<u>–</u>	<u>–</u>	<u>(10,650)</u>	<u>–</u>	<u>(10,650)</u>
At 30th June, 2008	<u><u>284,009</u></u>	<u><u>244,118</u></u>	<u><u>117,703</u></u>	<u><u>331,799</u></u>	<u><u>209,805</u></u>	<u><u>1,187,434</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	3,299	17,064
NET CASH FROM (USED IN) INVESTING ACTIVITIES	73,056	(24,877)
NET CASH (USED IN) FROM FINANCING	<u>(46,398)</u>	<u>8,443</u>
INCREASE IN CASH AND CASH EQUIVALENTS	29,957	630
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	172,617	61,063
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>6,295</u>	<u>2,748</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>208,869</u></u>	<u><u>64,441</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	213,958	106,833
Bank overdrafts	<u>(5,089)</u>	<u>(42,392)</u>
	<u><u>208,869</u></u>	<u><u>64,441</u></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, 2007 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, 2008. 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 2008, the Group adopted the standard, amendment and interpretations of HKFRS below, which are relevant to its operations.

HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions (effective from 1st March, 2007)
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirement and their Interaction

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 2008 and has not been early adopted:

HK (IFRIC) – Int 13	Customer Loyalty Programmes
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
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, 2008, the Group is organised on a product basis into four main business segments.

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

The segment results for the period ended 30th June, 2008 are as follows:

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit board <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER							
External sales	188,365	192,933	385,375	244,342	–	–	1,011,015
Inter-segment sales	<u>3,828</u>	<u>–</u>	<u>1,100</u>	<u>–</u>	<u>–</u>	<u>(4,928)</u>	<u>–</u>
Total revenue	<u><u>192,193</u></u>	<u><u>192,933</u></u>	<u><u>386,475</u></u>	<u><u>244,342</u></u>	<u><u>–</u></u>	<u><u>(4,928)</u></u>	<u><u>1,011,015</u></u>
Inter-segment sales are charged at prevailing market rates							
RESULT							
Segment result	<u><u>17,126</u></u>	<u><u>5,135</u></u>	<u><u>13,938</u></u>	<u><u>10,327</u></u>	<u><u>810</u></u>	<u><u>3,463</u></u>	50,799
Unallocated corporate expenses							<u>(14,929)</u>
Profit from operations							35,870
Finance costs							(12,266)
Investment income							1,164
Share of results of associates							<u>5,651</u>
Profit before taxation							<u><u>30,419</u></u>

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

	Industrial consumables <i>HK\$'000</i>	Plastic processing products <i>HK\$'000</i>	Machinery <i>HK\$'000</i>	Printed circuit board <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER							
External sales	186,390	228,035	372,699	222,465	–	–	1,009,589
Inter-segment sales	<u>3,617</u>	<u>–</u>	<u>5,090</u>	<u>–</u>	<u>–</u>	<u>(8,707)</u>	<u>–</u>
Total revenue	<u><u>190,007</u></u>	<u><u>228,035</u></u>	<u><u>377,789</u></u>	<u><u>222,465</u></u>	<u><u>–</u></u>	<u><u>(8,707)</u></u>	<u><u>1,009,589</u></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							<u>(16,840)</u>
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							<u>14,512</u>
Profit before taxation							<u><u>56,857</u></u>

	Sales revenue by geographical market	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong	350,499	398,243
Other regions in the People's Republic of China	534,156	485,091
Other Asia-Pacific countries	87,903	55,198
Europe	22,970	19,401
North America	15,487	51,656
	<u><u>1,011,015</u></u>	<u><u>1,009,589</u></u>

4. Profit from operations

Six months ended 30th June,
2008 2007
HK\$'000 *HK\$'000*

Profit from operations has been arrived at after charging:

Depreciation and amortisation

Depreciation and amortisation on:

Owned assets	26,604	26,293
Assets held under finance leases	1,615	2,379
Leasehold land and land use rights	609	960
Loss on disposal of property, plant and equipment	1,954	–
Fair value loss on derivative financial instruments	172	–

and after crediting:

Gain on disposal of property, plant and equipment	<u>–</u>	<u>5,774</u>
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5. Taxation

Six months ended 30th June,
2008 2007
HK\$'000 *HK\$'000*

The charge comprises:

Hong Kong Profits Tax	1,502	1,803
Overseas taxation	3,315	3,692
Deferred taxation	<u>524</u>	–
	<u>5,341</u>	<u>5,495</u>

Hong Kong Profits Tax is calculated at 16.5% (2007: 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,
2008 2007

Weighted average number of shares in issue during the period	710,022,692	707,522,692
Profit attributable to the equity holders of the Company	HK\$20,184,000	HK\$40,610,000
Earnings per share	2.84 cents	5.74 cents

7. Property, plant and equipment

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$26,928,000.

