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, 2006

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Notes	2006 HK$'000	(As restated) 2005 HK$'000
Continuing operations:			
Turnover	2	**1,912,967**	1,566,194
Cost of sales		**(1,522,182)**	(1,243,303)
Gross profit		**390,785**	322,891
Other income and gains, net		**35,164**	59,934
Distribution costs		**(106,347)**	(98,571)
Administrative expenses		**(201,179)**	(191,616)
Other operating expenses		**(1,576)**	(3,752)
Impairment losses for bad and doubtful debts		**(15,111)**	(20,280)
Profit from operations		**101,736**	68,606
Finance costs		**(27,927)**	(24,881)
Investment income		**4,777**	1,146
Gain on disposal of a subsidiary		**10**	–
Gain on disposal of discontinued operation		**61**	–
Loss on disposal of an associate		**–**	(163)
Share of results of associates		**29,446**	55,384
Profit before taxation	3	**108,103**	100,092
Taxation	4	**11,544**	7,198
Profit for the year from continuing operations		**96,559**	92,894
Discontinued operation:			
Loss for the year from discontinued operation	5	**(7,943)**	(19,792)
Profit for the year		**88,616**	73,102
Attributable to:			
Equity holders of the Company		**65,143**	54,221
Minority interests		**23,473**	18,881
		88,616	73,102
Basic earnings (loss) per share for profit (loss) attributable to the equity holders of the Company during the year	6		
– from continuing operations		**10.33 cents**	10.47 cents
– from discontinued operation		**(1.12) cents**	(2.80) cents
		9.21 cents	7.67 cents
Dividends	7	**14,151**	10,613

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current Assets			
Property, plant and equipment		**353,917**	352,186
Investment properties		**29,830**	29,030
Leasehold land and land use rights		**36,377**	37,233
Goodwill		**–**	–
Interests in associates		**218,321**	176,614
Available-for-sale financial assets		**7,657**	7,649
Deferred tax assets		**17,838**	16,483
		663,940	619,195
Current Assets			
Inventories		**600,845**	515,080
Leasehold land and land use rights		**1,234**	1,062
Trade and other receivables	8	**673,017**	587,082
Bills receivable		**28,987**	22,320
Tax recoverable		**477**	23
Pledged bank deposits		**31,963**	15,208
Bank balances and cash		**106,962**	116,815
		1,443,485	1,257,590
Current Liabilities			
Trade and other payables	9	**628,413**	498,408
Bills payable		**131,487**	95,802
Amounts due to associates		**34,350**	9,428
Tax payable		**5,327**	11,194
Bank and other borrowings – due within one year		**310,338**	351,254
Obligations under finance leases – due within one year		**4,556**	4,896
		1,114,471	970,982
Net Current Assets		**329,014**	286,608
Total Assets less Current Liabilities		**992,954**	905,803
Non-current Liabilities			
Bank and other borrowings – due after one year		**19,316**	21,265
Obligations under finance leases – due after one year		**6,356**	9,790
Deferred tax liabilities		**11,324**	9,536
Total non-current liabilities		**36,996**	40,591
Net Assets		**955,958**	865,212

	Notes	2006 HK$'000	2005 HK$'000
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital		**283,009**	283,009
Share premium		**241,479**	241,479
Other reserves		**40,634**	25,277
Retained profits			
– Proposed dividend		**10,613**	10,613
– Others		**215,909**	164,917
		791,644	725,295
Minority Interests		**164,314**	139,917
Total Equity		**955,958**	865,212

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

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

The adoption of new/revised HKFRS

In 2006, the Group adopted the amendments and interpretation of HKFRS below, which are relevant to its operations.

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 Amendments as a consequence of the Companies (Amendments) Ordinance 2005
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The Group has assessed the impact of the adoption of these amendments and interpretation and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Primary reporting format – Business segments

At 31st December, 2006, the Group is organised on a product basis into five main business segments.

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

Discontinued operation:
(5) manufacturing of audio and electronic products

Details of the discontinued operation are disclosed in note 5 to the financial statements.

