The Group operated in a challenging business environment during the financial year. Although demand for the majority of our products remained steady, our businesses faced competitive pressures and steep increases in raw materials prices, which have affected most manufacturers. Rises in interest rates and the appreciation of the Chinese Renminbi also put additional cost burdens on our businesses.

During the financial year, we continued to rationalise our operations to improve the Group’s cost and organisational structure. This process has seen us expand our manufacturing in China and divest non-core businesses. At the same time, we are continuing to invest in businesses which have strong growth potential.

**Financial Highlights**

Turnover for continuing operations of GP Industries decreased by 4.9% to S$399 million. Profit attributable to shareholders decreased by 47% to S$19.9 million. Basic earnings per share fell by 47% to 4.33 Singapore cents. The Board of Directors has proposed a final tax-exempt dividend of 1.3 Singapore cents, against a final dividend of 2.0 Singapore cents for the financial year 2004-2005.

The earnings decline was in part due to the disposal in the previous year of Jiangsu Toppower Automotive Electronics Co., Ltd. ("Toppower"), which has resulted in both a reduction in profit contribution and lower exceptional income for the financial year 2005-2006. Contribution from GP Batteries improved, and the loss from CIH Limited ("CIHL") excluding exceptional items decreased.

**Business Highlights**

**Electronics Division**

The Electronics Division reported a 4.5% decrease in sales for the financial year 2005-2006 when compared with the previous financial year.

Sales from the electronics and components business were down by 5%. The lower revenues were mainly due to a decrease in sales of car audio products and other electronics products, following the Toppower divestment, since when the car audio business has come to account for less than 5% of the Group’s sales. By contrast, sales of professional electronics products showed a growth of 2%.
In addition to the lower overall sales, we faced high component and raw materials prices, as well as the appreciation of the Renminbi, which resulted in higher operating costs at our electronics subsidiaries and components manufacturing business. Together, these factors led to a 10% and a 35% decrease in profit contribution respectively for the financial year. As a result, overall profit before interest, taxation and exceptional items (PBIT & EI) contribution from the electronics and components business decreased by 27%.

Sales from the wire harness business decreased by 4%. Sales to the US market rose strongly, but those to Japan decreased. Profit contribution from subsidiaries increased by 6%. The Group’s wire harness associates in China continued to face severe price competition, although market conditions improved in the fourth quarter. Our cable associate, LTK Industries Limited, reported sales growth of more than 25%. However, owing to record high copper prices, its profit contribution only improved by 7%. Overall PBIT & EI contribution from the wire harness and cable business nonetheless improved by 12%.

Sales from the acoustics business were 4% lower as growth in the US market was offset by declines in Europe and Asia. As a result, the acoustics business reported a loss before interest and taxation and exceptional items.

**CIH Limited**

On 15 March 2006, CIHL disposed of its entire 50% interest in Clipsal Asia Holdings Limited by way of a put option to its joint venture partner, Schneider Electric SA. The exercise price amounted to a total of US$58.99 million (approximately S$96 million), and after deduction of a retention amount, US$56.04 million (approximately S$91 million) were received in cash.

For the financial year, CIHL’s continuing operations were thus mainly the light fittings business. Market competition remained keen and raw material prices rose sharply. However, cost reduction measures contributed to an improvement in operating results before exchange differences and exceptional items. CIHL will continue to expand its product range and invest in marketing and distribution development.

**GP Batteries**

Turnover showed a marginal decrease of 1% over the previous financial year, while the consolidated profit before tax decreased by 5.1%. During the year, GP Batteries recorded an exceptional loss of S$11.1 million, mainly due to the relocation of production facilities.

Most of the products saw steady turnover. Despite the high raw materials prices, gross profit margin benefited from the cost-saving measures that have been implemented across GP Batteries, including the consolidation of production into our factories in China from Europe and Taiwan. GP Batteries maintained its strong market position in Alkaline cylindrical and Nickel Metal Hydride rechargeable batteries. For Lithium Ion battery, the relocation of manufacturing facilities from Taiwan to China is largely complete and will improve cost competitiveness.

**Prospects**

The markets for our products remain positive and the main challenge we face is in managing costs and improving profitability. The rationalisation of our operations that has been improving the cost structure during the last two financial years will continue.

Following the disposal of its joint venture interest, CIHL
is now further developing its light fittings business. A privatisation has therefore been proposed which, once effected, would reduce costs and generate additional synergies. It would also generate further capital that can be used to strengthen the Group’s balance sheet.

We will continue to relocate manufacturing to lower cost regions, and reduce overhead where possible, to ensure that we remain competitive from a manufacturing perspective. This is particularly important in an environment of volatile materials prices. The Group also faces the probability of a continued gradual appreciation of the Renminbi.

Interest rates will probably trend upward and we will therefore seek to reduce bank borrowings of our existing operations. At the same time, we will seek opportunities for investment that will contribute to faster growth, as well as divesting non-core businesses.

The Electronics Division will continue its cost control programmes and product re-engineering to reduce manufacturing costs. With the automotive sector becoming a smaller part of the business, the main focus will be on electronics and acoustics, including our "KEF" and "Celestion" brands.

For GP Batteries, the profitability of the battery market worldwide has been seriously eroded by a surge in metal prices, particularly of Nickel and Zinc. We expect Alkaline and rechargeable batteries to continue to sell well and GP Batteries intends to develop a wide spectrum of more specialised products.

Overall, the Group’s strategy is to move up the value chain and achieve stronger growth through investing in brands, innovation and stronger global distribution. Managing this aspect of growth will be a key task in the coming year.

**Vote of Thanks**

I would like to take this opportunity to thank our shareholders, business partners and employees for their unstinting support during the year. My special thanks go to Mr Raymond Wong, who resigned as an executive director in May 2006. At the same time I would like to welcome Mr Wong Man Kit who joined as an executive director in the same month.

Victor LO Chung Wing
Chairman
13 June 2006
With its extensive manufacturing and distribution network firmly established in major cities in the Greater China, the Group is well positioned to capture the business opportunities there.