

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30 June 2001, the Group achieved turnover amounting to approximately HK\$178 million, as compared to that of HK\$306 million for the corresponding period last year. Profit attributable to shareholders was HK\$1.7 million, as compared to HK\$25.6 million for the first half year in the previous year. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2001 (six months ended 30 June 2000: HK2.2 cents).

REVIEW OF OPERATIONS

The business environment for the Group was tough in the first half of 2001. The decrease in turnover and profit was mainly attributable to the slowdown of the US economy since the 4th quarter of 2000, the re-structuring of the Group's business operations and the re-location of factories in the PRC, which resulted in a redundant cost and write-off of fixed assets in the total amount of approximately HK\$6 million. In view of the stagnant market conditions, we have been actively implementing a series of remedies including the re-structuring of our business operations, improving cost cutting procedures and introducing a number of cost control measures.

Total Fulfilment Services

During the period under review, turnover of total fulfilment services and supply chain management amounted to approximately HK\$42 million, accounting for 24% of the Group's total turnover, compared with turnover of HK\$122 million in the same period last year.

The slowdown of the global Internet technology industry and the sluggish economic conditions in the US gave rise to the substantial drop in turnover of this business segment. Most US companies trimmed their inventory levels, hence, the demand for total fulfilment services and supply chain management decreased correspondingly. The Group's Taiwan operations, providing agency services with procurement and logistic services to US customers, were adversely affected during this difficult period. However, we continue to extend our value-added agency services to clients to strengthen our competitive edge in the booming PRC market.

Owing to the unfavourable market conditions, the Group has decided to restructure its operations and streamline its activities. We have transformed our production plant in the US into sales office, which will explore the market, to grasp new opportunities and challenges as they arise.

As the US is the major market for the Group's supply chain management service, the downturn of the US economy has led to a substantial drop in demand for this business segment. These services, therefore, saw a decline in turnover.

Computer Media Production

Sales of the Group's computer media products recorded a figure of approximately HK\$113 million during the period under review, accounting for 63% of the Group's total turnover.

The drop in the turnover of media products was mainly due to the bursting of the Internet bubble, tremendously decrease the demand for content-based media products. In addition, the excessive inventory of media products maintained by customers also reduced demand for the Group's computer media products. However, this slack market in the US is expected to rebound in the second half of the year.

The Group's floppy disk production developed steadily. With the product's mature life cycle and the consolidation of the floppy disk market, we expect market competition is lessen with no further new participants. We will therefore be able to maintain our stable orders.

Distribution

The acquisition of Fortune Luck Development Ltd. ("Fortune Luck") in November 2000 diversified the Group's business into the distribution of media products. Fortune Luck is an authorized distributor for a reputable Japanese company with 18 distribution centers in major cities of the PRC.

Fortune Luck has generated profits for the Group since February 2001. It is anticipated that Fortune Luck could contribute substantial portion of revenue to the Group for the year ended 31 December 2001. Capitalizing on Fortune Luck's strengths with its established and comprehensive distribution network, we are poised for the further development of our distribution and logistics businesses.

In addition to the acquisition of Fortune Luck, the Group is committed to seeking more sub-distributors in the PRC. The new business segment is expected to further extend the Group's geographic expansion into the PRC market with its huge market potential.

PROSPECTS

It is the Group's strategy to diversify our business from the manufacturing of computer media products to the provision of customer services. The acquisition of Fortune Luck enriched our knowledge in handling distribution and logistics services business in the PRC. Fortune Luck's highly established network and extensive distribution channels provide a solid foundation for the Group to further develop different kinds of business. The Group is optimistic with regard to further expansion. With the enlarging of the client base and the provision of more comprehensive distribution and logistics services, we are confident that this segment will bring in considerable income for the Group, ultimately contributing a significant portion of the Group's turnover.

In view of the sluggish US economy and the bursting of the Internet bubble, we will shift our market focus from the US to Asia with the implementation of various business strategies. These activities will enable the Group to further penetrate into the flourishing PRC market with its extensive business potential and extend our presence in other Asian markets. Fortunately, the demand for computer media products showed sign of rebound in August and September this year. Although the terrorist attack on the World Trade Center in the US brought many uncertain factors for economic recovery in the States, the unstable economic condition stimulates customers to spend more time and have entertainment at home, thus increasing the demand for information technology products which will benefit the Group's business.

To enhance our competitive strengths, we have put a great deal of efforts on improving the variety and versatility of products that satisfy the needs of different customers. During the period under review, we have successfully developed new products in the field of digital imaging and consumable data recording. We are currently exploring market opportunities for the new products and preparing for their launches. Besides, we will extend our geographical expansion to Korea in order to increase our exposure in the Asian markets. We are confident that the new products will create a substantial income stream for the Group.

It is expected that the entry of the PRC in the WTO will generate a lot of business opportunities to the Group. The demand of computer media and software products will increase tremendously owing to the set-up of new office by foreign companies in China. Meanwhile, the PRC government is likely to reduce the custom duties for imported computer products. This will certainly drag down the Group's cost of onshore sales in China.

Since the Group's half year results have been significantly affected by the downturn in US economic conditions, we will continue to expand to the PRC market and other Asian countries. In addition, we anticipate that the US market will be slightly improved which resulted in the increase in the demand for information technology products. Our experienced and professional management team will stay alert in anticipation of a worldwide economic rebound, keep pace with business developments and introduce strategies that provide an instantaneous response to market changes. Additionally, we will continue to implement prudent cost controls to sustain our profitability and maintain our competitiveness. These measures will enable the Group to achieve profitable returns for our shareholders.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2001, the Group's consolidated net asset value was HK\$318 million. The Group had total available banking facilities of approximately HK\$472 million of which HK\$345 million remained unutilized. Cash and bank balances amounted to HK\$26 million. The Group is able to satisfy its commitments and working capital requirements through its internally generated cash flows and banking facilities.

As at 30 June 2001, the Group's net debt to equity ratio was 39%, which are expressed as a percentage of total bank borrowings minus cash and bank balances over the Group's shareholders' equity. Most of the bank borrowings are denominated in Hong Kong dollars and subject to floating interest rate.

During the period, the Group had arranged a term loan of HK\$15 million to redeem the remaining portion of convertible bond issued to an investor in the year of 1998. The term loan will be settled by 8 instalments within 2 years. On 5 January 2001, the Group had issued a convertible bond in the total amount of HK\$39.6 million to acquire the distribution and logistic business. In consideration of the bond, the vendors guarantee with the Group that the audited net profit after tax shall not less than approximately HK\$11.5 million for the year ended 31 December 2001. The convertible bond in the amount of HK\$39.6 million is divided into four convertible notes. A convertible note of HK\$32.7 million is convertible in part or in whole into Company's new shares at any time during the period commencing 18 months from the date of issue on 5 January 2001 to but excluding the third anniversary from the date of issue (the "Maturity Date"). To the extent that this convertible note has not been previously converted, it will be redeemed on the Maturity Date at the then outstanding principal amount provided that the Company has the option to call on the holder to convert this convertible note on the same date wholly into Company's new shares. The three convertible notes, each having a principal amount of HK\$2.3 million, are convertible in part or in whole into the Company's new shares at any time during the period commencing 12, 24 and 33 months from the date of issue respectively up to but excluding the Maturity Date. To the extent that the three convertible notes have not been previously converted, the convertible notes will be redeemed on the Maturity Date at the then outstanding principal amounts.

By Order of the Board
Ho Yin King, Helena
Chairman

Hong Kong, 27 September 2001