Management Discussion and Analysis

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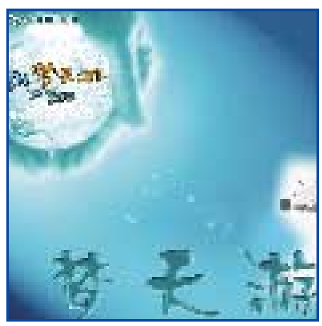
The year 2004 is a very special year for the Group. The Group underwent a number of major changes during the period, including the newly acquired business of manufacture, distribution and sale of healthcare products. In addition, the management also changed the Group's financial year end date from 31 December to 31 March. The change of financial year end date is to align with the business cycle of the newly acquired business in order to facilitate shareholders and investors in their evaluation of the performance of the Group. As a result of the change, this financial year of the Group covered fifteen months' results from 1 January 2004 to 31 March 2005. Starting from 2005 onwards, the Group's financial year will be back to normal, consists of 12 months from 1 April to 31 March of next year.

For the fifteen months ended 31 March 2005, the Group's audited turnover increased by 132.6% compared with last year, to HK$2,362 million. During the period, the Group's operating profit increased tremendously. Since the shares in SINA Corporation ("Sina") held by the Group were marked to the then market price at the end of 2003, most of the unrealized gain has been recorded in the 2003 financial statements. Therefore, the realized gain from disposal of shares in Sina during the period was very limited. The remaining Sina shares were marked to market at the end of the period, causing slight unrealized loss. For the fifteen months ended 31 March 2005, the profit attributable to shareholders was HK$160 million. Comparing to HK$801 million for the twelve months in 2003, the major contribution was from investment gain in Sina shares.



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BUSINESS REVIEW

Upon the completion of the acquisition of Shanghai GoldPartner, the principal businesses of the Group include the manufacture, distribution and sale of electronic and electrical products (hereafter referred to as "Electronic Products Business") and the manufacture, distribution and sale of healthcare products (hereafter referred to as "Healthcare Products Business"). The Electronic Products Business is further sub-divided into different types of products. The turnover of various principal businesses and products during the period are set out in details below:

	2004/05 15 months HK$'000	2003 12 months HK$'000	% Changes Increase/ (decrease)
Electronic Products Business			
Manufacture			
Printers	**188,457**	163,529	15.2
Gold tax and tax control products	**41,107**	55,245	(25.6)
Others	**82,456**	54,544	51.2
Distribution			
Industrial controllers	**714,696**	517,302	38.2
UPS equipment	**81,247**	72,468	12.1
Digital graphic products	**72,069**	73,069	(1.4)
Computer parts and others	**69,144**	26,374	162.2
Others	**51,634**	52,746	(2.1)
Media-related Business	**5,988**	N/A	N/A
Healthcare Products Business			
Naobaijin	**598,010**	N/A	N/A
GoldPartner	**456,699**	N/A	N/A
	2,361,507	1,015,277	

ELECTRONIC PRODUCTS BUSINESS

The turnover of Electronic Products Business during the period accounted for 55.1% of the Group's turnover in the fifteen months period after the acquisition of Healthcare Products Business. Sales of industrial controllers were still the highest revenue generating section in this business sector, representing 30.3% of the total turnover. During the period, the Group maintained the policy of encouraging sales by reducing price. As a result, the sales of industrial controllers reached HK$715 million, representing an increase of 38.2% when compared with last year. As a result of adverse impact brought by fluctuations in exchange rate, the gross margin decreased by 2.5 percentage points from last year. Industrial controllers sold by the Group includes Fuji-branded transducers, products from Allen Bradley PLC, Siemens PLC, Omron and RKC, etc.

