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.

As of 30 September 2004, the Group had total borrowings of approximately HK$418,435,000, of which HK$410,300,000 was in bank borrowings and HK$8,135,000 was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly at floating rates. Bank balances and cash amounted to HK$110,199,000 and are mainly denominated in Hong Kong dollars. Gearing ratio was 76%, from calculation based on net borrowings over shareholders funds. The higher gearing ratio was the result of more capital expenditure on new factory buildings. The Group do not anticipate spending material amounts on fixed assets in the next two years.

The Group is not exposed to material currency fluctuation risks, as most of its receivables are in US dollars and payable in Hong Kong and US dollars. The Group will purchase or sale forward contracts with Bank to hedge against confirmed US dollars receipts and payments. Except for a few customers whom we offer credit on an open account basis, we transact business with all other customers on letter of credit at sight basis.

EMPLOYEES RELATIONS

As at 30 September 2004, the Group had 130 staff stationed in Hong Kong and 12,000 employees working in the PRC factories. Total salaries and wages amounted to approximately HK$65 million for the Period. Salaries and wages are normally reviewed annually on the basis of staff performance appraisals and market conditions. The Group provides its staff with year-end double pay, discretionary bonuses, a provident fund, medical insurance and training.