

## CHAIRMAN'S STATEMENT

I am pleased to present to shareholders the annual report of the Group for the year ended 31st March, 2006.

### REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

The principal activities of the Group comprise investment holding, the provision of finance, the provision of management services, property investment, treasury investment, trading of building materials and machinery and the provision and operation of an internet-based precious metals trading platform through Trasy Gold Ex Limited ("Trasy").

During the year under review, turnover from continuing operations increased by approximately 143% to approximately HK\$253 million due to the increase in turnover from treasury investment and the provision of finance. The Group reported a profit attributable to equity holders of approximately HK\$107 million, an increase of approximately 21% as compared to approximately HK\$89 million for the last corresponding year. The increase in profit was mainly due to the release to income regarding the discount arising from acquisition of additional interest in Hanny Holdings Limited ("Hanny"). Basic earnings per ordinary share was HK9.4 cents (2005: HK10.8 cents). The board of directors (the "Board") has recommended the payment of a final dividend of HK1.7 cents per ordinary share, together with the interim dividend and the dividend on preference shares, the dividend payout ratio was approximately 54.0%.

Regarding the financial position of the Group, the total assets increased by 13% to approximately HK\$2,461 million. Owing to the combined effects of the current year's profit for the year, the placement of 214.4 million new ordinary shares and the full conversion of convertible notes into approximately 548.3 million ordinary shares, the equity attributable to equity holders increased to approximately HK\$2,010 million.

### REVIEW OF OPERATIONS

During the year ended 31st March, 2006, the Group continued to hold significant interests, directly or indirectly, in a number of companies listed in Hong Kong, Canada, Singapore, the United States, Australia and Germany and other high potential unlisted investments pursuant to its long-term strategy of exploring potential investments in an aggressive, but cautious, manner and enhancing the value of its strategic investments by active participation in or close liaisons with the management of the investee companies of the Group.

#### Strategic Investments

As at 31st March, 2006, the Group had the following significant strategic investments:

#### Listed subsidiary and strategic investments directly held

##### *PYI Corporation Limited ("PYI")*

Based in Hong Kong, the PYI group focuses on infrastructure investment in and operation of bulk cargo port and logistics facilities in the Yangtze River region in the PRC. It also engages in land and property development in association with port facilities. In addition, PYI provides comprehensive engineering and construction services through Paul Y. Engineering Group Limited ("Paul Y. Engineering"). In September 2005 and February 2006, the Group disposed an aggregate of 300 million shares in PYI and reported a loss of approximately HK\$20.1 million. For the year ended 31st March, 2006, PYI reported a consolidated profit of approximately HK\$310.5 million and its overall after tax contribution to the Group was a profit of approximately HK\$129.8 million.

##### *Hanny*

Hanny is an investment holding company. After completion of the disposal of its business of development, marketing, distribution and sale of hardware, media and accessories used for the storage of electronic data, accessories and hardware under the Memorex® brand in April 2006, the Hanny group concentrates on the trading of securities, property investment and trading and other strategic investments including investments in associated companies which are listed on various stock exchanges including those in Hong Kong, Singapore, the United States and Australia and long-term convertible notes issued by companies listed on the Hong Kong Stock Exchange. For the year ended 31st March, 2006, Hanny reported a consolidated profit of approximately HK\$8.9 million and its overall after tax contribution to the Group was a profit of approximately HK\$2.3 million.

## CHAIRMAN'S STATEMENT *(continued)*

### **Trasy**

The Trasy group is principally engaged in the provision and operation of an internet-based precious metals trading platform known as the "Trasy System". Trading in Trasy's shares has been suspended since 10th June, 2003. Subsequent to the takeover by the Company in March 2005, Trasy has put in place a sustainable business plan to strengthen its overall business performance and reformed its board of directors with an aim to seek resumption of trading of its shares as soon as possible. For the year ended 31st March, 2006, Trasy's after tax contribution to the Group was a loss of approximately HK\$4.9 million.

Trasy is now preparing a viable resumption proposal to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for consideration failing which the Hong Kong Stock Exchange may give notice to cancel the listing of Trasy on 18th November, 2006. The board of directors of Trasy considers that the current scale of operations of the Trasy group is sufficient to warrant continued listing of its shares.

