



Zhang Shuyang
Chairman

Chairman's Statement

Pursuing our "No Brand Solution" approach, for the purpose of providing first-class value-added services in supply chain management

Chairman's Statement

Dear Shareholders:

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Mitsumaru East Kit (Holdings) Limited (the "Company") and its subsidiaries for the year ended 31 December 2005.

During the past year, under the ever-changing global market of CTV, the production and sales of CRT TV slowed down and the flat TV market developed in full throttle. In this regard, there were constant adjustments to the structure of CTV products. The fluctuation in prices of raw material markets as well as sustained and intensified price-wars in the CTV industry led to a tough business environment for branded manufacturers in the industry. However, such situation presented opportunities to the Group. Being a supply chain management service provider with strong competitiveness in the consumer electronic industry, Mitsumaru Holdings has successfully overcome various challenges and achieved remarkable results during the period.

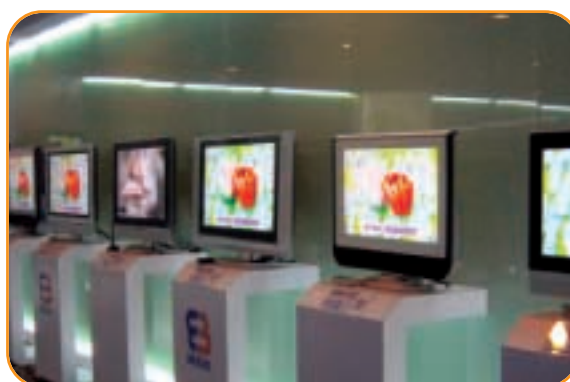
SUMMARY OF RESULTS

For the year ended 31 December 2005, the Group achieved satisfactory results in terms of turnover and earnings. During the year, turnover of the Group was approximately HK\$1.1 billion, representing an increase of 72.4% as compared to HK\$618.4 million for the corresponding period of the previous year. Net profit for the year was HK\$15.2 million, representing an increase of 77.9% as compared to HK\$8.6 million for the previous year. Basic earnings per share reached HK3.80 cents, representing an increase of 31.5% as compared to HK2.89 cents of the previous year. As at the balance sheet date, cash equivalents and deposit balances were approximately HK\$136.4 million. The Group has maintained a strong financial position, laying a solid foundation for its future development.

The Group actively expanded its existing operations and invested more resources on overseas markets this year.

DIVIDENDS

In appreciation of the shareholders' continuous support to the Group, and taking into account the Group's financial position, liquidity, operating and capital requirements as well as the needs for continuous business development in the future, the Board resolved to recommend a final dividend for the year ended 31 December 2005 of HK1.125 cents per share (2004: HK0.75 cents per share) to the shareholders. The Board believes that the Group will be capable of maintaining investments required for its continued development as supported by its steady financial positions and cash flow. The Group will make its best endeavours to award the investing public with satisfactory dividend returns.





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BUSINESS REVIEW

In 2005, the Group pursued and implemented its development strategy of "No Brand Solution" approach, by fully leveraging on its strengths and adhering to technology innovations, and dedicated to take a leading position in the supply chain management service market of the consumer electronic industry in the PRC.

The CTV industry is one of the most mature industries. It has established the most extensive market with strongest competitive strengths in the PRC characterised by rapid technological changes, and has tremendous market potentials, particularly the flat TV. Therefore, an increasing number of reputable CTV producers further contribute their investments and resources to the research and development of high-end CTV technologies, and this has intensified competition within the CTV industry in the PRC. With the continuing increase in the output of CTV, continuous expansion of the market scale and the sustained downward trend in the prices of various types of CTV, competition within the industry becomes intense.

It is encouraging that the Group is committed to its development strategies by focusing on providing high value-added services in its supply chain management to reputable domestic and international electronic enterprises. Additionally, the Group is able to capitalise on technology and management innovations to reduce costs, expand its scale, enhance efficiency, provide good-value products and strive for the expansion of overseas markets. Therefore, the Group sustained steady growth during the year amidst an intensely competitive environment in the industry.

To align with the business development, the Group constructed an office building, a research and development center and a logistics center in Shanghai in 2004, all of which have commenced full operations in early 2005. The new logistics center has substantially boosted the Group's logistical processing capacity from 3 million kits per year to 9 million kits per year, laying a solid foundation for the Group's further expansion of its market share. As a matter of fact, the products sold by the Group increased from 3.5 million kits in 2004 to 6.4 million kits in 2005. In addition, the Group has constructed a new plant for the assembling of Flat TV such as LCD-TV, and introduced a number of advanced production lines and production technologies from famous Japanese enterprises having their engineers stationed at in Shanghai for upgrading of production lines in order to enhance efficiency. The production capacity of the new processing plant is expected to increase to 0.8 million kits of products by the end of 2006, thereby enabling the Group to establish a solid foundation under the opportunity of the rapid developing LCD market.

