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, 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	2	**1,939,383**	2,093,377
Cost of sales		**(1,639,643)**	(1,707,056)
Gross profit		**299,740**	386,321
Other income and gains, net		**41,291**	42,457
Distribution costs		**(107,603)**	(118,108)
Administrative expenses		**(221,377)**	(212,775)
Other operating expenses		**(1,016)**	(4,096)
Allowance for impairment of bad and doubtful debts		**(4,533)**	(9,780)
Gain on disposal of property, plant and equipment and leasehold land and land use rights		**66,940**	60,000
Profit from operations		**73,442**	144,019
Finance costs		**(26,515)**	(27,088)
Investment income, net		**3,887**	1,648
Loss on disposal of subsidiaries		**–**	(1,159)
Loss on disposal of associates		**–**	(93)
Share of results of associates		**13,118**	30,299
Profit before taxation	3	**63,932**	147,626
Taxation	4	**7,627**	9,934
Profit for the year		**56,305**	137,692
Attributable to:			
Equity holders of the Company		**45,240**	100,040
Minority interests		**11,065**	37,652
		56,305	137,692
Basic earnings per share for profit attributable to the equity holders of the Company during the year	5	**6.37 cents**	14.12 cents
Dividends	6	**–**	14,910

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current Assets			
Property, plant and equipment		**340,736**	342,056
Investment properties		**–**	21,460
Leasehold land and land use rights		**43,325**	44,488
Goodwill		**–**	–
Interests in associates		**234,903**	271,204
Available-for-sale financial assets		**4,729**	5,055
Deferred tax assets		**4,386**	21,139
		628,079	705,402
Current Assets			
Inventories		**597,412**	597,318
Leasehold land and land use rights		**784**	1,013
Trade and other receivables	7	**735,154**	734,386
Tax recoverable		**2,543**	466
Pledged bank deposits		**120,698**	33,820
Cash and cash equivalents		**189,369**	188,935
		1,645,960	1,555,938
Current Liabilities			
Trade and other payables	8	**666,428**	725,966
Amounts due to associates		**61,742**	48,703
Derivative financial instruments		**167**	–
Bank and other borrowings – due within one year		**328,282**	269,546
Obligations under finance leases – due within one year		**6,920**	5,481
Tax payable		**4,453**	6,513
		1,067,992	1,056,209
Net Current Assets		**577,968**	499,729
Total Assets less Current Liabilities		**1,206,047**	1,205,131

	2008	2007
	HK$'000	*HK$'000*
Non-current Liabilities		
Bank and other borrowings – due after one year	**61,259**	55,720
Obligations under finance leases – due after one year	**8,754**	7,680
Deferred tax liabilities	**229**	13,211
Total Non-current Liabilities	**70,242**	76,611
Net Assets	**1,135,805**	1,128,520
Equity		
Capital and reserves attributable to the Company's equity holders:		
Share capital	**283,972**	284,009
Reserves	**698,849**	642,832
	982,821	926,841
Minority Interests	**152,984**	201,679
Total Equity	**1,135,805**	1,128,520

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, investment properties, certain financial assets and financial liabilities (including derivative instruments), 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.

Impact of new and revised Hong Kong Financial Reporting Standards ("HKFRS")

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 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
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

Except for the adoption of the HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions", which has resulted in changes to the Group's accounting policies as detailed below, the adoption of the other HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

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

(a) The HKAS 39, "Financial Instruments: Recognition and Measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial Instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1st July, 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

(b) HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions", provided guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over shares of a parent) should be accounted for as equity-settled or cash-settled share-based payment transactions in the separate financial statements of the parent and group companies. The interpretation should be applied retrospectively. Accordingly, prior period adjustments have been made in the Company's financial statements.

The adoption of HK(IFRIC) – Int 11 resulted in:

	THE COMPANY	
	2008	2007
	HK$'000	*HK$'000*
Increase in investments in subsidiaries	–	1,902
Increase in retained profits	–	1,902
Increase in profit for the year	–	1,902

This interpretation did not have any impact on the consolidated financial statements of the Group.

(c) HK(IFRIC) – Int 12, "Service concession arrangements", provides guidance on the accounting by operators for public-to-private services concession agreements. This interpretation does not have any significant impact on the Group's accounting policies and financial statements.

(d) HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction", provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. 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, 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 boards.