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

	Continuing operations							Discontinued operation		
	Industrial consumables HK$'000	Plastic processing products HK$'000	Machinery HK$'000	Printed circuit boards HK$'000	Other operations HK$'000	Eliminations HK$'000	Sub-total HK$'000	Audio and electronic products HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER										
External sales	345,942	425,166	685,684	456,175	-	-	1,912,967	109,665	-	2,022,632
Inter-segment sales	8,499	18,273	10,977	-	-	(19,779)	17,970	-	(17,970)	-
Total revenue	354,441	443,439	696,661	456,175	-	(19,779)	1,930,937	109,665	(17,970)	2,022,632

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Sub-total	Audio and electronic products	Eliminations	Consolidated
RESULTS										
Segment results	27,708	28,590	33,134	31,109	2,225	1,153	123,919	(7,239)	-	116,680
Unallocated corporate expenses							(22,183)	-		(22,183)
Profit (loss) from operations							101,736	(7,239)		94,497
Finance costs							(27,927)	(721)		(28,648)
Investment income							4,777	16		4,793
Gain on disposal of a subsidiary							10	1		11
Gain on disposal of discontinued operation							61	-		61
Share of results of associates		(344)	5,632		24,158		29,446	-		29,446
Profit (loss) before taxation							108,103	(7,943)		100,160
Taxation							11,544	-		11,544
Profit (loss) before minority interests							96,559	(7,943)		88,616

	Continuing operations					Discontinued operation	
	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Audio and electronic products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	**183,858**	**333,868**	**940,166**	**255,742**	**93,021**	**21,642**	**1,828,297**
Interests in associates							**218,321**
Available-for-sale financial assets							**7,657**
Unallocated corporate assets							**53,150**
Consolidated total assets							**2,107,425**
LIABILITIES							
Segment liabilities	**81,756**	**66,473**	**430,863**	**148,375**	**3,317**	**24,354**	**755,138**
Tax payable							**5,327**
Borrowings							**340,566**
Unallocated corporate liabilities							**50,436**
Consolidated total liabilities							**1,151,467**
OTHER INFORMATION							
Addition of goodwill	**–**	**–**	**981**	**–**	**–**	**–**	**981**
Capital additions	**1,552**	**12,204**	**19,869**	**21,638**	**429**	**444**	**56,136**
Depreciation and amortisation	**974**	**17,414**	**20,485**	**14,672**	**1,737**	**1,734**	**57,016**
Other non-cash expenses	**170**	**3,841**	**13,629**	**559**	**695**	**4,972**	**23,866**

The segment results for the year ended 31st December, 2005 are as follows:

	Continuing operations							Discontinued operation		
	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Sub-total	Audio and electronic products	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER										
External sales	268,287	349,707	573,929	374,271	–	–	1,566,194	84,535	–	1,650,729
Inter-segment sales	6,997	14,702	11,055	–	–	(18,052)	14,702	–	(14,702)	–
Total revenue	275,284	364,409	584,984	374,271	–	(18,052)	1,580,896	84,535	(14,702)	1,650,729

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Sub-total	Audio and electronic products	Eliminations	Consolidated
RESULTS										
Segment results	18,475	22,157	29,010	18,762	(612)	435	88,227	(16,977)	–	71,250
Unallocated corporate expenses							(19,621)	–		(19,621)
Profit (loss) from operations							68,606	(16,977)		51,629
Finance costs							(24,881)	(2,824)		(27,705)
Investment income							1,146	9		1,155
Loss on disposal of an associate							(163)	–		(163)
Share of results of associates		(379)	4,907		50,856		55,384	–		55,384
Profit (loss) before taxation							100,092	(19,792)		80,300
Taxation							7,198	–		7,198
Profit (loss) before minority interests							92,894	(19,792)		73,102

	Continuing operations					Discontinued operation	
	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Audio and electronic products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	144,959	285,992	924,273	218,698	41,646	48,200	1,663,768
Interests in associates							176,614
Available-for-sale financial assets							7,649
Unallocated corporate assets							28,754
Consolidated total assets							1,876,785
LIABILITIES							
Segment liabilities	58,998	67,827	301,926	137,318	16,278	15,028	597,375
Tax payable							11,194
Borrowings							387,205
Unallocated corporate liabilities							15,799
Consolidated total liabilities							1,011,573
OTHER INFORMATION							
Addition of goodwill	–	–	767	–	–	344	1,111
Capital additions	248	15,484	33,504	13,534	682	1,417	64,869
Depreciation and amortisation	1,025	19,702	21,271	13,588	1,556	3,329	60,471
Other non-cash expenses	98	348	17,546	240	3,489	6,026	27,747

The Group's operations are located in Hong Kong, other regions in the People's Republic of China (the "PRC"), other Asia-Pacific countries, North America and Europe. The Group's trading of industrial consumables division is located in Hong Kong and the PRC. The manufacturing of plastic processing products, machinery, audio and electronic products and printed circuit boards divisions are located in the PRC.

