

Chairman's Statement



Mr. Chan Ho Sing,
Chairman of
the Group

INTRODUCTION

I am very pleased to report that the financial year ended 31 December 2005 ("FY2005") was another remarkably successful year in the history of Man Yue International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"). The Group broke its all time highest revenue records for four consecutive years and its net earnings also reached historical heights in FY2005. From the business perspectives, the Group completed construction of phase 1 of its new Wuxi manufacturing facility in June 2005. This factor and the expansion of the existing Dongguan manufacturing facility has boosted the Group's total production capacity to a new all time record high of approximately 710,000,000 pieces of aluminum electrolytic capacitors ("E-Caps") per month. Moving into FY2006, the Group expects to see further growth in sales revenue starting from mid-2006 primarily due to the expansion of production capacity in Dongguan after the new manufacturing facility is built. In January 2006, the Group's new aluminum foil factory in Qingyuan commenced operation. We will see improvement in overall profitability in the second half of 2006 and beyond. Despite the increase in cost of certain raw materials, production overhead expenditure and the forecast relocation expenses in Dongguan, with the new upstream vertical integration in process and our on-going cost reduction measures, we shall be able to sustain some profitability growth in the coming years.

FINANCIAL RESULTS

Group Revenue for FY2005 rose by approximately 26.8% to a new record high of HK\$1,104,134,000 (2004: HK\$870,910,000). Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA") improved by 38.4% to HK\$155,067,000 (2004: HK\$112,083,000, as restated). Net profit attributable to shareholders also improved by 54.7% to a new record high of HK\$95,696,000 (2004: HK\$61,867,000, as restated). Basic earnings per share was HK 24.76 cents (2004: HK16.75 cents, as restated), representing an increase of 47.8% from last year.

In view of this satisfactory performance and in appreciation of shareholders continuous support to the Company, the Board of Directors (the "Board") recommends the payment of a final dividend of HK2.00 cents per share (2004: HK2.00 cents). Including the interim dividend of HK1.50 cents per share (2004: Nil) already declared and paid at the interim period, total proposed dividend for the year amounted to HK3.50 cents per share (2004: HK2.00 cents). This represents an increase of 75.0% from last year's.

MARKET AND BUSINESS OVERVIEW

During 2005, the global market for E-caps continued to grow steadily by approximately 5% in volume terms. The global E-cap market size in 2005 is estimated to be about US\$3.6 billion of revenue or 96 billion pieces of total output. Based on these estimations, I am pleased to say that the Group continued to rank as one of the top ten global E-Caps manufactures.

The Group's continuous business growth is mainly driven by increased sales orders from the existing and new customers, improved product mix and its expanded production capacity. Over the past several years, the Group has developed a broad base of international customers including famous electronic and electrical brand owners and global EMS giants. As the Group broadens its product ranges, customers across the board placed more orders. At the present moment, the Group's customers covers all continents in the world with particular focuses in Taiwan, Hong Kong, Mainland China, Southeast Asia, Northeast Asia, Europe and North America. Our SAMXON brand of E-Caps has been known for its superior quality and reliability in the world wide passive component industry. I am also pleased to mention that the Group has won the "Productivity and Quality Certificate of Merit" of the 2005 Hong Kong Award for Industries as organised by the Hong Kong Productivity Council.

On the operational fronts, we completed the phase 1 development of our new Wuxi manufacturing facility in June 2005 and it has been in operation since July 2005. This new facility has boosted the Wuxi production capacity from 80,000,000 pieces per month to 150,000,000 pieces per month. We also acquired new machinery to expand our existing Dongguan manufacturing facilities. As a result, our Dongguan production capacity reached 520,000,000 pieces per month, as compared with 450,000,000 pieces per month at the same time last year. Our Xiamen manufacturing facility continues to contribute up to 40,000,000 pieces per month. All in all, the present production capacity of the Group can be as high as 710,000,000 pieces per month, which compared with 570,000,000 pieces per month at the same time last year.

Man Yue was awarded "Productivity and Quality certificate of merit" of the 2005 Hong Kong Award for Industries.



On the products front, I am pleased to say that we are one of the few top tier global E-Cap manufacturers that offers full product ranges to our customers at a reasonably competitive price. The E-Cap series that we offer now include miniature, radial leaded, snap-in, v-chip (SMT) and screw-type product series. Our products can be found in a wide spectrum of industry segments such as: audio and video consumer electronics including flat panel TV, DVDs, energy saving lamps, digital cameras with photo flashes; computer motherboard, video cards and peripherals; power supply equipment including battery chargers for mobile phones and notebook computers, voltage regulators; telecommunication equipment; home appliances including air conditioners, washers, dryers, refrigerators; automobile; and industrial equipment including elevators, power generators, etc.

From the product innovation perspective, in 2005 we successfully launched new products including Low ESR V-Chip Series, Long Life Screw-type and Snap-in series. This continuous product innovation has been contributed by our internal Research and Development Team and the research laboratories at the Research Institute of the Tsinghua University in Shenzhen whom we worked closely with in the past two years.

FUTURE OUTLOOK

The remarkable successes in FY2005 and the prior years have demonstrated our ability to sustain a satisfactory growth. We believe that the Group's outlook for FY2006 will continue to be positive.

In FY2006 and beyond, we will continue to enhance our product mix to include a larger proportion of higher-end and higher value items. Besides expanding the size and value of our E-Cap products, we are going to introduce a brand new type of capacitors employing different raw material components and breakthrough technologies in mid 2006.

We shall continue to deepen our close relationship with all existing global customers and to bring in strategically important new global customers in North America and Europe. Furthermore, we will develop new products that relate to fast growing industry segments such as alternative energy sources.

To ensure we have adequate production capacity to meet the ever-increasing customer orders, we will continue to expand our manufacturing facilities in Wuxi and Dongguan. To this end, phase 1 development of our new centralized manufacturing facility in Dongguan will be completed by mid 2006, we will move our existing Dongguan operations into this new state-of-the-art manufacturing facility. We believe our Dongguan production capacity will reach 650,000,000 pieces per month by the end of 2006. We will also purchase additional machinery for the new Wuxi manufacturing facility to further expand its production capacity to 200,000,000 pieces per month by the end of 2006. The Xiamen manufacturing facility will maintain its present size of producing 40,000,000 per month. All taken into account, the Group's total production capacity will increase to approximately 890,000,000 pieces per month by the end of 2006. Further expansion of production capacity is also likely should the Group decide to move on with phase 2 of the Wuxi or Dongguan projects.

In addition to expanding our E-Cap production capacity, we took a step further to integrate our manufacturing processes upstream. This relates to the construction and commencement of operation of our new aluminum foil factory in Qingyuan, northern Guangdong, in January 2006. This electro-chemical factory processes a portion of the aluminum foils to be consumed by the Group. This strategic move allows the Group to stabilize the supply of high quality aluminum foils and to improve the Group's overall gross margin in future.

FY2006 has not been without challenges so far. We have seen rapid increases in the price of certain raw material items and components. The rise in cost of electricity, labor and production overhead also create some burden to the gross margin. We will also see an one-off relocation expense to be incurred in mid 2006 when we relocate the existing Dongguan manufacturing facility to the new one. To counteract all these challenges, we will continue to introduce higher value and margin products in the products line up. We will also launch a series of cost rationalization measures to enhance overall cost efficiency.

APPRECIATION

I would like to take this opportunity to thank my fellow directors and all staff members for their continuous hard work, dedication and support to the Group.

Chan Ho Sing

Chairman

Hong Kong, 19 April 2006