

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

For the six months ended 30 September 2005 (the "Period"), the Group recorded a turnover of approximately HK\$126,365,000 (2004: HK\$107,382,000), representing an increase of approximately 17.7% compared to the corresponding period last year. Loss attributable to equity holders of the Company narrowed to approximately HK\$7,110,000 (2004: HK\$8,911,000).

During the Period, the Group benefited from the sales of new products developed in the previous year. With more electronic features, these products were different from traditional home electrical appliances and priced at a higher level. Our investment in the development of beverage products (formerly called "coffee related accessory products") had paid off because sales from this category more than doubled compared to the corresponding period in 2004, thanks to a new hot tea maker sold to the US market.

Although sales grew, raw material costs continued to increase. Crude oil (which affected the price of plastics), aluminum, stainless steel and copper all reached historic highs. The appreciation of Renminbi arising from the change of foreign exchange policy announced by the People's Bank of China in July 2005 had an immediate impact on the overall cost of the Group since approximately 20% of our costs are denominated in Renminbi. In the same month the minimum wage in Shenzhen increased from ¥480 to ¥580. Interest cost also increased as the Federal Reserve Board of the US raised interest rate numerous times during the Period.

In the face of rising costs, the Group managed to improve its gross profit margin from approximately 5.2% to approximately 6.8%. The Group attributed this to our relentless efforts in differentiating our products from the market.

During the Period, the Group retrenched about a quarter of our employees in Hong Kong. The decision was painful but necessary in order to remain competitive in an increasingly difficult business environment.

PROSPECTS

The order book remains strong for the second half of the financial year. The Group expects to record double-digit sales growth in the financial year ended 31 March 2006. Raw material costs will likely remain high. The Group will continue to emphasize design and innovation to improve its profitability.

LIQUIDITY AND FINANCIAL RESOURCES, GEARING AND FOREIGN EXPOSURES

As at 30 September 2005, the Group had total bank borrowings of approximately HK\$22,692,000 (as at 31 March 2005: HK\$22,017,000). The gearing ratio, expressed as a percentage of bank borrowings to total equity, was approximately 50.6% (as at 31 March 2005: 42.4%). In addition to internally generated cash flows, the Group also made use of export bills discounting facilities to finance its operations during the Period. All borrowings during the Period were based on current market interest rate. The Group maintained a cash balance of approximately HK\$7,951,000 as at 30 September 2005 (as at 31 March 2005: HK\$19,713,000). The current ratio decreased from approximately 1.36 as at 31 March 2005 to approximately 1.14 as at 30 September 2005. The average stock turnover period increased from approximately 59 days to approximately 74 days and the average debtor turnover period increased from approximately 11 days to approximately 16 days.

The Group continues to adopt a prudent approach in funding and treasury policies. Transactions of the Group are mainly denominated in US dollar, Sterling Pound, HK dollar and Renminbi. Starting from December 2005, the Group has used forward exchange contracts to hedge its payments in Sterling Pound.

CHARGE OF GROUP'S ASSETS

There were no charges on the Group's assets as at 30 September 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2005, the Group employed approximately 1,700 full time staff in Hong Kong and PRC. The Group remunerates its employees based on their performance, experience and prevailing market salaries while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidized educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2005.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2005 except that the chairman of the Board and the managing director of the Company are not subject to retirement by rotation as required by Provision A4.2 of the Code. The Board will propose relevant amendments to be made to the bye-laws of the Company at the forthcoming annual general meeting.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 September 2005, the Company complied with the code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The audit committee of the Company was established in June 2003 with written terms of reference in compliance with the Code. 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. During the six months ended 30 September 2005, the audit committee comprised the three independent non-executive directors, namely Mr. Lam King Pui, Mr. Hong Yee Kwong and Mr. Wong Tik Tung.

The audit committee has reviewed and discussed with management the Company's unaudited interim report and financial statements for the six months ended 30 September 2005 and provided advice and recommendation to the Board.

REMUNERATION COMMITTEE

The Group established a remuneration committee in July 2005 which comprises three independent non-executive directors namely Mr. Lam King Pui, Mr. Hong Yee Kwong and Mr. Wong Tik Tung. The remuneration committee has rights and duties consistent with those set out in the Code. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the directors and senior management as well as providing advice and recommendation to the Board.

RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Wong Tik Tung resigned as an independent non-executive director of the Company with effect from 4 October 2005. With the resignation of Mr. Wong, the Company is left with two independent non-executive directors, which is less than the minimum number stipulated by Rule 3.10(1) of the Listing Rules. The Company is seeking a suitable candidate for appointment as an independent non-executive director of the Company within the deadline imposed by Rule 3.11 of the Listing Rules. The Company expects to make the appointment by 1 January 2006 and will make further announcement upon the appointment of a new independent non-executive director.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders for their confidence in the Group, our worldwide customers for their trust and support in our products and services through the years, our staff for their dedication as well as our bankers and business associates for their continuing support.

On behalf of the Board

Chan Tat

Chairman and Managing Director

Hong Kong, 20 December 2005