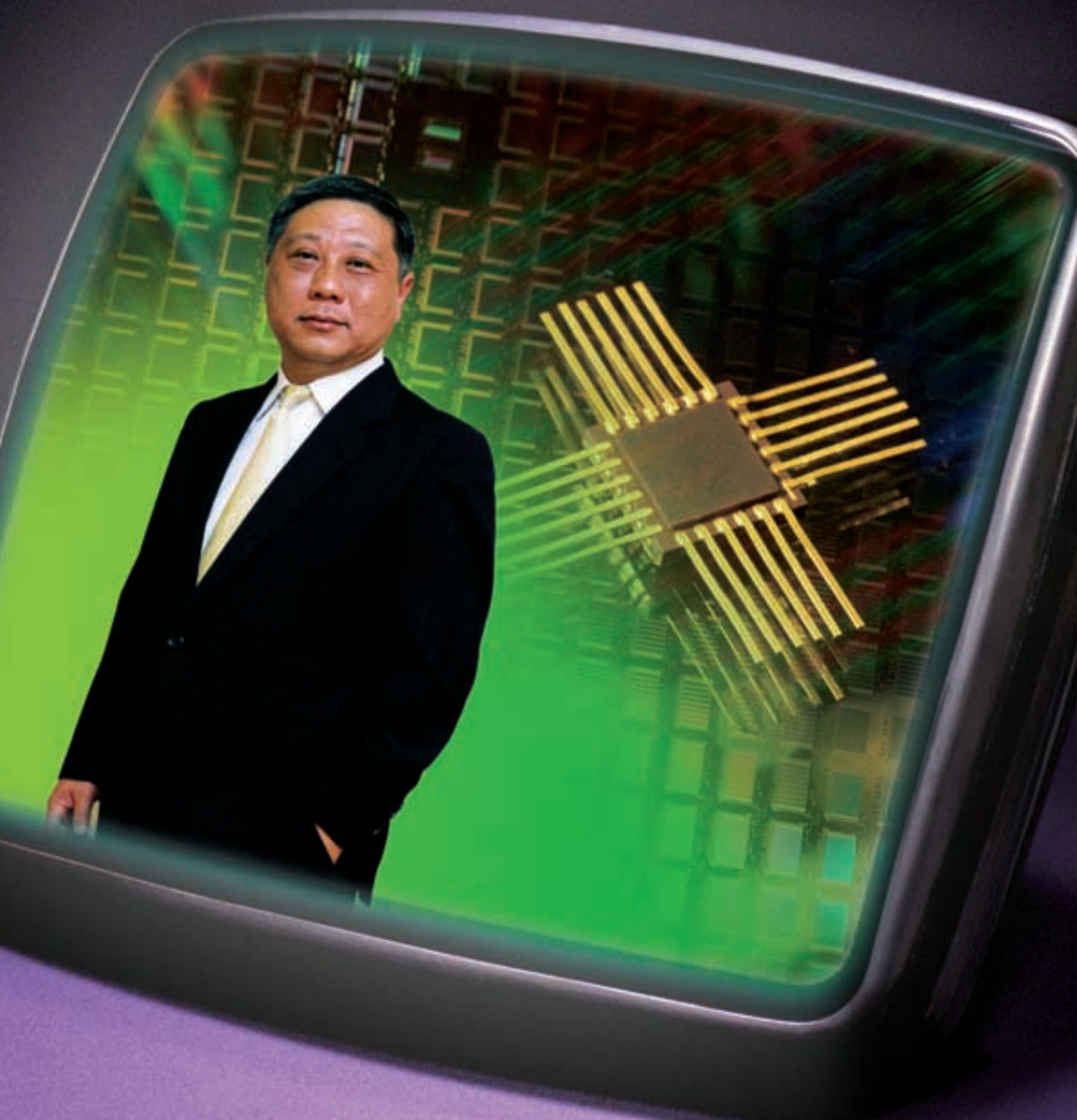


# Chairman's Statement

*We devoted ourselves to become the most competitive provider of supply chain management in the global consumer electronics industry.*



## Chairman's Statement

To All Shareholders:

With great pleasure and on behalf of the Board of Directors ("the Board"), I hereby present to you the first annual report of Mitsumaru East Kit (Holdings) Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2004 ("the Year"), and extending my compliments to all shareholders and the staff.

The successful listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year signifies a major landmark in the development of the Company, which enables us to use the funds raised to further consolidate our development plans and enhance our competitiveness and capabilities in general.

### FINANCIAL PERFORMANCE

For the year ended 31 December 2004, the Group recorded a turnover of HK\$618.4 million, which, compared with HK\$624.1 million in the previous year, represented a decrease of 0.9%, with a net profit of HK\$10 million, a decrease of 84.5% against HK\$64.7 million in the previous year. The earnings per share reached HK2.89 cents, or a decrease of 86.6% against the previous year. The Company maintains a strong capital structure, which provides a firm basis for its future development.



Listing Ceremony held on 15 July 2004

### DIVIDEND

In appreciation of the support of the shareholders given to the Company, and after considering the financial situation, liquidity, operation and capital demands, and the requirements for continued development, the Board proposes a final dividend of HK0.75 cent per share to be distributable to shareholders for the financial year ended 31 December 2004. The Board believes that given its healthy financial condition and liquidity, the Company is capable of maintaining the investment required for its continued development, and the Company will do its best to provide healthy return to its investors.

### BUSINESS REVIEW

To the Group, year 2004 was a year full of challenges. The consumer electronics industry in China and the world is going down the path that sees innovation in technology and products, while stressing the effective use of resources. This has brought great business opportunities for the Group.

