



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

Stock Code 股份代號: 118

COSMOS

中期報告
Interim Report **2006**

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Corporate Information

DIRECTORS

Executive Directors

Tang To (*Chairman*)
 Zhao Zhuoying
 Wong Yiu Ming
 Yan Wing Fai Richard
 Li Tin Loi

Non-Executive Directors

Tang Kwan (*Honorary Chairman*)
 He Zhiqi (*Vice Chairman*)
 Kan Wai Wah
 Qu Jinping

Independent Non-Executive Directors and Audit Committee Members

Liang Shangli
 Yip Jeffery
 Yeung Shuk Fan

Remuneration Committee

Liang Shangli
 Yip Jeffery
 Yeung Shuk Fan
 Tang To

Committee of Executive Directors

Tang To
 Zhao Zhuoying
 Wong Yiu Ming
 Yan Wing Fai Richard
 Li Tin Loi

CHIEF EXECUTIVE OFFICER

Wong Yiu Ming

QUALIFIED ACCOUNTANT

Ho Kwong Sang

JOINT COMPANY SECRETARY

Ho Kwong Sang
 Tsang Shu Kei

REGISTERED OFFICE

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PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
 The Hongkong & Shanghai
 Banking Corporation Limited

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Ting Ho Kwan & Chan

SHARE REGISTRAR

Secretaries Limited
 26th Floor, Tesbury Centre
 28 Queen's Road East
 Wanchai
 Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
 Stock Code: 118

Condensed Consolidated Income Statement

INTERIM RESULTS

The board of directors (the "Board") of Cosmos Machinery Enterprises Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2006 with comparative figures for the corresponding period in 2005 are as follows:

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

Condensed Consolidated Balance Sheet

	<i>Notes</i>	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
Non-current Assets			
Property, plant and equipment	7	340,410	352,186
Investment properties		29,030	29,030
Leasehold land and land use rights		36,492	37,233
Interests in associates		189,821	176,614
Available-for-sale financial assets		7,623	7,649
Deferred tax assets		16,545	16,483
		619,921	619,195
Current Assets			
Inventories		576,720	515,080
Leasehold land and land use rights		1,062	1,062
Trade and other receivables	8	693,504	587,082
Bills receivable		19,914	22,320
Tax recoverable		280	23
Pledged bank deposits		20,800	15,208
Bank balances and cash		106,763	116,815
		1,419,043	1,257,590
Current Liabilities			
Trade and other payables	9	658,454	498,408
Bills payable		103,200	95,802
Amounts due to associates		14,540	9,428
Tax payable		6,629	11,194
Bank and other borrowings – due within one year		330,036	351,254
Obligations under finance leases – due within one year		4,278	4,896
		1,117,137	970,982
Net Current Assets		301,906	286,608
Total Assets less Current Liabilities		921,827	905,803

Condensed Consolidated Balance Sheet

	<i>Notes</i>	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
Non-current Liabilities			
Bank and other borrowings – due after one year		10,709	21,265
Obligations under finance leases – due after one year		7,670	9,790
Deferred tax liabilities		10,009	9,536
		28,388	40,591
Net Assets			
		893,439	865,212
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	10	283,009	283,009
Share premium		241,479	241,479
Other reserves	11	29,476	25,277
Retained profits			
– Proposed dividend		3,538	10,613
– Others		183,711	164,917
		741,213	725,295
Minority interests			
		152,226	139,917
Total Equity			
		893,439	865,212

