



Management Discussion and Analysis

Innovation

Reorganization

Apart from the reorganization (the "Reorganization") in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange on May 9, 2002, there were no material acquisitions or disposal of subsidiaries and associated companies during the year and up to the date of this report. Details of the Reorganization are set out in the Prospectus.

Financial Review

The Group's turnover for the year ended March 31, 2002 amounted to approximately HK\$1,634,218,000 (2001: HK\$1,769,946,000), representing a decrease of approximately 7.7% as compared with the corresponding period last year. Net profit attributable to shareholders amounted to approximately HK\$30,245,000 (2001: HK\$30,037,000), representing an increase of around 0.7%

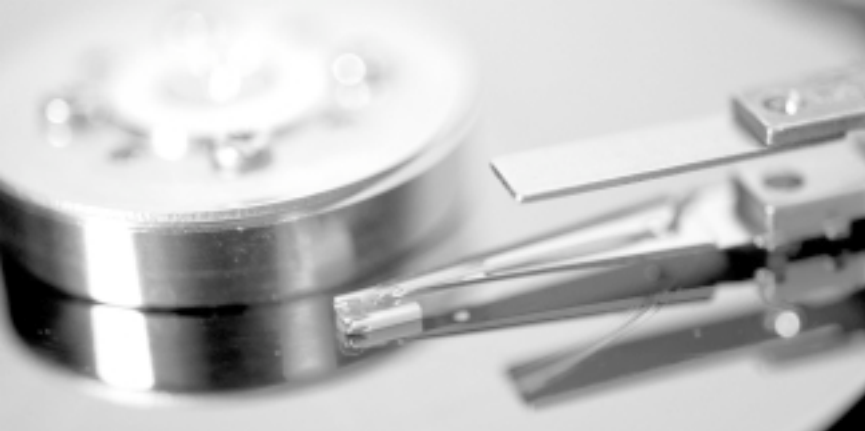
as compared with the corresponding period last year and an increase of approximately 0.15% as compared with the profit estimate of approximately HK\$30,200,000 stated in the Prospectus. The basic earnings per share amounted to approximately 5.76 HK cents. The Directors do not recommend payment of a final dividend for the year ended March 31, 2002.

Business Review

Despite the decrease in turnover during the year under review, the Group successfully maintained a fairly stable net profit attributable to shareholders. This was mainly due to the fact that the Group endeavoured to control its overhead cost and net finance cost during the year. The Group implemented an effective control on operating cost successfully and maintained its competitiveness. Furthermore, decreasing borrowing cost and continued improvement in the application of working capital resulting in a decrease of interest-bearing advances had indirectly lowered the net finance cost.

During the year under review, in line with global economic trend, the growth in the PRC IT products industry slowed down, thus slightly reducing the Group's turnover by approximately 7.7% as compared with the same period last year. Leveraging on the extensive knowledge of the industry and experience of the Group's management as well as its aggressive business strategy, even though sales of certain products distributed by the Group had decreased during the year under review, sales of storage devices has increased by approximately 11.3% to approximately HK\$1.28 billion, as compared with the same period last year and accounted for approximately 78.4% of the Group's total turnover.

During the year, the Group succeeded in the development of the market in Southwestern PRC and further extended its distribution network. A sound client base is crucial to



the enhancement of distribution networks. The Group strived to extend its client base to expand its business. During the year under review, the customers of the Group included OEMs, PC and other consumer electronics manufacturers, regional resellers, resellers and system integrators.

Since its establishment, the Group has endeavoured to work closely and jointly with its suppliers to provide technical support to users jointly and to promote and expand the market share of its products. The Group has set up its own technical support team, which provides after-sale and technical support services to its customers, in both Hong Kong and its representative offices in the PRC so that a good and close relationship with its suppliers and customers could be developed and thus enhancing the Group's competitiveness.

In recognition of its excellent performance and status in distribution business, the Group was conferred the "Outstanding Business Development Award, Asia Pacific 2001" by Seagate, a major supplier of the Group.