### **Burcon NutraScience Corporation ("Burcon")**

Burcon is a research and development company building a portfolio of composition, application and process patents around its plant protein extraction and purification technology. Burcon's patented process utilises inexpensive oilseed meals for the production of purified plant proteins that exhibit valuable nutritional, functional or nutraceutical profiles. Burcon, in conjunction with Archer Daniels Midland, is currently focusing its efforts on developing the world's first commercial canola proteins, namely Puratein® and Supertein™ (the "Products"). Canola, recognised for its nutritional qualities, is the second-largest oilseed crop in the world after soybeans. Burcon's goal is to develop the Products to participate with soy, dairy and egg proteins in the expanding multi-billion dollar protein ingredient market, with potential uses in prepared foods, nutritional supplements and personal care products. In December 2005, Burcon was recognised as a TSX Venture 50™ company. TSX Venture 50™ is the first ever ranking of the top 50 emerging public companies listed on the TSX Venture Exchange in Canada. For the year ended 31st March, 2006, Burcon's after tax contribution to the Group was a loss of approximately HK\$4.7 million.

### **Hong Kong listed strategic investments indirectly held**

#### **Paul Y. Engineering**

The Paul Y. Engineering group is an international engineering services group, headquartered in Hong Kong. It operates three core business: management contracting, project management and facilities management. The Paul Y. Engineering group is committed to build, to manage and to add value for its board and distinguished client base in Hong Kong, the PRC and overseas.

#### **Macau Prime Properties Holdings Limited ("MPP", formerly known as Cheung Tai Hong Holdings Limited)**

The MPP group is principally engaged in property development and investment in Macau, the PRC and Hong Kong, operations of golf resort and hotel in the PRC, trading of motorcycles, manufacturing and retailing of "Tung Fong Hung" branded Chinese pharmaceutical and health products, production and distribution of western pharmaceutical products, and securities investment.

#### **See Corporation Limited ("See")**

The See group engages in the entertainment and media business, which includes film and television programme productions; event productions; and artiste and model management. It also owns significant interest in TVB Pay Vision Holdings Limited (formerly known as Galaxy Satellite TV Holdings Limited), which operates a pay-television business in Hong Kong.

#### **Wing On Travel (Holdings) Limited ("Wing On Travel")**

Wing On Travel group is principally engaged in the business of providing package tours, travel and other related services, and hotel operation including a hotel chain with the "Rosedale" brand in Hong Kong and the PRC.

#### **China Strategic Holdings Limited ("China Strategic")**

China Strategic is an investment holding company. After completion of the reorganisation of China Strategic group in May 2006, the China Strategic group concentrates on the business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments.

## CHAIRMAN'S STATEMENT *(continued)*

### Overseas listed strategic investments indirectly held

#### **PSC Corporation Ltd. ("PSC")**

The PSC group's three core business activities are consumer business, packaging and healthcare. PSC's consumer business division involves in food trading, logistics, manufacturing and retail franchising. This division has conceived and grown successful proprietary brands and honed a distribution service for its products. In 2005, the acquisition of Tat Seng Packaging Group Ltd. ("Tat Seng Packaging"), which is one of the Singapore's leading manufacturers of corrugated paper packaging products, marked PSC's entry into the packaging business. The healthcare division of the PSC Group provides turnkey solutions in developing primary to tertiary healthcare facilities.

#### **China Enterprises Limited ("China Enterprises")**

China Enterprises group is engaged in the business of property investment and development in the PRC; and has substantial interests in certain investment holding companies, the subsidiaries of which are principally engaged in the business of manufacturing and marketing of tires in the PRC and other countries abroad and the business of providing package tours, travel and other related services, and hotel operation.

#### **MRI Holdings Limited ("MRI")**

MRI is an investment company, which has a major investment in one of the leading health and fitness chain in Australia. The MRI group continues to identify appropriate, strategic investment opportunities that maximize returns to shareholders, within the clear mandate determined by shareholders.

