

# CHAIRMAN'S STATEMENT

## RESULTS

The Group managed to turnaround and achieved satisfactory results in the 12 months of 2002. For the year ended 31 December 2002, the Group achieved profit attributable to shareholders of approximately HK\$17 million, as compared with the loss attributable to shareholders of HK\$102 million in 2001. The Group's turnover amounted to approximately HK\$380 million, similar to that recorded in the year of 2001. The Directors recommend the payment of a final dividend of HK0.5 cent per share for the year ended 31 December 2002, to be approved by shareholders at the forthcoming annual general meeting. (2001: Nil).

## REVIEW OF OPERATIONS

The significant improvement in the Group's annual results and substantial increase in profit margin were the results of business diversification towards high return segments, increased penetration in fast growing markets and effective implementation of restructuring plans in 2001.

During the year, the Group diversified its business from the manufacturing of media products to distribution business, which contributed the highest return to the Group. The growth in sales from higher margin new products, such as digital imaging and consumable data recording products, generated satisfactory returns to the Group. The Group is always committed to soliciting distribution rights of new computer accessories and media products, such as DVDR, DVDRW, optical mouse, USB storage media, 8mm video cassettes, digital camera, from suppliers with world recognized and reputable brandnames. In line with this strategy, the Group was granted the distribution right of some computer products such as USB storage media for sales in the PRC, which enriched the product varieties for its distribution business, and hence, created new income sources for the Group.

The rebound in demand for conventional products in the first half of 2002 also helped to enhance the Group's profit margin. Due to market consolidation, conventional product suppliers gradually stopped their production lines. Those customers however continue to demand conventional products and being able to meet those demands, the Group's profitability continues to rise.

In the light of the slack US economy resulting from the bursting of the Internet bubble in the 4th quarter of 2000 and the built up of military tensions in the Middle East towards the end of 2001, the Group has shifted its target market from the US to China, Asia and Europe.

Sales from the US decreased from 22.8% in 2001 to less than 13.0% in 2002, while sales contribution from the Asian and European markets have grown by 10%, from 77.1% to 87.0% in 2002. This strategy bear fruits this year.

## CHAIRMAN'S STATEMENT *(continued)*

During the year, the Group has strengthened its distribution business in the PRC by recruiting more sub-distributors and retailers with potential and it is planning to develop retail shops to promote distribution sales in the years ahead. Furthermore, the Group has also set up a sales office and a warehouse in the Netherlands to serve "quick turn" customers and participated in trade shows in the European region to enlarge its customer base.

The streamlining of the Group's business operations and implementation of restructuring plan with write-down of plant and machinery values in 2001 has successfully resulted in cost savings in 2002. The Group's profit margin has also been increased as a result of reduction in manufacturing operation costs and improved return on assets.

### COMPUTER MEDIA PRODUCTION AND TOTAL FULFILLMENT SERVICES

Sales of computer media production and total fulfillment services amounted to HK\$299 million, accounting for 78.7% of the Group's total turnover.

Owing to the over supply of CDs from Taiwan manufacturers and weak demand for total fulfillment services from customers in slack US markets, the sales of content-based media products and total fulfillment services dropped. This, together with high production cost of CDs in Hong Kong, had made the line of CDs production business incur a substantial loss. The group operating result should have been improved by double digit in profit margin percentage if the production cost of CDs in Hong Kong had been mitigated eventually.

Nevertheless, the Group was gaining floppy disk business from the reducing number of competitors. Since the automatic production lines of Taiwan manufacturers become obsolete and the floppy disk industry further consolidated, new reputable brandnames customers have turned to the Group to meet their demands, driving the Group's floppy disk sales. The launch of USB also boosted the demand for floppy disks, as they are essential for computer start-ups.

Entering into the digital era, the Group will commit its resources to further develop its digital imaging products so as to diversify its scope of products under the media product umbrella. Capitalizing on the growing demand for blank information storage media products, the Group will step up its effort to solicit sales orders from some reputable customers. Conversely, it will take cautious and aggressive approach to reduce CD production in Hong Kong.

### DISTRIBUTION

On track in realizing its goal to diversify its business in the distribution segment, the sales of the Group's distribution business including Asian (PRC) and European markets increased to HK\$81 million, growing by 58.8% from HK\$51 million on year-on-year basis. Its contribution to the Group's total turnover has increased from 13.5% in 2001 to 21.3% in 2002.

With the successful expansion of the product scope of its distribution business to cover high margin new products, such as digital imaging and consumable data recording products, the Group achieved turnover growth in this segment. Granted the distribution rights of a reputable Japanese brand as well as the newly secured distribution license for computer products from another well-known Korean brand, the Group was in the wing, poised to capture opportunities in the flourishing markets. The Group will continue to strengthen its distribution arm by exploring and soliciting new computer products from vendors with renowned brandnames.

With regard to the geographical expansion of its distribution network, the Group increased its presences in Asia and Europe during the year through partnership with sub-distributors and retailers in China and also establishing sales office and warehouse in Rotterdam, the Netherlands. This enabled the Group to reach more customers and extend its client base to other regions. It is the Group's plan to further develop and expand its distribution networks by establishing joint ventures in the PRC. Additionally, to extend into the second tier of the market segment in the PRC market, the Group is considering setting up 4 to 5 retail shops in the mainland in the second half of 2003.

## PROSPECTS

The Group is seeking to diversify its business into services segments such as distribution and retail businesses with minimal capital expenditure. To enhance its profitability, it has plans on hand to develop and extend its distribution network throughout the world, with special focus on fast growing regions, particularly Asia and Europe. In parallel with this expansion plan, the Group will also direct more resources into soliciting and obtaining dealerships from leading brands worldwide. The increasing number of distribution products, especially high margin computer media products, not only helps to broaden the selection for customers, but will also create new income streams for the Group.

