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BUSINESS UPDATE

This announcement is made by Cosmos Machinery Enterprises Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

The board of directors of the Company (the “**Board**”) is pleased to provide an up-date on the development and operation of the machinery manufacturing business segment of the Group.

As stated in the 2016 interim report of the Company, the global economic environment remains challenging in the second half of 2016. In order to minimize the impact of adverse macro-environment in the manufacturing sector in the People’s Republic of China (the “**PRC**”), the Group continues to streamline the organization structure and strengthen the cost control over the supply chain. The Group’s machinery manufacturing business segment, in particularly, has been focusing on cost control, improving the production efficiency and optimizing the production capacities of its Dongguan and Wuxi manufacturing plants in the past year.

The Group observes improvement in sales momentum in the PRC market, especially in the Eastern part where most of the customers from the industries of auto-parts, home electrical appliances and daily necessities are located. Much positive responses have been received from the customers for ordering the medium-to-large size plastic injection moulding machines, which are now the flagship products of the Group’s Wuxi manufacturing plant.

The Group is planning to restructure certain operations of the machinery manufacturing business segment including the scale down of Dongguan Cosmos CNC Machinery Limited (“**Cosmos CNC**”), the optimization of the production capacities in its Dongguan manufacturing plant by focusing on the development and manufacturing of industry-specific plastic injection moulding machines and increasing the utilization of

the idle production capacities in its Wuxi manufacturing plant by enhancing the production of medium-to-large size plastic injection moulding machines. It is expected that not more than 300 job positions will be affected. The Group is targeting to maximize the returns on the assets employed in this particular business segment through assets relocation and optimization, organizational restructuring and production efficiency enhancement. A designated task force is set up to execute this strategic plan in accordance with the laws and regulations of the PRC. Subject to the approval of relevant authorities in the PRC, the Board expects that this strategic plan will be completed by second quarter of 2017.

Based on the information currently available to the Board and subject to the review by the Company's auditors, as at the date of this Announcement, it is estimated that the major expenses to be incurred for this strategic plan including the scale down of Cosmos CNC which will be mainly the compensation to be paid to the employees, provision for obsolete inventories, production capacities optimization and certain assets impairments. Accordingly, the operating loss of the machinery manufacturing business segment of the Group will increase significantly in 2016, as compared with that of last year. The Board will make appropriate announcement when the related expenses and financial impact have been reviewed and confirmed by relevant statutory authorities.

The Group considers that this strategic plan will definitely streamline the management and operation of this business segment and thereby achieve improvement in the production efficiency and enhance the return on capital employed. The Board considers that it will not have material adverse impact to the overall operation of the Group.

The information contained in this announcement is only based on the preliminary assessment by the Company's management according to the information currently available which has not been confirmed or reviewed by the auditors of the Company. The Company will continue to evaluate the impact of this strategic plan and further announcement will be made by the Company as and when required.

As the approval of the relevant authorities in the PRC may or may not be obtained, shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

Hong Kong, 23 December 2016

As at the date hereof, the Board comprises nine directors, of which three are executive directors, namely Mr. Tang To, Mr. Wong Yiu Ming, and Mr. Tang Yu, Freeman, and two are non-executive directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping and four are independent non-executive directors, namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin, Mr. Ho Wei Sem and Mr. Huang Zhi Wei.