The segment results for the year ended 31st December, 2008 are as follows:

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
TURNOVER							
External sales	345,379	390,316	672,670	531,018	–	–	1,939,383
Inter-segment sales	6,635	5	5,973	–	–	(12,613)	–
Total revenue	352,014	390,321	678,643	531,018	–	(12,613)	1,939,383

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
RESULTS							
Segment results	25,332	9,162	44,334	27,329	(3,901)	797	103,053
Unallocated corporate expenses							(29,611)
Profit from operations							73,442
Finance costs							(26,515)
Investment income, net							3,887
Share of results of associates		(249)	(3,031)		16,398		13,118
Profit before taxation							63,932
Taxation							7,627
Profit before minority interests							56,305

	Industrial consumables *HK$'000*	Plastic processing products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
ASSETS						
Segment assets	200,394	351,161	1,008,917	327,960	42,412	1,930,844
Interests in associates						234,903
Available-for-sale financial assets						4,729
Unallocated corporate assets						103,563
Consolidated total assets						2,274,039
LIABILITIES						
Segment liabilities	55,098	53,366	396,281	153,477	4,923	663,145
Tax payable						4,453
Borrowings						405,215
Unallocated corporate liabilities						65,421
Consolidated total liabilities						1,138,234
OTHER INFORMATION						
Addition of goodwill	–	–	484	–	–	484
Capital additions	654	11,963	11,855	27,047	1,799	53,318
Depreciation and amortisation	1,253	17,590	19,517	16,564	1,050	55,974
Other non-cash expenses	431	1,587	10,392	600	3,087	16,097

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

	Industrial consumables HK$'000	Plastic processing products HK$'000	Machinery HK$'000	Printed circuit boards HK$'000	Other operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER							
External sales	366,467	479,495	806,800	440,615	–	–	2,093,377
Inter-segment sales	6,960	–	7,912	–	–	(14,872)	–
Total revenue	373,427	479,495	814,712	440,615	–	(14,872)	2,093,377

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables HK$'000	Plastic processing products HK$'000	Machinery HK$'000	Printed circuit boards HK$'000	Other operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
RESULTS							
Segment results	31,452	23,572	82,351	29,714	2,265	695	170,049
Unallocated corporate expenses							(26,030)
Profit from operations							144,019
Finance costs							(27,088)
Investment income, net							1,648
Loss on disposal of subsidiaries							(1,159)
Loss on disposal of associates							(93)
Share of results of associates		(176)	3,246		27,229		30,299
Profit before taxation							147,626
Taxation							9,934
Profit before minority interests							137,692

	Industrial consumables HK$'000	Plastic processing products HK$'000	Machinery HK$'000	Printed circuit boards HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	205,541	364,472	1,014,268	274,652	70,973	1,929,906
Interests in associates						271,204
Available-for-sale financial assets						5,055
Unallocated corporate assets						55,175
Consolidated total assets						2,261,340
LIABILITIES						
Segment liabilities	76,808	70,676	422,530	144,164	7,909	722,087
Tax payable						6,513
Borrowings						338,427
Unallocated corporate liabilities						65,793
Consolidated total liabilities						1,132,820
OTHER INFORMATION						
Capital additions	1,476	9,308	33,825	25,914	832	71,355
Depreciation and amortisation	1,159	16,429	21,531	15,352	1,501	55,972
Other non-cash expenses (income)	(313)	(1,061)	14,886	268	10,126	23,906

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	
	2008	2007
	HK$'000	*HK$'000*
Hong Kong	**657,337**	804,749
PRC	**1,040,404**	1,048,219
Other Asia-Pacific countries	**169,303**	120,633
North America	**24,360**	74,222
Europe	**47,979**	45,554
	1,939,383	2,093,377

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	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,206,530**	1,095,134	**1,594**	931
PRC	**1,047,712**	1,141,664	**52,208**	70,424
Other Asia-Pacific countries	**9,541**	11,329	**–**	–
North America	**4,515**	6,482	**–**	–
Europe	**5,741**	6,731	**–**	–
	2,274,039	2,261,340	**53,802**	71,355

