CHAIRMAN'S STATEMENT

RESULTS

For the year ended 31 December 2006, the Group achieved turnover of approximately HK$346 million, representing an increase of 5% as compared to HK$330 million in 2005. The Group's profit attributable to shareholders for the year was approximately HK$65 million, which included a one-off gain of approximately HK$47 million from an arbitration award granted to the Group's subsidiary.

REVIEW OF OPERATIONS

During the year under review, the Group transformed from a generic manufacturer into a player in the recycling/environment protection industry engaging in the business of reducing, reusing and recycling used toner cartridges and their components. Remanufactured/recycled toner cartridge production has become the Group's core business segment, while computer media production and media products distribution continue to bring in stable revenue for the Group. During the year, the business of remanufactured/recycled toner cartridge not only recorded substantial growth in sales, but also delivered higher margins and hence improved the Group's overall profitability.

REMANUFACTURED/RECYCLED TONER CARTRIDGE PRODUCTION

Sales from the remanufactured/recycled toner cartridge business increased by 35% from last year's approximately HK$99 million to approximately HK$133 million this year, accounting for 39% of the Group's total turnover. The Group's major markets are the United States ("US"), Asia Pacific (including Australia) and Europe, which contributed 31%, 48% and 21% of the total segmental sales respectively.

Remanufactured/recycled toner cartridge has become the Group's key product. The Group started to collect used toner cartridges in 2002 and invested in developing recycling and production technology for them and their components. With knowledge and experience accumulated over the past few years, the Group boasts mastery today of the labour intensive production process which also requires strong technical know-how.

Enabled by advanced technology from the US and the devoted efforts of the Group's research and development team, the Group has so far developed more than 200 different models of recycled toner cartridges for almost all major brands such as HP, Canon, Xerox, Brother, Panasonic, Samsung and Dell, just to name a few. In addition, its recycled toner cartridges are of quality certified by the Standardized Test Method Committee.

The Group sees great potential in this environmentally friendly product that promises higher margins and unaffected by supply and price fluctuation of electricity and raw materials. The key success factor for this business segment lies in the Group's ability to source used toner cartridges, especially models in scarce supply in the market, from major global collectors. However, that means the Group needs to maintain higher inventory levels and working capital.

The Group's capability and leading position in the production of remanufactured toner cartridges are well recognized in the industry. In April 2006, the Recycler Trade Magazine ranked the Group's subsidiary Afex International (HK) Ltd. ("Afex") as the 8th largest remanufactured toner manufacturer in the world. Afex was one of the three remanufacturers in China, including Hong Kong, who are among the top 20. The trend of major toner remanufacturers in the US and Europe shifting production to China has benefited the Group, which is among a limited number of enterprises licensed to produce recycling products.

The Group's two productions plants in Zhuhai and Shenzhen, the PRC ran smoothly during the year. They have sufficient production capacities to cater to increasing orders from customers.

COMPUTER MEDIA PRODUCTION

Sales from the computer media production segment was HK$106 million, which accounted for approximately 30% of the Group's total revenue. The PRC and other Asian countries remained as the Group's major markets, contributing 37% and 38% respectively of the total sales of the segment.

The Group benefited from the continued consolidation of the computer media production industry during the year under review. The largest manufacturer in the US started to outsource to the Group. As a chief supplier in this sector, the Group continued to receive substantial orders from long-term customers. The Group expects stable demand in the next few years.

Having completed production automation in 2005, the Group has been able to reduce labor cost by 50% and improve the segment's gross margin. In addition, with its own power generators installed, shortage of electricity supply in the PRC has had no impact on the Group's production.

DISTRIBUTION OF MEDIA PRODUCTS

The distribution business segment recorded sales of approximately HK$107 million, accounting for 31% of the Group's total turnover. Appreciation of the Renminbi improved the profit margin of this segment.

After obtaining from a major computer product vendor the sole distribution right for an additional line of data media products in the PRC, the Group has been manufacturing and distributing the products since December 2005. To expand the business, the Group will strive to secure distributorship for new computer products, particularly digital imaging and consumable data recording products carrying renowned brand names.

PROSPECTS

Going forward, the Group expects global demand for digital imaging products to continue to grow rapidly driven by massive need for information download from and transfer via the Internet. The global recycling trend is also fuelling robust growth in demand for environmental friendly products. To capitalize on these trends, the Group will continue to expand its remanufactured/recycled toner cartridge business. It will strengthen its existing markets in the US and Europe, targeting several leading stationery brands, and at the same time, explore new markets such as the Middle East. The Group also plans to develop its own distribution channels in the US.

The Group will continue to strengthen research and development to enhance quality control and widen its remanufactured/recycled toner cartridge product line. It will also embark on research and development in relation to recycling of other components in used toner cartridges.

