"As our core Electronic Products Business is strengthened gradually, it is significantly streamlined as it continued to cut losses. GoldPartner and Naobaijin remained as top sellers in the regulated healthcare products market."

Shi Yuzhu
Chief Executive Officer

Last year, the Group's financial year end date was changed from 31 December to 31 March. Results for the previous period, therefore, covered a period of 15 months, while the results for the current year only covered 12 months. Your attention is drawn to this difference when comparing the figures of these two years.

For the year ended 31 March 2006, the Group recorded audited turnover of HK$2,035 million, a decrease by 13.8% when compared with the previous period. Profit from operations fell by 25.9% to HK$109 million. As a result of the unrealised loss of HK$64.54 million arising from the holding of SINA shares during the year, profit attributable to shareholders decreased to HK$63.91 million, a decrease of 60.2% when compared with the previous period. At the end of the year, market value of SINA was US$27.9 per share, lower than that of US$31.06 recorded at the beginning of the year. However, when compared with the unaudited management account for the corresponding twelve months of the previous year, turnover only recorded a downturn of 3.6%, while profit attributable to shareholders increased by 48.7%.

BUSINESS REVIEW

Since 2004, the Group started reorganising its electronic business. On the basis of strengthening its core businesses, companies with poor efficiencies, small market share, or were not highly-related to our core businesses were closed down, inactivated, merged with others or transferred to other parties. At the end of this year, the reorganisation exercise has almost been completed. In the process of reorganisation, the Group disposed 8 companies, closed down 2 companies and marketing centres, and reduced its stakes in 4 companies. Cash received by the Group was approximately HK$143 million, assets disposed of amounted to approximately HK$133 million, and the Group recorded an earning of approximately HK$10.84 million in the reorganisation. During the year, the Group collected cash amounted to approximately HK$134 million, and a profit of approximately HK$11.07 million was recorded. The management believes that the disposal of long-term loss-making companies with unfavourable prospects and non-principal operating companies is beneficial to the development of the Group in the long run. Therefore, the Group is on the right track and the hardship that we have gone through during the reorganisation in the previous two years has been proved rewarding. After the reorganisation, the turnover of various principal businesses and products during the year are set out in details below:

	2005/06 12 months HK$'000	**2004/05 15 months** HK$'000	**% Changes Increase/ (decrease)**
Electronic Products Manufacturing and Distribution Business			
Manufacture			
Printers	175,767	188,457	(6.7)%
Gold tax and tax control products	23,663	41,107	(42.4)%
Others	43,899	82,456	(46.8)%
Distribution			
Industrial controllers	621,426	714,696	(13.1)%
UPS equipment	72,628	81,247	(10.6)%
Digital graphic products	10,715	72,069	(85.1)%
Computer parts and others	22,005	69,144	(68.2)%
Others	62,626	51,634	21.3%
Media-related Business	6,080	5,988	1.5%
Healthcare Products Manufacturing and Distribution Business			
Naobaijin	618,639	598,010	3.4%
GoldPartner	378,019	456,699	(17.2)%
	2,035,467	2,361,507	

Electronic Products Business

The turnover of Electronic Products Business for the period under review accounted for 50.7% of the Group's total turnover, in which sales of industrial controllers were still the highest revenue driver in this business operation, representing 30.5% of the total turnover. During the year, price adjustment remained as the key way to boost sales. As a result, turnover recorded HK$621 million, a drop of 13.1% when compared with the 15-month period in the previous year, while gross profit margins remained stable. Sales of Fuji-branded transducers represented 44% of the sales of all industrial controllers, while Siemens-branded transducers and electrical appliances accounted for approximately 25%. In the coming year, operating strategies for the companies involved in industrial controllers include discontinuing projects that have low profit and deteriorating market recognition. In addition, the Group will provide training to a group of external sales personnel based on the current sales mode, follow up with direct clients such as key design institutes, system integrators and OEM clients, and undertake engineering projects, in order to enhance the profit margins for sales.

The self-produced Stone printer, which recorded the second largest turnover in the Electronic Products Business, accounted for 8.6% of the total turnover. During the year, turnover for printers was HK$176 million, a drop by 6.7% when compared with the 15-month period in the previous year, however, gross profit margins increased by 1.1 percentage points. The three key models for the Group's printers are 5560, 5660 and 5860. Major customers for 5560 are China Mobile, China Unicom and China Post, while 5660 and 5860 account for over 70% of the market share in the rural credit cooperatives and postal savings and remittance markets.

The Group's uninterrupted power supply ("UPS") products remained as a high revenue generating business sector during the year, representing 3.6% of the total turnover. The Group's integrated electronics division is the sole agent of Powerware in distributing UPS products in the PRC, mainly selling Powerware 9315 and 9305 UPS series, as well as 9110 and 9150 UPS. For the year ended 31 March 2006, turnover for these products was HK$72.63 million, reduced by 10.6% when compared with the 15-month period in the previous year, while the gross profit margins for these products also dropped by 3.2%.

