

CHAIRMAN'S STATEMENT

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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, 2011.

RESULTS

The Group's consolidated turnover for the year was approximately HK\$2,416,690,000, representing a slight decrease of about 0.4% compared to approximately HK\$2,426,658,000 for 2010. Our profit after taxation stood at about HK\$34,513,000 for the year, while the profit for the same period of last year was about HK\$297,378,000 (included a gain in carrying amount of approximately HK\$200,670,000 as recognized for the deemed disposal of interest after the successful listing of the associate, Haoningda Meters Co., Ltd.). For the year ended 31st December, 2011, the profit attributable to shareholders was about HK\$26,579,000.

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In 2011, the Group was confronted with serious challenges amid a complex and changing business environment. Fortunately, the management who have been put through the ordeal of the global financial crisis crucible, and with a hardship awareness in mind, was able to cautiously and proactively address emergencies and impacts in the market, and thus managed to maintain all the indexes at a healthy level even though the Group's profits dropped and failed to generate desirable returns for investors under such adverse condition.

In order to restrain the increasingly drastic inflation, the State implemented a tightened monetary policy of macro-control during the year. Against a backdrop of money supply shortage, enterprises had difficulties in financing and the domestic market began to slow down in the third quarter, such that the market condition worsened as the European debt crisis emerged. In view of the market adversities, the Group opted to adopt prudent and active marketing strategies that it abandoned compromising sales results with risks associated with account receivables, so as to preserve asset health; the Group maintained reasonable credit terms for suppliers to keep the long-term and steady strategic partnership with them.

In the first half of the year under review, as the market continued with the brisk momentum in 2010, the Group's turnover grew in all businesses except the printed circuit board business. However, prices of various raw materials soared, the domestic inflation deteriorated, labour costs continued to rise and the Renminbi exchange rate was on the rise afterwards; and Japanese broke out an unexpected earthquake in March. As a result, the Group's results were severely affected. As impacted by these adverse factors, our colleagues overcame the difficulties and managed to achieve a growth in profit of the machinery business and was able to maintain stable performance in industrial consumables business. As for the machinery business, the Group continued to consolidate the newly tapped markets of second-tier city in China while the export business achieved considerable growth under the proactive promotion plan during the year. For the printed circuit board and plastic products and processing businesses, the Group took initiative in developing new customers to diversify the customer base.

The Group always attaches importance to technological research and development (R&D), in order to improve its product standard and cost-performance ratio and sharpen its market competitive edges. During the period under review, the machinery business obtained admirable thirteen technical patents and the newly developed products fuelled the sales vigor in the market downturn. As for the plastic products and processing business, several new products were also developed after investments in R&D, laying a foundation for the future market development. During the year under review, Shenzhen Haoningda Meters Co., Ltd., an associate, was granted the honours of famous brand and also accredited as the municipal level R&D centre. Its innovation in the "smart power grid" and the technology of the "Internet of Things" has reinforced the growth foundation of the business.



COSMOS-NC ES Series Full Servo-electric CNC Turret Punch Press

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New factories of the Group's machinery business and plastic products and processing business respectively located in Wuxi and Hefei were completed as scheduled, and relocation and installation works of newly acquired equipment were in progress smoothly. Newly added production capacities of the machinery business will redound to satisfying domestic and foreign market demand; the completion of the factory in Hefei has established a new development platform for the plastic products and processing business in this China's third largest household electrical appliance centre.

In the past year, the Group held a number of professional human resource trainings, and special attention was paid to the enhancement in management competence of middle to high level managerial team, which was vital to the sustainable growth of the Group. In addition, the Group continuously improved the working environment for workers, acquired automatic equipment to reduce labour intensity, and was dedicated to optimizing employees' living quality and self-training facilities, so as to address the continued rise in labour costs and the fierce talent competition. These moves also responded to the initiative advocated by the State in creating a harmonious society.

Outlook

Looking forward to 2012, European countries and the United States can only increase currency liquidity to invigorate economy by taking multiform quantitative easing measures against impacts of the continued global financial crisis and European sovereign debt issues. Nevertheless, it cannot reverse the trend of the crisis to spread in the real economy, and would eventually result in fluctuation and surge of prices of international commodities. Moreover, the political crisis in energy supplier countries may even plunge the price of energy to prolonged high and fluctuating condition. As such, market consumption will surely decrease and chances for economic recovery of developed countries will be remote.

The macro-control policies will not be changed easily in China to adjust the property market and to prevent the rise in goods prices. However, in order to simultaneously boost changes in economic development models, realize technology autonomous innovation and upgrade, proactive implementation of energy saving and emission reduction as well as environmental protection and other development directions, the State is expected to gradually launch directive easing economic policies with an aim to provide a bailout for enterprises echoing to the State's development direction, and allow them to grow and prosper. Thus, the Group's energy-saving and environment-friendly products and business with high cost-performance ratio will be benefited.



BioChef Kitchen Ware

In 2012, the market will continue with the sluggishness and uncertainties in last year. Raw material prices will continue to fluctuate, labour costs will remain soaring beyond doubt, and the Renminbi exchange rate will be on the up in spite of international political pressures. Challenges grimmer than that of 2011 will again test our team's adaptivity for contingency. On all accounts, we will adhere to prudent and active marketing strategies, maintain healthy corporate asset indexes and a steady cash flow to reinforce all businesses' capability to address market fluctuations and capture opportunities. In the coming year, we will be committed as always to achieving commendable results for stakeholders in spite of adversities.

The performance achieved by the Group for the last arduous year is dependent on the diligent efforts of the management and the staff as well as their insistence on a pragmatic and enterprising style. I would like to extend my highest appreciation and heartfelt gratitude to them. Also, I would like to extend my sincere gratitude to directors for their contributions and to shareholders, customers and partners for their wholehearted support.

TANG To

Chairman

Hong Kong, 29th March, 2012