

FINANCIAL PERFORMANCE

The Group recorded a further significant drop in turnover for the year ended 31 December 2005. Turnover was approximately HK\$61,220,000, which, compared to last year of HK\$82,840,000, represented a 26% decrease. Net loss increased to approximately HK\$44,172,000 (as compared to HK\$18,401,000 in 2004). This can, in part, be explained by the factory removal, as well as increased in bad and doubtful debt provision during the year. Gross profit margin of the Group was maintained at 13% this year.

BUSINESS REVIEW

2005 created many challenges for the Group. With computer peripherals accounting for 87.6% of turnover, one of the key tasks it faced was how to deal with the ever-increasing price of metal materials, particularly aluminum used in the production of its PC cases and the increasing price of plastic material due to the rise in oil price, plus the appreciation of RMB. By emphasizing greater cost control, the Group successfully managed to offset part of the higher production costs, which in turn kept gross profit margins at around 13%. Nevertheless, turnover was still 26% down on the year under review. To react to the global problem of rising costs in plastic and metal materials, the Group embarked on various new initiatives that included recycling existing stockpiles, and improving production quality control standards.

It was also decided by the Board in March 2005 to relocate the current factory to a modern industrial zone in Shenzhen. Production was made fully operational in mid-August. In the meantime, some of the assembling facilities and equipments had been disposed, of which some items were too outdated and some were damaged during factory removal that caused approximately HK\$6.56 million fixed assets had been written off. The Group is pleased to report that our clients are loyal to the Group and continuing to place orders to show their support.

Approximately total extra HK\$6.5 million moving costs from part of the administration expenses was spent by the Group for relocation of the new factory. Such a strategic decision was made for long-term benefits to the Group and its shareholders as a whole. It is not only will make production line become faster and more cost-effective by operating on a horizontal level, which in turn will allow for better and efficient management and operational supervision, but also by being located in the industrial zone, it will ensure that all imports and exports are tightly monitored with a newly upgraded computer system network. This improved of the Group of quality control will, benefit all of our customers and further consolidate the position in the market.

The Group strategically acquired 50.01% of interest in TechnoStore Limited. Subsequently, on 20 December 2005, entered into the sales and distribution agreement starting in January 2006 which gave us the exclusive right to market, sell and distribute the TechnoMarine brand of luxurious watches and accessories in Asia Pacific. With a distribution and retail network spanning 9 countries, the Asia Pacific region represents over 20% of the brand's global sales. On top of the stores in Korea and Philippines which have been running for a few years, a latest TechnoMarine store was opened in Taiwan in late 2005. The principal reason for the acquisition and entering into the sales and distribution agreement is in the view of the Directors, that would make additional contribution to the Group's earnings, as well as to broaden the future income base of the Group.

BUSINESS SEGMENTS REVIEW

1. Computer Peripherals

For the year ended 31 December 2005, turnover attributable to the personal computer business was HK\$53,627,000. This accounted for approximately 87.6% of the Group's turnover. The personal computer business still remains the most productive in this segment. To strengthen its position further, the Group will look to develop the OEM/ODM business more completely in 2006. Discussions are being held with ULTRA and NZXT with a view to develop future business co-operations. The production of low profit margin PC DIY products will be gradually reduced as a result.

Geographical distribution of business showed that North America still represented the biggest market, accounting for approximately 54.45% of the Group's annual turnover. The Asia Pacific market made up 36.05% of turnover, with the remaining 9.50% coming from Europe.

2. TechnoMarine

With Asia Pacific being a the fastest growing economic entity in the world in the view of the Group that distribution and retail potentials of the TechnoMarine brand within the region for the coming years will be very high indeed. The actual turnover recorded from November to December 2005 was HK\$4,496,000, which produced a contribution approximately of HK\$327,000 to the Group. In the future years, the Group continues to developing the sales network in Asia Pacific and mainland China.

FUTURE PROSPECTS

1. Computer Peripherals

The Group will put utmost effort to maintain the profit margin of this business segment, even though, in the long-term, the surging price of materials and the appreciation of RMB will continue to be critical factors affecting the results of this segment.