3. PROFIT BEFORE TAXATION

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

	2008	2007
	HK$'000	*HK$'000*
Charging:		
Directors' remuneration	**16,331**	15,309
Salaries and other benefits	**274,567**	249,564
Retirement benefits scheme contributions	**4,006**	4,551
Share-based payments	**–**	2,999
	294,904	272,423
Depreciation and amortisation on:		
– Owned assets	**51,543**	51,659
– Assets held under finance leases	**3,502**	3,300
– Leasehold land and land use rights	**929**	1,013
Impairment losses on goodwill (included in other operating expenses)	**484**	–
Auditors' remuneration		
– Current year	**2,228**	2,004
– Underprovided in prior years	**61**	32
Impairment losses on property, plant and equipment	**–**	1,500
Operating lease payments	**17,158**	13,145
Revaluation deficit on leasehold buildings	**533**	153
Write-down of inventories	**11,031**	13,973
Share of associates' taxation	**4,375**	5,341
and crediting:		
Rental income net of direct outgoings	**805**	1,835
Revaluation surplus on leasehold buildings	**–**	427

4. TAXATION

In February 2008, the Hong Kong Government announced a decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31st December, 2008. This decrease has been taken into account in the preparation of the Group's and the Company's 2008 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year after deducting accumulated tax losses brought forward and the deferred tax has been re-estimated accordingly.

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.

In March 2007, the National People's Congress approved the Enterprise Income Tax Law of the People's Republic of China (the "new EIT Law"). The new EIT Law changes the enterprise income tax rate to 25% with effect from 1st January, 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. The deferred tax has been re-estimated accordingly.

	2008	2007
	HK$'000	*HK$'000*
Hong Kong profits tax		
Current year	**1,145**	2,365
Tax reduction in prior year	**(125)**	–
Over-provision in prior years	**(101)**	(96)
	919	2,269
Overseas tax		
Current year	**5,161**	8,810
Under-provision in prior years	**579**	102
	5,740	8,912
Deferred taxation relating to the origination and reversal of temporary differences		
Current year	**851**	(1,247)
Effect of change in tax rate	**117**	–
	968	(1,247)
Taxation charge	**7,627**	9,934

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:

	2008	2007
	HK$'000	*HK$'000*
Profit before taxation	**63,932**	147,626
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**10,549**	25,835
Tax effect of expenses that are not deductible in determining taxable profit	**30,898**	37,221
Tax effect of income that is not taxable in determining taxable profit	**(42,048)**	(60,667)
Under-provision of profits tax in prior years, net	**478**	6
Tax reduction in prior year	**(125)**	–
Decrease in opening net deferred tax assets resulting from changes in applicable tax rates	**117**	–
Tax effect of tax losses not recognised	**12,383**	8,490
Tax effect of temporary differences not recognised	**675**	(260)
Tax effect of utilisation of tax losses not previously recognised	**(1,861)**	(1,085)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,439)**	394
Taxation charge	**7,627**	9,934

5. 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.

	2008	2007
Weighted average number of shares in issue during the year	**710,000,697**	708,704,884
Profit attributable to the equity holders of the Company	**HK$45,239,508**	HK$100,040,174
Earnings per share	**6.37 cents**	14.12 cents

Diluted earnings per share for the years 2007 and 2008 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 both years. During the year ended 31st December, 2008, all share options outstanding had also lapsed.

6. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Interim dividend of HK$nil (2007: HK$0.006) per share	–	4,260
Dividend proposed after the balance sheet date of HK$nil (2007: HK$0.015) per share	–	10,650
	–	14,910

7. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2008	2007
	HK$'000	*HK$'000*
Trade and bills receivables	**571,779**	634,843
Less: allowance for impairment of bad and doubtful debts	**68,737**	64,101
Trade and bills receivables, net	**503,042**	570,742
Other receivables	**254,369**	184,095
Less: allowance for impairment of bad and doubtful debts	**23,095**	21,512
Other receivables, net	**231,274**	162,583
Amounts due from related parties	**838**	1,061
	735,154	734,386

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values. In the opinion of the directors, 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 ageing 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	
	2008	2007
	HK$'000	*HK$'000*
0 to 3 months	**331,820**	406,553
4 to 6 months	**68,847**	91,082
7 to 9 months	**36,523**	26,970
Over 9 months	**65,852**	46,137
	503,042	570,742

8. TRADE AND OTHER PAYABLES

	THE GROUP	
	2008	2007
	HK$'000	*HK$'000*
Trade and bills payables	**448,014**	479,823
Accruals and other payables	**217,630**	245,124
Amounts due to related parties	**784**	1,019
	666,428	725,966

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

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

	THE GROUP	
	2008	2007
	HK$'000	*HK$'000*
0 to 3 months	**281,025**	407,736
4 to 6 months	**139,722**	52,840
7 to 9 months	**14,671**	6,701
Over 9 months	**12,596**	12,546
	448,014	479,823

9. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	**–**	–	**936,560**	750,640
Outsiders	**9,097**	894	**–**	–
	9,097	894	**936,560**	750,640

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2008 and 31st December, 2007.

