

Group Reorganization

Apart from the Group Reorganization in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, there were no material acquisitions or disposal of subsidiaries and associated companies during the year. Details of the Group Reorganization are set out in the prospectus issued by the Company dated 12 October 2001.

Operations Review

The Group's turnover was approximately HK\$1,415 million for the year ended 31 December 2001, representing an increase of approximately 45% over the previous year. The increase was mainly due to the surge in market demand for CPU and motherboards in Hong Kong and the PRC. Approximately 96% and 4% of the total turnover was generated from the Group's distribution business and e-enabling solutions business respectively.

Operating expenses increased from approximately HK\$20 million in 2000 to approximately HK\$27 million in 2001, which was mainly due to the increase in the salary expenses as a result of increase in the number of employees to cope with the business growth.

Increase in the finance cost from approximately HK\$588,000 in 2000 to approximately HK\$7,478,000 in 2001 was mainly due to increase in bank loan interest to finance the increase in the Group's purchases.

As a result of the increased turnover and improved gross profit margin, profit before taxation increased from approximately HK\$96 million in 2000 to approximately HK\$140 million in 2001.

Increase in taxation from HK\$15 million in 2000 to HK\$23 million in 2001 was in line with the increase in the profit before taxation.

As a result, the net profit for the year attributable to shareholders increased from approximately HK\$81 million in 2000 to approximately HK\$117 million in 2001, representing approximately an increase of 45%.

Liquidity and Financial Resources

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK\$167 million as at 31 December 2001 (2000: HK\$60 million). After deducting short-term bank loans and overdrafts of approximately HK\$91 million as at 31 December 2001 (2000: Nil), the Group recorded a net cash balance of approximately HK\$76 million as at 31 December 2001 as compared to HK\$60 million as at 31 December 2000. The short-term bank loans were applied to finance the purchase of the stocks of the Group. The gearing ratio of the Group, as calculated by dividing the total interest bearing debts by the net asset value of the Group, is 0.25:1 as at 31 December 2001. As there were no interest bearing debts as at 31 December 2000, no gearing ratio is presented for that year.

The Group recorded total current asset value of approximately HK\$629 million as at 31 December 2001 (2000: HK\$431 million) and total current liability value of approximately HK\$269 million as at 31 December 2001 (2000: HK\$308 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, is 2.3 as at 31 December 2001 (2000: 1.4). The improvement of the current ratio was mainly due to the profit earned and retained during the year, a large reduction of account payables and the retention of the net proceeds obtained by the Group upon the listing of the Company's shares on the Stock Exchange in October 2001.

The Group recorded an increase in shareholders' funds from approximately HK\$124 million as at 31 December 2000 to approximately HK\$362 million as at 31 December 2001.

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoice finance of tenor up to 120 days from the invoice date. The bank interest rates are mainly fixed by reference to either the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollar loans and by reference to Singapore or London Interbank Borrowing rate for United States dollar loans.

Bank deposits of the Group are either in Hong Kong dollars or United States dollars.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars. The risk of exposure to fluctuations in exchange rates is therefore low. The Group did not do any hedging for the foreign currency transactions during the year.

Charges on Assets

In accordance with the terms of the distribution agreement entered into between the Group and a major supplier, the Group has granted the major supplier a security interest in the inventories supplied and in any proceeds (including accounts receivable) as security for any outstanding amount due by the Group. In addition, certain of the Group's bank deposits were pledged to its bankers to secure certain banking facilities granted to the Group. Please refer to note 26 to the financial statements on page 42 for more details.

Investments

The Group did not hold any significant investments nor had any major capital expenditure during the year.

Contingent Liabilities

As at 31 December 2001, the Group did not have any significant contingent liabilities.

Employees

As at 31 December 2001, the Group had 70 full time employees.

The Group remunerated its employees mainly based on the industry practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes.

Audit Committee

The Company established an audit committee (the "Committee") on 29 August 2001. The Group's financial statements for the year ended 31 December 2001 have been reviewed by the Committee. The principal activities of the Committee include the review and supervision of the Group's financial reporting process and internal controls.