Currently, the production and operational management is become more streamlined, efficient, and more importantly, cost-effective with its strategic relocation into a new factory on the mainland. One of the Group's key strategies for 2006 is to strengthen its position in the OEM/ODM business by offer attractive, tailor-made OEM/ODM mini barebone systems to its clients in North America and Europe. The Group will also look into worldwide partnerships with major OEM/ODM computer manufacturers who need experienced partners to help them expand into the Asia Pacific market, particularly in the PRC. This is a fast-emerging market which holds enormous economic potential for the business. The Group will also continue to develop the power supply business segment, which yields higher profit margins than PC casing. Obtaining new clients such as ULTRON reflects our commitment in this field. Furthermore, with the higher standard style of living, the demand of multi-functional entertainment PC system is expected to grow strongly. To tie in with the growing trend, the Group has produced a series of aluminum home theatre PC cases for clients with various needs.

2. TechnoMarine

There is much to be optimistic about for 2006. Our experienced members of Directors looked carefully at the Asia Pacific market before investing in the brand of TechnoMarine. Based on the opinion World Bank, that average earnings per head in the Asia Pacific region are expected to rise 5% per annum over the next 10 years, the Group strongly believes that profits derived from TechnoMarine will contribute positively to its business operations in the coming years.

Currently, the Group has an image store in Kowloon, with a second one schedules to be opened in Hong Kong Island in the coming year. The Group is targeting to spread the distribution network to new market such as Taiwan and other south-east Asian countries in the near future. The key aim of the Group is, however, to focus business growth in the PRC by investing in image branding and opening more image stores. As the Chinese economy is growing rapidly, as a result, a high increase on population of wealthy Chinese consumers who are willing to spend money on luxury goods. The Group will focus on developing costal cities, then, in the long term, expand to cover the secondary and metropolitans cities in North-eastern and North-western areas.

LIQUIDITY & FINANCIAL RESOURCES

For the year ended 31 December 2005, the Group recorded net current assets of HK\$54,861,000, of which approximately HK\$4,491,000 related to cash and bank deposits. Current liabilities were HK\$42,409,000. With regard to foreign currency exposure, as the Group's business transactions are mainly made in US Dollars, HK Dollars or RMB, it has no significant exposure to foreign currency fluctuations. The gearing ratio was 4.96% (2004: 3.15%) which was defined as the Group's bank borrowings to its total equity.

CAPITAL STRUCTURE AND USE OF PROCEEDS

The Group has two fund raising activities during 2005. In May 2005, the Group placed existing shares and top-up subscription of 99,000,000 new shares to raise approximately HK\$9.552 million, of which HK\$3.35 million used for sales and advertising expenses, HK\$3.1 million spent on research and development, upgrading production facilities and HK\$3.1 million for general working capital. In October 2005, the Group placed again 58,000,000 existing and top-up subscription and placed the new 41,000,000 shares to raise approximately HK\$9.7 million. Subsequently, HK\$2 million was used to take over 50.01% interest of TechnoStore Limited, and HK\$6 million was paid as deposit for the 7 years exclusive distribution license of TechnoMarine watches. The balance HK\$1.7 million is used as general working capital for the Group.

In addition, a total of 41,500,000 shares were issued pursuant to the exercise of the share options by the option holders of the Company at an exercise price of HK\$0.0994 per share during the year.

As a result, the total number of issued share capital is 734,500,000 shares as at 31 December 2005.

SIGNIFICANT INVESTMENTS

Save as disclosed in the report, there was no significant investment held by the Company for the year ended 31 December 2005.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During the year under review, the Group acquired 50.01% share interest in TechnoStore Limited for an aggregate consideration of HK\$2 million. Further details in respect of the above acquisition are set out in the circular dated 13 December 2005.

In 20 December 2005, the Group entered an agreement with Linear Ltd, to grant Mascot Industries Ltd., a wholly owned subsidiary of the Group, an exclusive right to market, sell and distribute TechnoMarine watches in the Asia Pacific Territory for a term of seven years commencing from 1 January 2006. The total consideration is HK\$14 million.

Save as disclosed above, there is no material acquisitions and disposals of subsidiaries during the year.

EMPLOYEES & REMUNERATION POLICY

As at 31 December 2005, the Group had a total of 370 employees, 342 of whom were employed in mainland China and 28 in Hong Kong, Taiwan and overseas. The Group implements remuneration policy, bonus and share options schemes with reference to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to employees.

CHARGES ON GROUP ASSETS

The Group has pledged land and buildings having a net book value of approximately HK\$4,593,000 (2004: HK\$4,682,000) to secure general banking facilities granted to the Group.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, the Directors presently do not have any future plans for material investments or capital assets. The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

FOREIGN CURRENCY EXPOSURE

The Group mainly earns revenue and incurs cost in US dollars, HK dollars and RMB. Foreign exchange exposure of the Group is minimal as long as the policy of the Government of HKSAR to link the HK dollars to the US dollars remains in effect.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2005.