

BUSINESS REVIEW

The Group recorded a turnover of HK\$289 million for the year ended 30th April 2006, representing a decrease of 14% from the same period in the previous year. The Group's net profit attributable to shareholders was HK\$0.4 million, compared with HK\$58 million last year. The Group's basic earnings per share was HK0.1 cents.

PRODUCT DIVERSIFICATION BRINGS COST EFFICIENCIES

Due to the significant increase in raw material price in recent years, the home appliance and related industries have come under a tremendous pressure. Accordingly, during the period, the Group placed significant emphasis on the manufacture of products that fluctuate less in raw material costs, including panel heaters and quartz heaters etc, which helped the Group reduce the adverse impact of fluctuations in raw material prices. During the year under review, the Group's gross profit was HK\$95 million, compared with HK\$132 million in the corresponding period of last year, represented a decrease of 28%. And gross profit margin decreased from 39% to 33% compared with the corresponding period of last year. During the year under review, the sale of heaters was the leading revenue source for the Group, recording a turnover of HK\$148 million. That accounted for 51% of the Group's total turnover, representing a steady and significant revenue base.

The commitment of the Group to their ability to adapt is what enabled the Group to adopt various measures to minimize the adverse impact brought by the rising operating costs. While the Group is promoting its vertical integration production model, it is also dedicated to develop a diversified business portfolio. Based on the success of our products, the Group has successively introduced a new series of electronics household appliances, including panel heaters and LCD Control Convection Heater etc. By embracing a product diversification strategy, the Group is devoted to sustaining a year-round high level of productivity in all of its factories, which helps increase its overall operating results.

STABILIZE GLOBAL MARKET SHARE & BOOST BRAND IMAGE

In addition, the Group has stepped up its efforts in marketing and promotion, seizes every opportunity to participate in the overseas, local and PRC tradeshows, such as Hong Kong Electronic Fair and China Export Commodity Fair, Cologne 2006 and International Home & Housewares Show 2006 etc. During the year under review, the Group's products main exports to Europe and North America stood at HK\$176 million and HK\$5 million respectively, representing 61% and 12% of the Group's total turnover.

PROSPECTS

With the market gradually accepting the new prices of the products, the cost pressure faced by the Group has been alleviated. The Group will further focus on the sales of core products such as fans and heaters so as to strengthen the sales and profits of its core businesses.

By consolidating our existing vertically-integrated production model, the Group continues to strengthen its leading position in the one-stop household electrical appliances manufacturing industry. Warderly at present occupies a large production plant in Dongguan, PRC, comprising a total gross floor area of 93,500 square metres, adopting the vertically integrated production model. Phase II expansion plan is near completion and expected to commence full operation shortly. It would further boost the Group's production flexibility. In terms of marketing strategies, the Group will continue to place emphasis on developing home electronic products, and injecting value-added elements over product design and R&D. To accommodate the newly-developed product types, the new production plant is equipped with innovative amenities and tools such as metal processing, plastic injection powder painting lines. The Group's year-round production capacity will be further enhanced, boosting economies of scale and operation efficiency. At the same time, the Group will continue to work closely with worldwide companies, through application of electronic manufacturing services, to improve its production process and stringent monitoring of raw materials disposition. All these will help to provide a steady supply chain, reducing the adverse impact and uncertainties from fluctuations in raw material prices. Looking ahead, the Group will step up the R&D and production of electronic household appliances, as well as patented products that bring high gross profit returns for consumers and generate strong profit returns for the Group.

To meet the increasing market demand, the Group will continue to work towards strengthening its market share in Europe and US markets through development of house brands and act as a product distributor by expanding its distribution network and establish partnership with worldwide brand names. The Group will also seek cooperation with some of the world's most famous brands, to actively explore new business opportunities in overseas markets.