10. PLEDGE OF ASSETS

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

	2008	2007
	HK$'000	*HK$'000*
Leasehold buildings	**–**	67,690
Leasehold land and land use rights	**–**	12,381
Plant and machinery	**34,715**	10,648
Bank deposits	**120,698**	33,820
	155,413	124,539

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

FINAL DIVIDEND

The Board does not recommend to pay final dividend for the year ended 31st December, 2008 (2007: HK1.5 cents per share).

CLOSE OF REGISTER

The register of members of the Company will be closed from 26th May, 2009 to 3rd June, 2009 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attendance at the forthcoming Annual General Meeting, 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 25th May, 2009.

RESULTS

The Group's consolidated turnover for the year 2008 was approximately HK$1,939,383,000, representing a decrease of about 7% over the approximate figure of HK$2,093,377,000 for 2007. Our profit after taxation stood at about HK$56,305,000, representing a decrease of about 59% over HK$137,692,000 for the same period of last year. For the year ended 31st December, 2008, the profit attributable to shareholders was about HK$45,240,000, decreasing by about 55% when compared with last year.

CHAIRMAN'S STATEMENT

The Group experienced a difficult year during the year under review. The first half of the year saw surging prices of various raw materials in the international market including food prices which resulted in greater inflation pressure in the domestic market. To avoid disrupting people's daily lives as well as social stability, the Chinese government has successively launched a number of policies and measures to prevent an overheated economy and to curb inflation. Such policies included substantially raising deposit reserve ratio of domestic banks. As a result, loans to corporate entities were tightened, in addition, various unfavourable factors such as rapid appreciation of Renminbi, substantial reduction in export tax rebate, implementation of new labour contract law and increase in labour costs have all contributed to a more difficult operating environment for all industrial sectors. The collapse of Lehman Brothers in mid September finally triggered the outbreak of financial crisis. In October, banks in Hong Kong rapidly tightened their credit. As a result, enterprises in Hong Kong who relied on local bank finance or with supply chain in Hong Kong and were able to avoid the stringent credit policy previously implemented by the PRC were now also seriously affected. Moreover, the U.S., Europe and Japan markets quickly deteriorated, causing most factories which relied on Europe and the U.S. markets to lose their orders or were asked to postpone the delivery date. Orders for the next year were held back and forced factories to lay off their labours. Before Chinese New Year, thousands of factories were forced to close down and the market was full of negative sentiment that was not seen in decades. Raw material prices, which were once lingering at high level, sharply plummeted due to curtailing demand. However, it added more pressure to those factories which still held stock purchased at high price. In face of the continued pressure to lower the price of new orders, factories can only choose to cease production or to operate at a loss. The economic downturn continues to persist and shows no sign of bottoming out.

In the early stage of the financial crisis, the PRC government immediately adopted a more relax monetary policy. In the second half of the year, it successively uplifted export tax rebate and decisively allocated RMB4 trillion for investment in infrastructures, such as basic infrastructure, electricity, transportation, environmental protection, medical service, education etc, so as to boost economic growth. The newly launched rural medical reform and rural education reform cleared concern of the peasant community over medical and educational expenses that were bothering them who had to save up their income to meet the needs of their family and children and thus release their purchasing power. Moreover, the rural household appliance subsidy scheme also served to boost domestic demand, under which peasants are subsidized by the state in purchase of electrical appliance. With the lead of the above infrastructure projects and change in consumption pattern in the rural areas, it is expected that the domestic market will continuously prosper in the near future.

In face of such economic hardship, the operation of each of our member companies was affected by different degrees and suffered a setback in results. The machinery manufacturing business was most seriously hit due to the capital investment nature of its products, with both export and domestic sales decreased. The sales for rubber injection machines remained stable, which was attributable to its continual improvement over the years to meet the needs of power grid upgrade. While the newly developed Sv series servo-driven pump energy-saving and high precision injection moulding machine received wide recognition for its cost effectiveness, our factory at Zhou Wu District, Dongguan has kicked off the development project. The new factory layout and facilities, designed to facilitate management and cost control, will better accommodate our future development.

The consolidated results of plastic processing business was lower than expected due to high plastic prices and failure of transferring the additional cost to customers. Benefiting from the continuous growth in consumer market in the PRC, the market demand for food packaging has increased and provides favourable opportunity for our Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging. Additional processing facilities will be added to this business in 2009. It is expected that with team realignment and improved product quality, this business segment will resume profitability.

