

CHAIRMAN'S STATEMENT

RESULTS

For the year ended 31 December 2003, the Group achieved a profit attributable to shareholders of approximately HK\$12 million on a turnover of approximately HK\$321 million, as compared with the profit attributable to shareholders of approximately HK\$16 million on a turnover of approximately HK\$380 million in 2002. The decrease in the turnover and profit was mainly attributable to the SARS outbreak in the first half of the year and the discontinuance of CDs production during the year under review.

REVIEW OF OPERATIONS

As a consequence of fierce competition within the CDs production industry, the Group (following its scale down and rationalization in this segment in the previous year) has completely ceased its CDs production business during the year under review, which also adversely affected the total fulfillment services business. Whilst these negative factors contributed to the decrease in the Group's turnover and profit, the Group has however managed to mitigate the effects and maintain its profitability through an increase in sales of conventional media products such as floppy disk.

DISTRIBUTION OF MEDIA PRODUCTS

The distribution business segment continued to generate revenues for the Group during the reporting year. Turnover this year was approximately HK\$122 million, representing a 50.6% growth from approximately HK\$81 million recorded last year. The satisfactory performance of the distribution business was mainly achieved by an increase in the variety of its products and the addition of more sub-distributors.

Although the distribution business was affected by the slack Asian economy because of the SARS epidemic in the first half of the year under review, this business segment was quickly rejuvenated with improving market sentiment when the outbreak of SARS came under control in the second half of the year.

The Group's higher distribution turnover was achieved through successful expansion of product scope to cover high margin new products, such as digital imaging and consumable data recording products. In order to further expand its income source, the Group continued to explore and solicit distribution rights of new computer accessories and media products, such as DVDR, DVDRW, optical mouse, 8mm storage video cassettes, digital camera, and data cartridge from suppliers with world recognized and reputable brand names. In specific, the sales of USB storage media experienced substantial growth during the year under review.

CHAIRMAN'S STATEMENT *(continued)*

In line with the Group's rationalization plan to shift to the distribution business from its manufacturing business, the Group further consolidated its distribution business by obtaining the distribution rights of the media products of a reputable Japanese brand in the People's Republic of China. Expansion plans were mapped out to set up retail shops under this Japanese brand name in promoting distribution sales in the years ahead. The Group believes that this new business operation will be able to boost sales volume as the economy bounces back in 2004 and beyond.

On track with its shift in target market from the United States to Asia and China, the sales contribution from the Asian markets (including the People's Republic of China) reached approximately HK\$178.5 million, accounting for 55.6% of the Group's total turnover for the year under review. The sales contribution from Europe markets dropped by 51.2% to approximately HK\$54.2 million while the sales contribution from the North America markets further dropped by 65.4% to approximately HK\$17.1 million.

COMPUTER MEDIA AND ACCESSORIES PRODUCTION AND TOTAL FULFILLMENT SERVICES

Sales of computer media, accessories product and total fulfillment services amounted to approximately HK\$199.1 million, representing a decrease of 33.4% as compared to last year.

The drop in sales of this segment was mainly attributable to the discontinuance of the CDs production and supply chain management businesses. With the cautious steps it took to scale down the CDs production business in the previous years, the Group succeeded in completely terminating the operations early this year. This movement is favorable to the long-term development of the Group, and is essential in cutting the substantial loss incurred by the business sector in recent years. However, this has also incurred special item expenses involved in compensating redundant staff and other finance costs, which impacted adversely on the Group's total profit for the year under review.

In line with the CDs production business, there was decreasing demand for total fulfillment services. Revenue from total fulfillment services remained minimal.

Nevertheless, the Group continued to gain more floppy disk business from the reducing number of competitors due to consolidation within the industry. The substantial growth in sales of floppy disk helped to offset the reduced revenue from the CDs production and total fulfillment services sectors. Attracted by its competitive prices, major well-known brand names have turned to the Group to meet their conventional demands, further driving the Group's floppy disk sales. The Group also became one of the two largest floppy disk suppliers in Asia, and anticipated an increase in the number of reputable customers in the future, especially leading Japanese brands.

PROSPECTS

Steady improvement in the global economy since late 2003 has boosted consumer demand for digital imaging products. The Group will continue to rapidly capture such profitable opportunities by diversifying into retail businesses and extending the distribution network throughout the People's Republic of China. To cope with this expansion plan, the Group will direct more resources to enrich its product range through soliciting and obtaining more dealerships from leading brands worldwide.

To capture the booming market potential in the People's Republic of China, the Group has put special focus in extending its reach to retail consumers of the People's Republic of China market during the year under review. Obtaining the distribution rights of the media products of a reputable Japanese brand, the Group set up a retail shop under this brand name in Guangzhou in early 2004, and planned to establish a second retail shop in Shenyang in the second quarter of 2004. These retail shops will focus on the exclusive sale of computer accessories and media products of the renowned Japanese brand. Apart from introducing more product varieties to the consumers in the People's Republic of China market, this retail operation is also expected to contribute to the Group's sales growth in 2004.

