

Chairman's Statement

RESULTS

For the year ended 31 December 2001, the Group recorded a turnover of HK\$380 million, corresponding to HK\$648 million in 2000. Loss attributable to shareholders was HK\$102 million, as compared with last year's profit attributable to shareholders of HK\$48 million. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2001 (2000: Nil).

REVIEW OF OPERATIONS

Owing to the slowdown in the US economy since the 4th quarter of 2000, both the Group's turnover and profit dropped in 2001, especially during the 1st and 2nd quarters. Leveraging our strengths in the media products distribution business together with our newly established distribution arm, which recorded the highest profit contribution to the Group, our turnover and profit showed an improvement in the second half of the year.

The decrease in the Group's profit margin was mainly attributable to the restructuring of the optical media products business to streamline this operation and reduce cost. The restructuring plan had resulted in a redundant cost of HK\$3 million. In addition, we wrote down the CD lines in the amount of HK\$70 million mainly due to the devaluation of foreign currencies in which the purchase cost of CD lines were booked in our accounting record and the matured technology of the CD product manufacturing. With plenty supply of CD-R product from worldwide suppliers and excessive supply from those Taiwanese manufacturers, the CD-R which require huge investment was selling at a price lower than CD-Rom average selling price. The Group viewed that in the foreseeable future, manufacturing CD-R will not generate any benefit to the Group. Therefore, we also disposed a subsidiary company that engaged in the manufacturing of CD-R business, thus generated a loss of HK\$18 million. However, these moves will better reflect the fair value of assets in our financial statement.

In the wake of the "911 terrorist attacks" in the US, people spent more time at home, thus making greater use of computer and home entertainment. This created a demand for supply chain management services and media products. As a result, turnover from these business segments showed a rebound in the 2nd half of the year. Recent signs of recovery and the slight rebound in the US economy in the 2nd half of 2001 also brought business growth for our total fulfillment services.

With the PRC's accession to WTO, more foreign companies are setting up offices in China, which has driven the demand for computer media products. During the year, we shifted our market focus from the US to the flourishing PRC market. By strengthening the distribution network in this new market, we were able to increase our penetration in China. In line with our strategy to launch new computer accessories in the digital imaging business, we have further empowered our distribution arm.

TOTAL FULFILLMENT SERVICES

During the reporting period, turnover for our supply chain management and total fulfillment services was approximately HK\$108 million, accounting for 28.4% of the Group's total turnover.

The global economy and the Internet technology industry has remained stagnant ever since the bursting of the Internet bubble in the 4th quarter of 2000. Coupled with the static economic conditions in the US, which is the major market for this segment, resulted in a substantial drop in demand for supply chain management services in the 1st and 2nd quarters of 2001. At the same time, the popularity of the Internet to download software and the trimming of inventory levels by US customers adversely affected demand for total fulfillment services. However, sales of total fulfillment services rebounded in the 4th quarter last year. Due to the "911 terrorist attacks" in the US, consumers preferred to play computer games at home, thus creating a surge in demand for this service.

In view of the sluggish US market and the depressed demand for our services, we have shifted our focus to Asia, especially the PRC and Hong Kong markets. Geographical distribution for total fulfillment services in Asia has increased. Our successful expansion into the PRC market has enhanced the establishment of a solid client base in China. Coupled with our extended value-added agency services, our competitive edge has been further strengthened, and our presence heightened in the booming PRC market.

The Group's Taiwan operations also suffered from the slack conditions in the global Internet technology industry. Our Taiwan operations provide agency services and procurement and logistics services to US customers. As the demand for agency services in Taiwan decreased, profit from this service segment dropped.

To reduce operating costs, we transformed our US operation from production base to sales office, which resulted in an expense of approximately HK\$1 million for the elimination of the production plant in the US. The sales office now provides supply chain management and total fulfillment services to US customers which also exploring new markets.

With the sluggish economy, most US software companies outsourced their supply chain management services to reduce their operating costs. Following the slight economic rebound in the 4th quarter of 2001, both the demand of supply chain management and total fulfillment services sustained by US customers consumed the inventory refill. The Group is therefore optimistic with regard to this business segment in the coming year.

COMPUTER MEDIA PRODUCTION

Sales of the Group's computer media products amounted to approximately HK\$213 million during the reporting period, accounting for 56% of the Group's total turnover, representing a drop of 42% as compared with the figure in 2000.

The bursting of the Internet bubble led to a tremendous decrease in market demand for content-based media products, including floppy disk and CD-Rom. Thus, turnover for this business segment fell substantially. Additionally, the inventory backlog held by customers weakened purchases of the Group's computer media products.

The reduction of profit in this business segment was however due to the primarily cost of HK\$3 million to implement restructure plan, and the loss brought about by the disposal of the Group's CD-Rom lines and CDR manufacturing business together with the write-down of various CD lines, thus, suffering a loss for the year.

In view of the keen competition brought about by Taiwan manufacturers, the supply of CD was over-flooded in the market. The price of product was squeezed, substantially lowering our profit margin. Additionally, the write-down of CD-Rom production lines, which was denominated in Deutsche Mark after the launch of Euro, devalued the Group's asset. Due to the doubtful prospect of the CD-R production business, the Group decided to dispose the CD-R manufacturing business and write-down its CD lines in order to reflect the fair value of the Group's asset.

