MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2005, the Group achieved a turnover of HK$418,328,000 (2004: HK$438,695,000), a decrease of 4.6% over the same period in 2004. The consolidated net profit decreased by 36.0% to HK$13,788,000 (2004: HK$21,614,000). Basic earnings per share of the Group decreased to HK4.1 cents (2004: HK6.4 cents). The Board of Directors have resolved that an interim dividend of HK2 cents (2004: HK2 cents) per share to be paid in January 2006.

The Group manufactures a wide range of household electrical products. During the period under review, turnover decreased by 4.6% due to keen competition within the industry and sustained pricing pressure. By geographical segments, turnover to Europe increased by 3% to HK$204,904,000 representing 49% of the Group's turnover. Turnover to America decreased by 14% to HK$116,300,000 representing 28% of the Group's turnover. Turnover to Asia and other markets decreased by 8% to HK$97,124,000 representing 23% of the Group's turnover.

During the period under review, the Group was faced with adverse factors including the unprecedented surge in raw material costs, shortages and unstable supply of labour and electricity, escalation in wages and salary and other operating costs in southern China. However, due to the tough business environment and continual keen competition within the industry, we were not able to pass on the full extent of cost increase to our customers. As a result, gross profit margin dropped from 17.8% to 16.6%.

After tax net profit margin decreased from 4.9% to 3.3%. Distribution costs improved slightly at 2.9% to turnover while administrative expenses increased from HK$40,534,000 to HK$43,552,000 mainly due to increase in expenses in the PRC operation.

During the period, new products launched included new versions of Bath Spa, Foot Bath, Deep Fryer and Food Processor, Juice Extractor and Kettle.

PROSPECTS

We expect electrical appliance manufacturers will continue to face a very tough and challenging environment in the coming future. The keen competition among manufacturers remains and adverse factors such as surge in raw material costs, shortages and unstable supply of labour and electricity, escalation in wages and salary and other operating costs in southern China would continue. In order to diminish the adverse effects of these external threats to the Group, we would continue with our stringent cost control measures and to increase our production efficiency by increasing the degree of semi-automation in our manufacturing process. Meanwhile, we would continue to put our focus on new product development and to develop better designed and high quality products to increase the attractiveness of our products to our customers and to sustain our market share within the industry.

With a strong and stable financial position, long established experience and goodwill, good long-term relationship with our customers, high quality products, improvement on existing products, research and development on new products, effective cost control measures and focus in our core business, the Group will stay focused to meet the challenges lying ahead.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2005, the Group had total assets of HK$649,994,000 which was financed by current liabilities of HK$184,386,000, long-term liabilities and deferred taxation of HK$27,781,000 and shareholders' equity of HK$437,827,000.

The Group continuously maintained a strong balance sheet and a healthy liquidity position. As at 30 September 2005, the Group held HK$162,894,000 in cash and bank deposits. Cash and bank deposits were mainly placed in US dollar short-term deposits, except for temporary balances held in such non-US currencies as required pending specific payments. As at 30 September 2005, the investments in notes and bonds were HK$45,887,000. As at the same date, total bank borrowings was HK$17,502,000 and the gearing ratio (ratio of total borrowings to shareholders' equity) remained low at 4%.

Generally, the Group finances the day-to-day operational working capital and capital expenditures with internally generated cash flows. With a strong financial position and banking facilities provided by our principal bankers, the Group is confident to provide sufficient financial resources for our current commitments, working capital requirements, further expansion of the Group's business operation and future investment opportunities, as and when required.

Most of the Group's transactions were conducted in US dollar, Hong Kong dollar and Renminbi. As the exchange rate of the US dollar, Hong Kong dollar and Renminbi were relatively stable during the period, the Group does not foresee any substantial exposure to foreign currency fluctuations.

CAPITAL EXPENDITURES

For the six months ended 30 September 2005, the Group invested HK$18,943,000 in plant and machinery, equipment, computer systems and other tangible assets. These capital expenditures were funded by internal resources except for some machinery which was funded by bank loans.

PLEDGE OF ASSETS

The Group has pledged certain land and buildings having a net book value of approximately HK$8,494,000 to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 September 2005, the Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

Currently, the Group employed approximately 4,600 employees. The majority of our employees work in the PRC. The Group remunerated our employees based on their performances, experiences and prevailing market rates while performances bonus are granted on a discretionary basis. Share options may also be granted to employees based on individual performance and attainment of certain set targets.