#### **Intraco Limited ("Intraco")**

The Intraco group has developed its business portfolio under four core areas, which include commodities trading, projects, semiconductors and info-communications.

#### **Tat Seng Packaging**

The Tat Seng Packaging group is one of Singapore's leading manufacturers of corrugated paper packaging product with operations in Singapore and Suzhou in the PRC. The Tat Seng Packaging group designs, manufactures and sells corrugated paper packaging products for the packing of diverse range of products according to customers' specifications. Its key products include corrugated paper boards, corrugated paper cartons, die-cut boxes, assembly cartons, heavy duty corrugated paper products and other packaging related products.

The Group's interests in listed subsidiary and strategic investments are summarised below:

### Listed subsidiary and strategic investments directly held

Name of investee company	Place of listing	Stock code	Shareholding percentage	
			As at 31/3/2006	As at the date of this report
PYI	Hong Kong Stock Exchange	498	29.0%	27.3%
Hanny	Hong Kong Stock Exchange	275	24.3%	23.3%
Trasy	The Growth Enterprise Market of Hong Kong Stock Exchange	8063	56.5%	56.5%
Burcon	TSX Venture Exchange and Frankfurt Stock Exchange	BU WKN 157793	25.6%	25.6%

## CHAIRMAN'S STATEMENT *(continued)*

### Hong Kong listed strategic investments indirectly held

Name of investee company	Place of listing	Stock code	Effective interest	
			As at 31/3/2006	As at the date of this report
Paul Y. Engineering	Hong Kong Stock Exchange	577	18.7% <i>(Note a)</i>	17.6% <i>(Note a)</i>
MPP	Hong Kong Stock Exchange	199	–	3.5% <i>(Note b)</i>
See	Hong Kong Stock Exchange	491	3.7% <i>(Note b)</i>	4.1% <i>(Note b)</i>
China Strategic	Hong Kong Stock Exchange	235	15.6% <i>(Note c)</i>	7.1% <i>(Note c)</i>
Wing On Travel	Hong Kong Stock Exchange	1189	2.3% <i>(Note d)</i>	2.5% <i>(Note d)</i>

### Overseas listed strategic investments indirectly held

Name of investee company	Place of listing	Stock code	Effective interest	
			As at 31/3/2006	As at the date of this report
PSC	Singapore Exchange Securities Trading Limited	PSC	7.4% <i>(Note e)</i>	7.6% <i>(Note e)</i>
China Enterprises	OTC Bulletin Board, U.S.A.	CSHEF	8.6% <i>(Note f)</i>	12.7% <i>(Note f)</i>
MRI	Australian Stock Exchange	MRI	8.9% <i>(Note f)</i>	13.2% <i>(Note f)</i>
Tat Seng Packaging	Singapore Exchange Securities Trading Limited	TAT SENG	4.7% <i>(Note g)</i>	4.9% <i>(Note g)</i>
Intraco	Singapore Exchange Securities Trading Limited	INTRACO	2.2% <i>(Note g)</i>	2.2% <i>(Note g)</i>

#### Notes:

- (a) The Group's interest is held through its direct interests in PYI.
- (b) The Group's interest is held through its direct interests in Hanny.
- (c) The Group's interest is held through its direct interests in PYI and Hanny.
- (d) The Group's interest is held through its indirect interests in China Enterprises.
- (e) Other than the Group's direct interest of approximately 1.5% as at 31st March, 2006 (2.0% as at the date of this report), the Group's interest is held through its direct interests in Hanny.
- (f) The Group's interest was held through its indirect interest in China Strategic as at 31st March, 2006 but it is held through its direct interests in Hanny as at the date of this report after the group reorganisation of China Strategic.
- (g) The Group's interest is held through its indirect interest in PSC.

## CHAIRMAN'S STATEMENT *(continued)*

### LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash, bank balances and deposits as at 31st March, 2006 amounted to approximately HK\$227.8 million. As at 31st March, 2006, the Group had bank borrowings of approximately HK\$90.8 million of which approximately HK\$30.7 million is repayable within one year or on demand. The redeemable convertible preference shares with an aggregate redemption value of approximately HK\$283.0 million will be redeemed on 3rd November, 2007 (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled.