In light of the further consolidation of the floppy disk market and the reduction in the number of floppy disk suppliers in worldwide market, the Group aims to secure even more well-known customers, especially leading Japanese customers, who have continuous demand for blank information storage media products. Looking ahead, the Group is confident that this segment will be a reliable revenue stream with stable growth.

Meanwhile, in order to enhance profit margins and achieve profitable returns for shareholders, the Group will continue to improve its competitive edge. Steps to be taken will include the implementation of stringent cost control measures, and the generation of business synergies among various segments to enrich operational efficiencies. The Group is also committed to devoting more resources to staff training, empowering both the employees and the Group to become even more sensitive to, and fully capitalize on, new market opportunities.

FINANCIAL REVIEW

Capital and debt structure

The Group continued to maintain a stable financial position. As at 31 December 2003, the Group's total net assets was approximately HK\$300 million (31 December 2002: approximately HK\$231 million), representing approximately HK\$69 million increase compared with that of previous year, mainly attributable to the following matters incurred during the year under review: (a) profit attributable to shareholders of approximately HK\$12 million, (b) issue of shares on exercise of conversion rights under convertible notes of approximately HK\$37 million, (c) issue of shares pursuant to placing of approximately HK\$10 million and (d) realization on disposal of an associated company of approximately HK\$10 million.

CHAIRMAN'S STATEMENT *(continued)*

As at 31 December 2003, the Group's total bank borrowings and obligations under finance leases increased by approximately HK\$24 million to approximately HK\$180 million (31 December 2002: approximately HK\$156 million), of which approximately HK\$159 million was payable within one year and approximately HK\$21 million was payable after one year. Most of the bank borrowings and obligations under finance leases are denominated in Hong Kong dollars and subject to floating interest rates. Hence the risk of currency exposure was minimal. The Group's total cash and bank balances amounted to approximately HK\$44 million (31 December 2002: approximately HK\$41 million), representing an increase of approximately HK\$3 million.

The Group's net debt to equity ratio was 45% (31 December 2002: 50%), which is expressed as a percentage of total bank borrowings and obligations under finance leases after deducting cash and bank balances over the total net assets. The decrease in net debt ratio was mainly due to the Group's total net assets were strengthened during the year.

Working capital and liquidation

As at 31 December 2003, the Group continued to maintain a stable working capital. The Group slightly improved its current ratio by 0.1 to 1.3 as at 31 December 2003 (31 December 2002: 1.2), also its quick ratio by 0.2 to 1.0 as at 31 December 2003 (31 December 2002: 0.8). However, receivable turnover deteriorated to 61 days (31 December 2002: 44 days) which was mainly due to the concentration of sales orders received from distribution business in the 4th quarter of 2003. Inventory turnover increased to 80 days (31 December 2002: 66 days) due to the accumulation of inventory for the expansion of distribution business in 2004.

The Group had unutilized banking facilities of approximately HK\$169 million as at 31 December 2003 (31 December 2002: approximately HK\$239 million), which the Directors consider that the unutilized banking facilities are sufficient to meet the Group's working capital requirement.

Convertible Notes

On 5 January 2001, the Group issued for four interest-free convertible notes for the acquisition of distribution and logistic business.

On 9 September 2003, the holder of two convertible notes, each having a principal amount of HK\$2.3 million, exercised the conversion right to convert the whole of the principal amount outstanding under these convertible notes into shares of the Company at HK\$0.55 per share. A total of 8,360,000 shares were allotted and issued to the holder upon the exercise of the conversion rights under two of the convertible notes by the holder.

On 24 December 2003, the holder of one convertible note of a principal amount of HK\$32.7 million, exercised the conversion right to convert the whole of the principal amount outstanding under this convertible note into shares of the Company at HK\$0.55 per share. A total of 59,454,545 shares were allotted and issued to the holder upon the exercise of the conversion right under the convertible note by the holder.

Subsequently, on 5 January 2004, the remaining convertible note was redeemed (without interest) at the outstanding principal amount of HK\$2.3 million, which was financed by the internal resources of the Group. No new share in the Company was, or will be, issued in relation to such a redemption.

Through the issue of new shares of the Company to the holders of the convertible notes, it increased the Group's net assets value and improved the Group's net debt to equity ratio as at 31 December 2003.

Employees and Remuneration Policies

As at 31 December 2003, 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.

Contingent Liabilities and Charges on the Group's Assets

The Company gave guarantees of approximately HK\$372 million (2002: approximately HK\$363 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 approximately HK\$70.2 million (2002: approximately HK\$55.2 million) to secure bank and other loans granted, and obligations under finance and hire purchases contracts to its subsidiaries.

CONCLUSION

On behalf of the Board, 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. Barring unforeseen circumstances and following the rationalization of the Group's operation over the last two years, the Board is confident that the Group will be in a better position to meet the challenges ahead.

By Order of the Board

Ho Yin King, Helena

Chairman

Hong Kong, 27 April, 2004