Management Discussion and Analysis

BUSINESS REVIEW

The financial year ended 31 March 2006 turned out to be a difficult year for the Group's electrical household appliances business. The Group suffered from a decline in gross profit margin because of continued increase in material and component costs. For the year ended 31 March 2006, turnover and net profit recorded HK$403.6 million and HK$4.1 million, respectively.

PROSPECTS

2005 has been an exciting and challenging year for the Group. Following our successful listing on the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 16 June 2005, the Group has strength in designing and developing innovative and trendy array of products and this year, we gained "Gold Award" and "Judges' Choice Award" in the category of "Electronic & Electrical Consumer Product" in the HKDA Awards 05, a widely-recognised competition-cum-exhibition in the Asia Pacific region which is organised by the Hong Kong Designers Association. In addition, the construction of the plant is expected to be completed in 2007 and our production capacity is expected to be increased by approximately one-forth to one-third thereafter.

The escalating raw material costs, increasing labour costs together with appreciating Renminbi created an unfavourable business condition for traditional electrical household appliances. To maintain our competitiveness, the Group has been continuing to focus on developing innovative products and expanding its markets. We will explore business opportunities in other new products categories and other niche markets. To stay in line with our future organic and/ or generic growth in the market, we will explore appropriate acquisition opportunities in synergy with our business strategies to help us create greater value for our shareholders.

The Group has been implementing prudent cost control measures to cope with the challenging effects on its business continuously. At the same time, our management is considering appropriate solutions to minimize its risks in foreign exchange exposure. With the invaluable experience accumulated, market reputation established and extensive business networks built-up, the Group believes that its performance should be cautiously optimistic in the middle to long-run.

FINANCIAL REVIEW

Turnover

During the year, the Group recorded a turnover of HK$403.6 million (2005: HK$464.9 million), representing a decrease of approximately 13%. The turnover attributable to the sales of electrical hair care products accounted for approximately HK$379.4 million, representing approximately 94% of the turnover of the Group. The last year's remarkable growth in demand for the hair straighteners slowed down during the year (which was one of the revenue drivers last year). The decrease in turnover was mainly attributed to the decrease in consumers' propensity to consume in relation to the overall market sentiment in the European markets. The turnover in the European market decreased by 23% whereas that in the American market increased by 132%.

Gross Profit

Our gross profit margin was approximately 11.6% (2005: 20.3%). The deterioration was due to the less than proportionate decrease in cost of goods sold over the decrease in turnover. The soaring cost during the year was because of the escalating costs of materials and components and the general increase in average labour cost in the Dongguan region, the PRC. The escalating oil price and metal cost imposed additional burden on material costs, especially polycarbonate ("PC") materials and power cords. To accelerate the effect, the utilization rate of PC materials for the year was especially higher than that of last year because of the proportionate increase in sale of traditional hair dryers.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Expenses

During the year, selling and distribution expenses of the Group were approximately HK$8.3 million (2005: HK$8.0 million), representing approximately 2.1% (2005: 1.7%) of the total turnover. The slight increase was because of the increase in transportation and declaration charges. During the year, administrative expenses of the Group were approximately HK$36.5 million (2005: HK$31.7 million). The increase was mainly due to the higher management costs resulting from the compliance of the Rules Governing the Listing of Securities on the Stock Exchange (Main Board) ("the Listing Rules") following the listing of the Company's shares ("Shares") and the warrants of the Company ("Warrants") on the Stock Exchange (together the "Securities") and the effect of application of new HKFRSs. During the year, finance cost of the Group was approximately HK$5.7 million (2005: HK$3.9 million). The increase was mainly due to the general increase in market interest rates.