As at 31st March, 2006, all the Group's borrowings, except the redeemable convertible preference shares, are at floating interest rates and the Group's current ratio was 12.9.

### EXCHANGE RATE EXPOSURE

As at 31st March, 2006, approximately 16.8% of the cash, bank balances and deposits were in other currencies and only approximately 3.9% of the Group's total borrowings of approximately HK\$377.6 million was denominated in Canadian dollars. The Canadian dollars denominated borrowings are directly tied in with the Group's business in Canada.

### GEARING RATIO

The Group's gearing ratio, which was calculated using the Group's net borrowings of approximately HK\$149.8 million and the equity attributable to equity holders of approximately HK\$2,009.9 million, was 7.5% as at 31st March, 2006, as compared to 33.7% as at 31st March, 2005.

### PLEDGE OF ASSETS

As at 31st March, 2006, certain of the Group's properties, margin accounts receivables, held for trading investments and derivative financial instruments with an aggregate carrying value of approximately HK\$173.9 million were pledged to banks and financial institutions to secure general facilities granted to the Group.

### CONTINGENT LIABILITIES

As at 31st March, 2006, the Group has contingent liabilities in respect of guarantee given to banks on general banking facilities granted to an associate and financial support given to the associate of approximately HK\$56 million and approximately HK\$9.1 million, respectively.

### EMPLOYEE AND REMUNERATION POLICY

As at 31st March, 2006, the Group employed a total of 97 employees. The Group's remuneration policy is that the employees' remuneration is based on the employees' skills, knowledge and involvement in the Company's affairs and are determined by reference to the Company's performance, as well as remuneration benchmark in the industry and the prevailing market conditions. The ultimate objective of the remuneration policy is to ensure that the Group is able to attract, retain and motivate a high-calibre team which is essential to the success of the Company. The Group also offers benefits to employees including discretionary bonus, training, provident funds and medical coverage. Share option schemes are established for the eligible employees but no share option was granted during the period and there was no outstanding share option granted by the Company as at 31st March, 2006.

### MAJOR EVENTS

#### Disposal of shares in PYI

In September 2005, the Group disposed of 150 million shares of PYI at HK\$1.5 per share to more than six independent third parties through a placing agent. Immediately after such disposal, the Group's shareholding interest in PYI decreased from approximately 49.96% to approximately 38.92%.

In February 2006, the Group further disposed of 150 million shares of PYI at HK\$1.78 per share to independent third parties through a placing agent. Immediately after such disposal, the Group's shareholding interest in PYI decreased from approximately 39.81% to approximately 28.84%.

## CHAIRMAN'S STATEMENT *(continued)*

### Acquisition of shares in Hanny

In October 2005, the Group acquired 11 million shares of Hanny on market for a consideration of approximately HK\$44 million. Immediately after the acquisition, the Group's shareholding interest in Hanny increased from approximately 20.61% to approximately 25.48%.

### Placing of new ordinary shares under general mandate

In February 2006, the Company has placed, through a placing agent, 214.4 million new ordinary shares to more than six independent third parties at HK\$0.72 per ordinary share and raised approximately HK\$154.4 million in cash, before expenses.

### Conversion of convertible notes

In February and March 2006, convertible notes issued by the Company in the aggregate principal amount of HK\$164.5 million have been converted into approximately 548.3 million new ordinary shares at HK\$0.3 per ordinary share.

## MAJOR SUBSEQUENT EVENT

### Subscription of exchangeable convertible notes of Hanny

In June 2006, the Company has conditionally agreed to subscribe at face value for 1% exchangeable convertible notes due 2011 to be issued by Hanny with a principal amount of US\$75 million (equivalent to approximately HK\$582.5 million) (the "Hanny Notes") entitling the holder of the Hanny Notes to convert into shares in Hanny at an initial conversion price of US\$0.51 per share. The holder of the Hanny Notes shall also have the right to exchange the principal amount of the Hanny Notes, subject to a maximum amount equal to approximately 66% of the face value of the Hanny Notes, for the same principal amount of the convertible notes to be issued by China Enterprises (the "China Enterprises Notes"), entitling the holder of the China Enterprises Notes to convert into shares of China Enterprises at an initial conversion price of US\$3 per share. A circular containing, among other things, details of the subscription of the Hanny Notes will be despatched to shareholders of the Company as soon as practicable.