However, the write-down of CD lines will improve the cost structure of content-based media products as the amount of depreciation charges will substantially decrease. Since our costs of production will be improved, we will gain more bargaining power to solicit sales orders at very competitive prices. Due to slowdown in worldwide economy, demand for floppy disk has reduced by approximately 20% in quantity. Yet, this business segment continued to benefit the Group. Nevertheless, demand for floppy disk will increase generated by sales orders from reputable customers.

DISTRIBUTION

Turnover for the Group's newly established distribution segment reached HK\$51 million, accounting for 13.4% of the Group's total turnover. This segment was able to fulfill the profit guarantee of approximately HK\$12 million, as stated in the contract of acquisition of Fortune Luck Development Ltd. ("Fortune Luck").

The Group's distribution arm was developed through the acquisition of Fortune Luck in January 2001. It catalyzed the diversification of the Group's business from producing media products to distribution. Fortune Luck has 18 distribution centers in major cities in the PRC with direct access to its population of 1.3 billion people. It is an authorized distributor of media products for a reputable Japanese company. In February 2001, Fortune Luck began its income contribution to the Group.

Apart from Fortune Luck's well-established distribution network, the Group is committed to improving the comprehensiveness and geographic coverage of our delivery channels. Therefore, we will expand our network by establishing 8 new distribution centers in selected areas in the PRC and Asian region. These new distribution centers are expected to commence their operations by the 2nd quarter in 2002.

Meanwhile, the Group is obtaining dealership of various products to improve the variety of its distribution items. During the year, the Group won distribution rights of two reputable brands from Japan and Korea with over 100 items for distribution. These products were delivered to different countries within the Asia Pacific region.

With the huge opportunities arising out of China's entry into WTO, the demand for distribution services within the China region will increase. We will continue to extend our distribution channels, further expanding this business segment.

SOFTWARE PROGRAMMING BUSINESS

In the end of 1999, the Group developed a software programming company, initially planned to develop Internet business with various types of movies. We have owned 3,000 films in our movie library. The Internet company is called "Albata". In the middle of 2000, the Internet bubble was cooling down, we, therefore, transformed this Internet company into software programming. After 18 months development, Albata was successfully to be one of the software programming suppliers to HKSAR Education Department, and maintain stable business from some international educational software companies.

PROSPECTS

The Group's objective is to further diversify into other servicing businesses such as distribution and software programming development that consumed very minimal capital expenditures. The Group will actively expand distribution network to open up more income streams for the Group.

Recent statistics show signs of recovery in the US economy. Thus growth in consumer activities will raise new demand for the Group's products and services. The rebound of the US market condition will generate the needs of our supply chain management and total fulfillment services. The improvement of this business segment in 2002 is expected to be in a greater extent than in the 4th quarter in 2001.

In addition, the Group will expand its distribution business to not only the Asian region, but also Europe and the US. At the same time, the Group put every effort to obtain dealership of different products and distribute them via its network channels. Through the expansion of product scope and gradual expansion into new markets, we are confident that the turnover of this business segment will be sustained and the Group's profitability will be further improved.

As regards to the floppy disk business, it is expected that there will be a rebound of this business segment in 2002. The consolidation of the floppy disk market faded out less competitive companies that led to lessen competition in the market. Therefore, few prominent brand names that dominated the market are our major clients. Sales orders from these renowned clients will bring the demand for our floppy disks.

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The expansion of turnover from our software programming business will bring positive results to the Group. Albata, which cooperated with internationally well-known educational institutions for developing educational software products, worked with a reputable telecommunication company in the PRC recently for the development of mobile computing software. We are confident that this new business development will have profit contribution to the Group in 2002.

Meanwhile, the Group will continue to put every effort into product research and development. The positive market responses brought about by the market trials for digital imaging and consumable data recording products reinforce our capabilities in the development of innovative products. To consolidating our manufacturing base, we will look for opportunities to expand our vertical integration through acquisition of material suppliers, which will reduce production costs for these new products. We will also continue to improve our product range to provide more choices for our customers.

China's accession to WTO and the hosting of the 2008 Olympic games will bring many business opportunities to the Group. As more foreign companies establish offices in China, this will create a demand for computer media and software products.

The restructuring of the Group's business improves the fair value reflection of its earnings per asset. Our professional and experienced management team will stay alert in anticipation of changes in global economic conditions, introducing measures in response to these changes. In view of the uncertain business environment, we will adopt a conservative approach in managing our business and cash flow. We will also sustain our ongoing implementation of prudent cost controls which will enhance our profitability and achieve profitable returns for shareholders.

CONCLUSION

Finally, on behalf of the Board of Directors, I would like to express our deepest gratitude to our committed colleagues for their continued support and encouragement. We pledge to combine all our energies and abilities to achieving our goals so that we can increase benefits to our shareholders. We strongly believe that Jackin will continue to reward investors with profitable returns in the years to come.

On behalf of the Board

Ho Yin King, Helena

Chairman

Hong Kong, 26 April 2002