

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2003: HK1 cent per share).

BUSINESS REVIEW AND OUTLOOK

For the six months ended 30 September 2004, the Group achieved a turnover of approximately HK\$1,384,071,000, an increase of 51.5% as compared with HK\$913,627,000 recorded in the corresponding period last year. EBITDA and profit attributable to shareholders were HK\$55,025,000 and HK\$11,865,000 respectively.

Competition in the consumer electronics market remained fierce and the high cost of materials continued to affect the Group's profit margin. The prices of key components, such as flash memory and RAM (random access memory), rose quickly as demands increased in the second half of last year. The effect of the increased cost carried forward to the second quarter of this year. The prices had started to come down since July. The costs of other materials such as metals and plastics also stayed on high levels. The persistently high costs had adversely affected the Group's margin.

The Group continued to invest resources in the research and development of new digital products so as to keep pace with the rapidly changing market. Our product and engineering departments in Hong Kong, Shenzhen and Dongguan work very closely with solution providers and component suppliers. Most of the major new products include digital amusement centre, digital satellite receivers, cable set top boxes, LCD TV and DVD recorders were launched this year and we expect them to generate significant and constant contributions to the Group in the coming years.

The marketing division for digital satellite receivers saw steady progress. Orders were delivered and initial customer reactions were very encouraging. Our research indicated strong potential demand for these products in the market and discussions with important ODM and OEM customers in Europe and Middle East have been promising. We have confidence that this business will become a significant contributor of the Group in the future.



The business of the Home Appliance Division remained steady and contributed approximately 10% to the Group's turnover. The OEM/ODM segment of the business performed particularly well. However, the own brand business has not made any significant contribution. The Home Appliance Division develops and sells mainly high-end home appliance products including steam stations, air purifiers, wine cellars, espresso/cappuccino makers, etc.

The construction of the new factory in Shek Pai is expected to complete in early 2005 and will boost the Group's production capacity by at least 60%. Although this project imposed on the Group additional financial constraints, we anticipate increase in our turnover and financial resources when the factory becomes fully operational in the middle of next year. In addition, with the price of finished products and materials expected to stabilize next year, the Group anticipates a gradual increase of the margin to a more satisfactory level.

FINANCIAL REVIEW

The prices of flash memory and RAM increased by more than 30% within a few months during the second half of last financial year up till July this year when they went down rapidly. The phenomenon lowered the Group's normal margin by approximately 2-3%. The prices of metals and plastics also remained high in the period, the price increase of these materials was more gradual, allowing us to shift a portion of the increase to the customers, hence posing a less significant effect on our margin.

Taking advantage of the low interest environment, the Group had on 3 December 2003 signed a 3.5 years term loan facility agreement for HK\$245,000,000 with a syndicate of 11 international and local banks. The loan is on Hibor basis and repayable by installment one year after drawdown. The syndicated loan will be used to refinance the Group's existing credit facility and the cost of construction of the new factory buildings in Dongguan. Under the terms of the loan agreement, Mr. Simon Ling is required to maintain at least 40% of the shareholdings of the Company, be the single largest shareholder and be actively involved in the management and business of the Group, otherwise it will constitute as default.