Regarding the computer media production, the industry continues to consolidate and the number of suppliers has been declining globally. With a firm footing in the industry, the Group expects to maintain orders from reputable clients who have continuous demand for blank information storage media products. The Group has had success developing sales in China for well-known Japanese media product brand.

Meanwhile, the Group expects to achieve steady growth for its media product distribution business. Apart from being the sole distributor of a new data media product, the Group also manufactures the product, hence enjoy an optimum margin. The Group also expects to continue to benefit from the appreciation of Renminbi as its distribution revenue is mainly generated in the PRC.

Our outlook for the future remains robust and we expect growth for our major business segments, in particular the recycling of used toner cartridges. With proven ability to reduce, reuse, and recycle, and dedication to quality, the Group has established a solid customer base and distribution network, which will brace its expansion in the coming year and beyond.

FINANCIAL REVIEW

Financial results

For the year ended 31 December 2006, the Group recorded a turnover of HK$345,552,000, representing an increase of 5% compared with HK$329,745,000 in 2005. The Group's profit attributable to shareholders amounted to HK$64,965,000 in 2006 (2005: Group's loss attributable to shareholders of HK$135,219,000) which included the net gain of HK$47,056,000 from the legal claim. Basic earnings per share in 2006 was HK9.45 cents as compared with basic loss earnings per share of HK19.77 cents in 2005.

Capital and debt structure

As at 31 December 2006, the Group's total net assets was approximately HK$277 million (31 December 2005: HK$208 million), representing approximately HK$69 million increase compared with that of previous year, mainly due to the net profit achieved for the year.

As at 31 December 2006, the Group's total borrowings including finance lease obligations decreased by HK$40 million to HK$197 million (31 December 2005: HK$237 million), of which HK$178 million was payable within one year and HK$19 million was payable after one year. The majority of the Group's borrowings were import and export loans which amounted to HK$136 million (2005: HK$136 million). Term loans were substantially reduced from HK$45 million in 2005 to HK$15 million in 2006. Most of the Group's borrowings 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$14 million (31 December 2005: approximately HK$20 million), representing a decrease of approximately HK$6 million.

The Group's net debt to equity ratio was kept at 0.7 (31 December 2005: 1.0), which is determined by total borrowings net of cash and bank balances over total net assets.

Working capital and liquidity

As at 31 December 2006, the Group's current ratio and quick ratio were 1.5 and 1.0 respectively (2005: 1.1 and 0.9). Inventory turnover on sales increased to 136 days (31 December 2005: 81 days) primarily due to the expansion of remanufactured toner business which raised the required inventory level for production during the year. Receivable turnover improved to 100 days (31 December 2005: 138 days) which was mainly due to better debtor management.

Employees and remuneration policies

As at 31 December 2006, the number of employees of the Group was approximately 1,210. 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 Group had pledged its assets with an aggregate net book value of HK$43 million (2005: HK$63 million) to secure bank loans granted and finance lease obligations.

Issue of unsecured notes and unlisted warrants

On 24 March 2006, a wholly-owned subsidiary of the Company (the "Issuer") issued, and certain independent third parties (the "Subscribers") subscribed for notes (the "Notes") in the aggregate principal of HK$25 million. The Notes were unsecured, carried interest at 10% per annum and were fully redeemed in June 2006. On the same date, the Company issued, by way of bonus, to the Subscribers of unlisted warrants (the "Warrants") of the Company conferring rights entitling the holders to subscribe for up to HK$17,872,920 in aggregate in cash for 137,484,000 new shares of HK$0.10 each in the share capital of the Company at a subscription price of HK$0.13 per share. The Warrants are exercisable within a period of three years from 24 March 2006 to 23 March 2009.

Subsequent to the balance sheet date, 40,000,000 Warrants were exercised in the subscription of 40,000,000 new shares of HK$0.10 each of the Company.

ARBITRATION AWARD

By the end of June 2006, the Group's subsidiary (the "Subsidiary") received an aggregate sum of US$15,360,839 (approximately HK$118,775,743) as recovery in relation to the arbitration award made on 30 July 2005 in favour of the Subsidiary.

In addition, the tribunal has issued a final costs award in December 2006 and an addendum after the balance sheet date in favour of the Subsidiary in respect of its costs of the arbitration proceedings. Such award and addendum provided for payment was received by the Subsidiary after the balance sheet date.

APPRECIATION

On behalf of the Board of Directors, I would like to express appreciation to colleagues for their hard work and dedication in the past year. We will remain committed to achieving better results and maximising returns to our shareholders.

By Order of the Board
Ho Yin King, Helena
Chairman

Hong Kong, 16 April 2007