ELECTRONIC PRODUCTS BUSINESS *(Continued)*

The self-produced Stone printer, which recorded the second largest turnover in the Electronic Products Business, accounted for 8.0% of the total turnover. Although there was intellectual property issue concerning the printer and the overall negative growth of the dot matrix printer market happened during the period, as the results covered fifteen months, sales of printers for the period increased by 15.2% as compared with last year, amounting to HK$188 million. Besides, the gross margin decreased by 4.6 percentage points as compared with last year. Regarding the intellectual property issue, it was concluded that the patent right belonged to both parties and this has stabilized the future sales of printer.

The Group's uninterrupted power supply products remained as a high revenue generating business sector during the period, representing 3.4% of the total turnover. The Group was appointed by Powerware UPS as the first tier agent in the PRC in the second half of 2003. Turnover of this sector for the fifteen months ended 31 March 2005 reached HK$81.25 million, representing an increase of 12.1% as compared with last year. Its gross margin also increased by 0.5 percentage points when compared with last year.

For digital graphic products, the distribution right of Roland products was terminated during the period. Due to this unfavorable factor, the turnover for the fifteen months ended 31 March 2005 was only HK$72.07 million, representing a decrease of 1.4% as compared with last year, while the gross margin also dropped by 0.6 percentage points. The management is currently seeking other world renowned manufacturers of digital graphic products, in order to create new opportunities for the Group by capitalizing on its experience and expertise in the distribution of digital graphic products.

In conclusion, in 2004/05, several products distributed by the Group were affected by distribution right issues. This was the result of frequent mergers and acquisitions of famous international brands, some of which were distributed by the Group in recent years. These mergers and acquisitions necessitated revision of existing distribution rights or even new agreements.

At the beginning of the period, the State adjusted its tax control policies. As a result, most companies ceased to be ordinary taxpayers, and the sales of the Group's gold tax products was significantly affected. The turnover for the fifteen months ended 31 March 2005 decreased by 25.6% from the twelve months period last year, to only HK$41.11 million. Nevertheless, since the turnover was mainly generated from provision of training programmes and after-sale services, the gross margin increased by 6.6 percentage points when compared with last year.

The Electronic Products Business also includes sales of semi-conductors and computer accessories, and manufacture of electrical lighting equipment, electrical peripheral, healthcare equipment, control systems for automated doors and other electrical products. Turnover of other products for the fifteen months ended 31 March 2005 was about 8.6% of the total turnover, amounting to HK$203 million.

ELECTRONIC PRODUCTS BUSINESS *(Continued)*

In view of the unsatisfactory performance of some of the Electronic Products Business, the management has been seeking alternatives in the past few years. It has also been looking for new businesses with higher added value and investment return to enrich the Group's Electronic Products Business. Eventually the media-related business was chosen. During the period, the media-related business of the Group included holding shares of Sina, holding equity interests in China Cable Information Network Co., Ltd. (hereafter "China Cable") and the operation and development of an internet cafe chain. During the period, the Group continued to reduce its holding of Sina shares. The shareholding decreased from approximately 13.3% at the beginning of the period to approximately 4.96% towards the end of the period. Sales of the shares realized about HK$103 million profit to the Group. As the market price of the shares at the period end was lower than the market price at the beginning of the period, the mark to market of the remaining shares held by the Group amounted to an unrealized loss of HK$49.55 million for the period. On the other hand, during the period, the Group continued to increase its equity stake in China Cable, through a jointly controlled entity, investment in China Cable increased from equity interest of 5.54% at the beginning of the period to 17.38% at period end. In addition, the internet cafe chain started to operate in Guangzhou during the period. The first flagship cafe was opened in Hai Zhu District in early March 2004 and the second cafe, which was directly owned by the Group, also commenced operation in Bai Yun District in May 2004. Four more cafes have entered into franchise agreements with the Group in the second half of 2004 to join the Group's internet cafe chain. Moreover, due to the effective management and tidy environment of our cafes, they are now becoming the model cafes of Guangdong Province. The management believes that healthcare business and internet business will be the businesses with growth potential and expansion scale in the PRC. By means of our experience in internet business, we are assured that we can procure Electronic Products Business to transform from a low value business to a high technology-internet business with greater value.