However, the competition in the colour television ("CTV") and consumer electronics market is getting more intense that prices of the products are going further downwards, which affects the earnings of CTV manufacturers. The price of LCD television sets experienced a substantial drop, and though the traditional analog CTV sets also drops in price, but at a gentler pace. Moreover, in May 2004, America decided to impose an anti-dumping tax on CTV from Chinese manufacturers, putting the Chinese CTV industry to the most severe test. To our relief, the Group stayed fast to its development strategy and focused on the high value-added service by providing supply chain management for the world's well-known electronics corporations. With its "No Brand"

## Chairman's Statement

strategy, the Group is able to work with brand names from different parts of the world, and needs not worry about any changes in the market. At the same time, the Group also leveraged on its advantage by focusing on technological innovation and aggressively developing markets that show any potential. Despite the intensive competition in the market, the Group is still able to maintain a steady growth in its business.

In 2004, the Group worked closely with world-renowned suppliers of semiconductors to continuously upgrade the technology, which enabled the Group to provide products that meet the demands of different markets.

During the Year, with unwavering effort, the Group succeeded in securing a number of major contracts, which included the sales contract with STANDARD & WESTERN (S) PTE. LTD., the largest television manufacturer in Russia, and the memorandum of understanding executed with Grupo De La Electronica of the Republic of Cuba, a company controlled by the Ministry of Information of Cuba, and Qingdao-based Haier Group in respect of the co-operation between the three parties for the production of a second batch of 1 million CTV sets, a project granted by the Cuban government. The Group also achieved satisfactory results in developing new clients, in particular a co-operative relationship has been established with Taiwan Kolin Company Limited, a well-known brand name in Taiwan with a history of more than 30 years. This provides the Group with the best opportunities to enter into the Taiwan market.

Moreover, with the unique business model that the Group has developed over the years, and its remarkable performance in the CTV market, the Company provides greater economic benefits to its clients. One of the targets of the Group is to become a provider of supply chain management for various products within the electronics industry. The aim of supply chain management is to effectively integrate the flow of information, materials and funds for highly effective operational management, thereby achieving cost reduction for the customers. The supply chain management of the Group provides one-stop services that comprises procurement, distribution, inventory management and logistics. Through effective enterprise resources management measures and the establishment of a supply chain management platform of international standard for electronic products, greater economic benefits are achieved for the business of the Group.

To further widen the scope of development, the Group effectively makes use of its successful experience in the area of CTV, and aggressively develop new business. The first area that the Group will venture into is the electronic products for auto air-conditioners. Research studies have already begun and helped the Group successfully extend its operations into a new area of business.

With the completion of the new office building, research and development centre and warehouse in Shanghai in October 2004, which is meant to meet the development needs of our business, our capacity in logistical processing substantially increased from 3 million kits to 9 million kits of products each year. This puts the Group on a firm foundation for expanding into a larger market in the future.

### MARKET DEMAND

According to the forecast of the professional market research company, DisplaySearch, the global production of LCD television sets will reach 16 million sets in 2005, doubling the 2004 figure of 8 million sets.

In 2003, the State Administration of Radio Film and Television initially approved 33 areas, including Beijing, Shanghai and Guangzhou, of being the trial spots for the gradual introduction of digital broadcast, which is expected to be rolled out in all major cities by 2008. With the Beijing Olympics primed for digital broadcast, this will drive the demand for television sets and set-top boxes.

It is anticipated that the market for digital televisions is growing at an annual growth rate of 40%. Though in 2004, the growth in analog televisions slacked and the development of LCD televisions grew rapidly, the production of analog televisions will still be the mainstream in the coming few years. According to Standford Research Institute International ("SRI"), a global authoritative

## Chairman's Statement

research institute in relation to display devices, approximately 161 million television sets were sold globally in 2003, of which 94% were of the analog format. By 2008, analog television sets will still account for 73.5% of the global sales of television sets, and there will be a steady growth in the sales of analog television sets. The Group will hold on to this opportunity by maintaining a steady growth in our production of traditional analog television sets, while breakthroughs are sought in the development of digital television.

### OUTLOOK

The CTV market is moving into a stage of rapid changes, digital televisions, panel televisions and other high-end products are the major driving force of the market. This brings great opportunity to China's CTV manufacturers for adjusting their product structure. The Group will maintain its investment in and focus on research and development, which, apart from enabling it to hold onto its business in the traditional CTV market, will also allow it to focus on high-end and other electronic products with a higher profit margin, and to aim for a greater market share.

We expect that the competition in the CTV market will remain keen, and the manufacturers are also aware that continued price war will not be the prescription for maintaining the development of their business, and the operation efficiency as well as resources management should assume greater importance. With our enormous capabilities in research and development and the



successful experience we have in applying new technology and controlling the costs in design, we are very confident that the Group will maintain its strides in its development in a new round of competition in the coming year, and continue to benefit from the trend of outsourcing by CTV manufacturers. With the completion of the new office building, research and development centre and warehouse, the Group is in an even better position to fully deliver on its capabilities in research and development and logistic distribution, and is ready to meet the demands for future development. We believe that through capturing any opportunity arising from any changes in the market can we reap a fruitful return.

### THANKS

Finally, on behalf of the Board, I would like to express my heartfelt thanks to the shareholders for their support of the Group, and the staff of the Group for their hard work and loyal service in the past year.

By Order of the Board

**Mitsumaru East Kit (Holdings) Limited**

**Zhang Shuyang**

*Chairman*

27 April 2005, Hong Kong