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Minority interests HK\$'000	
At 1st January, 2005	282,491	241,479	22,173	117,654	157,559	821,356
Realised on disposal of interest in an associate	–	–	(7)	–	–	(7)
Share of changes in equity of associates	–	–	55	–	23	78
Currency translation differences	–	–	251	–	70	321
Net income recognised directly in equity	–	–	299	–	93	392
Profit for the period	–	–	–	18,630	11,350	29,980
Total recognised income for the period	–	–	299	18,630	11,443	30,372
At 30th June, 2005 and 1st July, 2005	282,491	241,479	22,472	136,284	169,002	851,728
Fair value gains:						
– Available-for-sale financial assets	–	–	59	–	–	59
– Buildings	–	–	4,947	–	(1)	4,946
Realised on disposal of properties	–	–	(10,717)	10,717	–	–
Share of changes in equity of associates	–	–	1,683	–	1,044	2,727
Currency translation differences	–	–	6,833	–	1,592	8,425
Net income recognised directly in equity	–	–	2,805	10,717	2,635	16,157
Profit for the period	–	–	–	35,591	7,531	43,122
Total recognised income for the period	–	–	2,805	46,308	10,166	59,279
Issue of shares	518	–	–	–	–	518
Acquisition of additional interests in subsidiaries	–	–	–	–	(22,310)	(22,310)
Dividends paid to minority shareholders	–	–	–	–	(16,941)	(16,941)
Dividend relating to 2004	–	–	–	(7,062)	–	(7,062)
At 31st December, 2005 and 1st January, 2006	283,009	241,479	25,277	175,530	139,917	865,212
Share of changes in equity of associates	–	–	712	–	388	1,100
Currency translation differences	–	–	3,487	–	626	4,113
Net income recognised directly in equity	–	–	4,199	–	1,014	5,213
Profit for the period	–	–	–	22,332	12,882	35,214
Total recognised income for the period	–	–	4,199	22,332	13,896	40,427
Acquisition of additional interests in a subsidiary	–	–	–	–	(95)	(95)
Capital contributed from minority shareholders	–	–	–	–	636	636
Dividends paid to minority shareholders	–	–	–	–	(2,128)	(2,128)
Dividend relating to 2005	–	–	–	(10,613)	–	(10,613)
At 30th June, 2006	283,009	241,479	29,476	187,249	152,226	893,439

Condensed Consolidated Cash Flow Statement

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

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, 2005 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards, HKASs and Interpretations ("HKFRS") which are effective for accounting periods commencing on or after 1st January, 2006. The changes to the Group's accounting policies and the effect of adopting these new accounting policies are set out in note 2 below.

2. Summary of significant accounting policies

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

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

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

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

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

The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group's accounting policies and presentation of the financial statements will be resulted.

Notes to the Condensed Consolidated Financial Statements

3. Business and geographical segments

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

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

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

	Industrial consumables HK\$'000	Plastic processing products HK\$'000	Machinery HK\$'000	Audio and electronic products HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER								
External sales	167,488	203,978	304,106	35,202	208,431	-	-	919,205
Inter-segment sales	3,996	5,515	6,701	-	-	-	(16,212)	-
Total revenue	171,484	209,493	310,807	35,202	208,431	-	(16,212)	919,205
Inter-segment sales are charged at prevailing market rates								
RESULT								
Segment result	12,169	11,299	9,788	(3,703)	15,814	1,507	(2,797)	44,077
Unallocated corporate expenses								(9,346)
Profit from operations								34,731
Finance costs								(13,590)
Investment income								3,269
Share of results of associates								16,178
Profit before taxation								40,588

Notes to the Condensed Consolidated Financial Statements

3. Business and geographical segments (Continued)

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

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

Inter-segment sales are charged
at prevailing market rates

RESULT

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

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

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

Notes to the Condensed Consolidated Financial Statements

4. Profit from operations

	Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Depreciation and amortisation on:		
Owned assets	27,785	27,370
Assets held under finance leases	911	2,167
Leasehold land and land use rights	691	531
and after crediting:		
Gain on disposal of property, plant and equipment	80	882
Release of negative goodwill to income (included in other income and gains, net)	95	–

5. Taxation

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

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. Earnings per share

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

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

Notes to the Condensed Consolidated Financial Statements

7. Property, plant and equipment

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

8. Trade and other receivables

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

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

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

9. Trade and other payables

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

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

Notes to the Condensed Consolidated Financial Statements

10. Share capital

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2006 and 30th June, 2006	1,000,000,000	400,000
Issued and fully paid:		
At 1st July, 2005	706,228,857	282,491
Issue of shares	1,293,835	518
At 1st January, 2006 and at 30th June, 2006	707,522,692	283,009

11. Other reserves

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

Notes to the Condensed Consolidated Financial Statements

12. Operating lease commitments

The Group as lessee

	30th June, 2006 HK\$'000	30th June, 2005 HK\$'000
Minimum lease payments made during the period under operating leases in respect of:		
Land and buildings	6,773	6,127
Plant and machinery	91	530
	6,864	6,657

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Within one year	12,335	12,212
In the second to fifth year inclusive	42,095	39,497
Over five years	67,669	65,751
	122,099	117,460

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.

