

## 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, 2006.

### 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.



TDM Series Triple-Screw Dynamic Mixing Extrusion

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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.



RC-750Y High Speed Injection Moulding Machine

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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.

### TANG To

*Chairman*

Hong Kong, 24th April 2007



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