CAPITAL STRUCTURE

The net proceeds from our initial public offering ("IPO") completed in June 2005 further strengthen our capital structure and we expect our cash to be sufficient for meeting our operating and capital expenditure requirements in the foreseeable future. The market capitalization of the Company as at 31 March 2006 was approximately HK$120 million.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, apart from the internally generated resources and banking facilities, the Group also raised net proceeds of HK$36,500,000 from the public offer and placing of new shares under the IPO. As at 31 March 2006, the Group had approximately HK$63.3 million cash and cash equivalents balances (31 March 2005: HK$77.2 million). The Group's net current assets were approximately HK$47.3 million as at 31 March 2006 (31 March 2005: HK$6.7 million). The gearing ratio as at 31 March 2006 was 34.1% (bank borrowings including bank advances for discounted bills due to adoption of HKAS39) while that as at 31 March 2005 was 34.6% (bank borrowings excluding bank advances for discounted bills due to no retrospective application under HKAS 39). The Group has been maintaining a healthy liquidity position and has sufficient financial resources to meet the requirements of its ordinary operation and capital expenditure.

ISSUE OF SHARES AND USE OF THE PROCEEDS FROM THE IPO

In June 2005, the Company issued 100,000,000 ordinary shares pursuant to the IPO, raising net proceeds of approximately HK$36,500,000. During the year, the proceeds were used in the following manner:

- approximately HK$2.0 million was used for the research and development of electrical hair care products;
- approximately HK$4.0 million was used for installation of machinery and equipment;
- approximately HK$1.0 million was used as the Group's general working capital;
- approximately HK$0.1 million was used for penetration and further expansion into new and existing markets; and
- the remaining portion of the net proceeds was placed with banks in Hong Kong as short-term deposits.

Up to the date of this report, no subscription rights attaching to the Warrants have been exercised and hence no cash proceeds have been raised therefrom by the Company.

Management Discussion and Analysis

CHARGE ON ASSETS

The charge on leasehold land and buildings having a net book value of approximately HK$13.1 million (31 March 2005: HK$11.8 million) had been charged to secure general banking facilities granted to the Group and had been released during the year.

CONTINGENT LIABILITIES

(i) A High Court action was commenced by WIK Far East Limited (the "WIK") against a subsidiary of the Company on 27 April 2004 in respect of alleged infringements of a patent in respect of retractable brushes.

 The Board has confirmed that no settlement has been reached by the parties and no judgements on the quantum of damages had been made against the Group in respect of the legal action. The Group has sought legal advice from its legal counsel on the merits of the claim.

 According to the legal counsel's opinion, given that the trial has not yet commenced and the parties are still at a pre-mature stage of the litigation, and in the absence of any indication as to how WIK would like to proceed with its claim, it would not be possible to quantify reliably the likely potential damages and cost to be incurred by the Group in the event that the subsidiary of the Group fails in its defense to the claim of patent infringement in the litigation. Assuming that WIK will claim for damages for loss of profits or for accounts of profits, the Board is of the view that the quantum of the ultimate cost and damages (if any) to be incurred by the Group will not have a material adverse impact on the Group's financial position.

 In the event that a liability has arisen from the litigation, the controlling shareholders of the Company have jointly and severally agreed and undertaken to indemnify the Group from and against any of such liability.

(ii) The Company has executed guarantees amounting to approximately HK$164,000,000 (2005: Nil) with respect to banking facilities made available to its subsidiaries. As at 31 March 2006, the borrowings outstanding against the facilities amounted to approximately HK$81,423,000 (2005: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group's sales are mainly denominated in US dollars while purchases are principally denominated in HK dollars, US dollars and Japanese Yen. The Group's certain costs are denominated in Renminbi. Since HK dollars has been pegged to US dollars, the Group's exposure to the currency risk in US dollars was minimal. Since 21 July 2005, Renminbi has been pegged to a basket of currencies and this resulted in Renminbi appreciating against the US dollars. Most of the Group's liquid fund is placed in principal guaranteed short-term dual currencies deposits in various banks during the year.

STAFF AND REMUNERATION POLICIES

As at 31 March 2006, the Group employed approximately 53 Hong Kong staff and operates a defined contribution pension scheme. Our factory in China employed varied from 2,300 to 3,300 which included the staff and seasonal workers during the financial year ended 31 March 2006.

People are our most important assets and are indispensable to our success in the competitive marketplace. We offer comprehensive remuneration packages level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits.

The Group has adopted a pre-IPO share option scheme and a share option scheme (details set out under the heading "Share Option Scheme") for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations.