

Chairman's Statement

I am pleased to present to shareholders the annual report of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2005.

RESULTS

The Group's consolidated turnover for the year 2005 was in the region of approximately HK\$1,650,729,000, representing a decrease of about 1% over the approximate figure of HK\$1,665,687,000 for 2004. Our profit before taxation stood at about HK\$80,300,000, or some 23% higher than the approximate figure of HK\$65,482,000 for the previous year. For the year ended 31st December, 2005, the profit attributable to shareholders was about HK\$54,222,000, increasing by 31% when compared with last year.

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Subsequent to the adverse market condition of 2004, prices of raw materials remained high throughout the year under review. Although taxed and challenged by the price pressure, consolidated profit managed to keep growing at a reasonable pace, thanks to the hard work of our staff.

Adhering to our management principles and development guidelines of "industry-based, people-oriented, pragmatically aggressive, and continuous learning" during the year under review, our business continued to evolve around machinery manufacture and technological development. Our pursuits for product differentiation and quality perfection have gained for the Group a strong footing in the market. In 2005, hi-tech products catering to the needs of customers were successively launched and were well received by the market. The additional business thus generated not only compensated the ebbing sales of standard series as impacted by unregulated price wars but also served to reaffirm the technology-led strategy we have been pursuing for product development. With apt market strategies



CNC High Speed Hydraulic Turret Punch Press

Chairman's Statement

and good service, it is believed that these new products will become a new source of profit for the Group. The year 2005 was also a year of honour for the Group since our member company Dong Hua Machinery Limited was ranked by the Government as among China's Top 500 Machine Manufacturers and China's Top 10 Plastic Rubber Machine Manufacturers. The professional recognition thus given to our unswerving endeavours serves to reassure us that we have all along been striving forward on the right track. Our research and development collaborations with Mainland and overseas tertiary institutes have also produced fruitful results, adding to our technological reserve for developing new products.

To consolidate our position in the East China market and to provide timely and better service to our customers, the Company successfully assumed in mid-2005 interests previously held by our Chinese partner so that Wuxi Grand Plastic Machine Manufacture Co., Ltd. and Wuxi Grand Tech Machinery Group Ltd. have now come under the Group's umbrella as wholly owned enterprises. This has resulted in better coordination of production resources for our machinery manufacturing business and also better integration in our market network. Based on development needs, the Group will enlarge our engagement in East China as and when required to secure a fair market share for our machinery in the fast emerging Yangtze Delta region.

As for our other manufacturing businesses like plastic injection moulding and circuit board processing, we will continue to adhere to the same guiding principles and investment visions in updating our technologies, renewing our products and optimizing our management in a pragmatic and forward-looking manner to tie in with the latest needs of the market.



Double-station 20T Blow Moulding Machine

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Looking ahead, the coming year will again be marked by tests and challenges to which our Management will continue to rise realistically and pragmatically. It being also the inception year of the State's 11th Five-year Plan when technological advancement and originality are greatly prized for industrial development, mainland enterprises are likely to shift their investment preference from quantity to quality and new technologies. This means a golden opportunity is awaiting technology-based enterprises like ours to prove ourselves and to provide even better return to our shareholders and stakeholders.

To reflect more truly our vitality and perseverance as well as our emphases on people and plurality, the Group renewed its logo in September 2005 in the firm belief that, standing together as a team, we will surely make our future even brighter.

APPRECIATION

The favourable results achieved by the Group despite market adversities were largely attributable to our enterprising and hardworking staff, as well as our supportive shareholders and Board Members. I would like to take this opportunity to express my heartfelt thanks to all of them.

TANG To

Chairman

Hong Kong, 24th April, 2006