8. Trade and other receivables

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

Included in trade and other receivables are trade and bills receivables of approximately HK\$625,670,000 (31st December, 2007: approximately HK\$570,742,000) and their ageing analysis is as follows:

	30th June, 2008	31st December, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 3 months	474,553	406,553
4 to 6 months	45,509	91,082
7 to 9 months	40,395	26,970
Over 9 months	65,213	46,137
	<u>625,670</u>	<u>570,742</u>

9. Trade and other payables

Included in trade and other payables are trade and bills payables of approximately HK\$564,748,000 (31st December, 2007: approximately HK\$479,823,000) and their ageing analysis is as follows:

	30th June, 2008	31st December, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 3 months	487,315	407,736
4 to 6 months	57,294	52,840
7 to 9 months	6,726	6,701
Over 9 months	13,413	12,546
	<u>564,748</u>	<u>479,823</u>

10. Derivative financial instruments

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

11. Share capital

	Number of ordinary shares	Value <i>HK\$'000</i>
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2008 and 30th June, 2008	<u>1,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1st July, 2007	707,522,692	283,009
Shares issued upon exercise of share options	<u>2,500,000</u>	<u>1,000</u>
At 1st January, 2008 and 30th June, 2008	<u>710,022,692</u>	<u>284,009</u>

12. Other reserves

	Buildings revaluation <i>HK\$'000</i>	Share options <i>HK\$'000</i>	Translation <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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
At 30th June, 2007 and 1st July, 2007	18,084	–	35,865	(38)	53,911
Fair value gains:					
– Available-for-sale financial assets	–	–	–	(29)	(29)
Revaluation surplus on buildings	2,609	–	–	–	2,609
Deferred taxation adjustment	(107)	–	–	–	(107)
Realised on disposal of properties	(7,687)	–	–	–	(7,687)
Realised on disposal of subsidiaries	–	–	(248)	–	(248)
Realised on disposal of associates	–	–	960	–	960
Recognition on grant of share options	–	3,215	–	–	3,215
Transfer on exercise of share options	–	(139)	–	–	(139)
Transfer on lapse of share options	–	(24)	–	–	(24)
Currency translation differences	–	–	26,852	–	26,852
At 31st December, 2007 and 1st January, 2008	12,899	3,052	63,429	(67)	79,313
Fair value gains:					
– Available-for-sale financial assets	–	–	–	2	2
Transfer on lapse of share options	–	(2,864)	–	–	(2,864)
Currency translation differences	–	–	41,252	–	41,252
	–	(2,864)	41,252	2	38,390
At 30th June, 2008	12,899	188	104,681	(65)	117,703

13. Operating lease commitments

The Group as lessee

	30th June, 2008 <i>HK\$'000</i>	30th June, 2007 <i>HK\$'000</i>
Minimum lease payments made during the period under operating leases in respect of:		
Land and buildings	7,451	6,806
Plant and machinery	14	347
	7,465	7,153

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, 2008 HK\$'000	31st December, 2007 HK\$'000
Within one year	12,589	10,865
In the second to fifth year inclusive	37,694	35,554
Over five years	<u>43,350</u>	<u>42,600</u>
	<u>93,633</u>	<u>89,019</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\$24,000 (2007: approximately HK\$103,000) was approximately HK\$208,000 (2007: approximately HK\$1,129,000). In 2007, the properties generated rental yields of 8%.

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, 2008 HK\$'000	31st December, 2007 HK\$'000
Within one year	<u>-</u>	<u>383</u>

14. Other commitments

	30th June, 2008 HK\$'000	31st December, 2007 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Investments	<u>119,293</u>	<u>119,293</u>
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	<u>-</u>	<u>-</u>

15. Contingent liabilities

	30th June, 2008 HK\$'000	31st December, 2007 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	<u>–</u>	<u>894</u>

16. 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, 2008 HK\$'000	31st December, 2007 HK\$'000
Leasehold buildings	24,777	67,690
Leasehold land and land use rights	4,097	12,381
Plant and machinery	8,015	10,648
Bank deposits (<i>Note</i>)	<u>25,703</u>	<u>33,820</u>
	<u>62,592</u>	<u>124,539</u>