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	
		(As restated)
	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**608,529**	649,754
PRC	**1,084,801**	786,616
Other Asia-Pacific countries	**98,687**	72,798
North America	**82,583**	25,775
Europe	**38,367**	31,251
Continuing operations	**1,912,967**	1,566,193
Discontinued operation	**109,665**	84,535
	2,022,632	1,650,729

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
		(As restated)		(As restated)
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**490,853**	522,217	**2,439**	729
PRC	**1,559,564**	1,262,398	**52,119**	63,490
Other Asia-Pacific countries	**15,684**	13,789	**–**	–
North America	**7,951**	15,215	**–**	–
Europe	**11,731**	14,966	**2,115**	–
Continuing operations	**2,085,783**	1,828,585	**56,673**	64,219
Discontinued operation	**21,642**	48,200	**444**	1,761
	2,107,425	1,876,785	**57,117**	65,980

3. PROFIT BEFORE TAXATION

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

	2006		2005	
	Continuing operations	**Discontinued operation**	Continuing operations	Discontinued operation
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Charging:				
Staff costs:				
Directors' remuneration	**13,975**	**–**	12,181	–
Salaries and other benefits	**219,735**	**10,843**	186,327	12,602
Retirement benefits scheme contributions	**8,670**	**114**	7,742	106
	242,380	**10,957**	206,250	12,708
Depreciation and amortisation on:				
– Owned assets	**49,923**	**1,847**	50,451	3,459
– Assets held under finance leases	**4,013**	**–**	5,499	–
– Leasehold land and land use rights	**1,234**	**–**	1,062	–
Impairment losses on goodwill (included in other operating expenses)	**981**	**–**	2,456	–
Auditors' remuneration				
– Current year	**1,874**	**137**	1,562	118
– Underprovided (overprovided) in prior years	**13**	**8**	(91)	(17)
Loss on disposal of property, plant and equipment	**–**	**227**	–	5,970
Impairment loss on property, plant and equipment	**195**	**800**	–	–
Operating lease payments	**12,756**	**31**	12,325	56
Revaluation deficit on leasehold buildings	**495**	**–**	186	–
Write-down of inventories	**3,290**	**4,972**	1,753	6,000
Share of associates' taxation	**5,542**	**–**	5,618	–
and crediting:				
Rental income net of outgoings	**2,457**	**–**	2,784	–
Profit on disposal of property, plant and equipment	**1,039**	**–**	1,372	–

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2006	2005
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Current year	**2,655**	1,494
Underprovision in prior years	**127**	1,004
	2,782	2,498
Taxation outside Hong Kong	**8,234**	5,295
Deferred taxation relating to the origination and reversal of temporary differences	**528**	(595)
Taxation charge	**11,544**	7,198

5. DISCONTINUED OPERATION

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

	2006	2005
	HK$'000	*HK$'000*
THE GROUP		
Results		
Turnover	**109,665**	84,535
Cost of sales	**(109,792)**	(90,755)
Gross loss	**(127)**	(6,220)
Other operating income	**500**	270
Distribution costs	**(2,109)**	(1,513)
Administrative expenses	**(5,503)**	(9,488)
Impairment losses for bad and doubtful debts	**–**	(26)
Operating loss	**(7,239)**	(16,977)
Finance costs	**(721)**	(2,824)
Investment income	**16**	9
Gain on disposal of a subsidiary	**1**	–
Loss for the year	**(7,943)**	(19,792)

6. EARNINGS PER SHARE

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

		(As restated)
	2006	2005
Weighted average number of shares in issue during the year	**707,522,692**	706,856,278
Profit attributable to the equity holders of the Company from continuing operations	**HK$73,086,000**	HK$74,013,000
Earnings per share from continuing operations	**10.33 cents**	10.47 cents
Loss attributable to the equity holders of the Company from discontinued operation	**(HK$7,943,000)**	(HK$19,792,000)
Loss per share from discontinued operation	**(1.12) cents**	(2.80) cents

7. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim dividend of HK$0.005 (2005: nil) per share	**3,538**	–
Dividend proposed after the balance sheet date of HK$0.015 (2005: HK$0.015) per share	**10,613**	10,613
	14,151	10,613

8. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**541,118**	458,230
Other receivables	**130,828**	127,897
Amounts due from related parties	**1,071**	955
	673,017	587,082

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

The Group allows an average credit period of 90 days to 120 days for customers. The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
0 to 3 months	**400,640**	313,131
4 to 6 months	**67,464**	53,588
7 to 9 months	**22,226**	26,878
Over 9 months	**50,788**	64,633
	541,118	458,230

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

9. TRADE AND OTHER PAYABLES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade payables	**414,276**	322,829
Accruals and other payables	**208,325**	163,504
Amounts due to related parties	**5,812**	12,075
	628,413	498,408

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

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

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
0 to 3 months	**286,615**	254,577
4 to 6 months	**80,221**	38,127
7 to 9 months	**34,300**	11,700
Over 9 months	**13,140**	18,425
	414,276	322,829

10. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	**–**	–	**647,476**	708,162
Outsiders	**1,627**	–	**–**	–
	1,627	–	**647,476**	708,162

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2006 and 31st December, 2005.

11. PLEDGE OF ASSETS

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

	Net book value	
	2006	2005
	HK$'000	*HK$'000*
Investment properties	**13,500**	13,500
Leasehold buildings	**67,722**	42,036
Leasehold land and land use rights	**14,947**	12,266
Plant and machinery	**22,148**	66,373
Bank deposits	**31,964**	15,208
	150,281	149,383

12. COMPARATIVE AMOUNTS

As explained in note 5 to the financial statements, in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" issued by the HKICPA, the results and cash flows of the operations of the disposed subsidiary have been presented as discontinued operation. The 2005 comparative figures in the consolidated income statement and other related notes have been restated accordingly.

FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended 31st December, 2006 of HK1.5 cents per share (2005: HK1.5 cents per share) to shareholders of the Company whose names appear on the register of members of the Company as at the date of the 2007 Annual General Meeting.

CLOSE OF REGISTER

The register of members of the Company will be closed from 23rd May, 2007 to 29th May, 2007 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the final dividend, all transfers and the relevant share certificates must be lodged with the Company's Registrars, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m., on 22nd May, 2007.

RESULTS

The Group's consolidated turnover for the year 2006 was in the region of approximately HK$2,022,632,000, representing an increase of about 23% over the approximate figure of HK$1,650,729,000 for 2005. Our profit after taxation stood at about HK$88,616,000, or some 21% higher than the approximate figure of HK$73,102,000 for the previous year. For the year ended 31st December, 2006, the profit attributable to shareholders was about HK$65,143,000, increasing by 20% when compared with last year.

CHAIRMAN'S STATEMENT

Driven by the Eleventh Five-Year Plan of China, high-performance, hi-tech and professional products in China's domestic market have attracted much attention during the year under review. In open overseas markets with keen competition, better quality products with a higher performance-price ratio are having more room for expansion. Despite of such a booming market environment, the consistently high raw material prices and pressure for wage increase on the Mainland remain as challenges to all businesses to different extents.

The Group's business strategy is always to, based on a suitable production scale, give emphasis on resources for technology research and development capability, as well as introduce high quality, hi-tech products to meet the changes in market demand, so as to counterbalance the pressure for higher costs, free itself from the unregulated price competition, and strive for better returns in the fields of technology and service provision.

During the period, the high-performance, professional plastic injection moulding machine series in the machinery manufacturing business recorded satisfactory sales. The growth in sales of other new products, such as rubber injection machines and CNC sheet-metal working machines, was also remarkable, making them the new impetus for growth in sales and gains of the business.

As quality control was improved, injection moulding products and the processing business recorded desirable results during the period. The business expanded into markets with more stringent requirements and developed a series of new products with innovative injection moulding technology, which have received positive feedback from existing and new customers and driven the business toward a new milestone.

In the past year, the printed circuit board processing business underwent improvement in its production process. It also deployed new, state-of-the-art equipment for higher competency in markets that emphasizes quality products. With optimisation measures implemented on various aspects, the results for the period were again record-breaking and drove the business even further.

As for the trading business, the Group continued to consolidate its foundation on a customer market stressing quality and performance, and achieved satisfactory results.

To encounter challenges in a complex, rigid environment, it is essential that the Group gather resources for its core businesses. After careful analysis and consideration, last year the Group's management decided to sell out the audio and electronic products business, which consistently incurred losses in recent years, so as to prevent its impact on our overall earnings performance.