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In respect of market sales, the Group was proactively expanding its customer base as well as expanding its market share with proven results. During the year, the Group won various major contracts, namely, a sale and purchase contract entered into with SHOY ELEKTRONIK SAN ve TIC A.S., one of the four largest TV manufacturers in Turkey; a memorandum of understanding entered into with Gurpo De La Electronica of the Republic of Cuba, a company under the Ministry of Information of Cuba, and Qingdao-based Haier Group, for the joint cooperation in the second batch of 1 million sets CTV project for the Cuban government, after the first batch under the cooperation project has been completed; and the

sale and purchase contract entered into with STANDARD & WESTERN (S) PTE. LTD., the largest TV manufacturer in Russia, etc. At present, the Group is actively developing markets with strong potentials such as the Middle East regions, Russia, India, Europe, North America and China, and continues to cooperate with international brands to further expansion into overseas markets.

With a view to further promoting the Group's new LCD products, the Group has actively participated in and conducted marketing activities. Sales are boosted by frequent introduction of diversified products to the markets and presentation of the Group's latest products, such as LCD products, to the existing customers for the purpose of building strong links and long term cooperation with customers. In this regard, the Group has established a LCD show room at the new office building in Shanghai, where the



Group's latest products would be constantly presented for customers' selection and ordering. Furthermore, the Group focused on managing its distribution channels and product promotions through participation in various international exhibitions. During 2005, the Group attended, among other exhibitions, International Funk Ausstellung (IFA) in Germany. In addition to promoting the Group's products to manufacturers and suppliers from all over the world, the Group explored new partners at those exhibitions.



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At the same time, the Group has always been dedicated to maintaining and enhancing the level of corporate governance. Based on the existing audit committee, the Group has set up a nomination committee and a remuneration committee during the year. The Group will regularly review and strengthen the effectiveness of its internal control system to ensure compliance with the requirements of the Code on Corporate Governance Practices, and will make decisions which comply with the interests of shareholders as a whole and to create best returns for shareholders.

PROSPECTS AND OUTLOOK

Given the trend of global CTV market, it is anticipated that flat TV will become the mainstream for development and consumption of the CTV market. As living standards improve, there emerges a greater consumption power for high-end CTV products, including LCD TV, Plasma TV, resulting in increasing sales of Chinese made flat TV. The proportion of the turnover of LCD TV to the turnover of flat TV continues to increase. LCD TV will provide the Group with enormous business opportunities and will become a new growth point for the Group's profits. On the other hand, despite that the global demand for traditional CRT has become stable in recent years, the Group still can have a growth in the market during the year. In view of this, the Group is well-positioned to capture the opportunities to shift its emphasis to LCD products on the basis of consolidating and expanding the sales volume of CRT products, with a view to optimise its profitability. Moreover, the imposition of RoHS environmental protection standards by the European Union and ATSC of the United States require more advanced technologies to ensure export of CTV to Europe and the United States. The Group has well-prepared itself for compliance with the standards to ensure sales.

Looking ahead, the Group will devote more resources to the high-end digital products as its focus for development. High-tech products such as LCD TV, HDTV, DVD Two-in-One will be launched in 2006. At the same time, the Group will broaden its sales of CRT and LCD products with a view to expanding the overseas market, so as to stimulate turnover and profits on an on-going basis as well as for the purpose of capturing a greater market share. The sales department will employ more sales staff for overseas sales, improve the sales structure and provide professional training to the sales staff, in order to provide professional and excellent sales services. Furthermore, leveraging on its own strengths, the Group will reinforce its capability of research and development and logistical processing and put more efforts into conducting marketing activities, for the purpose of introducing high value-added products to the consumer electronic industry to meet the increasing market demands.



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ACKNOWLEDGEMENT

On behalf of the Board of Mitsumaru Holdings, I would like to extend my heartfelt thanks to all our customers, suppliers, business partners and shareholders for their trust in and support for the Group, and to all the staff of the Group for their dedication and loyalty.

By Order of the Board

Mitsumaru East Kit (Holdings) Limited

Zhang Shuyang

Chairman

Hong Kong, 25 April 2006