As to printed circuit board processing business, it recorded significant growth in sales following successful adjustment of product mix by the management. However, owing to higher raw material price and processing cost, the profit thus remained flat. With smooth implementation of a new product portfolio, the Company continues to hold a prudent and optimistic view of this business segment for the coming year.

As the manufacturing industry has been seriously battered, profit of our trading business has shrunken by nearly 20% despite a similar turnover. Fortunately, the customers of the north and northeast China markets, which were developed earlier as planned, mainly focused on domestic demand and thus were less affected. It is expected the growth in those new markets in the coming year will be able to set off the loss in the south China market.

Shenzhen Haoningda Meters Co., Ltd., the associate in Shenzhen, successfully explored overseas power grid market, established long term development platform and initiated self R&D and quality control deployment during the year under review. The company's result for the year was not affected by the financial crisis owing to state's power grid reconstruction project. The company is actively expanding its production capacity to meet market demand. It is expected the company will achieve satisfactory results for the year 2009.

The current financial crisis is fundamentally different from the Asian financial turmoil in 1997. It is caused by high leverage ratio combined with lack of regulation, excessive investment and over spending of the U.S. and European markets, the world's leading consumer markets. The outburst of the economic bubble has resulted in worldwide economic downturn and emergence of various forms of protectionism. Excess supply will eventually eliminate those less competitive market players and lead to re-adjustment and re-construction of new economic order. When the global economy enters the post-crisis period, the credit model, consumption model and market competition model will change accordingly. The Group is strengthening its control over cash flow to cope with any challenges that may result from potential shrinkage of credit policy and maintaining a practical and conservative credit term policy to avoid further deterioration of market situation. The Group will adopt a prudent approach to redeploy its future capital investment, with an aim to meet the change in market needs in future and to facilitate control over cash flow. In view of the changing environment, the Group will focus on enhancing the foresight of the management so that they can formulate effective response plan in a timely manner. The Group will also optimize its response mechanism by streamlining management structure, thereby facilitating the circulation of operation information as well as implementation of adjustment. In face of such rapid changes, we are fully confident that we will able to achieve new height while coping with a different mode of market competition.

Finally, I would like to express my sincere thanks to the long term support of all our customers, suppliers, banks and shareholders. I would also like to pay my tribute to the board and our staff for their contribution to the success of the Group.

BUSINESS REVIEW

Manufacturing Business

Machinery

In the second half of 2008, as impacted by adverse factors, such as the rapid deterioration in global economy and drastic fluctuation in prices of raw materials, we recorded a turnover of approximately HK$672,670,000, a decline of about 17% over HK$806,800,000 of the same period of last year and accounted for approximately 35% of the Group's consolidated turnover, while operating profit was approximately HK$44,334,000, a decrease of about 46% over the same period of last year.

In the first three quarters of last year, the price of steel and plastics kept increasing. While in the fourth quarter, the financial crisis that swept across the world has quickly resulted in drastic setbacks in global economy. As a result, the manufacturing sector was seriously hit. Since the fourth quarter, many customers that rely upon export had to suspend or postpone their investment plans in machinery equipment due to sharp decline in volume of orders. In addition, reform of China's value added tax ("VAT") system since January 2009, which allows deduction of input VAT for purchase of equipment, had led to delay fulfillment of machinery purchase contract for the year by some of our domestic customers, and further dragged down our sales for the period. On the other hand, the increase in average steel price for the year by 35% from the previous year and a sluggish market demand for general purpose injection moulding machines, which made it impossible to transfer the additional costs to customers, have resulted in a drop in our average gross profit by approximately 5%. Although the gross profit margins of other machinery products, such as rubber injection machines and special hydraulic presses, remained stable and even recorded satisfactory growth in sales for the period, such increase was not able to cover the loss in profit of injection moulding machines.

For product development, as the Sv series servo-driven pump energy-saving and high precision injection moulding machine, which was launched in April of last year, received wide recognition from customers, the Group thus applied the same technology to large clamping force machine. In addition, the Group also successfully developed and manufactured on its own the super-sized injection moulding machine, which was the first direct hydraulic clamping two platen injection moulding machine with clamping force of 4000T in China as verified by state experts, and therefore put an end to the reliance of imported large-sized high precision injection moulding equipment by domestic industry. Meanwhile, Dong Hua Machinery Limited, the Group's machinery production plant, was named the first batch of new and high technology enterprises in Guangdong Province in 2008 by the Department of Science and Technology of Guangdong Province in December of last year as recognition of our contribution to the machinery industry.