HEALTHCARE PRODUCTS BUSINESS

The acquisition of Shanghai GoldPartner was completed on 4 March 2004. The results of Shanghai GoldPartner and related companies for the thirteen months starting from the completion of acquisition to 31 March 2005 were consolidated in the Group's financial statements for the period. The sale of Shanghai GoldPartner mainly consists of two healthcare products, namely, Naobaijin and GoldPartner. The two products were distributed to major cities in the PRC through more than 2,900 distributors, and then sold to customers through the distributors' retail outlets. Naobaijin and GoldPartner were also available in large supermarket chains or superstores in the form of consignment. During the period, the two products recorded a combined turnover of HK$1,055 million, representing 44.7% of the Group's total turnover. Their gross profit contribution amounted to HK$586 million, representing 82.3% of the total gross profit. As these products were so successful, the management believes that profit guarantee of RMB170 million agreed between the Group and the vendor for the acquisition is able to be achieved. Details about profit guarantee will be disclosed in separate announcement in due course.

Naobaijin is a consumer healthcare product designed to restore the natural sleep cycle and relieve problems of the digestive system. The target customers include elderly and middle-age persons who work under heavy pressure. Naobaijin was first launched in 1998. According to the National Bureau of Statistics of China, Naobaijin was the leader in the single market of consumer healthcare food for four consecutive years from 2000 to 2003 and became the second in 2004. During the period, Naobaijin recorded a turnover of HK$598 million, a gross profit of HK$262 million and a gross margin of about 43.9%.

GoldPartner is a health supplement that provides important vitamins and minerals lacking in typical Chinese diet. It is targeted at consumers of all ages. At present, there are three varieties of GoldPartner, designed for children, women, and elderly. GoldPartner was launched in 2002, and enjoyed the second highest market share in 2002 to 2003 consecutively and became the first in 2004, making it a leading vitamin brand in the PRC. During the period, GoldPartner recorded a turnover of HK$457 million, a gross profit of HK$324 million and a gross margin of about 70.9%.

LIQUIDITY AND FINANCIAL POSITION

The Group's financing and treasury activities were principally managed in Hong Kong and two subsidiaries in Beijing and Shanghai.

As at period end, the current ratio and quick ratio of the Group were 5.58 and 5.09 respectively. Cash and cash equivalents held was HK$505 million, which was denominated principally in Renminbi and US Dollars. Net asset increased from HK$1,775 million at the beginning of the period to HK$2,028 million as at the period end. It reflected that the financial position of the Group was very healthy.

According to the Sale and Purchase Agreement of Shanghai GoldPartner, the Group issued a total of principal of HK$571,955,403 convertible notes on 4 March 2004 as part of the consideration for the completion of the acquisition. The conversion price of the convertible notes is HK$0.76 per share, zero coupon and with a maturity date of five years from the date of issue. Besides, according to the Placing Agreement entered into between the Group and First Shanghai Securities Limited on 6 June 2003 ("Placing Agreement"), the Group issued the third lot of convertible notes of principal amount of HK$180 million to independent placee investors on 20 May 2004. The conversion price of the convertible notes is HK$0.52 per share, bearing interest at 3% per annum and with a maturity date of five years from the date of issue. Such that, the total amount of HK$400 million of convertible notes were fully issued. During the period, HK$123 million convertible notes were converted into 236,538,440 ordinary shares of the Company at the conversion price of HK$0.52 per share. In addition, the HK$6 million convertible notes were converted into 7,894,736 ordinary shares of the Company at the conversion price of HK$0.76 per share.