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

17. Transactions and balances with related parties

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

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Substantial shareholder and its subsidiaries:		
EDP charges received (<i>note i</i>)	92	92
Management fee paid (<i>note i</i>)	1,410	1,407
Companies controlled by certain directors:		
Management fee paid (<i>note i</i>)	498	498
EDP charges received (<i>note i</i>)	<u>–</u>	<u>26</u>

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

	30th June, 2008 HK\$'000	31st December, 2007 HK\$'000
Substantial shareholder and its subsidiaries:		
Balances due from the Group (<i>note ii</i>)	898	637
Balances due to the Group (<i>note ii</i>)	16	118
Minority shareholders:		
Balances due from the Group (<i>note ii</i>)	383	383
Balances due to the Group (<i>note ii</i>)	1,263	944
Associates:		
Balance due from the Group (<i>note ii</i>)	1,317	48,703
Balances due to the Group (<i>note ii</i>)	29,438	45,187

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 Group's consolidated turnover for the period amounted to approximately HK\$1,011,015,000, representing an increase of approximately 0.1% from the same period of last year, while operating profit and net profit attributable to the shareholders amounted to approximately HK\$35,870,000 and HK\$20,184,000, decreased by 36% and 50% respectively over the same period of last year. During the first half of the year, the Group was stricken by various external factors, such as the appreciation of Renminbi, increasing costs of raw materials, inflation, and China's implementation of the new labor law etc., and saw a continuous increase of its operating cost. In addition, as a series of regulation measures were adopted in PRC during the period which imposed heavy financing pressure on the Group's customers, drove up their borrowing costs and adversely altered their investment and purchase plans, the turnover and gross profit of every business segments of the Group were impacted to various extent, resulting in an overall performance which is behind our expectation.

Manufacturing Business

Machinery

Under the influence of several unfavorable market factors, the machinery business still recorded an overall sales of approximately HK\$385,375,000 during the period, representing a slight increase of approximately 3% over the same period of last year, and accounted for approximately 38% of the Group's consolidated turnover, while operating profit of the period was approximately HK\$13,938,000, representing a decrease of approximately 14% over the same period of last year.

During the first half of the year, prices for steel and plastics climbed to an unexpected high level. Besides, the state government strengthened its macro-control, and export-oriented enterprises suffered from various negative factors such as a stagnant U.S. economy and rising labour costs. As a result, most of the Group's customers became more conservative in making investment in industrial equipments and adopted a wait-and-see attitude. As compared with the same period of last year, both the domestic and export markets have shown an apparent decline in terms of demand. Under such circumstances, the machinery manufacturing business failed to transfer all its additional production costs to customers and its earnings was adversely impacted accordingly. To ease the decline of consolidated gross profit of machinery manufacturing business, during the period, the Group has made some adjustments to its product mix by devoting more resources for the research and development and the marketing of those machines types with higher added-value, such as Sv series energy-saving and high precision injection moulding machine, PP series special purpose machine for medical plastic containers, and RV/RA series rubber injection machines which are respectively applied in the automotive sealing parts and electrical insulator industries.

As disclosed in the Company's announcement dated May 30th and the circular issued to the shareholders on June 20th this year, Wuxi Grand Tech Machinery Group Ltd. ("Wuxi Grand"), a wholly owned subsidiary of the Company have entered into the Compensation Agreement and the Disposal Agreement with Wuxi Industry Development Group Co., Ltd. ("Wuxi Industry"). According to the Compensation Agreement, Wuxi Grand will receive a compensation of RMB55,518,200 from Wuxi Industry for early termination of a lease agreement in respect of Wuxi Grand's remaining tenure of approximately 12 years on a parcel of land located at No. 89, Hubin Road, Wuxi City, Jiangsu Province, the PRC with a site area of approximately 47,000 sq.m and 19 buildings build on the land comprising production workshops, offices and staff quarters. The Company will relocate its production workshops, offices, staff quarters and other facilities of Wuxi Grand to the parcel of land with a site area of approximately 75,000 sq.m located at Wuxi National High-tech Industrial Development Zone, which was purchased in 2006 by the Group. In addition, pursuant to the Disposal Agreement, Wuxi Grand agreed to sell another parcel of land with an area of 7,200 sq.m located in the same area in Wuxi to Wuxi Industry for a cash consideration of RMB25,317,600. It is estimated that the compensation will result in a book profit of approximately HK\$62,417,000 (equivalently to RMB55,518,000), and the disposal will realize a net gain of approximately HK\$23,410,000 (equivalently to RMB20,822,000). The profits from the compensation and the disposal in aggregate amount of approximately HK\$85,827,000 (equivalently to RMB76,340,000) (before expenses) will be recorded in the financial statement for the year ended 31st December, 2008.