The Group's established development policy was also deployed last year. With a strong foundation on collaboration and through active and practical discussions, the Group signed an agreement with South China University of Technology, Guangdong Province, on 14th December, 2006 for the establishment of a strategic partnership for closer co-operation on three aspects, namely "manufacture, learning and research". On 23rd March this year, a contract was signed between the Group and UBE Machinery (Shanghai) Ltd., a subsidiary of Japan UBE Machinery Corporation Ltd. in Shanghai for the set-up of a joint venture for producing UBE ST and PZIII plastic injection moulding machines series. It is anticipated that the joint venture, named無錫宇部大同機械有限公司(Wuxi UBE Cosmos Machinery Ltd.), will commence its operations in May this year. At the same time, the Group co-operated with REP International S.A. in February this year on the development of high-performance rubber injection machines. Such collaboration with the above companies has enabled the Group to establish a strategic platform for technology development and human resources investment, thus fortifying the Group's operating conditions for technology research and development, talents training, blending of the best people, further expansion into overseas and local markets, management enhancement, and so on. We believe that all businesses will be able to benefit from synergy within the Group.

Looking forward to the coming year, the political environment in the PRC will remain stable and political and economic reforms dense and meticulous, accompanied by the ongoing implementation of new policies and greater incentives for innovative technologies. Meanwhile, driven by internal demands, the market is believed to continue to boom and flourish. Nevertheless, the persistently high raw material prices, the gradual increase in labour wage on the Mainland, as well as the impact of other market changes triggered by concerns over the emerging uncertainties in the US market, are presenting huge challenges to the Group's ability to cope with changes. Despite the above, in view of our pragmatic operational strategy, adequate deployment of human resources, and devotion to technology research and development, we believe that our management can be enhanced, more advanced products with higher performance/price ratios produced, as well as better quality services offered to meet the market demands for products and services.

In the coming year, we will implement and consolidate our strategic co-operation project which was established in the previous year. Under the synergy effect, it is expected that the Group's results will achieve even higher returns for our shareholders and stakeholders.

On behalf of the Group, I would like to extend my deepest gratitude to all staff members for their devoted efforts. I would also like to express my acknowledgement of their improved performance, and am looking forward to even better achievements in the coming year.

BUSINESS REVIEW

Manufacturing Business

Machinery

Although affected by the continued macro-economic control policy on the Mainland and oversupply of general purpose plastic injection moulding machines in 2006, the Group benefited from such favourable factors as the continually stable, booming economy on the Mainland and the increasing overseas demand for domestic equipment, with turnover rising by 19% as compared to that of last year to reach approximately HK$685,684,000, which amounted to 34% of the Group's consolidated turnover. During the year, like other manufacturers who have established facilities in China, the Group's machinery business was consistently impacted by such unfavourable factors as the increase in minimum wage and surge in the cost of raw materials, which together resulted in a higher cost of production. In addition, the release and sale of a series of new machinery equipment in the year, whose operational cost was relatively high at the initial stage of development, offset part of the profit. In spite of that, the operating profit for the year was approximately HK$33,134,000, up by 14% as compared to that of the previous financial year.

The overall turnover improved during the year under review. This was attributable to the upward trend of the economy on the Mainland, a stronger intention of customers to invest in plastic and rubber machineries, and the Group's strategic control of its core injection moulding machine product portfolio, which together resulted in an increase in overall sales. Sales of general purpose plastic injection moulding machines were comparable to last year, with high performance and export-oriented plastic injection moulding machines being the main source of sales growth. The consistent optimisation of the multi-product and multi-region production operation mode further consolidated the development trend of product individualization. In terms of new products, sales of CNC sheet-metal working machines, rubber injection machines and plastic pipe extrusion lines recorded a healthy growth of 80% as compared to that of last year. On 14th December, 2006, the Group signed a strategic alliance agreement with South China University of Technology, a research partner for years, to fully collaborate on research development and talent training; to strengthen the optimal design of machinery, mould design and analysis, alongside new product research and development; whilst in line with talent training on plastic processing, control engineering as well as machine manufacturing.