During the year, digital graphic products division did not possess any official distribution rights for any products, as a result, the turnover for this division was only HK$10.72 million for the year ended 31 March 2006, a decrease of 85.1% from the 15-month period in the previous year. Gross profit margins rose by 11.5%, mainly due to a higher gross profit recorded for the sales of parts. With the persistent effort from the management, the Group entered into an agreement with Graphtec（日圖）, a Japanese company, at the beginning of 2006, under which the Group will act as the sole agent for Graphtec in China, mainly selling peripherals such as fax machines, design cutting machines, engraving machines and 3D scanners. The Group will formulate various solutions to be used with Graphtec's cutting machines, and promote their use in transportation, apparel, stone, shoes-manufacturing industry and personal use.

During the year, the sales of gold tax products were significantly affected by the change of government policies on tax control. Before July 2004, there were approximately 600 new ordinary taxpayers per month for the gold tax division of the Group, however, after revising the policies, there are only approximately 200 new ordinary taxpayers per month. In addition, the State Administration of Taxation called a halt to the sales of tax control products several times during 2005, resulting in a drop of sales of tax control machines from approximately 6,500 units in 2004 to approximately 3,600 units in 2005. For the year ended 31 March 2006, turnover for this division was only HK$23.66 million, recording a decrease of 42.4% when compared with the 15-month period in the previous year. As turnover was mainly derived from providing training programmes and after-sale services, gross profit margins rose by 5.3% when compared with the previous period.

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 year ended 31 March 2006 was about 6.3% of the total turnover, amounting to HK$129 million.

Apart from the traditional Electronic Products Business, the Group has been developing high-technology, Internet and media-related businesses which have higher added value and investment return in the past few years. At the beginning of the year, the Group entered the wireless telecommunication and location-based value-added service market with the acquisition of a 40% equity interest in ME TO YOU HOLDINGS LTD. (hereinafter "Cayman MTY"). By the end of 2005, Cayman MTY had achieved the guaranteed profit for the first year of US$8.10 million. The Group realised a share of profit of HK$19.17 million. During the year, the Group successfully introduced an international investor to inject capital into China Cable Media Group Limited ("CCMG"), a company in which the Group previously held 50% stake at 31 March 2005, and the capital of CCMG was therefore increased by approximately US$33 million. Subsequently, CCMG increased its shareholding in China Cable Information Network Co., Ltd. (hereinafter "CCN") from 17.38% at the beginning of the year to 31.96% at the end of the year. Also, the Group invested in internet cafe chain through franchises and alliances. The number of internet cafe reached 65 in May this year, while there were only 6 internet cafes at the beginning of the year. There were over 10,000 computer terminals and approximately 40,000 users per day. Together with other value-added services, the Group believes that internet cafe chain is turning profitable in due course.

Healthcare Products Business

Year 2005 was the "Regulatory Year" for the healthcare products industry in the PRC. The PRC government promulgated various regulations ranging from registration, approval to the packaging and advertising of healthcare products, in order to maintain a standardised legal administration. However, the accommodation between promulgation and implementation of these new regulations led to a certain degree of instability to the market, which gave rise to slightly lower sales of healthcare products of the Group in the first half of the year. Credit to persistent management efforts in advertising and marketing, according to the National Bureau of Statistics of China, the Group's healthcare product is still enjoying the largest market share. Among these, Naobaijin had the largest market share in 2005 and rose to 9.44%. During the year, Naobaijin and GoldPartner recorded a combined turnover of HK$997 million, representing 49% of the Group's total turnover. Their gross profit contribution together amounted to HK$554 million, representing 85.4% of the total gross profit. Healthcare Products Business mainly comprises the sale of two kinds of healthcare products, namely, Naobaijin and GoldPartner. They were distributed to major PRC cities 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.

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-aged workers under heavy pressure. According to the National Bureau of Statistics of China, Naobaijin was the market leader for consecutive four years from 2000 to 2003 and became the market leader again in 2005. During the year, Naobaijin's turnover increased by 3.4% to HK$619 million compared to the 15 months in the previous year, with gross profit contribution and gross margin of approximately HK$290 million and 46.9% respectively, representing a 3 percentage points growth in gross margin compared to the 15 months in the previous period, primarily attributable to the price increment in mid-August 2005.

GoldPartner is a health supplement that provides important vitamins and minerals lacking in typical Chinese diet. Targeted at consumers of all ages, there are three types of GoldPartner products which cater for children, women and elderly respectively. GoldPartner remained top sellers in the healthcare products market in the past few years, making it a leading vitamin brand in the PRC. During the year, GoldPartner recorded a turnover of HK$378 million, recording a decrease of 17.2% compared to the 15 months last year, with gross profit contribution and gross margin of approximately HK$264 million and 69.9% respectively, representing a 1 percentage point decline in gross margin compared to last period.