Apart from strengthening its distribution and software development businesses, the Group will minimize its capital expense in the year to come. The Group intends to take aggressive and cautious approach to mitigate the production cost of CDs manufacturing in Hong Kong in order to reduce the negative impact of this line of business on the group operating profit. In addition, the Group will not incur substantial amount of capital expenditure after the disposal of its CD-R manufacturing business and write-down of plant and machinery values in the last few years. The Group's overall profitability will also benefit from this strategic goal.

Taking into consideration the consolidation of the floppy disk market and gradual reduction in the number of Taiwanese floppy disk suppliers, the Group aims to capture this business opportunity to secure reputable clients who have continuous demand for blank information storage media products.

As the sluggish ambience still shadows the global business environment, the Group will keep on adopting prudent cost control measures and take a conservative approach in managing its business and cash flow. In the meantime, the Group will stay alert to changes in market condition that it may response promptly as new opportunity arises.

# CHAIRMAN'S STATEMENT *(continued)*

## FINANCIAL REVIEW

### Review of results

During the year ended 31 December 2002, the Group turnover amounted to approximately HK\$380 million, similar to that recorded in the year of 2001.

The Group's profit attributable to shareholders amounted to approximately HK\$17 million as compared to a loss attributable to shareholders of HK\$102 million in the year of 2001.

### Capital structure

The Group has maintained a stable financial position. As at 31 December 2002, the Group had total assets of approximately HK\$485 million, comprising non-current assets of approximately HK\$265 million and current assets of approximately HK\$220 million, which were financed by current liabilities, non-current liabilities, minority interest and shareholders' fund of approximately HK\$187 million, HK\$62 million, HK\$4 million and HK\$232 million respectively.

As at 31 December 2002, the Group's total net assets was approximately HK\$232 million (2001: HK\$215 million), representing an increase of HK\$17 million compared with 31 December 2001 mainly attributable to operating profit for the year.

### Financial resources and liquidity

The Group continues to enjoy financing its operations from internally generated cash flows and bank facilities. As at 31 December 2002, the Group had total available bank facilities of approximately HK\$363 million of which approximately HK\$239 million remained unutilized. The available un-drawn bank facilities together with cash holdings of HK\$41 million will provide adequate funding for the Group's operational requirements.

As at 31 December 2002, the Group's total borrowings excluding the convertible notes of approximately HK\$39.6 million decreased by HK\$45 million to HK\$156 million (31 December 2001: HK\$201 million), of which 134 million was payable within one year and HK\$22 million was payable after one year. Most of the borrowings subject to floating interest rate are mainly denominated in Hong Kong dollars and hence the risk of currency exposure was insignificant. Cash holdings amounted to HK\$41 million (31 December 2001: HK\$88 million).

### **Gearing ratio**

The Group's net debt to equity ratio was 50% (31 December 2001: 52%), which is expressed as a percentage of total bank borrowings and obligations under finance lease and hire purchase contracts of approximately HK\$156 million after deducting cash holdings of approximately HK\$41 million over the total net assets of HK\$232 million (31 December 2001: HK\$215 million). The slight decrease in net debt ratio was mainly due to an increase in closing inventories at 31 December 2002 by approximately HK\$12 million to HK\$70 million (31 December 2001: HK\$58 million) in order to enrich product varieties for the distribution business; albeit the Group reported a growth in operating profit for the year.

### **Convertible notes**

The convertible notes issued were part of the consideration for the acquisition of a company holding an agreement for sale and promotion of data media products together with distributorship and sales agreement with the existing clients of certain vendors in 2001.

The convertible notes amounting to HK\$39.6 million comprise four convertible notes and are interest free. A convertible note of HK\$32.7 million is convertible in part or in whole into new shares of the Company, at the conversion price of HK\$0.55 per share, 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 new shares of the Company. The other three convertible notes, each having a principal amount of HK\$2.3 million, are convertible in part or in whole into the new shares of the Company, at the conversion price of HK\$0.55 per share, 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.

### **Employees and Remuneration Policies**

As at 31 December 2002, the number of employees of the Group was approximately 1,000. The remuneration packages of the Group's employees are mainly based on their performance and experience, taking into account the current industry practices. Remuneration package of employees includes salaries, insurance and medical cover, mandatory provident fund and share option scheme. Other employee benefits include educational allowance and discretionary bonuses.

# CHAIRMAN'S STATEMENT *(continued)*

## **Contingent Liabilities and Charges on the Group's Assets**

The Company gave guarantees of approximately HK\$363 million (2001: HK\$440 million) to financial institutions in respect of banking facilities granted to subsidiaries. The Group had pledged its assets with an aggregate net book value of HK\$55.2 million (2001: HK\$126.6 million) to secure bank and other loans granted, and obligations under finance leases and hire purchases contracts to its subsidiaries.

In addition, in 1998 a subsidiary of the Company received a writ from a customer in Hong Kong claiming amounts of RMB5.9 million and US\$1 million relating to alleged defective products delivered by that subsidiary. However, the directors, based on an opinion from the Group's independent legal advisers, consider that the allegations made by the customer are not valid and are of the opinion that such claims will not cause any material loss to the Group. No provision for the cost of the legal fees or loss, if any, arising from the allegation has been made in the financial statements.

## CONCLUSION

On behalf of the Board of Directors, I would like to express my sincere gratitude to our devoted colleagues for their support and encouragement over the past year. Their efforts have been reflected clearly in the favorable results achieved by the Group during the year. In future, we will continue our commitment in achieving better results and reward our valuable investors with promising returns.

On behalf of the Board

**Ho Yin King, Helena**

*Chairman*

Hong Kong, 23 April 2003