Prospects

Following the PRC's admission to the World Trade Organization ("WTO"), it is expected that international investments in the PRC will increase. At the same time, PRC enterprises must make sustaining efforts to enhance operation efficiency and competitiveness. This leads to increasing demand for IT products and services and increasing business opportunities to the Group. In order to complement the 2008 Olympics, the Beijing Municipal Government has determined to turn Beijing into a "Cyber City" which in turn paves ways for immense demand for different types of networking products. Moreover, the PRC Government announced that it would invest approximately RMB1 billion to develop the "Fifteen Year Plan", in a bid to establish e-administration and to strengthen the internal

efficiency. In view of this, the Group will strive to enhance the function of its representative offices in the PRC so as to provide more comprehensive promotional, planning and supporting services to its customers. Meanwhile, the Group will identify potential cities in the PRC to set up subsidiaries or representative offices to provide more diversified services.

In addition, the Group will continue to look for more renowned suppliers for distribution rights of various kinds of high quality products to diversify its distributed products range. New products being launched by the Group include CD-ROM, DVD and CD-RW under the brandname "EBrick" as well as LCD monitors under the brandname "Hercules", all are well received by the market. At the same time, the Group will broaden its client base actively to expand its distribution network, while continuing to implement effective cost control measures so as to enhance efficiency. Moreover, the Group is planning to speed up the establishment of the resources planning system and streamline its operational structure in current financial year in order to improve its resources allocation, thereby enhancing its competitiveness as a whole.

The Group is endeavoured to build on its established foundation in order to develop the market share of the products it distributed. Its objective is to become a leading IT products distributor in the PRC, and at the same time, to bring more promising return to its shareholders.

Liquidity and Financial Resources

As at March 31, 2002, the Group's cash and bank deposits were approximately HK\$16.7 million (2001: HK\$16.8 million).

As at March 31, 2002, the Group's bank borrowings were approximately HK\$127.3 million (2001: HK\$80.1 million). The gearing ratio, calculated as the total bank borrowings divided by total assets, was approximately 0.43 times (2001:

0.21 times). The increase in bank borrowings was mainly because the Group had become less reliance on trade creditors' credit since it is the Group's strategy to settle its trade creditors within the period that could enjoy the settlement discount granted by the trade creditors, if any.

The Group records total current assets of approximately HK\$291.3 million as at March 31, 2002 (2001: HK\$374.1 million) and total current liabilities of approximately HK\$232.7 million as at March 31, 2002 (2001: HK\$294.0 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.25 times as at March 31, 2002 (2001: 1.27 times).

The Group recorded a decrease in shareholders' funds from approximately HK\$84.0 million as at March 31, 2001 to approximately HK\$63.7 million as at March 31, 2002. The decrease was mainly due to the declaration of dividends amounted to approximately HK\$50.6 million by a subsidiary of the Company to its then shareholders prior to the Reorganization, which was greater than the profit of approximately HK\$30.2 million during the year.

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The bank borrowings of the Group are predominantly subject to floating interest rates.

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars and United States dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars or United States dollars such that the Group does not have significant exposure to foreign exchange fluctuation. The Group did not carry out any hedging for the foreign currency transactions during the year.

Purchase of Property Interests

On April 17, 2002, the Group purchased six properties in Hong Kong for use as the Group's storage and ancillary office from a related company at a consideration based on an open market valuation as at February 28, 2002 performed by LCH (Asia-Pacific) Surveyors Limited, an independent property valuers, of approximately HK\$11,880,000 which was settled by the Group's internal resources in cash derived mainly from the repayment of advances from related parties. Such acquisition can (i) secure the place of the Group's operation; and (ii) lower the Group's operating expenses in the long run because the rental expenses from such premises are eliminated.

Charge on assets

Leasehold land and building and investment properties in Hong Kong with book value of approximately HK\$679,000 and HK\$1,720,000 respectively held by the Group as at March 31, 2002 were pledged to a bank to secure certain banking facilities granted to a subsidiary.

Contingent Liabilities

As at March 31, 2002, the Group did not have any contingent liabilities.

Employees

As at March 31, 2002, the Group had 59 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 performance. Other benefits include medical and retirement schemes.