MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

For the year ended 30th April, 2005, the Group recorded consolidated turnover of approximately HK$337 million, representing a year-on-year growth of 15.9% as compared to that of last year. Net profit attributable to shareholders reduced by 14.5% to approximately HK$58 million as compared to the corresponding period last year. Basic earnings per share was HK13.7 cents.

Last year was a challenging year for the electrical appliances manufacturing industry. Raw material costs increased substantially and imposed tremendous pressure on different industries in the global market. Amidst such a challenging business environment, the Group introduced a number of effective measures to minimize the adverse impact brought forth by the upsurge in raw material prices. The Group further enhanced its vertical integration model while implementing stringent cost controls. Capitalizing on these effective measures, the Group successfully achieved an encouraging double-digit growth in turnover last year.

The increase in turnover was mainly attributable to the increased sales of electrical fans, heaters, the newly invented air ventilators launched last year and the oil-filled radiators with high profit margin. Sales of oil-filled radiators and quartz heaters increased by 32% to HK$49.5 million, compared with HK$37.5 million in the corresponding period last year. However, facing the great pressure on raw material prices, it will take time for the Group to pass on the increase in costs to its customers, therefore, the gross profit margin was adversely affected and declined to 39% from 44% in the year under review.

With respect to overseas markets, the Group's continuing marketing efforts increased sales in North America by 87% to HK$47.5 million, compared with the previous year's HK$25.4 million. During the year, the Group endeavored to consolidate its foothold in North American and European markets while further extending its business reach to Asian markets.

PROSPECTS

The Group's vision remains well-focused and continues to position Warderly as the world's leading consumer household appliances manufacturer and most preferred partner for global renowned brands and ODM/OEM clients. Looking ahead, by consolidating its position, the Group will further strengthen its core competencies in R&D and operational capabilities. Leveraging on its previous success in developing new products, in particular air ventilation products, the Group will place persistent efforts towards product development and commercialization by creating value-added products and diversifying its product portfolio to meet the growing market demand for indoor air-ventilation related products, kitchen appliances and digital consumer products.

Warderly will strengthen its presence in overseas markets including in Europe and North America, while expanding its sales network to new emerging markets, such as the PRC and other Asian countries. In January 2005, Warderly was appointed as the Authorized Distributor for "GE Appliances" in Hong Kong and Macau and has started to promote, sell and distribute the products in the second half year of 2005. It is believed that the collaboration with GE Appliances, a global household appliances giant, will enable the Group to extend its business reach to the realm of distribution business and to generate new revenue sources. In addition, by establishing an extensive and efficient distribution network, the Group will continue to explore distribution business opportunities in Greater China through collaboration with various world renowned brands.

To satisfy the diversified demand from its growing client base, the Group continues to expand its production capacity. Currently, the Group is in the process of a Phase II expansion plan to increase its production capacity. A new production plant is being constructed in Dongguan next to its existing plant and is expected to commence full operation in 2006. By then, its production flexibility, economies of scale and operational efficiency will be further strengthened.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will continue to pursue for excellence in product quality, to reach impeccable product capacity and to fully integrate its production process, as well as to attain higher standards of operational efficiency by adopting stringent quality and cost controls. Looking ahead, Warderly will capitalize on the immense potential generated from steady economic growth with rising living standards and improved market momentum. The management strives to create quality household appliances for consumers and to generate greater returns for shareholders and investors.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations mainly with internally generated cash flow. As at 30th April 2005, the Group had cash and bank balances of a total amount of HK$127 million. Its bank borrowing and finance lease was around HK$188 million and its gearing ratio, computed by dividing the total borrowing by total assets, was approximately 32.2%. The Group maintained a strong working capital policy during the year. As at 30th April 2005, its debtor turnover period was 88 days, and its inventory turnover period was at 74 days, its creditor turnover period was 112 days. The Group's quick ratio and current ratio were 147% and 191% as at 30th April 2005.

EMPLOYEES

As at 30th April 2005, the Group had approximately 1,800 full time employees. Around 50 staff were based in Hong Kong and the rest were in our plants in China. Competitive remuneration packages are structured to commensurate with individual job duties, qualification, performance and years of experience.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's interim and annual reports and financial statements. The audit committee comprises the three independent non-executive directors.

PLEDGE OF ASSETS

As at 30th April 2005, the Group pledged assets to banks with total value of HK$9 million (2004: HK$48 million), including the property located in Hong Kong with carrying amount of HK$9 million (2004: HK$43.2 million) and plant, machinery and equipment with carrying amount of HK$4.8 million at 2004, to secure the Group's general banking facilities.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's business transactions are denominated in either Hong Kong dollars, United State dollars or Renminbi. As such, the Group had no significant exposure to foreign exchange fluctuations.

CAPITAL STRUCTURE

As at 30th April 2005, the issued share capital of the Company comprising 422,000,000 ordinary shares of HK$0.01 each.

CLOSURE OF REGISTER OF MEMBERS

The Register of Member of the Company will be closed from 26th September 2005 to 28th September 2005 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and attending the annual general meeting ("AGM") to be convened by the notice of AGM, all transfers, accompanied by the relevant share certificates, must be lodged with Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 23rd September 2005.