

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, 2008.

RESULTS

The Group's consolidated turnover for the year 2008 was approximately HK\$1,939,383,000, representing a decrease of about 7% over the approximate figure of HK\$2,093,377,000 for 2007. Our profit after taxation stood at about HK\$56,305,000, representing a decrease of about 59% over HK\$137,692,000 for the same period of last year. For the year ended 31st December, 2008, the profit attributable to shareholders was about HK\$45,240,000, decreasing by about 55% when compared with last year.

CHAIRMAN'S STATEMENT

The Group experienced a difficult year during the year under review. The first half of the year saw surging prices of various raw materials in the international market including food prices which resulted in greater inflation pressure in the domestic market. To avoid disrupting people's daily lives as well as social stability, the Chinese government has successively launched a number of policies and measures to prevent an overheated economy and to curb inflation. Such policies included substantially raising deposit reserve ratio of domestic banks. As a result, loans to corporate entities were tightened, in addition, various unfavourable factors such as rapid appreciation of Renminbi, substantial reduction in export tax rebate, implementation of new labour contract law and increase in labour costs have all contributed to a more difficult operating environment for all industrial sectors. The collapse of Lehman Brothers in mid September finally triggered the outbreak of financial crisis. In October, banks in Hong Kong rapidly tightened their credit. As a result, enterprises in Hong Kong who relied on local bank finance or with supply chain in Hong Kong and were able to avoid the stringent credit policy previously implemented by the PRC were now also seriously affected. Moreover, the U.S., Europe and Japan markets quickly deteriorated, causing most factories which relied on Europe and the U.S. markets to lose their orders or were asked to postpone the delivery date. Orders for the next year were held back and forced factories to lay off their labours. Before Chinese New Year, thousands of factories were forced to close down and the market was full of negative sentiment that was not seen in decades. Raw material prices, which were once lingering at high level, sharply plummeted due to curtailing demand. However, it added more pressure to those factories which still held stock purchased at high price. In face of the continued pressure to lower the price of new orders, factories can only choose to cease production or to operate at a loss. The economic downturn continues to persist and shows no sign of bottoming out.



COSMOS NC LX230BD 1500mm Large Sheet-sized CNC Hydraulic Turrent Punch Press

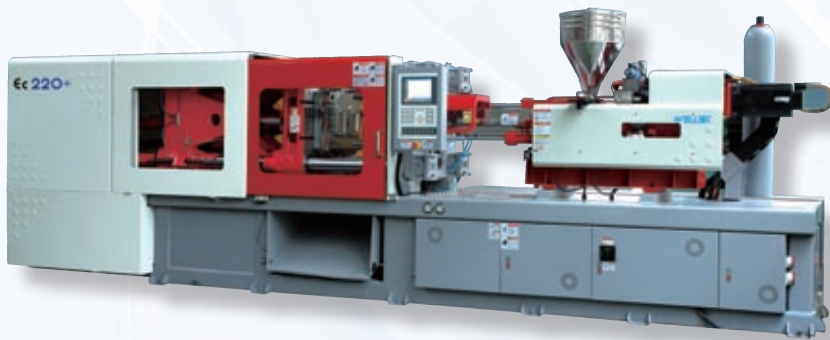
Chairman's Statement

In the early stage of the financial crisis, the PRC government immediately adopted a more relax monetary policy. In the second half of the year, it successively uplifted export tax rebate and decisively allocated RMB4 trillion for investment in infrastructures, such as basic infrastructure, electricity, transportation, environmental protection, medical service, education etc, so as to boost economic growth. The newly launched rural medical reform and rural education reform cleared concern of the peasant community over medical and educational expenses that were bothering them who had to save up their income to meet the needs of their family and children and thus release their purchasing power. Moreover, the rural household appliance subsidy scheme also served to boost domestic demand, under which peasants are subsidized by the state in purchase of electrical appliance. With the lead of the above infrastructure projects and change in consumption pattern in the rural areas, it is expected that the domestic market will continuously prosper in the near future.

In face of such economic hardship, the operation of each of our member companies was affected by different degrees and suffered a setback in results. The machinery manufacturing business was most seriously hit due to the capital investment nature of its products, with both export and domestic sales decreased. The sales for rubber injection machines remained stable, which was attributable to its continual improvement over the years to meet the needs of power grid upgrade. While the newly developed Sv series servo-driven pump energy-saving and high precision injection moulding machine received wide recognition for its cost effectiveness. Our factory at Zhou Wu District, Dongguan has kicked off the development project. The new factory layout and facilities, designed to facilitate management and cost control, will better accommodate our future development.

The consolidated results of plastic processing business was lower than expected due to high plastic prices and failure of transferring the additional cost to customers. Benefiting from the continuous growth in consumer market in the PRC, the market demand for food packaging has increased and provides favourable opportunity for our Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging. Additional processing facilities will be added to this business in 2009. It is expected that with team realignment and improved product quality, this business segment will resume profitability.

As to printed circuit board processing business, it recorded significant growth in sales following successful adjustment of product mix by the management. However, owing to higher raw material price and processing cost, the profit thus remained flat. With smooth implementation of a new product portfolio, the Company continues to hold a prudent and optimistic view of this business segment for the coming year.



WELLTEC Ec220+ High Speed Thin Wall Series Injection Moulding Machine

As the manufacturing industry has been seriously battered, profit of our trading business has shrunk by nearly 20% despite a similar turnover. Fortunately, the customers of the north and northeast China markets, which were developed earlier as planned, mainly focused on domestic demand and thus were less affected. It is expected the growth in those new markets in the coming year will be able to set off the loss in the south China market.

Shenzhen Haoningda Meters Co., Ltd., the associate in Shenzhen, successfully explored overseas power grid market, established long term development platform and initiated self R&D and quality control deployment during the year under review. The company's result for the year was not affected by the financial crisis owing to state's power grid reconstruction project. The company is actively expanding its production capacity to meet market demand. It is expected the company will achieve satisfactory results for the year 2009.

The current financial crisis is fundamentally different from the Asian financial turmoil in 1997. It is caused by high leverage ratio combined with lack of regulation, excessive investment and over spending of the U.S. and European markets, the world's leading consumer markets. The outburst of the economic bubble has resulted in worldwide economic downturn and emergence of various forms of protectionism. Excess supply will eventually eliminate those less competitive market players and lead to re-adjustment and re-construction of new economic order. When the global economy enters the post-crisis period, the credit model, consumption model and market competition model will change accordingly. The Group is strengthening its control over cash flow to cope with any challenges that may result from potential shrinkage of credit policy and maintaining a practical and conservative credit term policy to avoid further deterioration of market situation. The Group will adopt a prudent approach to redeploy its future capital investment, with an aim to meet the change in market needs in future and to facilitate control over cash flow. In view of the changing environment, the Group will focus on enhancing the foresight of the management so that they can formulate effective response plan in a timely manner. The Group will also optimize its response mechanism by streamlining management structure, thereby facilitating the circulation of operation information as well as implementation of adjustment. In face of such rapid changes, we are fully confident that we will be able to achieve new height while coping with a different mode of market competition.

Finally, I would like to express my sincere thanks to the long term support of all our customers, suppliers, banks and shareholders. I would also like to pay my tribute to the board and our staff for their contribution to the success of the Group.

TANG To

Chairman

Hong Kong, 22nd April, 2009