As for prospects in 2007, in view of the stable political and economic environments on the Mainland, and emphasis has been put on industrial transformation, particularly on technology improvement in the Eleventh Five-Year Plan of China, it is anticipated that the growth in investments and domestic demand will continue, together with a higher gross demand for high performance plastic processing machinery. As China has become the third largest automobile producer and distributor, a relatively higher growth in demand for large-scale, high performance plastic injection moulding machines is expected from certain industries, for example, the auto-parts industry. This year the Group will further collaborate with world renowned rubber and plastics machinery plants, including the set-up of a joint venture with UBE Machinery (Shanghai) Ltd. in the first half of 2007 for producing and distributing high-end plastic injection moulding machines, as well as co-operating with REP International S. A. in the production of high-end rubber injection machines on the Mainland. In terms of export business, with the Group's adamant efforts in establishing foundation for sustainable development, together with the increasing recognition of domestic machinery by overseas customers, it is anticipated that the rapid growth of sales from export-oriented plastic injection moulding machines will continue. To complement the change in product portfolio as mentioned above, last year the Group integrated the production bases in South China and East China, producing synergy in the use of resources for both regions. At the same time, the sales system on the Mainland was adjusted and strengthened to meet market needs. In conclusion, with the launched products entering the growth stage and overseas markets the maturity stage, the Group remains cautiously optimistic about the sales of and growth in the machine manufacturing business.

Plastic Products and Processing

During the year under review, sales of the Group's plastic products and processing business steadily rose by approximately 22% as compared to that of the previous year to reach HK$425,166,000, accounting for 21% of the Group's turnover. Operating profit for the year was approximately HK$28,590,000, up by 29% when compared to that of last year and making positive contributions to the Group.

The production cost of the plastic processing plant in Dongguan for the year under review continued to increase due to soaring prices of plastics, diesel and metalware, and the increase in labour wage. Fortunately, the desirable growth in sales for the year, which produced economies of scale, and the substantial efforts by the employees, together with optimised management, helped to reduce wastage and facilitate cost control for reasonable returns. The growth in turnover was mainly attributable to the increase in orders from core customers as well as the establishment of new customers.

The plant in Zhuhai, which specializes in plastic injection products such as professional sanitary plastic tableware and food packaging, was impaired by a lower negotiating power with customers and providers for the year under review. This was caused by the increase in oil and plastics prices, minimum wage in China and other operational costs, as well as the unregulated competition in the local plastic products market. As a result, operating profit of the business dropped and the results turned out not so satisfactory. In the coming year the Group will focus on producing manufacturing products with higher marginal profit, reducing costs and enhancing the efficiency in production and processing processes. Apart from the food industry, the Group will also expand its customer base whose sanitary demands are stringent, as an initiative to improve the performance of the plant.

The optic products business also encountered a severe problem of operational cost increase for the year under review. Despite that, the business adopted several measures to meet the challenges in the market: in terms of marketing and sales, increasing promotional channels for direct sales, e-commerce and exhibitions; in terms of products development, fully improving product design and diversifying product portfolio; and, in terms of management, improving production processes and reducing production costs. With such measures, the business yielded growth in both turnover and profit.

Audio and Electronic Products

The audio and electronic products business has incurred losses for years. In view of the current economic environment, the Group decided to sell out the business so as to cease further losses and to transform resources to other core businesses. On 31st December, 2006, the Group sold out the business for HK$3. As at 31st December, 2006, the total loss of the business, including the related expenses involved in the write down of asset value to net realizable value and redundancy, was HK$7,943,000.

Printed Circuit Boards

Sales of printed circuit boards for the year rose by 22% as compared to that of last year to reach HK$456,175,000, accounting for 23% of the consolidated turnover of the Group. Operating profit stood at approximately HK$31,109,000, an increase of 66% when compared to that of last year.

During the year under review, the overall printed circuit board market, Japan and Europe in particular, was considerably active. An electroplating production line and advanced processing equipment were introduced to balance the production capacity of the overall production line, so as to satisfy the customers' demands in terms of quantity and quality. The prices of main materials and auxiliary materials rose several times during the year, with the greatest price increase in copper granules and Potassium-Dicyano Aurate (1). To reduce operational costs, several measures, such as improving technical processes and reducing substandard products, were adopted and remarkable results were achieved. With the addition of advanced processing equipment, processes originally outsourced were reverted to the Group for internal processing, which lowered expenses on outsourced processing. Thanks to our customers' understanding and support, part of the increased costs was compensated by adjusting selling prices.