Plastic Products and Processing

The consolidated sales of plastic products and processing business for the period was approximately HK\$192,933,000, representing a decrease of about 15% as compared with the same period of last year and accounted for approximately 19% of the Group's consolidated turnover, while operating profit of the year was approximately HK\$5,135,000, increased by approximately 5.4% over the same period of last year.

Confronted with the fierce competition in the plastic processing industry, the sales of our plastic processing plant in Dongguan decreased by 33% as compared with the same period of last year. Fortunately, a series of cost-control measures such as material-purchase control and headcount reduction implemented during the first half of the year began to bear fruits. Production efficiency was hence improved and a better-than-expected profit was achieved.

For the optic products business, as sales of magnifiers posted a significant growth over last year, the turnover for the period increased by approximately 32%. Though overall gross profit of this segment dropped due to the effects of various negative factors including rising costs and weakened international demands as well as reduced orders for microscopes, which commanded higher gross margins, total sales revenues still increased and the operating profit has achieved expected growth. It is expected that, after the new plant is completed and commences production in September this year, the production capacity of this segment can be further enhanced so that its cost-efficiency will be improved.

In respect of the Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging, as its major customers, which mainly comprise food (noodles, ice cream and candies) manufacturers, were seriously stressed under the unfavorable domestic economic environment, the plant's food packaging business was also affected to a certain degree. As the competitiveness of export products was impaired by the appreciation of Renminbi, export sales for the first half of the year declined by 13% from the same period last year. However, it is expected that this business segment will break even in 2008 after the emphasis was made to the exploring of domestic markets, and strengthened its internal cost control.

Printed Circuit Board

As to printed circuit board business, sales of approximately HK\$244,342,000 was recorded for the first half of the year, accounting for approximately 24% of the Group's consolidated turnover, which represented an increase of approximately 10% as compared with the same period of last year. Operating profit was approximately HK\$10,327,000, decreasing by approximately 52% from last year. During the period, the operating profit failed to maintain the strong upward momentum of last year in face of rising labour cost and appreciation of Renminbi. Through negotiating with our customers, we managed to offset part of the rise in costs by adjusting selling prices. On the other hand, this business segment will further refine and improve the current product mix, enhance processing and production efficiency so as to maintain its profits.

Trading Business

Industrial Materials and Consumables

During the period, trading business faced weakened economic conditions. The industry operated under an environment full of negative factors, such as economic slow-down in Europe, the U.S. and new emerging markets, surge of prices of raw materials, new macro-economic control measures and the newly introduced labour contract laws as well as the appreciation of Renminbi. All of those contributed to the substantially worsened business environment. Our trading business was inevitably affected and recorded a consolidated turnover of HK\$188,365,000 for the period, representing a slight increase of approximately 1% as compared with the corresponding period last year, accounting for approximately 19% of the Group's consolidated turnover. Profit from operations was approximately HK\$17,126,000, a decrease of 7% as compared with last year.

To cope with the unfavourable factors in the macro-economic environment, we optimized the structure of our customer base during the period by taking such measures as letting go low worth customers with long credit periods. We focused on exploring new industries with greater profit potentials and seeking small and medium enterprise customers. Financial results of some businesses like fasteners were comparatively satisfactory. However, as southern China was affected by the natural disaster occurred in the first half of this year, financial results from that district was slightly fell back. The overall performance of the trading business was behind our expectation in the first half of this year.

Other Businesses

Electronic Watt-Hour Meters and Related Business

Shenzhen Haoningda Meters Co., Ltd., the associate of the Group in Shenzhen, maintained stable business performance for the period. The company's plan to list its shares on Shenzhen Stock Exchange progresses smoothly. The Group will make relevant disclosures in due course.

PROSPECTS

With the unfolding and spreading of sub-prime mortgage crises in the U.S., the global economy will be adversely affected. During the period from the second half of this year to next year, the appreciation of Renminbi and the inflation in the PRC are expected to slow down slightly, but the market conditions are far from optimistic. The Group will adopt various proactive measures to maintain its overall profit. Such measures include optimizing products and operational costs, putting focus on the exploration of products and markets with higher added value. On the other hand, we intend to further reduce management expenses by improving internal management. Leveraging on its well-established reputation, extensive customer base, quality products and production volume, and most importantly, the continuous implementation of the strategy of manufacturing newly-developed and high-value-added products to cater to the shifting demands of customers for high-precision products, the Group firmly believes that its intrinsic advantages are still available and such challenge will bring out new opportunities for the Group.