## SECURITIES IN ISSUE

As a result of the issue of new ordinary shares under scrip dividend alternative scheme in November 2005, the placing of new shares in February 2006 and the conversion of the convertible notes of the Company in February and March 2006, the total number of issued ordinary shares and issued redeemable convertible preference shares of the Company, all of HK\$0.10 each, as at the date of this report are 1,837,495,145 and 266,952,000, respectively.

## FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK1.7 cents per ordinary share for the year ended 31st March, 2006 (2005: HK1.5 cents) to holders of ordinary shares whose names appear on the register of holders of ordinary shares of the Company as at the close of business on 5th October, 2006. The proposed final dividend is expected to be paid to shareholders by post on or around 3rd November, 2006 following approval at the annual general meeting. The Board has also proposed that the final dividend should be satisfied by cash, with an option to elect scrip dividend of ordinary shares, in respect of part or all of such dividend. The market value of the ordinary shares to be issued under scrip dividend alternate will be fixed by reference to the average of the closing prices of the ordinary shares of the Company for the three consecutive trading days ending 5th October, 2006 less a discount of five per cent. of such average price or the par value of ordinary shares, whichever is the higher. The proposed scrip dividend is conditional upon The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") granting the listing of, and permission to deal in, the new ordinary shares to be issued and the passing at the forthcoming annual general meeting of the Company of an ordinary resolution to approve the final dividend. A circular with full details of the scrip dividend alternate and a form of election will be sent to shareholders of the Company.

## CHAIRMAN'S STATEMENT *(continued)*

### DIVIDEND ON PREFERENCE SHARES

The Board has resolved to pay a dividend of HK4 cents per redeemable convertible preference share of the Company of HK\$0.1 each in respect of the twelve month period ending on but excluding 3rd November, 2006 to holders of redeemable convertible preference shares whose names appear on the register of redeemable convertible preference shares as at the close of business on 13th October, 2006. The dividend on redeemable convertible preference shares is expected to be paid to holders of redeemable convertible preference shares by post on or around 3rd November, 2006.

### CLOSE OF REGISTERS OF MEMBERS

The register of holders of ordinary shares of the Company will be closed from 3rd October, 2006 to 5th October, 2006, both days inclusive, during the period which no ordinary share transfer shall be effected. In order to qualify for the proposed final dividend, all transfers of ordinary shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 29th September, 2006.

The register of holders of redeemable convertible preference shares of the Company will be closed from 11th October, 2006 to 13th October, 2006, both dates inclusive, during which period no redeemable convertible preference share transfers shall be effected. In order to qualify for the dividend on redeemable convertible preference shares, all transfers of redeemable convertible preference shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited, at the aforesaid address for registration by no later than 4:00 p.m. on 10th October, 2006.

### OUTLOOK

The Hong Kong economy has sustained a strong upturn. The improving unemployment rate, together with the rising employment incomes, continues to drive the domestic demand while the fairly strong performance of the global economy provides significant growth impetus to the external trade. However, the high oil price, the rising interest rates, the tightening measures in the PRC have brought along uncertainty to the future. Looking ahead, the Group is cautiously optimistic about its investment and business operation.

To be a leading diversified and balanced investment conglomerate, the Group will continue to capture investment opportunities which can provide sustainable growth and returns. At the same time, the Group will continue to provide full support to its investments to strive for better performance and increase their profitability. The placing of new shares and full conversion of conversion notes have enhanced the financial position and increased resource of the Group to fund any future investments. It is always the goal of the Group to maximize its shareholder's value and maintain a stable dividend payout. Barring unforeseen circumstances, the Group is confident in meeting its goal.

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the shareholders for their continuous support to the Company and extend my appreciation to all management and staff members for their contribution and dedication throughout the year.

**Dr. Chan Kwok Keung, Charles**

*Chairman*

Hong Kong, 28th July, 2006