Notes to the Condensed Consolidated Financial Statements

12. Operating lease commitments (Continued)

The Group as lessor

Property rental income earned during the period net of outgoings of approximately HK\$154,000 (2005 approximately HK\$121,000) was approximately HK\$1,164,000 (2005: approximately HK\$1,033,000). The properties are expected to generate rental yields of 8% (2005: 8%) on an ongoing basis. All of the properties held have committed tenants for the next 1-3 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts under non-cancellable operating leases:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Within one year	1,653	2,513
In the second to fifth year inclusive	58	2,202
After five years	–	38
	1,711	4,753

13. Other commitments

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of land and buildings	2,528	2,792
Investments	5,000	6,256
	7,528	9,048
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	–	–

14. Contingent liabilities

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

Notes to the Condensed Consolidated Financial Statements

15. Pledge of assets

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

	Net Book Value	
	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Investment properties	13,500	13,500
Leasehold buildings	31,834	42,036
Leasehold land and land use rights	15,928	12,266
Plant and machinery	65,610	66,373
Bank deposits (Note)	20,800	15,208
	147,672	149,383

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

16. Transactions and balances with related parties

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

	Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
Substantial shareholder and its subsidiaries:		
EDP charges received (note i)	92	92
Management fee paid (note i)	1,410	1,563
Companies controlled by certain directors:		
Management fee paid (note i)	498	498
EDP charges received (note i)	26	26
Minority shareholders:		
Rental paid (note i)	1,028	1,147
Interest paid (note ii)	–	1,053

Notes to the Condensed Consolidated Financial Statements

16. Transactions and balances with related parties (Continued)

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

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

Notes:

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

Business Review and Prospects

BUSINESS REVIEW

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

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

Manufacturing Business

Machinery

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

Plastic Products and Processing

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

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

Business Review and Prospects

Electronic and Audio Products

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

Printed Circuit Board

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

Trading Business

Industrial Materials and Consumables

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

Other Businesses

Electronic Watt-Hour Meters and Related Business

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

Business Review and Prospects

PROSPECTS

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

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

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

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

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

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

Financial Review

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. The Group's gearing ratio as at 30th June, 2006 was approximately 3.8% (31st December, 2005: 5.6%), and the liquidity ratio was approximately 1.27 (31st December, 2005: 1.30), both were maintained at a healthy level. As at 30th June, 2006, cash, bank balances and time deposits amounted to approximately HK\$106,763,000. All these reflect that the Group is in sound financial position.

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

	Net book value	
	30th June, 2006	31st December, 2005
	HK\$'000	HK\$'000
Investment properties	13,500	13,500
Leasehold buildings	31,834	42,036
Leasehold land and land use rights	15,928	12,266
Plant and machinery	65,610	66,373
Bank deposits (<i>Note</i>)	20,800	15,208
	147,672	149,383

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

FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the period, the Group had certain fixed interest rate borrowings but had not engaged in any financial instruments for hedging or speculative activities.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

During the period, the interests and short positions of the Directors and the chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong (the "SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be maintained under section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), to be notified to the Company and the Stock Exchange are as follows:

Interests in the Shares

Name of Director	Number of shares held				Total	Approximate % of total issued shares of the Company
	Personal interests	Family interests	Corporate interests	Others interests		
Tang To	2,970,000	2,000 (Note 2)	300,617,458 (Note 1)	224,000 (Note 3)	303,813,458	42.94
Wong Yiu Ming	9,696,072	–	–	–	9,696,072	1.37
Tang Kwan	–	297,157,052 (Note 4)	–	–	297,157,052	42
Kan Wai Wah	136,400	–	–	–	136,400	0.02

Notes:

- As at 30th June, 2006, 3,460,406 Shares of those 300,617,458 Shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang and 50% by his spouse. Mr. Tang was deemed to be interested in the remaining 297,157,052 Shares of those 300,617,458 Shares under the SFO through his deemed interests in Codo Development Limited ("Codo").

