

CEI CONTRACT MANUFACTURING LIMITED

(Company Registration No. 199905114H)

Half Year Financial Statement

The Board of Directors of CEI Contract Manufacturing Limited wishes to announce the unaudited results of the Group and of the Company for the Financial Half Year Ended 30 June 2008. These figures have not been audited.

1(a) STATEMENT OF PROFIT AND LOSS FOR THE HALF YEAR ENDED 30 JUNE 2008

	GROUP		
	<u>2008</u> \$'000	<u>2007</u> \$'000	+ / (-) %
Revenue	44,182	44,216	(0.1)
Cost of sales	(33,629)	(33,202)	1.3
Gross profit	10,553	11,014	(4.2)
Other income (including interest income)	194	85	128.2
General and administrative costs	(5,974)	(5,463)	9.4
Selling and distribution costs	(1,432)	(1,085)	32.0
Profit from operations	3,341	4,551	(26.6)
Finance costs	(125)	(93)	34.4
Share of results of associated companies	-	20	N/M
Profit before taxation	3,216	4,478	(28.2)
Taxation	(451)	(1,208)	(62.7)
Profit after taxation	2,765	3,270	(15.4)

N/M. – Not meaningful.

Included in the above expenses are –	<u>2008</u> \$'000	<u>2007</u> \$'000	+ / (-) %
Depreciation and amortisation	(848)	(601)	41.1
Foreign exchange loss	(449)	(67)	570.1
Gain on deemed disposal of an associated company	-	70	N/M

1(b)(i) BALANCE SHEETS

	GROUP		COMPANY	
	30 June	31 Dec	30 June	31 Dec
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	\$'000	\$'000	\$'000	\$'000
Fixed assets	8,166	8,159	1,055	770
Subsidiary companies	-	-	10,470	9,949
Associated companies	661	661	524	524
Investment in securities	1,728	2,945	1,728	2,945
Intangible assets	4,740	-	4,170	-
Deferred tax asset	353	630	364	630
	<u>15,648</u>	<u>12,395</u>	<u>18,311</u>	<u>14,818</u>
Current assets				
Inventories	15,378	12,984	15,224	12,981
Trade receivables	15,677	13,271	15,375	13,188
Other receivables	1,262	1,016	1,073	886
Investment securities	252	1,088	252	1,088
Amounts owing by subsidiary companies	-	-	528	-
Cash and cash equivalents	8,842	9,304	8,306	8,872
	<u>41,411</u>	<u>37,663</u>	<u>40,758</u>	<u>37,015</u>
Current liabilities				
Trade payables and accruals	15,521	12,585	14,853	11,971
Amounts owing to a subsidiary company	-	-	3,776	4,334
Provision for taxation	1,876	2,501	1,629	2,127
Short term loans	9,744	6,938	9,744	6,938
Other liabilities	1,682	1,438	1,605	1,378
	<u>28,823</u>	<u>23,462</u>	<u>31,607</u>	<u>26,748</u>
Net current assets	<u>12,588</u>	<u>14,201</u>	<u>9,151</u>	<u>10,267</u>
Net assets	<u>28,236</u>	<u>26,596</u>	<u>27,462</u>	<u>25,085</u>
	=====	=====	=====	=====
Represented by:				
Share capital	23,707	19,894	23,707	19,894
Treasury shares	(837)	(335)	(837)	(335)
Revenue reserves	6,397	6,641	5,623	5,130
Other reserves	(1,031)	396	(1,031)	396
	<u>28,236</u>	<u>26,596</u>	<u>27,462</u>	<u>25,085</u>
	=====	=====	=====	=====

1(b)(ii) BORROWINGS

Amount repayable in one year or less, or on demand

As at 30 June 2008

As at 31 Dec 2007

Secured

-

Unsecured

9,744

Secured

-

Unsecured

6,938

Amount repayable after one year

As at 30 June 2008

As at 31 Dec 2007

Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

Nil

1(c) CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2008

	2008 \$'000	2007 \$'000
Cash flows from operating activities:		
Profits from operations before taxation	3,216	4,478
Adjustments for:		
Depreciation in fixed assets	737	601
Interest income	(51)	(55)
Interest expense	125	93
Loss on disposal of assets	2	-
Fair value of investment securities	(22)	(46)
Fair value of employees' share options	-	45
Share of results of associated companies	-	(20)
Gain on deemed disposal of an associated company	-	(70)
Amortisation of intangible assets	112	-
Operating income before investment in working capital	4,119	5,026
Increase in receivables	(3,895)	(1,802)
(Increase)/decrease in inventories	(3,285)	1
Increase in payables	4,864	1,165
Cash generated from operations	1,803	4,390
Interest received	51	55
Interest paid	(125)	(93)
Income tax paid, net of refund	(1,031)	(1,215)
Net cash provided by operating activities	698	3,137
Cash flows from investing activities:		
Purchase of fixed assets	(491)	(1,539)
Purchase of investment	-	(2,965)
Proceed from redemption of investment securities	836	-
Acquisition of businesses, assets and a subsidiary company	(1,030)	-
Net cash used in investing activities	(685)	(4,504)
Cash flows from financing activities:		
Dividends paid on ordinary shares	(3,009)	(2,851)
Net proceed from issue of shares under option scheme	230	170
Proceeds from short term loans	2,806	5,168
Purchase of treasury shares	(502)	-
Net cash (used in)/provided by financing activities	(475)	2,487
Net (decrease)/increase in cash and cash equivalents	(462)	1,120
Cash and cash equivalent at beginning of the period	9,304	5,666
Cash and cash equivalent at end of the period	8,842	6,786

1(d)(i)

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2008

	Group		Company	
	30 Jun 08	30 Jun 07	30 Jun 08	30 Jun 07
	\$'000	\$'000	\$'000	\$'000
Share capital				
Balance at beginning of period	19,894	19,274	19,894	19,273
Issue of new shares	3,372	-	3,372	-
Issue of shares pursuant to employees share options	230	168	230	169
Fair value recognised as share capital upon exercise of share options	211	54	211	54
Balance at end of period	23,707	19,496	23,707	19,496
=====				
Treasury shares				
Balance at beginning of period	(335)	-	(335)	-
Purchase of treasury shares	(502)	-	(502)	-
Balance at end of period	(837)	-	(837)	-
=====				
Revenue reserves				
Balance at beginning of period	6,641	6,494	5,130	4,588
Net profit for the period	2,765	3,270	3,502	3,978
Dividends paid	(3,009)	(2,851)	(3,009)	(2,851)
Balance at end of period	6,397	6,913	5,623	5,715
=====				
Other reserves				
Balance at beginning of period	396	479	396	479
Fair value change of available-for-sale financial assets	(1,216)	704	(1,216)	704
Fair value of shares pursuant to employees share options	-	45	-	45
Fair value recognised as share capital upon exercise of share options	(211)	(54)	(211)	(54)
Balance at end of period	(1,031)	1,174	(1,031)	1,174
=====				
Total equity	28,236	27,583	27,462	26,385
=====				

1(d)(ii) CHANGES IN COMPANY'S SHARE CAPITAL

No. of shares issued arising from exercise of options granted under CEI Employees' Share Option Scheme ("CEI ESOS") during the period	:	1,784,000 ordinary shares	
		30 Jun 2008	31 Dec 2007
No. of unexercised options under CEI ESOS	:	2,031,000	4,662,000
No. of treasury shares held	:	4,493,000	1,852,000
No. of issued shares excluding treasury shares	:	346,760,907	328,267,574

1(d)(iii) ISSUED SHARE CAPITAL

There were 346,760,907 ordinary shares issued (excluding treasury shares) as at 30 June 2008 (31 December 2007: 328,267,574).

1(d)(iv) SALES, TRANSFERS, DISPOSAL, CANCELLATION AND/OR USE OF TREASURY SHARES

There were no sales, transfers, disposal, cancellation and/or use of treasury shares in the current financial period.

2. AUDIT/REVIEW

The figures have not been audited or reviewed.

3. AUDITORS' REPORT

Not applicable as the figures have not been audited or reviewed.

4. ACCOUNTING POLICIES

The Group has applied the same accounting policies and methods of computation in the current period as compared with the audited financial statements as at 31 December 2007.

5. CHANGES IN ACCOUNTING POLICIES AND THE EFFECT OF THE CHANGES

The Group has applied the same accounting policies and methods of computation in the current period as compared with the audited financial statements as at 31 December 2007.

6. EARNINGS PER ORDINARY SHARES (EPS)

	2008	2007
Earnings per share based on profit attributable to shareholders:		
Based on existing issued share capital	0.80 cts	1.00 cts
Based on fully diluted basis	0.80 cts	0.99 cts

(The EPS figures above have incorporated the dilutive effect of employees' share options).

7. NET ASSET VALUE

	Group		Company	
	30 June 2008	31 Dec 2007	30 June 2008	31 Dec 2007
Net asset value per share based on existing issued share capital as at the end of the period reported on.	8.14 cts	8.10 cts	7.92 cts	7.66 cts

8. REVIEW OF GROUP PERFORMANCE

The Group's Revenue for the first half of FY 2008 of \$44.2 million was approximately the same as first half of FY 2007. Cost of sales was about 76.1% of Revenue in first half of FY 2008 as compared to 75.1% in first half of FY 2007. The gross margin decreased from 24.9% in the first half of FY 2007 to 23.9% in the first half of FY 2008 was due mainly to an increase in manufacturing overhead costs arising from the acquisition of businesses and assets of IC Equipment Pte Ltd and the equity of its subsidiary, IC Equipment (Shanghai) Co Ltd (collectively "IC Equipment Group") in January 2008 and higher depreciation charge as a result of addition of new machines by the Company's subsidiary, PT Surya Teknologi Batam.