LIQUIDITY AND FINANCIAL POSITION

As at year end, the current ratio and quick ratio of the Group were 3.83 and 3.54 respectively. Cash and cash equivalents held was HK$582 million. Total equity attributable to shareholders of the Company increased from HK$2,028 million at the beginning of the period to HK$2,203 million as at the year end. It reflected that the financial position of the Group was very healthy.

At the end of the year, the Group's convertible notes amounted to HK$574 million, representing a decrease of HK$259 million. This was primarily due to two reasons, first of all, we entered into an agreement with our Chief Executive Officer, Mr. Shi Yuzhu, in December 2005 to redeem convertible notes with a par value of HK$192 million held by him for a consideration of HK$145 million, reducing the debt of the Company by HK$170 million. Secondly, we have adopted new accounting standards effective from 1 January 2005, all convertible notes issued are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in other reserve until the note is converted or redeemed.

Compared to the previous period, the HK$574 million convertible notes comprised par value of HK$247 million convertible notes with an interest rate of 3% at a conversion price of HK$0.52 per share and HK$374 million convertible notes at par value with nil interest at a conversion price of HK$0.76 per share.

Due to the above-mentioned, the aggregated interest-bearing bank loan and other loans of the Group as at 31 March 2006 decreased to HK$693 million, representing a decrease of 20.2% compared to the beginning of the year, meanwhile, the ratio of borrowings and net borrowings to total equity attributable to shareholders of the Company decreased to 31.5% and 5.1% respectively.

As at 31 March 2006, the Group has HK$152 million banking facilities available. They consist of letter of credit facilities, overdraft and other standby credit. The Group had utilized approximately HK$119 million of its credit facilities. The Group believes that its internal fund and the existing banking facilities are able to meet its anticipated future capital investment and operational cash flow requirements.

CHARGES ON ASSETS

As at 31 March 2006, deposit of HK$0.1 million and a property with carrying value of approximately HK$24 million were pledged with banks as collateral against banking facilities and a term loan granted to subsidiaries of the Group. In addition, part of the shares in SINA held by the Group had been pledged to a securities company against a margin loan of US$15 million granted to the Group.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group had no contingent liabilities.

HEDGING

As the Group makes certain purchase 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 2006, the Group employed a total of 8,451 (2005: 8,392) employees, of which 8,423 (2005: 8,364) were employed in the PRC and 28 (2005: 28) were employed in Hong Kong. Out of the 8,423 employees in the PRC, 5,986 (2005: 6,152) 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.

BUSINESS OUTLOOK

Net profits for the year 2005/06 were not remarkable, mainly affected by the decrease in market value of SINA shares, nevertheless the Group had been proactive and had forged ahead in its business operations. Looking ahead, for the Electronics Products Business, it is believed that industrial controllers products and self-produced Stone printer will remain as the main sources of income for this business. As for the printer business, in particular, the management's sensitivity of the new market has enabled the dot matrix printers, which are assumed would have been eliminated by the market long ago, to continue developing, and we expect a sustainable growth to take place next year. It is believed that profits will be generated by the Integrated Electronics Department after internal rationalisation; the Digital Graphics Department, equipped with its past abundant agency experience, will definitely be able to attain higher reputation and larger market share for Graphtec cutting machine in the PRC market. As for the tax control business, since it is severely affected by the instability in the PRC government policies, the management will carry out an assessment and map out an appropriate strategy on the development of the business.

As for the advanced technology and internet-related business as well as the media-related business, investment in Cayman MTY has achieved favourable outcome even in the first year. The company's results for 2005 have exceeded the guaranteed profits, and the Group is confident that this investment will continue to make contribution to the Group next year. Whilst the Sunnet Cafe in Guangzhou recorded a mild loss for the year 2005/06, with its fame in the Guangdong province, the company has been burgeoning over the past year, and the management believes that it will also develop rapidly in the coming year, and by that time the company's income will increase, since it is believed that its huge chain store network will attract even more advertising customers, in addition to the normal online income. Investment in CCN is treated as a relatively long-term investment which requires an extremely enormous investment amount. Therefore the Group and the partners of CCMG will still seek the participation of appropriate strategic investors, in order to enhance our investment amount, and strive to remain as the single major stakeholder of CCN, improve the management of CCN, strengthen the company's profitability, thus enabling investment in CCN to continue to add value.

As for the Healthcare Products Business, the management believes that the market will be standardized after promulgation of new regulations by the PRC government. And after a series of keen competitions, the Group's Healthcare Products Business will attain a larger market share under the leadership of our experienced management team. Moreover, the Group will introduce two kinds of new products, namely Huang Jin Xue Kang (黃金血康降血脂) and Bao Jian Jiu (黃金牌保健酒), which will be put on trial sales in the coming year, thus creating higher profitability for the Healthcare Products Business.

The management believes that the Group has comparative advantage over other competitors in the industry and together with the continuous effort of the management team, we can definitely provide shareholders with lucrative returns.