As at 30th June, 2006, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing"), was deemed to be interested in 297,157,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holdings Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by Saniwell Holdings Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.

- As at 30th June, 2006, 2,000 Shares were held by the spouse of Mr. Tang.
- As at 30th June, 2006, 224,000 Shares were jointly held by Mr. Tang and his spouse.

Other Information

4. As at 30th June, 2006, Mr. Tang Kwan was deemed to be interested in the block of 297,157,052 Shares under the SFO through his deemed interests in Codo Development Limited ("Codo"). As at 30th June, 2006, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.

The percentage shown was calculated based on the number of issued shares of the Company as at 30th June, 2006.

As at 30th June, 2006, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at 30th June, 2006 which is significant in relation to the business of the Company and its subsidiaries.

As at 30th June, 2006, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

Other Information

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

Name of Substantial Shareholder	Number of shares held			Approximate % of total issued shares of the Company
	Direct interests	Deemed interests	Total	
Law Kit Fong	–	297,157,052 (Note 1)	297,157,052	42
Codo	–	297,157,052 (Note 2)	297,157,052	42
Cosmos Holdings	127,052,600	170,104,452 (Note 3)	297,157,052	42
Tai Shing	170,104,452	–	170,104,452	24.04
Saniwell Holdings Inc.	–	297,157,052 (Note 4)	297,157,052	42
China Resources (Holdings) Company Limited	169,649,046 (Note 5)	–	169,649,046	23.98

Notes:

- Ms. Law Kit Fong is deemed to be interested in the block of 297,157,052 Shares through her direct and indirect interests in Elegant Power and Codo. As at 30th June, 2006, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 Shares. As at 30th June, 2006, Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power) and 8.37% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).
- As at 30th June, 2006, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 30th June, 2006, Codo is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holdings Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power, which is wholly-owned by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holdings Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.
- Cosmos Holdings was deemed to be interested in 170,104,452 Shares through its subsidiary, Tai Shing.

Other Information

4. As at 30th June, 2006, Saniwell Holdings Inc. was deemed to be interested in the block of 297,157,052 Shares under the SFO through its deemed interests in Codo. Codo is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holdings Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holdings Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% collectively held by 5 individuals and 2 limited companies.
5. As shown by the latest interest disclosure information maintained pursuant to Part XV of the SFO provided to the Company by China Resources Corporation, China Resources Co., Limited and CRC Bluesky Limited, the above three companies were deemed to be interested in shares owned by China Resources (Holdings) Company Limited.

The percentage shown was calculated based on the number of issued shares of the Company as at 30th June, 2006.

Save as disclosed above, as at 30th June, 2006, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

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

Other than as disclosed above, at no time during the period was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and Chief Executive to acquire benefits by means of the acquisition of shares or any underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of SFO); and none of the Directors, their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

SHARE OPTION SCHEME

In order to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants for their contributions and/or potential contributions to the Group and for such other purposes as the Board may approve from time to time, the Company has adopted the share option scheme at the Annual General Meeting of the Company held on 30th May, 2005. No option were granted, exercised, cancelled or lapsed during the six months ended 30th June, 2006.

AUDIT COMMITTEE

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance in Appendix 14 of the Listing Rules. The unaudited financial statements of the Company for the six months ended 30th June, 2006 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

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

Other Information

COMMITTEE OF EXECUTIVE DIRECTORS

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

EMPLOYEES AND REMUNERATION POLICY

As at 30th June, 2006, the Group has approximately 6,000 employees (2005: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The remuneration policy of the Company for non-executive directors is to ensure that they are sufficiently compensated for their efforts and time dedicated to the Company and that for the employees, including the executive directors and senior management is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. No director, or any of his associates and executive, is involved in deciding his own remuneration.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th June, 2006, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

COMPLIANCE WITH THE CODE PROVISIONS SET OUT IN THE CODE ON CORPORATE GOVERNANCE PRACTICES

The directors consider that the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2006.

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

COMPLIANCE WITH MODEL CODE

Throughout the six months ended 30th June, 2006, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules and all Directors have confirmed that they fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.cosmel.com 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 dispatched to shareholders of the Company in late September 2006.

On behalf of the Board

TANG To
Chairman

Hong Kong, 25th September, 2006

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