For machinery business, it is expected that market conditions in the second half of the year will remain unfavorable. The Group is going to cope with challenges mainly by the policy of “streamlining and improving efficiency” coupled with strict cost control. In product strategy, we will speed up the production of Sv series injection moulding machine, expand our sales regions from Mainland China to high-ended overseas markets, and further integrate machine models of lower profit margins to improve operating efficiency. For rubber injection machine products, we are accelerating the R&D of new model of super-sized lamping force machine (2000T or above), in order to meet the growth in demand for extreme high voltage insulators following the power grid upgrade. Since the market conditions of the machine manufacturing business are uncertain, we expect that sales revenues will only have mild increase while profits will be squeezed to a certain extent.

For trading business, the negative factors in the first half of the year are expected to sustain for the rest of the year and the market competition is increasingly intense. This segment will further expand its market, enlarge and optimize its customer base; at the same time we will fight through adversity by “broadening income sources and reducing expenditure”. We will tighten our grip on inventory and account receivable control, reduce operating expenses and increase cash flows. We are confident that, with our outstanding marketing team, effective implementation of market expansion strategies, appropriate adjustments made according to the market changes, our trading business will overcome the adverse circumstances and advance with steady steps.

In respect of plastic products and processing business, the Group will focus on promoting automation of injection moulding and spraying to save on production manpower, so that we can achieve better cost control. The Group succeeded in raising the prices of some products during the year. On the other hand, we are working on methods of improving production techniques, with an aim to meet the increasingly high requirements by customers and consequently solicit and secure orders from major customers. In addition, a series of measures such as sales structure changes and cost control measures will be completed during the second half of the year; we expect that stable profit will be achieved by then.

The year 2008 marks the 50th anniversary of the Group. For these years, the Group’s ability to lay solid foundation for its business and overcome various difficulties is attributed to the efforts of all of our staff and their courage to take on and response to challenges. Though the Group will still face lots of unknowns and challenges, with the strong basis of the Group, extensive experience within the industry among its members, as well as our diligent and dedicated employees, we look forward to achieving new heights and open a new chapter in the future.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2008 (2007: HK\$0.6 cents per share).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2008, the Group's shareholders' funds were approximately HK\$977,629,000, compared with approximately HK\$926,841,000 as at 31st December, 2007.

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, 2008 was approximately 0.50 (31st December, 2007: 0.50), and the liquidity ratio was approximately 1.53 (31st December, 2007: 1.47), both were maintained at a healthy level. As at 30th June, 2008, cash, bank balances and time deposits amounted to approximately HK\$213,958,000. All these reflect that the Group is in sound financial position.

Contingent Liabilities

	30th June, 2008 HK\$'000	31st December, 2007 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	<u> —</u>	<u> 894</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, 2008 HK\$'000	31st December, 2007 HK\$'000
Leasehold buildings	24,777	67,690
Leasehold land and land use rights	4,097	12,381
Plant and machinery	8,015	10,648
Bank deposits (<i>Note</i>)	<u>25,703</u>	<u>33,820</u>
	<u>62,592</u>	<u>124,539</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. Foreign exchange risks arising from fluctuation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

AUDIT COMMITTEE

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance in Appendix 14 of the Listing Rules. The unaudited financial statements of the Company for the six months ended 30th June, 2008 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The remuneration committee of the Company comprises three Independent Non-Executive Directors and the Chairman of the Board of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance in Appendix 14 of the Listing Rules. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of Executive Directors and senior management and making recommendations to the Board in respect of the remuneration packages from time to time.

COMMITTEE OF EXECUTIVE DIRECTORS

The Company has established the Committee of Executive Directors which includes all the four 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, 2008, the Group has approximately 6,000 employees (2007: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits plans 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, 2008, 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, 2008.

COMPLIANCE WITH MODEL CODE

Throughout the six months ended 30th June, 2008, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules and all Directors have confirmed that they have been fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.cosmel.com and the website of The Stock Exchange of Hong Kong Limited at www.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 2008.

On behalf of the Board
TANG To
Chairman

Hong Kong, 23rd September, 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.