

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2005, the Group has cash, bank balances and deposits of HK\$176 million (2004: HK\$89 million).

The gearing ratio as at 30 September 2005 was reduced to 0.51 (2004: 0.60). This is calculated based on the Group's total bank borrowings, net of cash, bank balances and deposits, of HK\$232 million (2004: HK\$203 million) and the Group's net tangible assets of HK\$453 million (2004: HK\$337 million).

The Group generally finances its operations from internal cash flow. Bank borrowings of the Group are unsecured, save as a mortgage loan which is secured by fixed charges over certain of the land and building held by the Group. The outstanding amount of the secured mortgage loan as at 30 September 2005 is approximately HK\$15,378,000 (2004: HK\$17,682,000).

The Group's exposure to foreign currency mainly arises from trading transactions with and net working capital translation of its overseas subsidiaries. Hedging of foreign currency exposures is actively done through natural hedges, forward contracts and options. As at 30 September 2005, there were forward contracts in place to hedge against possible exchange losses.

## CONTINGENT LIABILITIES

AVC Technology Limited ("AVCT"), a wholly owned subsidiary of the Company received a writ of summons issued by a former customer on 31 October 2005 in respect of dispute on goods sold and delivered and the distribution agreement between the parties, claiming loss and damages in the sum of approximately HK\$31.3 million.

AVCT has sought legal advice on the claim. The directors believe that AVCT has valid defence against the claim and consider that the claim will not cause any significant impact on the operations and financial position on the Company and its subsidiary as a whole.

## EMPLOYEES

As at 30 September 2005, the Group employed a total of approximately 1,500 full time employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. In addition, the Group operates a share option scheme for eligible employees to provide incentive to the participants for their contribution, and continuing efforts to promote the interests of the Group.