Due to the issue of the above-mentioned convertible notes, the total borrowings increased to HK$868 million as at 31 March 2005, increased by 140.1% as compared with the total as at the beginning of the period. The majority of the Group's borrowings was denominated in Hong Kong dollars, with the remaining balance being denominated in Renminbi. The net debt gearing ratio increased to 17.9%, which was calculated on the basis of total net bank borrowings and convertible notes as a ratio of the Group's shareholders' funds.

As at 31 March 2005, the available banking facilities of the Group amounted to HK$96.38 million. They consist of letter of credit facilities, overdraft and other standby credit. The Group had utilized approximately HK$35.10 million of its credit facilities. The Group believes that the internal fund and the existing banking facilities are able to meet its anticipated future capital and operational cash flow requirements.

CHARGES ON ASSETS

As at 31 March 2005, fixed deposits of HK$33.8 million and a property with carrying value of HK$22.6 million were pledged with banks as collateral against banking facilities and a term loan granted to subsidiaries of the Group.

CONTINGENT LIABILITIES

As at 31 March 2005, the Group had provided a counter guarantee of approximately HK$7.6 million for bank loans granted to an investee company. The Group also had approximately HK$1.3 million letters of credit issued but not yet utilized.

HEDGING

As the Group makes its purchase substantially from overseas, it is the Group's policy to enter into foreign exchange forward contracts to hedge against foreign exchange fluctuation whenever necessary.

HUMAN RESOURCES

As at 31 March 2005, the Group employed a total of 8,392 (31 December 2003: 845) employees, of which 8,364 (31 December 2003: 816) were employed in the PRC and 28 (31 December 2003: 29) were employed in Hong Kong. Out of the 8,364 employees in the PRC, 6,152 (31 December 2003: 9) were temporary employees.

In addition to basic salaries and bonuses, employees are also entitled to other benefits, including medical subsidies and the benefit under the mandatory provident fund, and Central Pension Scheme and supplementary defined contribution retirement plans managed by independent insurance companies respectively for Hong Kong and PRC staff. Certain employees are also given share options as incentives.

OUTLOOK

The Group has finally returned to operating profit, thanks to its hard efforts. This has affirmed the Group's decision to acquire Shanghai GoldPartner, which contributed a great deal to the Group's overall profitability. Therefore, the management is very confident about the prospects of healthcare products, and has been seeking new opportunities within and outside the Group. During the period, the Group successfully developed a new product named Huang Jin Xue Kang (黃金血康). The test-sale of the product is being performed in eight cities in the PRC. On the other hand, the Group reached an agreement with an independent third party in early August last year concerning the acquisition of equity interests in Shanghai Heng Shou Tang Pharmaceutical Company Limited. However, owing to problems found by due diligence, the management had to abandon the proposed acquisition. This shows that while the management is keen on expanding the Healthcare Products Business, it remains prudent in the evaluation of investment opportunities. The management does not rule out the possibility of making further investment in Healthcare Products Business if good investment opportunities arise in future.

The management believes that, after having restructured and modified, transformation from a low value traditional electronic business to a greater value internet business has been completed in its early stage. Besides, burden in the Electronic Products Business has been reduced and a solid foundation for the Group's sustained profit growth has been built. The investment in cable TV in the PRC is still undergoing an integration period. By acquiring regional system operators, the investee company is expanding its number of subscribers. It is anticipated that the investment will contribute to the Group's profits in the near future. The internet cafe chain in Guangdong Province is still in the early stage of development. The Group believes that it will soon be able to operate self-sufficiently and bring profit to the Group.

After the period end, the Group has acquired 40% equity interest in Beijing Metoyou Information Technology Limited, a company headquartered in Beijing, at a consideration of US$19,200,000. According to the terms of acquisition, there are two years' profit guarantee of US$8.1 million each year. The company is mainly engaged in wireless telecommunications and location-based value-added services business in the PRC. The management believes that the wireless telecommunications value-added services market in the PRC has substantial growth potential. The company, with its well-established presence in the PRC market, is in good position to exploit such potential of the market, and bring new business opportunities and add value to the Group.