

CHAIRMAN'S STATEMENT

RESULTS

For the year ended 31 December 2004, the Group achieved turnover amounting to approximately HK\$364 million, representing an increase of 13% as compared with HK\$321 million in 2003. The Group's profit attributable to shareholders for the year was approximately HK\$20 million, 67% higher than that of HK\$12 million in the previous year.

REVIEW OF OPERATIONS

Computer Media Production

In the past year, computer media production achieved steady organic growth and remained as the Group's most substantial contributor of revenue, making up approximately 41% of the Group's total turnover.

During the year under review, China and Asia remained as the Group's major markets. Turnover from the China and Asia markets represented 59% and 21% of the Group's total turnover respectively. Capitalizing on healthy world economic conditions in 2004 and the continued increase in demand for computer media products, the Group landed new markets and gained new customers in South America.

Benefited from the further consolidation of the computer media industry in the past year, both the Group's sales and market share increased. Reduced competition and the competitive prices of the Group's products prompted new reputable customers to turn to the Group to meet their demands.

During the year under review, prices of raw materials, in particular, of plastics, increased and created cost pressure on the Group. Nevertheless, through continuously enhancing its cost control measures and operational efficiency, the Group was able to mitigate the effect of such pressure on its financial performance. The Group reduced overhead expenses and streamlined its production system and resource management to help enhance raw materials utilization. During the year, the Group also automated the second part of its production process, thus heightened efficiency and lowered labor costs.

In the first half of last year, the Group's production facilities in the PRC were slightly affected by the shortage of electricity supply. After installing its own power generators in June 2004, the Group was able to achieve uninterrupted operations in the second half of the year and was free from the impact of power supply shortage.

CHAIRMAN'S STATEMENT *(continued)*

REVIEW OF OPERATIONS *(continued)*

Computer Accessories Production

During the year under review, computer accessories production continued to deliver satisfactory performance, experiencing growth in both turnover and profits. Turnover and results were approximately HK\$77 million and HK\$25 million respectively, a 325% and 556% growth over last year.

The Group further widened the product line of imaging products and expects to release more sophisticated and complex imaging products in the future. The Group devoted human resources as well as monetary resources on the research and development of imaging products. A team of 15 experienced and high caliber engineers are now working in our R&D department.

World's demand for computer accessories, such as digital imaging products, continued to experience substantial growth in 2004. To cater to increased demand, the Group had expanded production facilities in the past year to increase production capacity. The Group is highly optimistic of this business segment and will commit more resources to expanding its product range and related production facilities.

Distribution of Media Products

The distribution business segment generated turnover of approximately HK\$130 million for the Group during the reporting year, representing an increase of 6% over last year, and accounted for 36% of the Group's total turnover.

The Group's turnover growth stemmed from its expanded distribution network in the PRC. During the year under review, the Group opened its own retail shops in Shenzhen, Guangzhou and Shanghai. To capture the huge potential in the PRC market, the Group is committed to actively expanding its business in the northern part of China in 2005.

To further expand its revenue sources, 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, USB storage media and data cartridge, from suppliers of world recognized and reputable brands.

SUBSEQUENT EVENTS

In January 2005, the Group raised approximately HK\$22.9 million, before expenses, by issuing 229,154,272 new shares by way of Open Offer to the shareholders whose names appear on register of members of the Company on 23 December 2004 at the subscription price of HK\$0.1 per offer share on the basis of one offer share for every two existing shares. The net proceeds of the open offer, after deduction of expenses, are approximately HK\$21 million. The Group intends to apply approximately HK\$12 million of the net proceeds to expand its computer accessories production and the balance of HK\$9 million as general working capital.

SUBSEQUENT EVENTS *(continued)*

Pursuant to a resolution of the directors' meeting passed on 25 January 2005, the Company has made an offer for the grant of share options to subscribe for a total of 45,829,766 shares of HK\$0.1 each, representing 20,617,884 shares to executive directors, 6,874,626 shares to independent non-executive directors and 18,337,256 shares to employees at a subscription price of HK\$0.158 per share under the Company's new share option scheme. The option period is from 25 January 2005 to 24 January 2015.

PROSPECTS

Going forward, as one of the top three manufacturers of floppy disks in the world in terms of production volume, the Group is determined to maintain its leading position and will strive to achieve further organic growth for its computer media production business. In addition to strengthening research and development, the Group also plans to expand its product mix, focusing particularly on higher margin products such as digital imaging products, to cater to increasing demands from existing and new customers.

