

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the marketing effort on home appliances business and the launch of building materials business, the Group's turnover was improved by 27.7% to HK\$109.6 million for the six months ended 30 September 2006 (2005: HK\$85.8 million) and the net loss for the interim period was dropped by 4.5% to HK\$19.2 million (2005: HK\$20.1 million). The competition of home appliances manufacturing industry was still keen. Drastic increases in prices of essential raw materials, gradual rise of labour cost in the mainland China and appreciation of Renminbi had constrained the performance of the core business in design and manufacturing of home appliances of the Group. Included in the calculation of gross profit margin, there were a value added tax export refund of HK\$3.2 million and reversal of provision of obsolete inventories of HK\$3.0 million.

FINANCIAL REVIEW

On 30 June 2006, the Company had successfully made a rights issue of one rights share for every existing share together with an issue of two bonus warrants for every five rights shares, at an issue price of HK\$0.10 per rights share, resulting in the issue of 768,641,743 shares of HK\$0.10 each for a total cash consideration. As a result, a total of 307,456,696 warrants were issued which entitling the holders thereof to subscribe for new shares at an initial subscription price of HK\$0.10 per share upon exercise of one warrant. The gross proceeds amounted to HK\$76,864,000 and the net proceeds from the rights issue of HK\$74,000,000.

Accordingly, the Group's gearing ratio expressed as a percentage of total interest-bearing borrowings over equity attributable to the Company's equity holders, reduced from 23.0% at the beginning of the period to 16.5% as at 30 September 2006, while the reserves of the Group had been reduced by the rights issue expenses and loss incurred for the period. Besides, working capital rose from HK\$10.2 million at the beginning of the period to HK\$47.0 million as at 30 September 2006.

STATUTORY OR LEGAL REQUIREMENTS OF THE INDUSTRY MARKET AND PRODUCTS

The Group has adopted certain measures implemented by the European Union (EU) in respect of our electrical appliances exporting to Europe, as follows:

1. Restriction of Hazardous Substances Directive (RoHS) 2002/95/EC – restricts the using of hazardous substances in the product of electrical appliances.
2. Waste Electrical and Electronic Equipment Directive (WEEE) 2002/96/EC – sets regulation on reuse, recycle and recovery targets for electrical appliances.

HUMAN RESOURCES AND REMUNERATION POLICY

The Group had a total of approximately 1,784 employees as at 30 September 2006 mostly in Hong Kong and mainland China. The total amount of remuneration paid by the Group to its employees (including directors) for the interim period was HK\$23.0 million (2005: HK\$16.2 million).

The remuneration policies of the Group are to ensure fairness and competitiveness of total remuneration in order to motivate and retain current employees as well as to attract potential ones. Staff benefits include medical insurance coverage and provident fund scheme. The Group also awards discretionary bonuses to its employees based on their individual performance and it also maintains staff share option scheme. The remuneration policy and packages of the Group are reviewed from time to time.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 September 2006, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

On 20 October 2006, the Group had successfully acquired 30% equity interest in Ancen Properties Limited at a consideration of HK\$18,290,000. As a result, the Group owns 70% equity interest in Ancen Properties Limited, which becomes a subsidiary of the Group. The principal business of Ancen Properties Limited is property development. The acquisition deployed the real estate business of the Group.

On 1 November 2006, the Group had also successfully acquired 100% equity interest in BIP (HK) Company Limited at a consideration of HK\$5,776,114. As a result, the Group owns 100% equity interest in BIP (HK) Company Limited, which becomes a subsidiary of the Group. The principal business of BIP (HK) Company Limited is construction related work and the provision of project management service. The acquisition enhanced the building materials business of the Group.

CHARGE ON ASSETS AND PLEDGED DEPOSITS

At 30 September 2006, general banking facilities granted to the Group were secured by certain properties of the Group situated in Hong Kong, which comprised leasehold land and buildings at a net book value amounting to HK\$13.3 million (at 31 March 2006: HK\$13.5 million) and time deposits of HK\$7.3 million (at 30 March 2006: HK\$7.3 million).

CONTINGENT LIABILITIES

As at 30 September 2006, the Group's contingent liabilities as disclosed in note 15 to the condensed consolidated financial statements.

EXPOSURE TO EXCHANGE RISK

The Group mainly operates in mainland China, the USA, Germany and Hong Kong. Most of the Group's transactions, assets and liabilities are dominated in Renminbi, United States Dollars, Euro Dollars and Hong Kong Dollars.

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Group manages its foreign risks by performing regular review and monitoring its foreign exchange exposures.

FINANCIAL INSTRUMENTS FOR HEDGING PURPOSES

The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the period.

PROSPECTS

The business environment for the second half year remains challenging for the home appliances business of the Group as keen competition of the industry, increase in prices of essential raw materials, gradual rise of labour cost in the mainland China and appreciation of Renminbi continue taken place. Nevertheless, the Group will continue to develop and strengthen our marketing strategies and sales volume and strive to maintain our leading position in the industry. Going forward, the Group will focus on improving the profitability through new design and new products.

Through acquisitions of equity interests in Ancen Properties Limited and BIP (HK) Company Limited, the Group would accelerate the pace of growth and expansion in the industry of property development and related building material business. In view of the growing property market in the mainland China, we anticipate that "Jia Lake Mountain Villa", a property project under development in Dongguan, the PRC, will bring solid profit to the Group. Besides, we also believe that the business development of our building material division will be benefited from the economic growth in Macau.

In the meantime, the Group is also striving to explore more business opportunities in order to improve the return of our shareholders in the foreseeable future.