Trading Business

Industrial Consumables

During the year under review, industrial consumables accounted for 17% of the Group's consolidated turnover. Sales in 2006, still mostly from steel wire, industrial machinery, machine accessories and fasteners, reached approximately HK$345,942,000, or an increase of 29% as compared to that of the previous financial year. Operating profit for the year was HK$27,708,000.

The Mainland market was generally active during the year under review, with desirable operational conditions in the three major economic zones, namely Pearl River Delta, Yangtze River Delta and Bohai Bay. The performance of the manufacturing business in Pearl River Delta was in particular satisfactory, with such industries as auto, electronics, spring forming machines, electric cables and embroidery machines going steadily upward and facilitating a remarkable growth in the sales of the business as compared to that of last year. During the year, the business, in complementary to the successful strategies of market expansion, was able to reinforce the development of the industry and effectively expand into target industries with high gross profit, yielding growth in both profit and turnover of the business.

To meet new challenges in the future, an enterprises resources planning system suitable designed for the business is being deployed by the Group. Expected to be completed in the third quarter of 2007, the system will effectively improve operational efficiency to further upgrade service standards, strengthen management, and optimise resource distribution and sales capability. It is hoped that the system will strengthen the operation platform for greater competency in the stringent market as well as for gaining desirable results for the business.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

During the year under review, new hi-tech products such as remote self-reading meters and systems for better management of electricity capacity/loading based on 2.5G-3G GPRS frequency bands were successively introduced into the market. The overall business retained its stability and yielded reasonable returns.

PROSPECTS

Looking into the coming year, the machinery market will continue to witness growth and a certain demand for advanced domestic machines is expected. Nevertheless, under such unfavourable circumstances as the persistently high prices of materials, gradual increase in wage and appreciation of RMB, the biggest challenge to the Group in the coming year will be the control of production cost through optimised management. With the devotion of our staff, growing acceptance of new machine products from customers and expansion of the export market, the Group is cautiously optimistic about the machinery business in the year ahead.

Other manufacturing businesses are expected to maintain a steady growth. To control cost more effectively and provide customers with better products and processing services, the Group will improve the management including the deployment of an advanced management software system named "Enterprises Resources Planning", employ more advanced technologies as well as streamline the organisational structure. Besides, it is believed that the transfer of the loss-making consumer electronic products business will have a positive impact on the overall profit of the manufacturing business in the coming year.

The trading business is expected to gradually gain market share as the management team of each sales company matures. Together with the addition of new products, the Group reveals confidence in the development of the industrial materials and consumables business.

In the coming year, the Group will again dedicate its efforts in nurturing staff and looks forward to an increased competitiveness through continuous learning, so that higher returns can be achieved for our stakeholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2006, the Group's shareholders' funds were approximately HK$791,644,000, 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 debt ratio as at 31st December, 2006 was approximately 0.55 (2005: 0.54), and the liquidity ratio was approximately 1.30 (2005: 1.30), both were maintained at a healthy level. As at 31st December, 2006, cash, bank balances and time deposits amounted to approximately HK$106,962,000. All these reflect that the Group is in sound financial position.

Foreign Currencies and Treasury Policy

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

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

Other than as disclosed above, at no time during the year under review 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.

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.

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 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, 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 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 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 31st December, 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 year ended 31st December, 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 year ended 31st December, 2006 except for the deviation of code provisions A.4.2 and E.2.1 of the Code prior to 29th May, 2006 as stated in the 2005 Annual Report of the Company.

In order to comply with the code provisions A.4.2 and E.2.1 of the Code, relevant articles 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 year ended 31st December, 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 have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.cosmel.com and the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. The annual report will be available at the Company's website and the website of The Stock Exchange of Hong Kong Limited and dispatched to shareholders of the Company in late April 2007.

On behalf of the Board
TANG To
Chairman

Hong Kong, 24th April, 2007

As at the date hereof, the board of directors of the Company is comprised of twelve directors, of which five are executive directors, namely Mr. Tang To, Mr. Zhao Zhuoying, Mr. Wong Yiu Ming, Mr. Yan Wing Fai Richard and Mr. Li Tin Loi, and four are non-executive directors, namely Mr. Tang Kwan, Mr. He Zhiqi, Mr. Kan Wai Wah and Mr. Qu Jinping and three are independent non-executive directors, namely Mr. Yip Jeffery, Miss Yeung Shuk Fan and Mr. Cheng Tak Yin.