Other income increased by \$0.11 million due to dividend received from the investment in securities in Kinergy Ltd. Administrative costs were higher in first half of FY 2008 due to higher foreign exchange loss of \$0.45 million as a result of weakening of United States dollars. The acquisition of businesses and assets of IC Equipment Group had also contributed to the increase in administrative costs and selling & distribution costs.

The Group's Profit before taxation decreased by 28.2% to \$3.2 million.

The Group's effective tax rate decreased from 27.0% in first half of FY 2007 to 14.0% in first half of FY 2008. This was due to a one-off tax adjustment of prior years' tax assessments. The Group's Profit after taxation was \$2.8 million, a decrease of 15.4%.

Earnings per share was 0.80 cents against 0.99 cents, based on a fully diluted basis.

Net asset value of 8.14 cents as at 30 June 2008 was 0.5% higher than 8.10 cents as at 31 December 2007.

The value of the investment in securities in Kinergy Ltd reduced from \$2.9 million to \$1.7 million as a result of a decrease in the share price of Kinergy Ltd. This reduction in market value was reflected through a corresponding movement in the Other Reserves.

The Intangible Assets of \$4.7 million in first half of FY 2008 were due to the acquisition of IC Equipment Group. The acquisition also resulted in a reduction of the Deferred Tax Asset from \$0.6 million to \$0.3 million in first half of FY 2008.

Inventories increased by \$2.4 million from \$13.0 million to \$15.4 million in first half of FY 2008. Approximately \$0.9 million of increase was due to acquisition of IC Equipment Group, and another \$1.1 million was due to inventories built-up to support orders received from two new customers.

Trade Receivables increased by \$2.4 million from \$13.3 million to \$15.7 million in first half of FY 2008. The increase was due to acquisition of IC Equipment Group, and also variable credit term given to customers.

Investment Securities (current assets) reduced from \$1.1 million to \$0.3 million. This was due to the repayment by a financial institution.

Trade Payables and Accruals increased by \$2.9 million from \$12.6 million to \$15.5 million in first half of FY 2008. Approximately \$1.5 million was due to acquisition of IC Equipment Group. The remaining \$1.4 million arose in the ordinary course of business.

9. VARIANCE FROM PROSPECTIVE STATEMENT

In the announcement of the Group's financial results for the year ended 31 December 2007, it was mentioned that "the Directors expect Profit after taxation as a percentage of revenue in first half of FY 2008 to range between 5.5% to 6.5%".

The Directors wish to announce that the Profit after taxation as a percentage of revenue in first half of FY 2008 was 6.3%.

10. PROSPECT

As at 30 June 2008, the Group has orders on hand worth \$32.8 million which is expected to be fulfilled within the current financial year. This is 5.1% higher than the orders on hand at 31 December 2007 of \$31.2 million.

With the slowdown in the US economy and the high oil prices, the global economic outlook will be challenging for the next 12 months. We shall continue to manage our manufacturing overhead costs very judiciously.

The Group serves many customers from a diverse range of market segments. These include analytical instruments, medical equipment, semi-conductor equipment, displays for industrial applications and oil and gas applications. We do not expect that the market segments we serve will be adversely impacted by the slowdown in the US economy all at the same time.

Based on current business leads and the existing customers' orders, the Directors expect that barring any unforeseen circumstances, the Group's Revenue and Profit after taxation in the second half of FY 2008 will be comparable to that of the first half of FY 2008.

11. DIVIDENDS

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on? Yes.

Name of Dividend	Interim	Special
Dividend Type	Cash	Cash
Dividend (cents)	0.1660	0.2320
Tax Rate	One-tier tax-exempt	

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? Yes.

Name of Dividend	Interim	Special
Dividend Type	Cash	Cash
Dividend (cents)	0.1660	0.8310
Tax Rate	One-tier tax exempt	

(c) Date payable

The dividend will be payable on 3 September 2008.

(d) Books closure date

The Share Transfer Books and the Register of Members of the Company will be closed from 5.00 p.m. on 22 August 2008 to 25 August 2008 (both dates inclusive), for the preparation of the dividend warrants for both one-tier tax-exempt interim dividend and one-tier tax-exempt special dividend. Duly completed registrable transfers received by the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte Ltd, 3 Church Street #08-01, Samsung Hub, Singapore 049483, up to 5.00 p.m. on 22 August 2008 will be registered to determine shareholders' entitlements to the said dividends. Members whose securities accounts with the Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on 22 August 2008 will be entitled to the proposed dividends.

12. CONFIRMATION BY THE BOARD OF DIRECTORS

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial results for the first half-year ended 30 June 2008 to be false or misleading.

BY ORDER OF THE BOARD

**Teo Soon Hock
Secretary**

Singapore, 7 August 2008