

## 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, 2007.

### RESULTS

The Group's consolidated turnover for the year 2007 was in the region of approximately HK\$2,093,377,000, representing an increase of about 3% over the approximate figure of HK\$2,022,632,000 for 2006. Our profit after taxation stood at about HK\$137,692,000, or some 55% higher than the approximate figure of HK\$88,616,000 for the previous year. For the year ended 31st December, 2007, the profit attributable to shareholders was about HK\$100,040,000, increasing by 54% when compared with last year.

### CHAIRMAN'S STATEMENT

In the second year of the Eleventh Five-Year Plan, China further pushed ahead for the implementation of the overall strategy on optimizing industrial structure and uplifting technological level, so as to radically turnaround from the previously adopted extensive development mode and reduction of export tax rebate on products characterized by high energy-consuming, high-polluting and high resources-consuming. In addition, in order to avoid an overheated economy, more stringent measures were adopted to control money supply and retrench new loan. Over the past year, owing to the continued upward adjustment of state minimum wages which resulted in rising labor cost and appreciation of Renminbi, the operating costs and profit across all types of industries were directly affected. However, the implementation of such policies is beneficiary to the long-term sustainable and healthy development of the country as a whole. Since it is not the aim of China to remain as the "world factory" but to become a technologically advanced country, therefore gives rise to such series of structural changes in market. In face of such challenges, the Group had aggressively enhanced its product portfolio and launched a series of measures such as optimizing production equipment and technology level and placing emphasis on energy saving, environmental protection and reduction of materials consumption.

Carrying on the past and opening up for the future, the Group had, while seeking for better performance, continued to invest in new technology, new products and new markets. During the period under review, amid the abrupt market changes, our new products and new markets had both contributed positively to the Group.

For the machinery manufacturing business, owing to its newly developed and continuously optimizing high-tech injection moulding machine series in recent years, the business had recorded encouraging sales to industries which require high performance such as auto component and communication devices in last year. Sales



H2 Single Large Clamping Cylinder Injection Moulding Machine

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of CNC sheet-metal processing machine and rubber injection machine both achieved considerable growth. These high performance products had, not only be able to stay away from hostile competition, but also setting off the downturn of the general purpose injection moulding machine market. During the year, new patented products developed by the Group, such as Hf series foam injection moulding machine and "DCM – direct compound moulding" plastic injection moulding machine, had enhanced the efficiency of our customers by combing energy saving, material saving and performance enhancement features. These new products will serve as new impetus for our future market development and also new elements of our adjusted product portfolio.

The overall performance of plastic products and processing business had declined owing to rising material cost and labor cost. Nevertheless, the good news is our professional plastic packaging factory in Zhuhai has made significant progress in terms of securing new quality customers and integration of production management, and has stopped loss and achieved breakeven. Besides, our optic plastic manufacturing business also laid new platform for the launch of new products and achieved continuous profit growth. It is expected the profitability of plastic processing business will further enhance following adjustment of its customer structure and consolidation of production capacity in the coming year.

Printed circuit board business continued to adjust its product mix during the year by expanding the production volume and securing orders for multi-layer printed circuit board and focusing on value added business so as to dilute part of the rising costs and maintain its business performance. The plan for product mix adjustment will be implemented in the coming year, which includes reducing the production volume of low value-added single-layer printed circuit board and purchase of new equipment to sustain its profitability.

Trading business continued to record higher performance, which mainly attributable to our successful strategy in exploring new markets and targeting customers who request for high quality products. As a result of the vigorous implementation of state's general policy, market demand for high quality products will continuously increase, it is expected this business can maintain its stable growth.

China's rapid development in recent years has astonished the world but at the same time created certain imbalance issues, and adjustment seems unavoidable in this stage. It is expected new laws and regulations promulgated in recent years will continue to be implemented in more stringent manner, minimum wages will continue to be uplifted yearly, and more supplementary rules and regulations will be launched. The new corporate income tax law and new labor contract law promulgated in the year are continuance of such adjustment. It is anticipated that more laws and regulations in protecting and safeguarding the interests and benefits of the employees will be launched subsequently. On the other hand, China will head for intensive economic development and pursue for quality and technology advancement.



REP-DEKUMA Elastomer Injection Machine

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Nowadays, in order to survive and continuously develop, enterprises must be able to response to market changes and identify business opportunity amid those changes. To meet those rapid changes, the middle and high level management must receive well training. Therefore, it is the Group's long term strategy to focus on personnel training investment. During the year, the Group launched a systematic training course for its mid and high-level management staff in respect of management theory and practical application. The results were encouraging. Given such experiences, the Group decided to carry on such kind of training in the coming year. It is expected that through learning and improvement, our management ability, response ability and innovative ability will continuously be improved. The Group will also gain more experience in personnel training and have more talents and be able to capture more opportunities amid the rapid changing environment and therefore achieve better performance.

This year is the fifty anniversary of the Group. We will continue to adhere to our good corporate practice and principles of "anchored in the industries, people-oriented, continuous learning, pragmatic and innovative", to undertake social responsibility, to generate satisfactory return for our shareholders and to develop our staff potential to the fullest extent.

On behalf of the Group, I would like to express my sincere thanks to the long term support of all our shareholders and directors. I would also like to pay my tribute to our staff for their continuous learning and improvement and their hard work for contributing to the success of the Group.



**TANG To**

*Chairman*

Hong Kong, 23rd April, 2008