By implementing effective cost control measures and increasing production efficiency, the Group not only minimized the impact of increase in prices of plastic materials, but also improved its competitiveness in the computer media sector. Pressing on with achieving the goal of automating its entire production and following the successful automation of the second part of the production process in 2004, the Group plans to complete automation of the rest of the production in 2005, after which labor costs will be able to be reduced by 50%.

As world economic outlook remains positive and consumer demand for computer accessories continues to grow, the Group is in the process of expanding production facilities for its computer accessory products that promise higher profit margins and enjoy rising market demands. The Group expects this business segment to become its major growth driver in the next few years.

The overall economic picture and consumer sentiment of the Mainland China's market for computer media products is promising. The Group will continue to tap this market by extending its distribution network across the country. Further to setting up retail shops in Shenzhen, Guangzhou and Shanghai in 2004, the Group will continue to open new shops in northern China in 2005.

FINANCIAL REVIEW

Financial Results

For the year ended 31 December 2004, the Group recorded a turnover of HK\$363,765,000, representing an increase of 13% compared with HK\$321,275,000 in 2003. The Group achieved better results this year with profit attributable to shareholders rebounded to HK\$20,117,000, representing an increase of approximately 67% over that of last year. Basic earnings per share increased by HK1.08 cents to HK4.39 cents this year (2003: HK3.31 cents).

CHAIRMAN'S STATEMENT *(continued)*

FINANCIAL REVIEW *(continued)*

Capital and Debt Structure

The Group continued to maintain a stable financial position. As at 31 December 2004, the Group's total net assets was approximately HK\$319 million (31 December 2003: HK\$300 million), representing approximately HK\$19 million increase compared with that of previous year, mainly due to the increased profit attributable to shareholders recorded during the year.

As at 31 December 2004, the Group's total borrowings and obligations under finance leases increased by HK\$20 million to HK\$200 million (31 December 2003: HK\$180 million), of which HK\$186 million was payable within one year and HK\$14 million was payable after one year. Most of the banking 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\$35 million (31 December 2003: approximately HK\$44 million), representing a decrease of approximately HK\$9 million.

The Group's net debt to equity ratio as at 31 December 2004 was kept steady at 0.5 (31 December 2003: 0.5), which is expressed as a ratio of total borrowings and obligations under finance leases after deducting cash and bank balances over the total net assets.

Working Capital and Liquidation

As at 31 December 2004, the Group continued to maintain a healthy working capital with the current ratio and quick ratio at 1.3 and 1.0 respectively as in the previous year. Inventory turnover on sales decreased to 56 days (31 December 2003: 80 days) due to the Group's effort in successfully reducing inventory level during the year. However, receivable turnover deteriorated to 77 days (31 December 2003: 61 days) which was mainly due to the growth of sales of distribution and computer accessories businesses during the 4th quarter of 2004.

Convertible Notes

On 5 January 2004, the remaining convertible note brought forward from last year was redeemed (without interest) at the outstanding principal amount of HK\$2.3 million, which was financed by the internal resources of the Group.

Employees and Remuneration Policies

As at 31 December 2004, 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.

FINANCIAL REVIEW *(continued)*

Contingent Liabilities and Charges on the Group's Assets

The Company gave guarantees of approximately HK\$320 million (2003: HK\$372 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\$42.5 million (2003: HK\$70.2 million) to secure bank and other loans granted, and obligations under finance and hire purchases contracts to its subsidiaries.

Open Offer

On 3 December 2004, the Company announced a proposal to raise not less than approximately HK\$22.9 million, before expenses, by issuing not less than 229,154,272 new shares but not more than 234,972,772 new shares by way of an Open Offer to its shareholders whose names appear on the register of members of the Company on 23 December 2004 at the subscription price of HK\$0.10 per offer share on the basis of one offer share for every two existing shares held by the shareholders. The Open Offer provides a good opportunity for the Group to raise funds to strengthen its capital base and improve its financial position to provide flexibility for the Group's future development and expansion.

A prospectus in respect of the Open Offer was issued by the Company on 24 December 2004 and the Open Offer was successfully completed on 12 January 2005, resulting in a total of 229,154,272 offer shares having been issued. Upon receiving the net proceeds of the Open Offer, the Group improved its working capital as well as current ratio, quick ratio and net debt to equity ratio.

Conclusion

On behalf of the Board of Directors, I would like to express my sincere gratitude to our colleagues for their hard work over the past year. Their dedicated efforts enabled the Group to grow promisingly in both profits and market expansion last year. In the coming year, we will continue our commitment to achieving better results and rewarding our shareholders with satisfactory returns.

By Order of the Board
Ho Yin King, Helena
Chairman

Hong Kong, 22 April, 2005