As disclosed by the Company in May of last year, Wuxi Grand Tech Machinery Group Ltd. ("Wuxi Grand"), a wholly-owned subsidiary of the Group, signed a compensation agreement and disposal agreement with Wuxi Industry Development Group Co., Ltd. ("Wuxi Industry"). Wuxi Grand received a compensation of RMB55,518,200 from Wuxi Industry for early termination of lease contract in respect of factory premises, land, production workshop, office and staff dormitory with remaining lease period of 12 years, and a cash consideration of RMB25,317,600 for disposal of another parcel of land in Wuxi. Gains from the above compensation and disposal, which amounted to HK$66,933,000, has been accounted for in this financial year.

In September last year, we started to restructure our injection moulding machine production centre of the production base in South China, streamline structure and appropriately reallocate our staff, so as to reduce operational costs. To get in line with the government's urban plan of "relocation to industrial zone", the Dongguan Dongchen factory expansion project and the preparation work for construction of new factory at Wuxi National High-tech Industrial Development Zone were commenced in the first half of the year. The Group will also make timely adjustment to its production structure in South China and East China whenever necessary, so as to meet the geographical demand of the domestic market.

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was approximately HK$390,316,000, representing a decrease of about 19% as compared with the same period of last year and accounted for approximately 20% of the Group's consolidated turnover, while operating profit of the year was approximately HK$9,162,000, decreased by about 61% over the same period of last year.

Our plastic processing plant in Dongguan recorded a significant decrease in sales to our major customers as compared with the same period of last year, which was due to continuous increase in the prices of our production materials such as packaging articles and hardware for the period from the beginning to the middle of the year and the failure to transfer the increased costs to customers on a timely basis. In the second half of the year, despite a slight reduction of price of materials, the pressure of continuous asking for lower prices by the customers further shrank the gross profit and, combined with additional costs as a result of the implementation of the new labour law, had resulted in a less than satisfactory profit for this business segment. Under such severe operating condition, the Group has speeded up the pace of automation development of this business during the year with a view to reduce labour cost and strengthen the competitiveness of our products.

During the period under review, the Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging failed to meet the expected goals. During the period, although several major customers of this business segment, including Shunde Nissin and Guangzhou Mead Johnson, achieved business growth, this business segment has failed to contribute profit given the significant fluctuation in price of raw materials which in turn exerted massive impacts on costs, as well as undesirable results in broadening of domestic and overseas markets.

For the optic products business, certain optic products such as microscopes recorded a significant decrease in orders during the year, which led to a decrease of approximately 12% in turnover as compared with the same period of last year. Owing to surging price of various production costs and the appreciation of Renminbi, the gross profit of such products thus diminished. For the development of new products, we introduced a number of aspheric frameless magnifier in 2008, which apply novel design and are equipped with LED lights to increase illuminative brightness. However, given the global economic recession and weakening purchasing power, the sales of which was not satisfactory.

Printed Circuit Board

In terms of printed circuit board business, sales for 2008 was approximately HK$531,018,000, representing a notable growth of about 21% as compared with the same period of last year and accounted for approximately 27% of the Group’s consolidated turnover, while operating profit for the period was approximately HK$27,329,000, decreased by approximately 8% over last year.

During the period under review, this business segment still faced various unfavourable operating factors such as surging price of production materials, implementation of the new labour law and appreciation of Renminbi. Furthermore, the outburst of the financial crisis since the end of last year has instantly crippled the industrial and commercial sector worldwide, and this business segment was unavoidably affected. Fortunately, we were able to secure most of the orders with our major customers and offset the increased costs by an upward adjustment of our selling price, thereby achieving our intended target. In terms of production, we successfully adjusted the proportion of single-sided, double-sided and multi-layer printed circuit boards, which improved the profitability of our product portfolio.

Trading Business

Industrial Consumables

During the period under review, trading business accounted for a turnover of approximately HK$345,379,000, representing a decrease of about 6% as compared with the same period of last year and accounted for approximately 18% of the Group's consolidated turnover. Operating profit was about HK$25,332,000, dropped by approximately 19% as compared with last year.

