Management's Discussion and Analysis

Operations Review

Amidst a difficult operating year with pressure on both demand and profit margin, the Group managed to achieve profit after taxation of approximately HK$66 million for year 2002, representing a decrease of 44% from HK$117 million of last year.

During the year under review, the Group achieved a turnover of HK$2,122 million (2001: HK$1,415 million) representing an increase of 50% over last year. At the beginning of 2002, the Group successfully obtained the distribution right from Intel of tray CPUs in addition to boxed CPUs in both Hong Kong and the PRC. The Group also obtained from Intel the distribution right of chipsets in both Hong Kong and the PRC in the last quarter of 2002. Tray CPUs are mainly sold to regional PC manufacturers and chipsets to motherboard manufacturers. The remarkable surge in turnover is mainly attributable to the sales of tray CPUs and chipsets which account for a total of about 37% of the year's turnover.

Gross profit was HK$120 million for year 2002 (2001: HK$170 million) representing a decrease of 29% over last year. Net profit attributable to shareholders amounted to HK$66 million (2001: HK$117 million). Affected by the global depressed economy, demand for IT products in the PRC maintained steady growth but the overall gross profit margin of the industry declined significantly. Furthermore, as the Group's suppliers' performance was affected by the sluggish world economy, the rebates received from them were also reduced substantially. Due to these unfavorable factors, the gross profit margin for year 2002 was only 6%, down from 12% in year 2001.

Total operating costs for 2002 increased to approximately HK$39 million from HK$27 million of year 2001 representing an increase of 44%. The increase is mainly due to i) increased administrative and operating expenses related to the growth in business ii) hiring of more qualified management staff for the development and expansion of distribution and logistics network in the PRC as stated in the prospectus and; iii) payment of bonus to the directors related to the outstanding financial performance of 2001.

Finance costs for 2002 increased to HK$10 million from 2001 of HK$7 million mainly due to the increase in bank loan interests to finance the increase in purchase of inventory to cope with the expansion in business.

During 2002, the distribution of computer components and information technology products and provision of integrated e-enabling solutions contributed 96% and 4% to total revenue of the Group respectively, same as last year. As one of the partner of the 'N+1' Education Solution Alliance which is expected to go into full speed in 2003 to capture the business opportunity in education sector of the PRC, e-enabling solutions will take a more significant role in contributing both revenue and gross profit to the Group.

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Revenue contributed from the PRC market in 2002 is about 29% (2001: 20%) of total revenue. The increase is mainly due to the expansion of channel networks in the PRC during the year. Percentage of revenue from the PRC to the Group's total sales is expected to rise in the coming years as the Group continues to expand its distribution and logistic networks in the PRC and capture more market share.

Liquidity and Financial Resources

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK$242 million as at 31 December 2002 (2001: HK$167 million). Balance of short-term bank borrowings and overdrafts was approximately HK$425 million as at 31 December 2002 (2001: HK$91 million). The short-term bank borrowings were applied to finance the purchase of inventory of the Group. The gearing ratio of the Group as at 31 December 2002 calculated as a ratio of total bank loans to total assets was 36% (2001: 14%). Net assets were approximately HK$385 million as at 31 December 2002 (2001: HK$362 million).

The Group recorded total current asset value of approximately HK$1,185 million as at 31 December 2002 (2001: HK$ 629 million) and total current liability value of approximately HK$803 million (2001: HK$269 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, was 1.5 as at 31 December 2002 (2001: 2.3) and was still maintained at a healthy level.

The Group had inventory of approximately HK$632 million as at 31 December 2002 (2001: HK$253 million) representing an increase of 150% from last year. The increase was partly due to the increase in turnover and carry of new products such as tray CPUs and chipsets. Traditionally last quarter of each calendar year is the peak season of the industry and both the inventory and short-term bank borrowings will rise to the year's highest level but is expected to drop significantly in the first quarter of next calendar year. Over 70% of the inventory at 31 December 2002 were sold in the first quarter of 2003.

The Group recorded an increase in shareholders' funds from approximately HK$362 million as at 31 December 2001 to approximately HK$385 million as at 31 December 2002.

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The bank 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.

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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.

Use of Net Proceeds from Initial Public Offering

The proceeds from the initial public offering after netting off related expenses, were approximately HK$179 million. As at 31 December 2002, about HK$80 million were applied as working capital. Approximately another HK$3 million were applied to the development and expansion of the Group's distribution and logistics networks in the PRC. The remaining net proceeds were placed as fixed deposits with well-known banks in Hong Kong and will be used for the Group's continuous expansion of distribution and logistics network in the PRC and other developing countries in Asia and also for strengthening its technical support capabilities for business expansion as described in the prospectus.

Charges on Assets

In accordance with the terms of the distribution agreements 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 bank deposits of the Group were pledged to its bankers to secure certain banking facilities granted to the Group. Please refer to note 23 to the financial statements on page 43 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 2002, the Group did not have any significant contingent liabilities.

The Company had executed guarantees for unlimited amounts (2001: Nil) in favour of its bankers in respect of banking facilities granted to its subsidiaries. The total amounts utilised by the subsidiaries as at 31 December 2002 were approximately HK$42,463,000 (2001: Nil).

Employees

As at 31 December 2002, the Group had 70 full time employees.

The Group remunerates 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.

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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 2002 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.