

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The Board is pleased to announce that the Group finally managed to turn around its loss-making situation and recorded a net profit of approximately HK\$1,262,000 during the six months ended 30 September 2006 (the "Period") (six months ended 30 September 2005: net loss of approximately HK\$7,110,000).

During the Period, we saw one of the sharpest rises in raw material costs in recent years. The increase in metal prices was particularly pronounced. Copper and stainless steel rose by approximately 36% and 57% respectively during the Period. Manufacturing cost also increased, as the exchange rate of Renminbi and the labour cost in China continued their steady rise.

Despite an unfavourable business environment, the Group managed to return to profitability. It improved its gross profit margin from approximately 6.8% to approximately 9.4%. The Board attributed this turnaround to several reasons. First, sales increased by approximately 47.6% from approximately HK\$126,365,000 to approximately HK\$186,566,000 due to the success of new products. Second, the Group phased out a number of low-margin products and focused on high-margin products. Third, the Group stringently controlled the factory overhead, cutting down items such as electricity usage, overtime expenses and welfare costs.

Prospects

The Board is optimistic about the prospects for the second half of the financial year. The Group's order flow remains strong while raw material costs have more or less stabilized. Our numerous efforts over the last two years in turning around the business have finally begun to bear fruit.

Liquidity and financial resources, gearing and foreign exposures

As at 30 September 2006, the Group had total bank borrowings of approximately HK\$23,743,000 (as at 31 March 2006: HK\$25,369,000). The gearing ratio, expressed as a percentage of bank borrowings to total equity, was approximately 63.9% (as at 31 March 2006: 72.4%). 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\$3,378,000 as at 30 September 2006 (as at 31 March 2006: HK\$4,610,000). The current ratio increased from approximately 1.06 as at 31 March 2006 to approximately 1.10 as at 30 September 2006. The average stock turnover period increased from approximately 62 days to approximately 66 days and the average debtor turnover period increased from approximately 16 days to approximately 20 days.

The Group continued to adopt a prudent approach in funding and treasury policies. Since the Group's revenues and expenditures were predominantly denominated in US dollar and HK dollar respectively, the continued weakness of the US dollar might have an adverse impact to the Group's profitability. As such, the Group entered into a one-year option contract in March 2006 under which the Group would exchange US dollar to HK dollar at predetermined rates. The Group had profited from the option contract throughout the Period.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

Charge of Group's Assets

During the Period, the Group executed a debenture, which was essentially a pledge of all assets of the Group, in favour of a bank to secure banking facilities.

Employees and remuneration policies

As at 30 September 2006, 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.

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 2006.

Corporate Governance

In the opinion of the Board, the Company complied with the provisions of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2006 except for Code Provision A4.2 which stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In addition, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

At the annual general meeting held on 25 August 2006, the Company passed resolutions amending the bye-laws of the Company to ensure compliance with the above Code Provision.

Code of Conduct regarding Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as the code of conduct regarding directors' securities transactions. Specific enquiry has been made of all directors who have confirmed their compliance with the required standards set out in Model Code during the six months ended 30 September 2006.

Audit Committee

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 2006 and provided advice and recommendation to the Board.

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
BEP International Holdings Limited
Chan Tat
Chairman

Hong Kong, 19 December 2006