The domestic market was seriously affected by unfavourable factors in last year. In addition with the global financial crisis triggered by sub-prime crisis in the United States, the manufacturing industry had suffered an unprecedented adverse impact. Especially in the South China region, many companies were forced to close down. Fortunately, the successful development of new products such as steel strips and successful expansion into new markets in the power supply, communication and anchor sectors have made up some of the shortfall and reduced the extent of decrease in turnover. In view of the rapid deteriorating market condition, apart from putting in greater efforts in market expansion and new products promotion, the Group also adopted prudent policy to control costs and rationalize inventory level and account receivables, all with the aim to minimize operating risks, enhance operation efficiency and strengthen overall competitiveness of this business segment.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), an associate company of the Group in Shenzhen, maintained stable growth in its principal business. During the period, the company adopted a "Just In Time" production model, which features effective arrangement of purchase, supply and production as well as flexible marketing strategies to shield off the adverse impact of production bottleneck, as a result this business segment was able to achieve a satisfactory performance despite economic downturn and intensified competition, and recorded an increased turnover as compared with the same period of the previous year. During the period under review, the company successfully opened up the markets of Mongolia, Australia and UK, which was an important achievement in our pursuit of overseas markets. In 2008, Haoningda was honoured "Leading Innovative Enterprise in Shenzhen" and "Top 500 Industrial Giants in Shenzhen" by Shenzhen Municipal Government, which fully demonstrates a wide recognition of our research and development on new product and new technology. The company's plan to list its A shares on Shenzhen Stock Exchange progresses smoothly, and the Group will make relevant disclosures in due course in accordance with relevant regulations.

BUSINESS PROSPECTS

The outburst of sub-prime mortgage crises in U.S. eventually evolved into a global financial crisis in the fourth quarter of the year, inflicting overwhelming devastation to the global economic system. Banks in Europe, North America and Asia all tighten up their credit control, resulting in a credit crisis which affect all business sectors, and even determine the fate of many market players. Our business started to feel the impacts of the severe economic conditions from the fourth quarter, and we expected that, for a certain period in the near future, the global economy will still be full of challenges and the business environment will continue to be difficult.

As for the prospects of machinery business in 2009, it is expected that the market demand for machinery in the first half of 2009 will remain weak given a deteriorating economic environment. For the core injection moulding machine business, we will implement more stringent inventory control policy while exploring supplementary channels in the defined market segments to make up for the decline in sales of general purpose machines. While a steady-increase strategy will be introduced for rubber injection machines and sheet-metal processing machines, it is expected that these two types of products will benefit from the PRC Government's policy of massive investment in infrastructures including electric power distribution and allocation as well as mass transportation, which will stimulate overall demand for relevant electrical insulator and sheet-metal processing machines.

As steel price started to decline, it does contribute positively to the cost aspect of machinery manufacturing, however, there are still numerous uncertainties regarding whether the massive investment in infrastructure construction will drive up demand for steel and therefore blow up its price, and it is expected that cut-throat competition will intensify as overall demand for equipment is continuously shrinking. As a result, the Group will stick to its existing guidelines of optimizing organizational structure and operation, furthering cost and expenses reduction and exercising tighter control over internal and external expenditure so as to maintain a satisfactory gross profit margin. Meanwhile, we will accelerate optimization and promotion of our new injection moulding machines, especially the servo-driven pump energy-saving injection moulding machines, and extend the technology onto the high-end rubber injection machines. For export business, we will continue to explore and penetrate into new market as an effort to pump up our sales by all possible means. The year 2009 will still be a period of reshuffling and consolidation for the machinery manufacturing industry, and we will take it as an opportunity to expand our overseas market share in both overseas and the mainland China. However, in the short-term, we still hold a conservative attitude to the prospects of the manufacturing business.

In addition, as disclosed in the Company's announcement published in December 2007 relating to the discloseable transaction, the Group's plants at Jianshe Road, Dongguan will be relocated to Zhou Wu District, Fu Cheng, Dongguan, in order to co-operate with the urban construction planning of the Government of Dongguan. The construction of the new plants commenced in April 2009 and is expected to be completed and commence production in July 2010.

For plastic products and processing business, in the coming year, the Group will continue to improve our automated production lines in the Dongguan Plant to achieve cost efficiency. Currently, the Group is working on purchasing new dust-free injection line to reduce defective rate and enhance the quality of finished products. In respect of market exploration, the Group plans to secure new customers through attending exhibitions of the relevant industries. The Group has been manufacturing desk lamps and small household appliances for our Japanese customer Twinbird for recent years and receiving favourable comments. It is expected that the co-operation will be strengthened and orders for manufacturing other types of products such as vacuum cleaners and air-conditioners may be gained. The Zhuhai plant which specializes in plastic tableware and food packaging, has been put on track with credible performance in both securing new customers and market exploration, subsequent to its restructuring in the second half of last year. It has presented an encouraging result for the first quarter of 2009 and is expected to make a satisfactory profit contribution as a whole in 2009. For the optic products business, the Group plans to drive up the overall sales by diversifying the range of products for trade in the following years. The Group has initially chosen magnifiers that we have not produced before and has considered to put other optic products or PMMA (acrylic) plastic products to its product line.

For trading business, the Group believes that it is not possible for PRC to stay out from the global economic crisis in the coming year. With the continuous weakening of the external economy, the PRC's export trade will be stagnant. The PRC Government's policy of stimulating domestic demand will only partially compensate the export trade recession and measures take time to get result. The market competition is, thus, increasingly intense. With the bailout packages being rolled out by countries, the prices of raw materials will decline sharply and tax rebate for certain export products may be resumed, which brings hopes to the gloomy marketplace. Confronted with such a huge challenge, the Group will put great effort to explore new market demands and develop new products. Meanwhile, the Group will continuously optimize its management system to satisfy our customers with its high efficient operation and quality service in combination with our superior products, in order to grasp every opportunity and aims at getting improvement under such adverse market environment.

For printed circuit board business, it is expected that the operating environment will remain difficult in the coming year. The Group will not only take active measures to secure support from our existing customers, but also make every effort to develop products with higher profitability. In terms of environmental protection, the Group is committed to achieve higher standard continuously, so as to enhance the current output, and to further expand the proportion of multi-layer printed circuit board.

Looking forward, the global economy will remain extremely tough. Suffering from the economic downturn and the shrinkage of the credit market, the operating environment is expected to be full of uncertainties and challenges. However, as most Asian countries possess a general high saving rate, especially PRC which pulls its economy by domestic demand, the region is expecting an earlier recovery than elsewhere in the world and becoming an important pillar to support the reviving of Hong Kong's economy. Nevertheless, the Group is well positioned to pursue stable and continuous development in this unfavorable situation by keeping its proactive efforts in consolidating all its business sectors, implementing a prudent operating and financial policies, maintaining sound management, optimizing both product and sales structures and strengthening cost-control measures.

The Group sticks to the "people-oriented" policy, as it believes that excellent human resources is always the key to the promotion of an enterprise's competitiveness and resiliency in front of crises. Last year, the Group provided another 6-months management training programme with the purpose of rendering a comprehensive and practical management training to its potential middle-level managers, cultivating reliable successors in all its business sectors, and laying a solid foundation for its future development.

With its strong foundation built through its 50-year history, an outstanding management team and a sound and healthy corporate practice, we will weather the upcoming difficult and tough future. The Group believes that opportunities can be created in the crisis. Situated under uncertainties and adversities, the Group should behave and react with its indomitable corporate spirit. The Group will be able to overcome the upcoming difficulties and challenges just like what we did in the past. We will surely pull through the current adversities and welcome the new coming opportunities.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2008, the Group's shareholders' funds were approximately HK$982,821,000 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 31st December, 2008 was approximately 0.50 (2007: 0.50), and the liquidity ratio was approximately 1.54 (2007: 1.47), both were maintained at a healthy level. As at 31st December, 2008, cash, bank balances and time deposits amounted to approximately HK$189,369,000. 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. Foreign exchange risks arising from fluctation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

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, 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 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 three 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, 2008, the Group has approximately 5,500 employees (2007: approximately 7,000), 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, 2008, the Company repurchased its ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Price paid per share Highest	Price paid per share Lowest	Aggregate consideration
		HK$	*HK$*	*HK$*
October 2008	92,000	0.40	0.33	87,180

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value of these shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2008.

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, 2008.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 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 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 announcement is published on the websites of the Company (www.cosmel.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2008 annual report containing all the information required by the Listing Rules will be published on the above websites and dispatched to shareholders of the Company in late April 2009.

On behalf of the Board
TANG To
Chairman

Hong Kong, 22nd April, 2009

As at the date hereof, the board of directors of the Company is comprised of ten directors, of which three are executive directors, namely Mr. Tang To, Mr. Jiang Wei and Mr. Wong Yiu Ming, and four are non-executive directors, namely Mr. Tang Kwan, Mr. Wu Ding, Mr. Kan Wai Wah and Mr. Qu Jinping and three are independent non-executive directors, namely Mr. Yip Jeffery, Ms. Yeung Shuk Fan and Mr. Cheng Tak Yin.